

PERAC AUDIT REPORT



Northampton
Contributory Retirement System



JAN. 1, 2007 - DEC. 31, 2009



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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August 9, 2010

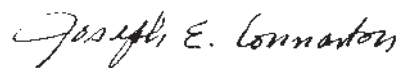
The Public Employee Retirement Administration Commission has completed an examination of the Northampton Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2007 to December 31, 2009. This audit was conducted in accordance with the accounting and management 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 Scott Henderson who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Regular Compensation

An examination of DPW and Housing Authority payroll records showed that each pay period both units pay an additional amount for being on call after normal hours. These payments, which are paid regardless of whether any hours are actually worked during the on-call period, are erroneously excluded from retirement deductions.

Recommendation: These payments fit the definition of regular compensation pursuant to 840 CMR 15.03 in that they are “ordinary, normal, recurrent, repeated; and of indefinite duration.”

The Board must formally instruct the respective payroll officers to begin withholding retirement deductions on on-call pay to members. The rate of deduction must be the same as the member’s other compensation plus the additional 2% if total compensation exceeds \$30,000 on an annualized basis for any pay period.

Board Response:

The Board has informed the appropriate payroll offices that this type of pay is regular compensation and has verified that proper deductions are being withheld.

2. Cash

The Northampton Retirement Board has two accounts at Florence Savings Bank. One account is for the System’s receipts, and the other is used for all the warrant activity including the retiree allowances. A transfer is made from the depository account to fund each month’s payroll and warrant activity. All activity for both accounts is posted to one general ledger account.

Recommendation: Although the combined cash activity reported on the general ledger appears to be accurate, sound internal financial control practices would dictate that the two bank accounts should be assigned separate general ledger account numbers. This is a common practice that maintains an integral financial control over transactions for each bank account by reflecting the source and destination of all cash flows with separate accounting entries.

Board Response:

The Board has since consolidated its two Florence Savings Bank accounts.

3. Retirees

A review of recent retirees’ folders reveals that payroll records are not used when calculating a member’s high three-year average salary. Instead, the salary amounts are “backed into” from the contributions received from the member.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation: The system should use actual payroll records when calculating retirement benefits. This also serves the purpose of allowing the Board to verify that retirement contributions are being withheld accurately on an on-going basis.

Board Response:

In addition to basing retirement calculations on a review of member contributions and personnel action forms, direct computer access to payroll records is utilized to verify wage and service history. An analysis from hardcopy reports has been suggested and we have implemented this recommendation.

