

# PERAC AUDIT REPORT



North Adams  
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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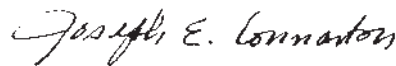
October 26, 2011

The Public Employee Retirement Administration Commission has completed an examination of the North Adams Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 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 that noted in the finding presented in this report.

In closing, I acknowledge the work of examiners Scott Henderson 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

### **Membership**

There are two issues related to both reserve firefighters (RFF) and reserve police officers (RPO).

1. They are both granted membership even though neither group qualifies under either the current rules (working at least 25 hours per week) or the prior rules (20 hours per week).
2. They are being charged to buy back prior time as a RFF or RPO. Pursuant to G. L. c. 32, §4 (2) (b), a RFF or RPO who later becomes a permanent firefighter or police officer is credited without payment for the time spent on the Civil Service RFF and RPO list for up to five years. Time on the list would be credited even if there was no compensation received.

**Recommendation:** For members who are currently RFFs or RPOs membership should be rescinded. All retirement deductions paid should be refunded. Upon becoming a permanent firefighter or police officer, they would then join the system.

Members who are currently full-time firefighters or police officers who were charged for any prior RFF or RPO time should have that money refunded. Similarly, any deductions taken from those years due to being incorrectly considered members of the system should be returned. The time that was granted will remain, but the folders should be inspected to determine that the credited service reflects not just the paid RFF or RPO time, but also the time on the list that was uncompensated.

### **Board Response:**

A review of all RFF and RPO are being conducted and payroll records are being reviewed along with City Clerk's records to identify the RFF and RPO. Refunds that are due are given back after a review of each RFF and RPO's file.

### **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	\$111,561	\$48,072	\$138,178
Short Term Investments	602,777	0	7,011,931
Fixed Income Securities	10,970,155	14,542,333	11,868,338
Equities	27,188,223	20,269,608	11,533,760
Pooled Alternative Investment Funds	150,273	56,460	1,367,421
Hedge Funds	1,605,825	1,510,817	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	98,991	124,713	82,819
Accounts Receivable	91,785	100,964	38,809
Accounts Payable	<u>(482,528)</u>	<u>(14,714)</u>	<u>(155,529)</u>
<b>Total</b>	<b><u>\$40,337,061</u></b>	<b><u>\$36,638,254</u></b>	<b><u>\$31,885,729</u></b>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$8,924,161	\$8,444,438	\$8,202,254
Annuity Reserve Fund	3,226,211	3,307,963	3,152,186
Pension Fund	0	901	901
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	<u>28,186,689</u>	<u>24,884,952</u>	<u>20,530,388</u>
<b>Total</b>	<b><u>\$40,337,061</u></b>	<b><u>\$36,638,254</u></b>	<b><u>\$31,885,729</u></b>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2008)	\$7,545,946	\$3,435,970	\$0	\$899	\$0	\$30,949,351	\$41,932,167
Receipts	973,033	98,532	2,268,180	1	245,739	(9,535,912)	(5,950,426)
Interfund Transfers	(78,905)	78,905	883,952	(901)	0	(883,051)	0
Disbursements	(237,820)	(461,221)	(3,151,232)	0	(245,739)	0	(4,096,012)
Ending Balance (2008)	8,202,254	3,152,186	901	0	0	20,530,388	31,885,729
Receipts	937,932	96,013	2,333,441	0	276,592	5,275,724	8,919,703
Interfund Transfers	(526,881)	502,313	945,728	0	0	(921,160)	0
Disbursements	(168,867)	(442,549)	(3,279,170)	0	(276,592)	0	(4,167,177)
Ending Balance (2009)	8,444,438	3,307,963	901	0	0	24,884,952	36,638,255
Receipts	978,830	97,833	2,493,781	0	285,569	4,275,877	8,131,890
Interfund Transfers	(315,349)	316,849	972,641	0	0	(974,141)	0
Disbursements	(183,759)	(496,434)	(3,467,322)	0	(285,569)	0	(4,433,083)
Ending Balance (2010)	<u>\$8,924,161</u>	<u>\$3,226,211</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$28,186,689</u>	<u>\$40,337,061</u>

## STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
<b>Annuity Savings Fund:</b>			
Members Deductions	\$878,079	\$833,472	\$853,330
Transfers from Other Systems	45,139	22,613	50,764
Member Make Up Payments and Re-deposits	29,592	43,077	24,572
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	<u>26,019</u>	<u>38,770</u>	<u>44,366</u>
Sub Total	<u>978,830</u>	<u>937,932</u>	<u>973,033</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>97,833</u>	<u>96,013</u>	<u>98,532</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	17,244	8,331	22,249
	117,100	118,594	122,947
Pension Fund Appropriation	2,300,186	2,206,517	2,122,984
Settlement of Workers' Compensation Claims	<u>59,250</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,493,781</u>	<u>2,333,441</u>	<u>2,268,180</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>0</u>	<u>0</u>	<u>1</u>
Sub Total	<u>0</u>	<u>0</u>	<u>1</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>285,569</u>	<u>276,592</u>	<u>245,739</u>
Sub Total	<u>285,569</u>	<u>276,592</u>	<u>245,739</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	77	1,710	149
Miscellaneous Income	116	2,519	1,121
Excess Investment Income (Loss)	<u>4,275,684</u>	<u>5,271,495</u>	<u>(9,537,182)</u>
Sub Total	<u>4,275,877</u>	<u>5,275,724</u>	<u>(9,535,912)</u>
<b>Total Receipts, Net</b>	<u>\$8,131,890</u>	<u>\$8,919,703</u>	<u>(\$5,950,426)</u>

# STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$81,671	\$153,632	\$73,869
Transfers to Other Systems	<u>102,088</u>	<u>15,235</u>	<u>163,951</u>
Sub Total	<u>183,759</u>	<u>168,867</u>	<u>237,820</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	452,137	430,872	409,272
Option B Refunds	<u>44,297</u>	<u>11,677</u>	<u>51,949</u>
Sub Total	<u>496,434</u>	<u>442,549</u>	<u>461,221</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	1,951,866	1,855,781	1,803,173
Survivorship Payments	148,836	141,186	137,118
Ordinary Disability Payments	68,668	68,075	51,076
Accidental Disability Payments	857,123	855,546	852,907
Accidental Death Payments	291,898	255,672	224,198
Section 101 Benefits	6,090	4,500	0
3 (8) (c) Reimbursements to Other Systems	142,842	98,409	82,760
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>3,467,322</u>	<u>3,279,170</u>	<u>3,151,232</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	0	0	0
Salaries	49,074	49,120	46,075
Legal Expenses	0	0	0
Medical Expenses	0	0	0
Travel Expenses	5,384	4,027	5,369
Administrative Expenses	9,015	8,780	10,267
Professional Services	0	0	0
Education and Training	2,620	0	0
Furniture and Equipment	0	0	1,378
Management Fees	149,610	146,041	152,114
Custodial Fees	30,000	30,100	16,308
Consultant Fees	17,700	18,703	0
Rent Expenses	4,584	4,632	4,470
Service Contracts	14,681	12,507	7,224
Fiduciary Insurance	<u>2,901</u>	<u>2,682</u>	<u>2,534</u>
Sub Total	<u>285,569</u>	<u>276,592</u>	<u>245,739</u>
<b>Total Disbursements</b>	<u>\$4,433,083</u>	<u>\$4,167,177</u>	<u>\$4,096,012</u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
<b>Investment Income Received From:</b>			
Cash	\$731	\$762	\$701
Short Term Investments	1,050	5,007	61,352
Fixed Income	616,420	773,444	695,898
Equities	505,597	325,099	461,429
Pooled or Mutual Funds	17,700	18,703	15,058
Commission Recapture	0	0	0
<b>Total Investment Income</b>	<u>1,141,498</u>	<u>1,123,015</u>	<u>1,234,438</u>
<b>Plus:</b>			
Realized Gains	713,269	1,211,079	812,355
Unrealized Gains	4,662,217	4,870,363	687,969
Interest Due and Accrued - Current Year	<u>98,991</u>	<u>124,713</u>	<u>82,819</u>
Sub Total	<u>5,474,476</u>	<u>6,206,155</u>	<u>1,583,143</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	(77,808)	(103,987)	(76,768)
Realized Loss	(1,211,049)	(1,115,634)	(3,902,400)
Unrealized Loss	(517,298)	(343,859)	(7,854,501)
Interest Due and Accrued - Prior Year	<u>(124,713)</u>	<u>(82,819)</u>	<u>(132,456)</u>
Sub Total	<u>(1,930,868)</u>	<u>(1,646,300)</u>	<u>(11,966,125)</u>
<b>Net Investment Income (Loss)</b>	<u>4,685,105</u>	<u>5,682,870</u>	<u>(9,148,543)</u>
<b>Income Required:</b>			
Annuity Savings Fund	26,019	38,770	44,366
Annuity Reserve Fund	97,833	96,013	98,532
Military Service Fund	0	0	1
Expense Fund	<u>285,569</u>	<u>276,592</u>	<u>245,739</u>
<b>Total Income Required</b>	<u>409,421</u>	<u>411,375</u>	<u>388,639</u>
Net Investment Income (Loss)	<u>4,685,105</u>	<u>5,682,870</u>	<u>(9,148,543)</u>
Less: Total Income Required	<u>409,421</u>	<u>411,375</u>	<u>388,639</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<u>\$4,275,684</u>	<u>\$5,271,495</u>	<u>(\$9,537,182)</u>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2010		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$111,561	0.3%
Short Term	602,777	1.5%
Fixed Income	10,970,155	27.0%
Equities	27,188,223	66.9%
Pooled Alternative Investment Funds	150,273	0.4%
PRIT Hedge Funds	1,605,825	4.0%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	0	0.0%
<b>Grand Total</b>	<b>\$40,628,813</b>	<b>100.0%</b>

For the year ending December 31, 2010 the rate of return for the investments of the North Adams Retirement System was 13.14%. For the five-year period ending December 31, 2010 the rate of return for the investments of the North Adams Retirement System averaged 5.94%. 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 North Adams Retirement System was 9.75%.

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 North Adams 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 North Adams Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

### ADMINISTRATION

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

### PARTICIPATION

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

There are 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, will receive 3% interest on their contributions if they voluntarily terminate their service.

# 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 retirement board has the option to increase this base in increments of \$1,000. 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.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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.

### 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 an investment manager 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 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 North Adams Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

#### Board Policies:

April 14, 2009

Three (3) Board members' signatures are required on all warrants. All investments must be reviewed by the full five members of the Board. The minutes of all Board meetings must be read and approved by the Board. Account information, financial and medical, of both current and former members are not public records. It is understood by the Board that the Massachusetts General Laws Chapter 32 supersede any conflicting rules, regulations and by-laws established herein.

#### Buyback:

April 14, 2009

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

#### Creditable Service:

April 14, 2009

Creditable service shall be based on the following formula according to the average hours worked per week. Under twenty (20) hours no credit; 20-25 average hours per week =  $\frac{1}{2}$  time employee; 26-34 average hours per week =  $\frac{3}{4}$  time employee; 35 or more average hours per week = full time employee. Permanent full-time employees shall be granted one year of credit for each calendar year of service. Employees will be considered full-time if they work an average of at least thirty-five hours per week. There shall be no waiting period for full-time employees to join the retirement system.

