

PERAC AUDIT REPORT



Westfield
Contributory Retirement System



JAN. 1, 2010 - DEC. 31, 2011



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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July 25, 2013

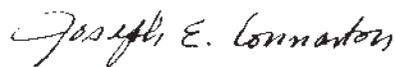
The Public Employee Retirement Administration Commission has completed an examination of the Westfield Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2010 to December 31, 2011. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission.

We commend the Westfield 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,	
	2011	2010
Net Assets Available For Benefits:		
Cash	\$4,227,006	\$3,276,235
Pooled Domestic Equity Funds	75,355,068	99,557,216
Pooled Domestic Fixed Income Funds	46,825,134	36,817,030
Pooled Alternative Investment Funds	8,023,791	0
Pooled Real Estate Funds	6,041,899	2,178,740
Accounts Receivable	196,458	154,963
Accounts Payable	(80,335)	(83,753)
Total	<u>\$140,589,021</u>	<u>\$141,900,431</u>
Fund Balances:		
Annuity Savings Fund	\$36,431,942	\$35,596,872
Annuity Reserve Fund	12,306,326	11,398,716
Pension Fund	634,755	1,719,256
Military Service Fund	24,381	24,332
Expense Fund	0	0
Pension Reserve Fund	<u>91,191,617</u>	<u>93,161,255</u>
Total	<u>\$140,589,021</u>	<u>\$141,900,431</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 (2010)	34,509,029	10,666,422	4,154,495	24,260	0	78,537,258	127,891,464
Receipts	3,527,933	334,957	7,464,266	73	788,023	14,615,041	26,730,293
Interfund Transfers	(1,989,998)	1,981,042	0	0	0	8,956	0
Disbursements	(450,092)	(1,583,705)	(9,899,506)	0	(788,023)	0	(12,721,327)
Ending Balance (2010)	35,596,872	11,398,716	1,719,256	24,332	0	93,161,255	141,900,431
Receipts	3,482,094	353,447	7,989,811	49	764,537	(527,311)	12,062,627
Interfund Transfers	(2,276,160)	2,284,554	1,433,933	0	0	(1,442,327)	0
Disbursements	(370,864)	(1,730,392)	(10,508,244)	0	(764,537)	0	(13,374,037)
Ending Balance (2011)	<u>\$36,431,942</u>	<u>\$12,306,326</u>	<u>\$634,755</u>	<u>\$24,381</u>	<u>\$0</u>	<u>\$91,191,617</u>	<u>\$140,589,021</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2011	2010
Annuity Savings Fund:		
Members Deductions	\$3,223,752	\$3,218,489
Transfers from Other Systems	148,894	168,868
Member Make Up Payments and Re-deposits	19,861	9,517
Member Payments from Rollovers	11,238	26,085
Investment Income Credited to Member Accounts	<u>78,349</u>	<u>104,973</u>
Sub Total	<u>3,482,094</u>	<u>3,527,933</u>
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	<u>353,447</u>	<u>334,957</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	196,417	194,519
Pension Fund Appropriation	208,393	237,365
Settlement of Workers' Compensation Claims	7,585,000	7,019,607
	<u>0</u>	<u>12,775</u>
Sub Total	<u>7,989,811</u>	<u>7,464,266</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	0	0
Investment Income Credited to the Military Service Fund	<u>49</u>	<u>73</u>
Sub Total	<u>49</u>	<u>73</u>
Expense Fund:		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>764,537</u>	<u>788,023</u>