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,		
	2009	2008	2007
Net Assets Available For Benefits:			
Cash	(\$115,165)	\$12,795,554	\$773,815
Fixed Income Securities	31,045,333	25,362,644	25,042,261
Equities	36,322,870	19,965,868	44,745,156
Pooled Short Term Funds	0	0	4,347,049
Pooled Alternative Investment Funds	98,981	39,048	0
Hedge Funds	2,684,886	2,390,131	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	286,593	183,741	256,929
Prepaid Expenses	0	0	0
Accounts Receivable	12,486	0	1,036,224
Premises and Equipment, Net	0	0	0
Accounts Payable	(26,435)	(213,132)	(28,529)
Total	<u>\$70,309,549</u>	<u>\$60,523,855</u>	<u>\$76,172,904</u>
Fund Balances:			
Annuity Savings Fund	\$20,547,447	\$19,319,929	\$18,135,561
Annuity Reserve Fund	7,378,329	7,167,832	7,055,138
Pension Fund	513,629	284,516	370,455
Military Service Fund	7,186	7,150	7,107
Expense Fund	0	0	0
Pension Reserve Fund	41,862,959	33,744,428	50,604,643
Total	<u>\$70,309,549</u>	<u>\$60,523,855</u>	<u>\$76,172,904</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 (2007)	\$16,995,334	\$6,957,844	\$1,484,298	\$12,475	\$0	\$41,032,916	\$66,482,867
Receipts	2,239,870	205,565	3,945,525	136	414,634	9,571,081	16,376,811
Interfund Transfers	(703,841)	713,150	(4,450)	(5,504)	0	646	0
Disbursements	(395,803)	(821,421)	(5,054,917)	0	(414,634)	0	(6,686,774)
Ending Balance (2007)	18,135,561	7,055,138	370,455	7,107	0	50,604,643	76,172,904
Receipts	2,232,718	209,448	4,073,892	43	451,969	(15,771,949)	(8,803,880)
Interfund Transfers	(738,993)	739,818	1,087,440	0	0	(1,088,265)	0
Disbursements	(309,357)	(836,571)	(5,247,271)	0	(451,969)	0	(6,845,169)
Ending Balance (2008)	19,319,929	7,167,832	284,516	7,150	0	33,744,428	60,523,855
Receipts	2,417,725	217,092	4,265,159	36	412,743	9,639,088	16,951,842
Interfund Transfers	(956,776)	956,965	1,520,369	0	0	(1,520,558)	0
Disbursements	(233,431)	(963,561)	(5,556,415)	0	(412,743)	0	(7,166,149)
Ending Balance (2009)	<u>\$20,547,447</u>	<u>\$7,378,329</u>	<u>\$513,629</u>	<u>\$7,186</u>	<u>\$0</u>	<u>\$41,862,959</u>	<u>\$70,309,549</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Members Deductions	\$2,095,264	\$2,027,710	\$1,860,938
Transfers from Other Systems	157,849	59,405	171,115
Member Make Up Payments and Re-deposits	70,963	39,551	108,283
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	<u>93,649</u>	<u>106,052</u>	<u>99,534</u>
Sub Total	<u>2,417,725</u>	<u>2,232,718</u>	<u>2,239,870</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>217,092</u>	<u>209,448</u>	<u>205,565</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	114,558	113,025	110,541
Pension Fund Appropriation	128,019	133,973	147,854
Pension Fund Appropriation	4,022,582	3,826,894	3,687,131
Settlement of Workers' Compensation Claims	0	0	0
Sub Total	<u>4,265,159</u>	<u>4,073,892</u>	<u>3,945,525</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	80
Investment Income Credited to the Military Service Fund	<u>36</u>	<u>43</u>	<u>56</u>
Sub Total	<u>36</u>	<u>43</u>	<u>136</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>412,743</u>	<u>451,969</u>	<u>414,634</u>
Sub Total	<u>412,743</u>	<u>451,969</u>	<u>414,634</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	15,956	16,117	21,868
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	1,893	1,047	2,019
Miscellaneous Income	0	0	0
Excess Investment Income (Loss)	<u>9,621,239</u>	<u>(15,789,114)</u>	<u>9,547,194</u>
Sub Total	<u>9,639,088</u>	<u>(15,771,949)</u>	<u>9,571,081</u>
