

# PERAC AUDIT REPORT



Gardner  
Contributory Retirement System



JAN. 1, 2008 - DEC. 31, 2010



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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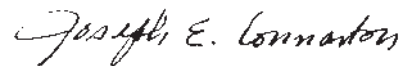
September 20, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Gardner Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2008 to December 31, 2010. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

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

In closing, I acknowledge the work of examiners James Tivnan and Kimberly Clairemont who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



## EXPLANATION OF FINDING AND RECOMMENDATION

### **Regular Compensation**

PERAC auditors inspected a payroll register report to determine that the correct contribution rates are being calculated, that the additional 2% deduction is withheld from those members who make over \$30,000 on an annualized basis and were hired after January 1, 1979 and to confirm compliance with 840 CMR 15.03.

- The Department of Public Works (DPW) utilizes a form of standby pay for on-call emergency purposes. This pay is regularly distributed and rotated among employees. This pay has been excluded from retirement deductions.
- An inspection of the Gardner Housing Authority payroll records disclosed that an employee receives a weekly payment for being on call after normal hours. This pay is excluded from retirement deductions.

Each of the above payments would appear to qualify as regular compensation within the requirements of Chapter 21 of the Acts of 2009 which states, "...compensation received exclusively as wages by an employee for services performed..." and PERAC Regulation 840 CMR 15.03 (3) (a) and (b) which state, respectively, that regular compensation is wages for "services performed" (being on call is a service to the employer) and that wages include "pre-determined, non-discretionary, guaranteed payments.....because of the character of the work". Standby pay is not specifically excluded by the legislation associated with Chapter 21 of the Acts of 2009. This compensation, as described in the contract, fits the definition, even though it is rotated among department employees.

**Recommendation:** These issues relating to regular compensation must be resolved. The Board is neither in compliance with our interpretation of Chapter 21 of the Acts of 2009 nor 840 CMR 15.03. The payments referenced above correspond to the definition of regular compensation in 840 CMR 15.03. The Board should instruct both the DPW as well as the Gardner Housing Authority to begin deducting retirement contributions from the standby and on-call pay. The rate of deduction must be the same as the member's other compensation plus the additional 2%, if applicable.

### **Board Response:**

The Board has instructed the City of Gardner to withhold retirement deductions from standby pay and the Gardner Housing Authority to withhold retirement deductions from on-call after normal hours pay.

### **FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.***

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2010	2009	2008
<b>Net Assets Available For Benefits:</b>			
Cash	\$0	\$12	\$1,348
PRIT Cash Fund	2,558,901	2,495,497	2,573,838
PRIT Core Fund	35,611,189	32,651,074	28,592,953
Accounts Receivable	241,382	277,756	261,517
Accounts Payable	<u>(189,595)</u>	<u>(178,747)</u>	<u>(165,330)</u>
<b>Total</b>	<u>\$38,221,877</u>	<u>\$35,245,591</u>	<u>\$31,264,325</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$10,261,226	\$10,187,951	\$9,904,712
Annuity Reserve Fund	4,195,811	3,972,119	3,722,220
Pension Fund	883,466	1,223,662	1,306,386
Military Service Fund	6,425	6,405	6,374
Expense Fund	0	0	0
Pension Reserve Fund	<u>22,874,949</u>	<u>19,855,453</u>	<u>16,324,634</u>
<b>Total</b>	<u>\$38,221,877</u>	<u>\$35,245,591</u>	<u>\$31,264,325</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2008)	\$9,475,407	\$3,569,223	\$998,698	\$6,336	\$0	\$30,282,915	\$44,332,578
Receipts	1,107,703	107,662	2,687,908	38	251,423	(12,682,716)	(8,527,983)
Interfund Transfers	(546,551)	552,922	1,269,193	0	0	(1,275,564)	0
Disbursements	(131,847)	(507,587)	(3,649,413)	0	(251,423)	0	(4,540,270)
Ending Balance (2008)	9,904,712	3,722,220	1,306,386	6,374	0	16,324,634	31,264,325
Receipts	1,117,832	116,139	2,730,278	32	288,066	4,654,795	8,907,143
Interfund Transfers	(662,468)	661,016	1,125,428	0	0	(1,123,976)	0
Disbursements	(172,125)	(527,256)	(3,938,430)	0	(288,066)	0	(4,925,877)
Ending Balance (2009)	10,187,951	3,972,119	1,223,662	6,405	0	19,855,453	35,245,591
Receipts	1,076,782	121,876	2,756,672	19	271,160	4,034,089	8,260,598
Interfund Transfers	(704,204)	704,204	1,014,593	0	0	(1,014,593)	0
Disbursements	(299,304)	(602,388)	(4,111,460)	0	(271,160)	0	(5,284,312)
Ending Balance (2010)	<u>\$10,261,226</u>	<u>\$4,195,811</u>	<u>\$883,466</u>	<u>\$6,425</u>	<u>\$0</u>	<u>\$22,874,949</u>	<u>\$38,221,877</u>

