

PERAC AUDIT REPORT



Newburyport
Contributory Retirement System



JAN. 1, 2006 - DEC. 31, 2008



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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June 7, 2010

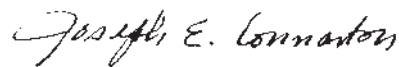
The Public Employee Retirement Administration Commission has completed an examination of the Newburyport Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2006 to December 31, 2008. This audit was conducted in accordance with the accounting and management 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.

It should be noted that the findings determined in this audit report were based on the Laws and Regulations in effect during the time the audit was conducted for the period referenced in this report. These findings do not reflect the changes made to Chapter 32 after passage of Chapter 21 of the Acts of 2009.

In closing, I acknowledge the work of examiner James Ryan 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(S) AND RECOMMENDATION(S)

I. Board Member Attendance:

A review of meeting attendance by Board members revealed a significant level of absenteeism. A member missed 50% of meetings held from January 2006 through December 2009. The result is an attendance rate for this Board member that was well below the seventy-five percent minimum considered reasonable. Such a level of absenteeism is considered to be excessive. This issue has been identified consistently in prior audits and the Board has made a decision to retain this Board member due to the value he adds during the meetings he attends.

Recommendation: Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the schedule of Board meetings in order to better accommodate its members. In instances where a significant level of absenteeism occurs, it is the Board's responsibility to take appropriate action with members who fail to maintain minimum attendance requirements.

Board Response:

The Newburyport Retirement Board encourages its members to attend all Board meetings and will make every effort to improve attendance. The member whose absenteeism is being questioned is an elected member to the Board and has continued to receive the support of the system's membership and been re-elected to his position. He has arranged to attend meetings when out of town via the internet. While the board understands that at this time he is not allowed to vote, if not physically present, he remains a very active participant in the Board meetings and all issues relative to the operation of the Board.

2. Membership:

PERAC auditors sampled members' deduction rates to determine that correct percentages are being withheld and that the additional 2% deduction is withheld from those members who make over \$30,000 and were hired after January 1, 1979. During the prior audit for the period 2004 through 2005 it was observed that members receive separate checks for longevity allowances. For that pay period when more than one pay check was issued the Board was receiving less than the required 2% additional retirement deduction. The auditors recommended that in the future, earnings for separate paychecks containing longevity allowances be combined with regular earnings on one paycheck. This payroll adjustment would be easier to implement than a payroll program coding change and the result would be that the full 2% would be taken on the combined earnings. The review of the November 2009 member payroll indicates that this issue has not been adequately corrected. All members of the Newburyport City Payroll entitled to longevity pay received separate checks with the 2% being under-withheld due to the payroll program not applying the 2% factor to the entire longevity pay allowance. All 103 employees being affected by the error had a correction made in the subsequent pay period.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation: The Board must comply with G.L. c. 32, § 22(1)(b), and PERAC Memo #43/1999, which directs that the additional 2% deductions be withheld on total regular income over \$30,000 on a per pay-period basis. The payroll system must combine all earnings subject to retirement deductions for each member from all payroll sources. This would provide the proper basis for calculating the additional 2% deduction accurately and consistently.

Board Response:

The Board has continued to work with the Treasurer's Office to make sure that the 2% is deducted correctly for all pay periods, including those in which more than one check is issued. The Board has requested the City to issue only one check per payroll for each member, which would eliminate this issue.