Total Receipts (Net)	<u>\$16,951,842</u>	<u>(\$8,803,880)</u>	<u>\$16,376,811</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Refunds to Members	\$104,405	\$132,158	\$327,399
Transfers to Other Systems	<u>129,027</u>	<u>177,200</u>	<u>68,403</u>
Sub Total	<u>233,431</u>	<u>309,357</u>	<u>395,803</u>
Annuity Reserve Fund:			
Annuities Paid	884,688	823,660	786,495
Option B Refunds	<u>78,872</u>	<u>12,912</u>	<u>34,926</u>
Sub Total	<u>963,561</u>	<u>836,571</u>	<u>821,421</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	4,005,185	3,743,110	3,560,615
Survivorship Payments	260,479	254,287	261,501
Ordinary Disability Payments	79,987	90,264	97,503
Accidental Disability Payments	856,819	842,716	804,170
Accidental Death Payments	166,167	164,007	176,391
Section 101 Benefits	8,607	8,357	8,113
3 (8) (c) Reimbursements to Other Systems	179,171	144,531	146,624
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>5,556,415</u>	<u>5,247,271</u>	<u>5,054,917</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	17,750	18,000	18,000
Salaries	94,154	91,537	86,873
Legal Expenses	776	3,941	2,369
Medical Expenses	90	0	0
Travel Expenses	3,829	7,231	7,693
Administrative Expenses	10,790	13,576	10,195
Professional Services	0	0	0
Education and Training	3,075	0	0
Furniture and Equipment	1,900	0	96
Management Fees	223,592	231,927	218,404
Custodial Fees	51,849	53,483	40,849
Consultant Fees	0	0	0
Rent Expenses	0	0	0
Service Contracts	0	27,600	25,624
Fiduciary Insurance	4,938	4,674	4,532
Depreciation	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>412,743</u>	<u>451,969</u>	<u>414,634</u>
Total Disbursements	<u>\$7,166,149</u>	<u>\$6,845,169</u>	<u>\$6,686,774</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Investment Income Received From:			
Cash	\$12,050	\$123,010	\$140,972
Fixed Income	1,528,904	1,449,669	1,288,767
Equities	571,558	761,587	1,102,041
Pooled or Mutual Funds	30,527	26,627	0
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>
Total Investment Income	<u>2,143,038</u>	<u>2,360,893</u>	<u>2,531,780</u>
Plus:			
Realized Gains	1,893,698	1,051,693	1,152,756
Unrealized Gains	9,158,550	1,820,626	10,268,446
Interest Due and Accrued - Current Year	<u>286,593</u>	<u>183,741</u>	<u>256,929</u>
Sub Total	<u>11,338,841</u>	<u>3,056,060</u>	<u>11,678,130</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(179,319)	(136,554)	(151,387)
Realized Loss	(2,074,597)	(5,799,316)	(1,887,343)
Unrealized Loss	(699,464)	(14,245,756)	(1,655,551)
Interest Due and Accrued - Prior Year	<u>(183,741)</u>	<u>(256,929)</u>	<u>(248,646)</u>
Sub Total	<u>(3,137,120)</u>	<u>(20,438,555)</u>	<u>(3,942,928)</u>
Net Investment Income (Loss)	<u>10,344,759</u>	<u>(15,021,603)</u>	<u>10,266,982</u>
Income Required:			
Annuity Savings Fund	93,649	106,052	99,534
Annuity Reserve Fund	217,092	209,448	205,565
Military Service Fund	36	43	56
Expense Fund	<u>412,743</u>	<u>451,969</u>	<u>414,634</u>
Total Income Required	<u>723,520</u>	<u>767,511</u>	<u>719,789</u>
Net Investment Income (Loss)	<u>10,344,759</u>	<u>(15,021,603)</u>	<u>10,266,982</u>
Less: Total Income Required	<u>723,520</u>	<u>767,511</u>	<u>719,789</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$9,621,239</u>	<u>(\$15,789,114)</u>	<u>\$9,547,194</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2009	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	(\$115,165)	-0.2%
Fixed Income	31,045,333	44.3%
Equities	36,322,870	51.9%
Pooled Alternative Investment Funds	98,981	0.1%
Hedge Funds	2,684,886	3.8%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	0	0.0%
Grand Total	<u>\$70,036,905</u>	<u>100.0%</u>