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
<b>Annuity Savings Fund:</b>			
Members Deductions	\$919,277	\$920,039	\$944,952
Transfers from Other Systems	108,361	140,497	73,583
Member Make Up Payments and Re-deposits	17,747	8,477	33,614
Member Payments from Rollovers	0	1,806	540
Investment Income Credited to Member Accounts	<u>31,397</u>	<u>47,013</u>	<u>55,014</u>
Sub Total	<u>1,076,782</u>	<u>1,117,832</u>	<u>1,107,703</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>121,876</u>	<u>116,139</u>	<u>107,662</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	46,327	45,590	46,009
Pension Fund Appropriation	103,326	112,618	118,954
Settlement of Workers' Compensation Claims	2,607,019	2,572,070	2,522,945
	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,756,672</u>	<u>2,730,278</u>	<u>2,687,908</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>19</u>	<u>32</u>	<u>38</u>
Sub Total	<u>19</u>	<u>32</u>	<u>38</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>271,160</u>	<u>288,066</u>	<u>251,423</u>
Sub Total	<u>271,160</u>	<u>288,066</u>	<u>251,423</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	46,394	44,470	37,991
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	177	373	514
Miscellaneous Income	0	12	1,348
Excess Investment Income (Loss)	<u>3,987,519</u>	<u>4,609,940</u>	<u>(12,722,569)</u>
Sub Total	<u>4,034,089</u>	<u>4,654,795</u>	<u>(12,682,716)</u>
<b>Total Receipts, Net</b>	<u>\$8,260,598</u>	<u>\$8,907,143</u>	<u>(\$8,527,983)</u>

## STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$61,616	\$44,782	\$52,942
Transfers to Other Systems	<u>237,688</u>	<u>127,343</u>	<u>78,905</u>
Sub Total	<u>299,304</u>	<u>172,125</u>	<u>131,847</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	570,051	527,256	476,178
Option B Refunds	<u>32,337</u>	<u>0</u>	<u>31,409</u>
Sub Total	<u>602,388</u>	<u>527,256</u>	<u>507,587</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	2,997,263	2,856,603	2,642,182
Survivorship Payments	89,239	97,599	90,675
Ordinary Disability Payments	50,189	48,872	52,744
Accidental Disability Payments	596,865	597,256	619,190
Accidental Death Payments	174,169	165,860	152,150
Section 101 Benefits	14,699	14,358	9,848
3 (8) (c) Reimbursements to Other Systems	189,037	157,881	82,624
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>4,111,460</u>	<u>3,938,430</u>	<u>3,649,413</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	15,050	15,300	7,650
Salaries	51,030	45,817	23,838
Legal Expenses	7,613	920	2,185
Medical Expenses	0	0	0
Travel Expenses	922	1,095	876
Administrative Expenses	33,146	43,984	33,731
Professional Services	0	0	0
Education and Training	0	0	0
Furniture and Equipment	0	0	0
Management Fees	160,364	178,367	180,702
Service Contracts	240	0	0
Fiduciary Insurance	<u>2,795</u>	<u>2,584</u>	<u>2,441</u>
Sub Total	<u>271,160</u>	<u>288,066</u>	<u>251,423</u>
<b>Total Disbursements</b>	<u>\$5,284,312</u>	<u>\$4,925,877</u>	<u>\$4,540,270</u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
<b>Investment Income Received From:</b>			
Cash	\$208	\$214	\$485
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	0	0	0
Pooled or Mutual Funds	991,906	920,020	1,303,628
Commission Recapture	0	0	0
<b>Total Investment Income</b>	<u>992,114</u>	<u>920,234</u>	<u>1,304,113</u>
<b>Plus:</b>			
Realized Gains	914,408	676,434	485,942
Unrealized Gains	6,703,177	8,165,052	2,079,864
Interest Due and Accrued - Current Year	0	0	0
Sub Total	<u>7,617,585</u>	<u>8,841,485</u>	<u>2,565,806</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(30,294)	(2,269,358)	(2,599,024)
Unrealized Loss	(4,167,435)	(2,431,171)	(13,579,328)
Interest Due and Accrued - Prior Year	0	0	0
Sub Total	<u>(4,197,730)</u>	<u>(4,700,529)</u>	<u>(16,178,352)</u>
<b>Net Investment Income (Loss)</b>	<u>4,411,970</u>	<u>5,061,191</u>	<u>(12,308,432)</u>
<b>Income Required:</b>			
Annuity Savings Fund	31,397	47,013	55,014
Annuity Reserve Fund	121,876	116,139	107,662
Military Service Fund	19	32	38
Expense Fund	271,160	288,066	251,423
<b>Total Income Required</b>	<u>424,451</u>	<u>451,250</u>	<u>414,137</u>
Net Investment Income (Loss)	<u>4,411,970</u>	<u>5,061,191</u>	<u>(12,308,432)</u>
Less: Total Income Required	424,451	451,250	414,137
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$3,987,519</u>	<u>\$4,609,940</u>	<u>(\$12,722,569)</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2010	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$0	0
PRIT Cash Fund	2,558,901	6.7%
PRIT Core Fund	35,611,189	93.3%
<b>Grand Total</b>	<u>\$38,170,090</u>	<u>100.0%</u>