Sub Total	<u>764,537</u>	<u>788,023</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	110,347	140,024
Interest Not Refunded	369	1,509
Miscellaneous Income	19,092	4,339
Excess Investment Income	<u>(657,118)</u>	<u>14,469,169</u>
Sub Total	<u>(527,311)</u>	<u>14,615,041</u>
Total Receipts, Net	<u>\$12,062,627</u>	<u>\$26,730,293</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010
Annuity Savings Fund:		
Refunds to Members	\$317,253	\$337,768
Transfers to Other Systems	<u>53,612</u>	<u>112,324</u>
Sub Total	<u>370,864</u>	<u>450,092</u>
Annuity Reserve Fund:		
Annuities Paid	1,689,447	1,552,458
Option B Refunds	<u>40,945</u>	<u>31,247</u>
Sub Total	<u>1,730,392</u>	<u>1,583,705</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	7,829,846	7,338,142
Survivorship Payments	726,458	720,088
Ordinary Disability Payments	115,602	113,668
Accidental Disability Payments	1,404,796	1,278,408
Accidental Death Payments	207,168	215,819
Section 101 Benefits	31,130	30,224
3 (8) (c) Reimbursements to Other Systems	<u>193,244</u>	<u>203,157</u>
Sub Total	<u>10,508,244</u>	<u>9,899,506</u>
Expense Fund:		
Board Member Stipend	14,500	15,000
Salaries	185,497	186,577
Legal Expenses	25,873	14,187
Travel Expenses	4,787	4,424
Administrative Expenses	11,293	10,642
Education and Training	3,597	3,356
Furniture and Equipment	156	603
Management Fees	491,809	497,956
Custodial Fees	0	26,791
Service Contracts	16,975	18,932
Fiduciary Insurance	<u>10,051</u>	<u>9,555</u>
Sub Total	<u>764,537</u>	<u>788,023</u>
Total Disbursements	<u>\$13,374,037</u>	<u>\$12,721,327</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010
Investment Income Received From:		
Cash	\$9,771	\$12,032
Fixed Income	0	545,341
Equities	0	73,500
Pooled or Mutual Funds	<u>1,346,929</u>	<u>1,790,613</u>
Total Investment Income	<u>1,356,700</u>	<u>2,421,486</u>
Plus:		
Realized Gains	4,973,132	3,929,744
Unrealized Gains	<u>17,392,998</u>	<u>26,836,132</u>
Sub Total	<u>22,366,130</u>	<u>30,765,876</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	0	(17,291)
Realized Loss	(94,218)	(2,231,619)
Unrealized Loss	(23,089,349)	(14,860,587)
Interest Due and Accrued - Prior Year	<u>0</u>	<u>(380,670)</u>
Sub Total	<u>(23,183,567)</u>	<u>(17,490,167)</u>
Net Investment Income	<u>539,263</u>	<u>15,697,196</u>
Income Required:		
Annuity Savings Fund	78,349	104,973
Annuity Reserve Fund	353,447	334,957
Military Service Fund	49	73
Expense Fund	<u>764,537</u>	<u>788,023</u>
Total Income Required	<u>1,196,382</u>	<u>1,228,027</u>
Net Investment Income	<u>539,263</u>	<u>15,697,196</u>
Less: Total Income Required	<u>1,196,382</u>	<u>1,228,027</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>(\$657,118)</u>	<u>\$14,469,169</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2012		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$4,227,006	3.0%
Pooled Domestic Equity Funds	75,355,068	53.6%
Pooled Domestic Fixed Income Funds	46,825,134	33.3%
Pooled Alternative Investment Funds	8,023,791	5.7%
Pooled Real Estate Funds	<u>6,041,899</u>	<u>4.3%</u>
Grand Total	<u>\$140,472,897</u>	<u>100.0%</u>