For the year ending December 31, 2009, the rate of return for the investments of the Northampton Retirement System was 16.88%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Northampton Retirement System averaged 5.66%. For the twenty-five year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Northampton Retirement System was 9.42%.

The composite rate of return for all retirement systems for the year ending December 31, 2009 was 18.22%. For the five-year period ending December 31, 2009 the composite rate of return for the investments of all retirement systems averaged 3.97%. For the twenty-five year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.30%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Northampton Retirement System has not submitted any supplementary investment regulations 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 Northampton 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 is considered to be funds on deposit with banks and is 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 Northampton Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

March 30, 2006

Policy Manual-Membership:

This policy supersedes and replaces all previous membership policies of this board.

All permanent employees of the city working a minimum of 20 hours per week shall become members of the Northampton Retirement System.

All permanent school employees who work more than 20 hours per week and who are not eligible for membership in the Teachers Retirement System shall become members of the Northampton Retirement System.

Elected officials may join the system and have 90 days from the date of assuming office to elect to do so.

All on-call fire and police employees shall become members of the Retirement System, with creditable service to be determined at the time the employees become permanent employees.

Those employees who are temporary or intermittent and later become permanent shall join the Retirement System, and will have the option of buying back their previous temporary service.

Members of the System who drop below the minimum requirements for membership will remain members of the System and will continue to make contributions.

All members who work at least 20 hours per week will be considered full-time for purposes of calculating creditable service.

Those members who are working less than 20 hours per week, and those members buying back previous service of less than 20 hours per week, will have service calculated as a percentage of the 20-hour full-time rate, e.g. 10 hours will be considered halftime, and 5 hours will be considered one-fourth time.

School employees who work the entire school year and return the following September will be granted a full-year of creditable service. Employees who leave at the end of the school year will be granted credit through their date of resignation.

Policy Manual-Creditable Service:

This policy supersedes and replaces all previous creditable service policies of this board.

Active members may buy back service previous to membership and may buy back previous service that was refunded to them.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

No liability will be accepted for employees of other Systems who were never active members of the Northampton Retirement System.

Prior service that was at least 20 hours per week will be considered full-time. Service less than 20 hours will be prorated as a percentage of the 20-hour minimum.

Military buybacks are calculated at an annualized 35-hour salary based on the rate listed on the membership form, and as verified by the deductions received. When no salary information is given, salary will be estimated using the first full 12 months of deductions.

Where information is sufficient to prove that the employee was employed by Northampton, every effort will be made to make an accurate estimate of the creditable service and of the salaries earned. The Retirement Board is the final arbiter of service granted in cases where full employment records are not available.

All buybacks must be completed prior to retirement and no creditable service will be granted until the buyback is complete.

Once a buyback is begun, it must be completed within 3 years. For buybacks greater than \$4,000, members can take up to 4 years to complete it. Payback schedules longer than 4 years require board approval.

Policy Manual-Elections:

This policy supersedes and replaces all previous election policies of this board.

Elections will be held as a one-day walk-in event, with the retirement office as the polling station. The office will be open 7:00 a.m. to 6:00 p.m. on that day.

Candidates will be listed on the ballot in the order determined by a random drawing, conducted by the election officer.

Candidates will not be given a mailing list of members. Candidates may provide material in postage-paid envelopes for mailing to retirees and/or active members.

Retirees will be provided with mail-in ballots. Active members can request an absentee ballot.

Mailed-in ballots must contain a name and return address on the outside. Ballots with no return address will not be counted. Ballots can be enclosed in a sealed inner envelope if the voter wishes to do so. Ballots will be checked off the eligible voter list as they are received, separated from the outer envelope, and set aside for counting.

Walk-in voters must show identification, and will be checked off the eligible voter list.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Once the polls are closed, the election officer and that officer's designees will count the ballots and post the election returns. The results will be posted in all departments, and will be included in the next retirement check mailing.

Policy Manual-Miscellaneous:

Retirement Payroll

Retirement checks are mailed on the next-to-last business day of the month and are dated the last business day of the month.

With each change in board membership or staff, a notice will be sent to the treasurer including the eligible signatures for signing warrants, and stating that the treasurer is authorized to release funds upon receipt of a warrant signed by any two of the board members listed, or alternatively signed by the retirement administrator and any one of the board members listed.

When the monthly board meeting falls after the date of the warrants to pay direct deposits and to mail retirement checks, the retirement administrator is authorized to sign an accounts payable warrant. Any such warrant must be signed by one board member. Any such warrant so signed will be presented at the next meeting for board approval.