For the year ending December 31, 2010, the rate of return for the investments of the Gardner Retirement System was 13.47%. For the five-year period ending December 31, 2010, the rate of return for the investments of the Gardner Retirement System averaged 4.22%. For the 26-year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Gardner Retirement System was 9.70%.

The composite rate of return for all retirement systems for the year ending December 31, 2010 was 13.67%. For the five-year period ending December 31, 2010, the composite rate of return for the investments of all retirement systems averaged 4.39%. For the 26-year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.46%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Gardner Retirement System voted on November 17, 1986 to invest all of the system's assets with the PRIT fund. The Gardner Retirement System 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 Gardner Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

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

### PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

#### **Group 1:**

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

#### **Group 2:**

Certain specified hazardous duty positions.

#### **Group 4:**

Police officers, firefighters, and other specified hazardous positions.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### MEMBER CONTRIBUTIONS

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

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

### RATE OF INTEREST

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

### RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### AMOUNT OF BENEFIT

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

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

### DEFERRED VESTED BENEFIT

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

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

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Through June 30, 2010, those who left service with less than 5 years received no interest; those who left service with greater than 5 but less than 10 years received 50% of the interest credited. As of July 1, 2010, those who leave service voluntarily with less than 10 years receive 3% 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”.

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

#### ACCIDENTAL DISABILITY

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

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

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

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

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

### DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

### DEATH IN ACTIVE SERVICE

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

### COST OF LIVING

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

### METHODS OF PAYMENT

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ALLOCATION OF PENSION COSTS

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain or loss of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

December 27, 2007

#### Membership:

Any employee of the City of Gardner or any employee of a member unit at the Gardner Retirement System must be permanently employed in a position that is regularly scheduled for twenty (20) or more hours per week to be eligible for membership in the System. Members of the System shall receive creditable service only while employed in such a position, consistent with the Board's creditable service regulation.

December 31, 1998

#### Creditable Service:

Any member who desires to establish credit for part-time service before becoming a member must petition the board for such credit. Employees must have payroll evidence to support and verify that such member had prior public employment. For the purposes of computing partial or pro rata membership service, full time credit shall be considered by the board to be two hundred sixty (260) work days and seven and one half (7 ½) hours per day, or nineteen hundred and fifty (1950) hours per annum. Creditable service for part time employees who do not work a full year shall be prorated as it bears against full time service for that particular position.

January 10, 1996

#### Buy-Backs:

Any member who has been incorrectly assessed, had deductions omitted in error or excluded from membership in the retirement system due to no fault of his own, may remit payments to the board in order to correct the error and shall be credited with all creditable service, if any, associated with such a payment. Such payment shall be interest free for a period not to exceed six months from the date of first notification.