For the year ending December 31, 2011, the rate of return for the investments of the Westfield Retirement System was 0.29%. For the five-year period ending December 31, 2011, the rate of return for the investments of the Westfield Retirement System averaged 1.94%. For the 27-year period ending December 31, 2011, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Westfield Retirement System was 8.36%.

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

SUPPLEMENTARY INVESTMENT REGULATIONS

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

February 6, 2012

WESTFIELD RETIREMENT BOARD SUPPLEMENTARY REGULATION INVESCO CHARTER FUND

In relation to the investment of the Westfield Retirement System (“System”) in Invesco Charter Fund (“Fund”), the following will apply. The Fund is a series portfolio of AIM Equity Funds (“Invesco Equity Funds” or the “Trust”), a Delaware statutory trust registered under the Investment Company Act of 1940, as amended, as an open-ended series management investment company. The investment objective of the Fund is long-term growth of capital.

840 CMR 1.02(1), 840 CMR 16.03(2) and 840 CMR 17.04(10) shall not apply in the event that the portfolio includes holdings subject to the restrictions regarding South Africa, Northern Ireland and tobacco contained in Chapter 32, Section 23 of the General Laws. The System is responsible for taking action to address any such circumstances.

840 CMR 16.02(5) shall not apply to Invesco Advisers, Inc. (“Manager”) or the Fund provided that the Manager manages the Fund consistent with the terms of the Fund’s current registration statement. This is because the System will not purchase shares of the Fund pursuant to an Investment Management Agreement. Instead, the System will sign an account opening form with the transfer agent of the Fund pursuant to which the System agrees that the purchase of shares are subject to the terms and conditions of the prospectus as in effect from time to time.

840 CMR 16.05 shall not apply provided that the Manager or the sub-advisor complies with the provisions of the Fund’s Statement of Additional Information. The Fund’s Statement of Additional Information discloses that, primary consideration in selecting Brokers to execute portfolio transactions for a Fund is to obtain best execution. In selecting a Broker to execute a portfolio transaction in equity securities for a Fund, Manager considers the full range and quality of a Broker’s services, including the value of research and/or brokerage services provided, execution capability, commission rate, and willingness to commit capital, anonymity and responsiveness. Manager’s primary consideration when selecting a Broker to execute a portfolio transaction in fixed income securities for a Fund is the Broker’s ability to deliver or sell the relevant fixed income securities; however, Manager will also consider the various factors listed above. In each case, the determinative factor is not the lowest commission or spread available but whether the transaction represents the best qualitative execution for the Fund. Manager will not select Brokers based upon their promotion or sale of Fund shares.

840 CMR 17.03(1)(b) and (c) shall not apply as the Fund is an open ended series management investment company.

840 CMR 17.04(3)(b) shall not apply as the Fund is an open ended series management investment company.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

840 CMR 17.04(1) shall not apply to the extent an exemption from applicable regulation has been granted hereunder.

Notwithstanding the provisions of 840 CMR 21.01(1), purchases of securities by partial payment of their cost (purchases on margin) shall be permitted to obtain such short-term credits as may be necessary for the clearance of purchases and sales of the portfolio.

Notwithstanding the provisions of 840 CMR 21.01(2), the Fund may engage in short sales provided that the aggregate availability of all securities sold short does not exceed 10% of the Fund's total assets and provided, further, that this limitation shall not apply to short sales against the box.

Notwithstanding the provisions of 840 CMR 21.01(3), use of future contracts shall be permitted for risk management purposes.

Notwithstanding the provisions of 840 CMR 21.01(4), use of call options shall be permitted for risk management purposes.

Notwithstanding the provisions of 840 CMR 21.01(5), use of options shall be permitted for risk management purposes.

Notwithstanding the provisions of 840 CMR 21.01(6), the Fund may invest up to 15% of its assets in illiquid securities, which may include securities restricted under federal securities laws.

Notwithstanding the provisions of 840 CMR 21.01(8), use of collateral loans shall be permitted as the Fund's registration statement expressly permits the Fund to purchase debt obligations, enter into repurchase agreements, loan its assets to broker-dealers or institutional investors or invest in loans, including assignments and participation interests. Notwithstanding the foregoing, the Fund does not have a current intention of making such investments.

December 27, 2011

In relation to the investment of the Westfield Retirement System ("System") in Columbia U.S. Contrarian Core Equity Private Fund, LLC ("Fund"), the following will apply. The investment objective of the Fund is to seek total return, consisting of long-term capital appreciation and current income. The Fund will invest its net assets primarily in common stocks.

840 CMR 21.01(3): Future contracts will be allowed to the extent that they will be used for hedging purposes or as a substitute for actual securities in cases where the derivative instrument is a more efficient means of gaining exposure to the underlying securities.