#### Membership:

April 14, 2009

No part-time, provisional, temporary, temporary provisional, seasonal or intermittent employees or any other part-time employees in any governmental unit or board, shall become members of the retirement system, unless regularly employed for an average of twenty-five (25) hours per week, and such employees are eligible for membership after six months of such employment. Actual time worked must be documented to the satisfaction of the board and creditable service is only allowed for actual time worked. Membership is mandatory for employees meeting the above requirements. This rule is not intended to conflict or modify Chapter 32, Section 4(2)(b) pertaining to creditable service allowed for reserve or permanent intermittent police officers or reserve, permanent intermittent or call firefighters.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

#### Travel Regulations:

October 23, 2003

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of a first and 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.

Appointed Member: Kathleen Wall

Appointed Member: Alan Marden Indefinite

Elected Member: James D. Brown, Chairman Term Expires: 07/01/13

Elected Member: Lawrence R. O'Brien Term Expires: 12/17/13

Appointed Member: Fred T. Thompson Term Expires: 02/27/12

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 \$50,000,000 under
Elected Members:	)	a master MACRS sponsored policy issued through a
Appointed Members:	)	layered program with Travelers, National Union
Staff Employee:	)	Fire, and Arch. 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 the Public Employee Retirement Administration Commission as of January 1, 2009.

The actuarial liability for active members was	\$24,394,488
The actuarial liability for vested terminated members was	358,663
The actuarial liability for non-vested terminated members was	157,767
The actuarial liability for retired members was	<u>31,925,898</u>
The total actuarial liability was	56,836,816
System assets as of that date were (actuarial value)	<u>38,262,875</u>
The unfunded actuarial liability was	<u>\$18,573,941</u>
The ratio of system's assets to total actuarial liability was	67.3%
As of that date the total covered employee payroll was	\$9,877,348

The normal cost for employees on that date was 8.1% 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 based on service and job group.

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2009

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 )
1/1/2009	\$38,262,875	\$56,836,816	\$18,573,941	67.3%	\$9,877,348	188.0%
1/1/2007	\$35,448,787	\$52,841,995	\$17,393,208	67.1%	\$9,347,575	186.1%
1/1/2005	\$33,097,932	\$49,323,487	\$16,225,555	67.1%	\$8,079,527	200.8%

## 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	0	16	16	1	7	6	6	1	8	8
Ordinary Disability	0	0	0	0	0	0	0	1	1	0
Accidental Disability	0	2	1	2	2	4	0	0	1	0
<b>Total Retirements</b>	0	18	17	3	9	10	6	2	10	8
Total Retirees, Beneficiaries and Survivors	200	202	210	211	205	206	206	205	207	216
Total Active Members	296	267	345	357	436	380	381	391	353	375
<b>Pension Payments</b>										
Superannuation	\$1,300,499	\$1,364,015	\$1,452,598	\$1,762,604	\$1,754,574	\$1,727,889	\$1,755,506	\$1,803,173	\$1,855,781	\$1,951,866
Survivor/Beneficiary Payments	114,523	104,201	231,134	111,566	147,401	126,519	133,131	137,118	141,186	148,836
Ordinary Disability	73,410	61,940	53,440	55,086	54,514	46,414	49,440	51,076	68,075	68,668
Accidental Disability	659,809	723,447	743,579	786,830	785,390	853,559	844,640	852,907	855,546	857,123
Other	<u>188,383</u>	<u>192,446</u>	<u>60,579</u>	<u>269,204</u>	<u>271,068</u>	<u>273,948</u>	<u>307,241</u>	<u>306,957</u>	<u>358,582</u>	<u>440,830</u>
<b>Total Payments for Year</b>	<u>\$2,336,624</u>	<u>\$2,446,049</u>	<u>\$2,541,330</u>	<u>\$2,985,290</u>	<u>\$3,012,947</u>	<u>\$3,028,329</u>	<u>\$3,089,958</u>	<u>\$3,151,232</u>	<u>\$3,279,170</u>	<u>\$3,467,322</u>







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