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,		
	2008	2007	2006
Net Assets Available For Benefits:			
Cash	\$1,282,532	\$325,371	\$623,515
PRIT Core Fund	33,650,984	48,031,906	43,087,276
Accounts Payable	(321)	0	(31)
Total	<u>\$36,458,698</u>	<u>\$50,303,906</u>	<u>\$45,160,527</u>
Fund Balances:			
Annuity Savings Fund	\$12,730,938	\$11,937,398	\$11,227,087
Annuity Reserve Fund	3,952,987	4,020,734	4,116,748
Pension Fund	3,987,447	3,869,885	3,986,370
Military Service Fund	14,177	14,093	14,009
Expense Fund	0	0	0
Pension Reserve Fund	15,773,148	30,461,796	25,816,312
Total	<u>\$36,458,698</u>	<u>\$50,303,906</u>	<u>\$45,160,527</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 (2006)	\$10,419,939	\$4,127,469	\$4,127,755	\$18,487		\$20,091,881	\$38,785,530
Receipts	1,335,314	119,969	3,454,369	84	322,315	5,724,433	10,956,484
Interfund Transfers	(397,617)	397,619	0	0	0	(2)	(0)
Disbursements	(130,548)	(528,309)	(3,595,753)	(4,561)	(322,315)	0	(4,581,487)
Ending Balance (2006)	11,227,087	4,116,748	3,986,370	14,009	0	25,816,312	45,160,527
Receipts	1,455,092	119,221	3,553,288	84	361,691	4,645,484	10,134,860
Interfund Transfers	(344,299)	344,299	0	0	0	0	0
Disbursements	(400,481)	(559,535)	(3,669,774)	0	(361,691)	0	(4,991,480)
Ending Balance (2007)	11,937,398	4,020,734	3,869,885	14,093	0	30,461,796	50,303,907
Receipts	1,528,550	115,223	3,837,000	85	330,744	(14,688,648)	(8,877,046)
Interfund Transfers	(385,524)	385,524	0	0	0	0	0
Disbursements	(349,486)	(568,495)	(3,719,439)	0	(330,744)	0	(4,968,163)
Ending Balance (2008)	<u>\$12,730,938</u>	<u>\$3,952,987</u>	<u>\$3,987,447</u>	<u>\$14,177</u>	<u>\$0</u>	<u>\$15,773,148</u>	<u>\$36,458,698</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
Annuity Savings Fund:			
Members Deductions	\$1,314,739	\$1,225,434	\$1,194,194
Transfers from Other Systems	123,506	152,546	61,672
Member Make Up Payments and Re-deposits	4,889	11,717	18,521
Member Payments from Rollovers	15,830	0	0
Investment Income Credited to Member Accounts	<u>69,586</u>	<u>65,396</u>	<u>60,928</u>
Sub Total	<u>1,528,550</u>	<u>1,455,092</u>	<u>1,335,314</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>115,223</u>	<u>119,221</u>	<u>119,969</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	88,868	75,595	67,680
Pension Fund Appropriation	<u>170,793</u>	<u>57,088</u>	<u>120,556</u>
Sub Total	<u>3,577,340</u>	<u>3,420,606</u>	<u>3,266,132</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>85</u>	<u>84</u>	<u>84</u>
Sub Total	<u>85</u>	<u>84</u>	<u>84</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>330,744</u>	<u>361,691</u>	<u>322,315</u>
Sub Total	<u>330,744</u>	<u>361,691</u>	<u>322,315</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	297	1,065	1,820
Miscellaneous Income	0	246	0
Excess Investment Income	<u>(14,688,944)</u>	<u>4,644,172</u>	<u>5,722,613</u>
Sub Total	<u>(14,688,648)</u>	<u>4,645,484</u>	<u>5,724,433</u>
Total Receipts	<u>(\$8,877,045)</u>	<u>\$10,134,860</u>	<u>\$10,956,484</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2008	2007	2006
Annuity Savings Fund:			