840 CMR 21.01(6): Restricted stock will be allowed notwithstanding the limits set forth herein to the extent that Columbia Management Investment Advisers, LLC (the "Manager") anticipates that purchases for the Fund of stock with restrictions on transfer will be rare but may occur from time to time in certain circumstances such as the purchase of an initial public offering on a foreign market where the securities must be held for a certain time period.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

840 CMR 16.07(2): This section shall be deemed to be met provided that a representative of the Fund meets annually with the Board.

840 CMR 16.07(4): This section, which requires notification of key personnel staffing changes, shall be deemed to be met to the extent that the Manager or its delegate will promptly notify the System with respect to personnel changes involving Guy Pope, the portfolio manager of the Fund.

840 CMR 17.02 and 17.03: The Manager shall be deemed to have met the requirements set forth herein, as the Manager (a) is an SEC-registered investment adviser subject to the fiduciary obligations and responsibilities imposed by the Investment Advisers Act of 1940, as amended (the "Advisers Act") and (b) complies with a Code of Ethics and Code of Conduct that is at least as stringent as is required by the Investment Advisers Act of 1940, as amended.

840 CMR 17.04(1)-(8)(a) and (9)-(10): The requirements set forth herein shall only apply to the extent that these standards are not addressed by the Advisers Act, as the Manager is an SEC-registered investment adviser subject to the fiduciary obligations and responsibilities imposed by the Advisers Act with respect to the Fund.

January 11, 2011

19.01(8)

Notwithstanding the provisions of 840 CMR 19.01(8), the Westfield Retirement Board is authorized to invest up to 7% of its portfolio in private equity.

March 29, 2010

16.04

The Westfield Retirement Board is granted an exemption from the regulatory requirement to employ a custodial bank. The Board has determined that it will no longer be cost-effective or necessary to have a custodial bank once it completes its transition out of separately-managed investment accounts. All separate accounts are expected to be liquidated by May 31, 2010. This authorization takes into account the fact that the Board has a highly experienced Board Administrator whom it deems capable of handling any remaining responsibilities pertaining to cash flows and record keeping.

March 26, 2002

16.08

In accordance with Investment Guideline 99-2, the Westfield Retirement Board is authorized to modify its small cap value mandate with Loomis, Sayles & Company. The Small Company Value Fund in which the Board is currently invested is being closed and liquidated by the company. The Board's assets invested in that fund will be transferred into the Loomis Sayles Small Cap Value Fund, which has the same investment strategy, is managed by the same team, and has the same expenses as the prior fund.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

April 7, 2000

16.08

In accordance with PERAC Investment Guideline 99-2, the Westfield Retirement Board may invest in the Loomis Sayles Investment Trust Small Company Value Fund. Investment in this commingled fund represents a modest modification to the System's existing investment mandate with Loomis Sayles, which had been in the form of a small cap value separate account. The commingled fund has the identical investment strategy as the separate account but will serve to reduce custodial and administrative expenses for the System.

In accordance with PERAC Investment Guideline 99-2, the Westfield Retirement Board may invest in the Loomis Sayles Investment Trust Small Company Growth Fund. The System has a long and satisfactory relationship with Loomis Sayles as its small cap equity manager. Proceeds to begin this investment will come from the System's small cap value account with Loomis Sayles.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Westfield Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

- Salary is defined as gross regular compensation. For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17).
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to employees classified in Group 4 who are subject to mandatory retirement.

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

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$751.80 per year (or \$312 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. An additional \$15.00 per year of service, not to exceed \$300 annually may be added to the benefit in systems in which the local option contained in G.L. c. 32, § 7(2)(e) has been adopted.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

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

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$751.80 per year, per child (or \$312 per year in systems in which the local option contained in G.L. c. 32, § 9(2)(d)(ii) has not been adopted) payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

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

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000.

DEATH IN ACTIVE SERVICE

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

COST OF LIVING

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

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

METHODS OF PAYMENT

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

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

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

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is unmarried at the time of retirement for a member whose retirement becomes

NOTES TO FINANCIAL STATEMENTS (Continued)

effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or “pops up” to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable “pops up” to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains a CIO 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 Westfield Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

April 2, 2004

The board will reimburse mileage at the IRS rate for reimbursement and whenever the IRS rate changes, the Board's rate will also change.