April 11, 2002

#### Miscellaneous:

The Gardner Retirement Board shall conduct a simultaneous election for the two elected members of the Board. Both terms of the elected members shall be for three years and expire on the same date. In conducting the election, the Board shall place all candidates who have been nominated in conformance with 840 CMR 7.04 on one ballot. All eligible candidates shall be listed on the ballot in an order determined by a random drawing of the names of the candidates. The incumbent(s) (if any) will have the right to be identified as such on the ballot. In the event that only two candidates have been nominated, the Board shall declare said candidates to be the elected members of the Board, no elections shall be held, and said candidates shall take office and serve in all respects as though he or she had been elected by election. If there are more than two candidates, an election shall be conducted and each member of or retired from the Gardner Retirement Board shall be allowed to vote for not more than two candidates.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

Upon tabulation of the ballots, the two candidates who receive the most votes shall be declared the elected members of the Board. In the event of a vacancy, a new election shall be conducted to fill a vacancy as soon as practicable and the member elected shall serve for the unexpired portion of the vacant term.

July 19, 2003

#### Travel Regulations:

The Gardner Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulation available upon written request or at <http://www.mass.gov/perac/03travelreg/gardnertravelreg.html>.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor 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: Calvin Brooks, Chairperson

Appointed Member: Kevin McInerney                      Until a successor is named

Elected Member: Denise M. Merriam                      Term Expires:                      06/30/2011

Elected Member: Robert W. Newton                      Term Expires:                      06/30/2011

Appointed Member: Charles E. Langlois, Jr.                      Term Expires:                      01/01/2012

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. 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
Elected Members:	)	issued through a layered program with
Appointed Members:	)	Travelers, National Union Fire, and Arch.
Staff Employee:	)	Separate fidelity coverage pertaining to
		ERISA/Crime to a limit of \$1,000,000 issued
		through Travelers Casualty and Surety
		Company, deductible \$10,000.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2008.

The actuarial liability for active members was	\$26,418,685
The actuarial liability for retired and inactive members was	<u>36,357,976</u>
The total actuarial liability was	62,776,661
System assets as of that date were	<u>44,332,578</u>
The unfunded actuarial liability was	<u>\$18,444,083</u>
The ratio of system's assets to total actuarial liability was	70.6%
As of that date the total covered employee payroll was	\$10,442,179

The normal cost for employees on that date was	8.50% of payroll
The normal cost for the employer was	2.90% of payroll

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

Investment Return:	8.00% per annum
Rate of Salary Increase:	4.25% per annum

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2008 Dollars in thousands (\$ ,000)

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 )
1/1/2008	\$44,333	\$62,777	\$18,444	70.6%	\$10,442	176.6%
1/1/2007	\$40,547	\$60,176	\$19,629	67.4%	\$10,072	194.9%
1/1/2006	\$35,799	\$57,564	\$21,765	62.2%	\$9,523	228.6%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Retirement in Past Years</b>										
Superannuation	10	7	10	10	6	5	6	19	11	10
Ordinary Disability	0	0	0	0	2	1	0	0	0	0
Accidental Disability	2	0	1	0	1	0	0	1	0	0
<b>Total Retirements</b>	12	7	11	10	9	6	6	20	11	10
Total Retirees, Beneficiaries and Survivors	233	231	227	235	244	242	239	231	242	239
Total Active Members	363	357	328	296	286	295	299	274	262	244
<b>Pension Payments</b>										
Superannuation	\$1,703,872	\$1,857,693	\$1,994,334	\$2,245,802	\$2,353,448	\$2,450,427	\$2,560,858	\$2,642,182	\$2,856,603	\$2,997,263
Survivor/Beneficiary Payments	121,938	181,353	110,288	11,819	104,214	98,976	88,986	90,675	97,599	89,239
Ordinary Disability	63,437	59,625	37,404	30,382	53,512	55,710	57,463	52,744	48,872	50,189
Accidental Disability	535,379	555,869	606,742	587,626	635,458	705,853	632,915	619,190	597,256	596,865
Other	<u>297,816</u>	<u>328,777</u>	<u>349,525</u>	<u>346,937</u>	<u>339,123</u>	<u>307,019</u>	<u>296,226</u>	<u>244,622</u>	<u>338,099</u>	<u>377,904</u>
<b>Total Payments for Year</b>	<u>\$2,722,442</u>	<u>\$2,983,317</u>	<u>\$3,098,293</u>	<u>\$3,222,566</u>	<u>\$3,485,755</u>	<u>\$3,617,985</u>	<u>\$3,636,448</u>	<u>\$3,649,413</u>	<u>\$3,938,430</u>	<u>\$4,111,460</u>

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