Refunds to Members	\$106,726	\$125,351	\$96,439
Transfers to Other Systems	<u>242,760</u>	<u>275,130</u>	<u>34,109</u>
Sub Total	<u>349,486</u>	<u>400,481</u>	<u>130,548</u>
Annuity Reserve Fund:			
Annuities Paid	558,433	557,687	528,309
Option B Refunds	<u>10,062</u>	<u>1,848</u>	<u>0</u>
Sub Total	<u>568,495</u>	<u>559,535</u>	<u>528,309</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	2,638,417	2,589,790	2,485,500
Survivorship Payments	180,652	181,848	153,268
Ordinary Disability Payments	45,696	44,416	46,835
Accidental Disability Payments	722,290	722,199	789,211
Accidental Death Payments	0	0	0
Section 101 Benefits	14,817	14,386	13,967
3 (8) (c) Reimbursements to Other Systems	117,566	117,135	106,972
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>3,719,439</u>	<u>3,669,774</u>	<u>3,595,753</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>4,561</u>
Expense Fund:			
Board Member Stipend	18,250	18,000	18,000
Salaries	80,439	68,457	62,575
Legal Expenses	483	0	0
Medical Expenses	0	0	0
Travel Expenses	828	5,481	755
Administrative Expenses	3,851	5,322	2,806
Professional Services	0	0	0
Education and Training	0	0	0
Furniture and Equipment	3,673	1,789	810
Management Fees	205,826	244,542	230,977
Custodial Fees	0	0	0
Consultant Fees	0	0	0
Rent Expenses	0	0	0
Service Contracts	14,538	15,328	3,861
Fiduciary Insurance	<u>2,856</u>	<u>2,771</u>	<u>2,533</u>
Depreciation	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>330,744</u>	<u>361,691</u>	<u>322,315</u>
Total Disbursements	<u>\$4,968,163</u>	<u>\$4,991,480</u>	<u>\$4,581,487</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
Investment Income Received From:			
Cash	\$1,790	\$1,391	\$1,242
Pooled or Mutual Funds	1,455,287	1,516,967	1,331,791
Total Investment Income	<u>1,457,077</u>	<u>1,518,358</u>	<u>1,333,033</u>
Plus:			
Realized Gains	544,218	3,704,042	2,717,476
Unrealized Gains	2,366,416	3,683,740	3,673,389
Interest Due and Accrued - Current Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,910,634</u>	<u>7,387,781</u>	<u>6,390,865</u>
Less:			
Realized Loss	(3,011,767)	0	0
Unrealized Loss	(15,529,250)	(3,715,576)	(1,497,877)
Interest Due and Accrued - Prior Year	<u>0</u>	<u>0</u>	<u>(113)</u>
Sub Total	<u>(18,541,017)</u>	<u>(3,715,576)</u>	<u>(1,497,990)</u>
Net Investment Income (Loss)	<u>(14,173,306)</u>	<u>5,190,564</u>	<u>6,225,908</u>
Income Required:			
Annuity Savings Fund	69,586	65,396	60,928
Annuity Reserve Fund	115,223	119,221	119,969
Military Service Fund	85	84	84
Expense Fund	<u>330,744</u>	<u>361,691</u>	<u>322,315</u>
Total Income Required	<u>515,638</u>	<u>546,392</u>	<u>503,295</u>
Net Investment Income (Loss)	<u>(14,173,306)</u>	<u>5,190,564</u>	<u>6,225,908</u>
Less: Total Income Required	515,638	546,392	503,295
Excess Income (Loss) To The Pension Reserve Fund	<u>(\$14,688,944)</u>	<u>\$4,644,172</u>	<u>\$5,722,613</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2008			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$1,282,532	3.7%	100%
PRIT Core Fund	<u>33,650,984</u>	<u>96.3%</u>	100%
Grand Total	<u>\$34,933,515</u>	<u>100.0%</u>	