January 26, 1994

Buy-Backs

Employees who start employment with the City of Westfield under 20 hours/week and are contributing to FICA and MEDICARE can buy-back this time for creditable service on a pro-rated basis after they have become eligible for membership by working 20 or more hours/week. This proration will be based on the number of hours worked -per week when becoming a member to the average of the hours worked while not a member. Members of the Retirement System who drop under 20 hours/week will continue retirement deductions and will receive full-time creditable service.

April 1, 1988

Creditable Service

Creditable Service up to five (5) years will be granted to reserve police officers and firefighters who continue or establish membership in any Massachusetts Contributory Retirement System regardless of the department of employment.

December 19, 1984

Creditable Service

•Affidavits are not acceptable as proof of employment. Official city records such as payroll checks or records, board minutes, official department logs, civil service records, etc. are deemed by the Board to be official.

•C.E.TA. employees who worked for the City of Westfield and later became City employees can obtain creditable service by make-up payments documented by gross earnings by calendar year and date of services.

•Part-time employment for membership in the retirement system must be at least twenty (20) hours per week on regular basis.

•Creditable service for paid commissioners is determined by pro-rating hours of service as compared to a forty (40) hour work week.

September 17, 2003

Travel Regulations:

The Westfield 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/Westfield>.

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, 2011.

The actuarial liability for active members was	\$106,596,787
The actuarial liability for vested terminated members was	1,600,007
The actuarial liability for non-vested terminated members was	331,536
The actuarial liability for retired members was	<u>106,094,432</u>
The total actuarial liability was	\$214,622,762
System assets as of that date were	<u>147,880,236</u>
The unfunded actuarial liability was	<u>\$66,742,526</u>
The ratio of system's assets to total actuarial liability was	68.9%
As of that date the total covered employee payroll was	\$35,657,973

The normal cost for employees on that date was 8.6% of payroll
 The normal cost for the employer was 6.0% 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 service and group

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2011

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)
1/1/2011	\$147,880,236	\$214,622,762	\$66,742,526	68.9%	\$35,657,973	187.2%
1/1/2009	\$122,811,604	\$193,419,991	\$70,608,387	63.5%	\$35,161,871	200.8%
1/1/2007	\$129,873,128	\$175,422,660	\$45,549,532	74.0%	\$33,008,287	138.0%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Retirement in Past Years										
Superannuation	90	6	13	6	17	21	20	27	26	31
Ordinary Disability	2	0	0	0	1	1	0	1	0	0
Accidental Disability	2	3	4	2	1	1	0	1	1	2
Total Retirements	94	9	17	8	19	23	20	29	27	33
Total Retirees, Beneficiaries and Survivors	532	528	534	526	528	535	543	552	554	570
Total Active Members	915	910	920	924	939	936	932	898	902	893
Pension Payments										
Superannuation	\$5,629,003	\$5,613,802	\$5,629,003	\$5,678,119	\$5,739,024	\$5,954,267	\$6,246,488	\$6,669,008	\$7,338,142	\$7,829,846
Survivor/Beneficiary Payments	533,669	448,885	533,669	528,974	525,490	549,995	576,152	648,970	720,088	726,458
Ordinary Disability	35,508	34,921	35,508	36,340	49,328	70,263	93,425	109,576	113,668	115,602
Accidental Disability	1,079,345	993,153	1,079,345	1,182,541	1,296,861	1,181,627	1,199,681	1,219,559	1,278,408	1,404,796
Other	178,746	334,876	337,235	341,721	372,666	463,821	457,997	463,901	449,200	431,542
Total Payments for Year	<u>\$7,456,271</u>	<u>\$7,425,637</u>	<u>\$7,614,760</u>	<u>\$7,767,695</u>	<u>\$7,983,369</u>	<u>\$8,219,973</u>	<u>\$8,573,743</u>	<u>\$9,111,015</u>	<u>\$9,899,506</u>	<u>\$10,508,244</u>

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