For the year ending December 31, 2008, the rate of return for the investments of the Newburyport Retirement System was -29.20%. For the five-year period ending December 31, 2008, the rate of return for the investments of the Newburyport Retirement System averaged 3.35%. For the 24-year period ending December 31, 2008, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Newburyport Retirement System was 7.69%.

The composite rate of return for all retirement systems for the year ending December 31, 2008 was -28.61%. For the five-year period ending December 31, 2008, the composite rate of return for the investments of all retirement systems averaged 3.13%. For the 24-year period ending December 31, 2008, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 8.94%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Newburyport Retirement System is fully invested in the PRIT fund and has rescinded their prior supplementary investment regulations.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Newburyport 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 106 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. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

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. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

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. 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 \$708.60 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.

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 \$312 per year, per child, 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.

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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 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 or real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

October 18, 2002

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 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: William Squillace

Appointed Member: Vincent Malgeri

Elected Member: Franklin J. Spaulding Term Expires: 12/05/11

Elected Member: J. Paula Fowler Term Expires: 12/23/10

Appointed Member: Alexander Kravchuk Term Expires: 6/05/12

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
Ex-officio Member:)	\$50,000,000 under a master MACRS
Elected Member:)	sponsored policy issued through a
Appointed Member:)	layered program with Travelers,
Staff Employee:)	AIG and ARCH. Separate fidelity
		Coverage pertaining to ERISA/CRIME
		to a limit of \$1,000,000 issued
		through same deductible.

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, 2008.

The actuarial liability for active members was	\$33,716,369
The actuarial liability for retired and members was	<u>38,237,354</u>
The total actuarial liability was	71,953,723
System assets as of that date were	<u>46,753,245</u>
The unfunded actuarial liability was	<u>\$25,200,478</u>
The ratio of system's assets to total actuarial liability was	65.0%
As of that date the total covered employee payroll was	\$13,709,329

The normal cost for employees on that date was 8.50% of payroll
 The normal cost for the employer was 6.40% of payroll

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

Investment Return: 8.00% per annum
 Rate of Salary Increase: Service based table with ultimate rates of 4.75 %, 5.00%, and 5.25% per annum for groups 1, 2, and 4 respectively.

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2008

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	\$46,753,245	\$71,953,723	\$25,200,478	65.0%	\$13,709,329	183.8%
1/1/2006	\$37,002,260	\$66,474,030	\$29,471,770	55.7%	\$13,190,096	223.4%
1/1/2004	\$30,268,510	\$59,174,516	\$28,906,006	51.2%	\$13,268,217	217.9%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Retirement in Past Years										
Superannuation	9	8	7	28	12	2	3	5	4	8
Ordinary Disability	0	0	0	0	0	0	0	1	0	0
Accidental Disability	1	0	3	1	0	1	0	1	0	2
Total Retirements	10	8	10	29	12	3	3	7	4	10
Total Retirees, Beneficiaries and Survivors	190	194	197	221	224	211	215	217	218	214
Total Active Members	332	356	364	354	341	391	386	408	426	403
Pension Payments										
Superannuation	\$1,351,427	\$1,440,876	\$1,606,188	\$1,684,990	\$2,192,794	\$2,325,745	\$2,388,691	2,485,500	2,589,790	2,638,417
Survivor/Beneficiary Payments	71,761	70,885	73,391	103,069	117,977	129,794	144,484	153,268	181,848	180,652
Ordinary Disability	54,800	65,672	58,289	50,579	57,196	41,638	36,694	46,835	44,416	45,696
Accidental Disability	457,478	495,993	536,683	590,532	677,250	673,160	690,519	789,211	722,199	722,290
Other	<u>244,284</u>	<u>235,624</u>	<u>225,518</u>	<u>219,814</u>	<u>98,637</u>	<u>138,559</u>	<u>105,260</u>	<u>120,939</u>	<u>131,521</u>	<u>132,384</u>
Total Payments for Year	<u>\$2,179,750</u>	<u>\$2,309,050</u>	<u>\$2,500,069</u>	<u>\$2,648,984</u>	<u>\$3,143,854</u>	<u>\$3,308,896</u>	<u>\$3,365,648</u>	<u>\$3,595,753</u>	<u>\$3,669,774</u>	<u>\$3,719,439</u>

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