Retirement checks which are lost in the mail will be replaced after 5 days, provided the retiree agrees to return the original check if received. If the retiree should later cash the original check, the overpayment will be deducted from his/her next retirement check, and all future requests for replacement checks will require stop payment of the original check and a waiting period for the treasurer to assure the check has not been cashed before a replacement check can be issued, and the retiree will be charged a stop-payment fee equal to the rate charged by the Board's bank.

New Retirements

New retirees will be paid beginning the work-day following their last paid day of employment or on their requested date of retirement, whichever comes last. Partial months of retirement will be prorated based on a 30-day month (e.g. if a person retires on the 15th of the month and is paid for the 15th, their retirement pay will start on the 16th and will be equal to one-half month's pay).

Accounts Payable

When the board meeting schedule leads to late-payment fees or other problems, bills may be paid prior to the warrant and marked as pre-released on the warrant. Currently, this policy would apply only to the bottled water bill, the newspaper subscription, and to hotel reservations.

Payroll Certification

Retirees and survivors are not required to have their signatures notarized. Those signing the payroll certification form under power of attorney will be required to have the form notarized.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

September 3, 1991

Membership:

Part-time employees who work a minimum of 20 hours per week shall become members of the system. Creditable service will be granted on the basis of time for time based on the workweek of the department.

November 13, 1990

Membership:

New employees who have the words “Temporary and/or Intermittent” included in their job descriptions shall not become members of the system due to the nature of these positions. Upon receiving a permanent appointment or a change in job description, the employee shall become a member, provided that he/she meets the requirements for membership outlined in previously approved rules, e.g., part-time employees. Temporary full-time employees who become permanent full-time employees shall have the option of buying back their time to initial date of hire, provided there has been no break in service. This rule applies to former CETA employees whose positions have been made permanent, are now city employees, and wish to buy back their creditable service to original date of hire.

August 27, 1990

Creditable Service:

Part-time employees, however, who have worked consistently on a part-time basis for all of their years of employment with the City shall have, upon becoming eligible and applying for retirement benefits from the City, full-time creditable service granted at such retirement time. Employees who have worked both full and part time during their years of employment shall have their part-time service prorated and added to their full-time service. Regular compensation for purposes of calculating the retirement allowance, shall be the average of their last three or highest three years of earnings, whichever is greater, of three consecutive 52 week years.

Buybacks:

Any member in service who, upon approval of the retirement board, wishes to pay into the system a make up payment of regular deductions, together with regular interest, to purchase creditable service for previous employment in the retirement system or any other system within the Commonwealth governed by the provisions of chapter 32 of the General Laws in which he/she had been a member, shall pay such make-up at the rate of at least ten dollars per week for every fifteen hundred dollars of the total accumulated deductions owed. Increments shall be at the minimum rate of ten dollars per week, or as determined by the retirement board, in order that the total repayment time shall be completed no later than December 31 of the third year from the onset of such make up payments.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

December 20, 1984

Membership:

Part-time employees who work a minimum of 20 hours per week shall become members of the system after having been employed for 6 months at the above mentioned minimum number of hours. Creditable service will be given on the basis of time for time, based on the normal workweek of the department. (Revised by supplementary rule approved September 3, 1991).

Creditable Service:

Time for time is granted based on the normal workweek of the department. In the case of part-time school employees, however, the number of hours worked is divided by 1400 to arrive at 1 year of creditable service.

Public Records:

Financial records, actual account amounts and medical records of members and former members are not public records.

Regular Compensation:

Retirement deductions are to be taken only on the funds paid to [members on National Guard duty] on the funds paid to them by the federal government. (National Guardsmen receive from the City for their summer tours, the difference between pay from the city and what the federal government allows. They do not lose any time in creditable service for the weeks they must spend with the Guard).

It is the policy of the system that any members who have another salaried position within the city must have deductions withheld from both salaries for retirement purposes. This does not apply to persons employed intermittently by the recreation department or persons paid as election workers. It applies to employees such as the Planning Department secretary who is also secretary to the Planning Board and is paid an additional bi-yearly sum for attending monthly evening meetings and taking minutes.

March 1, 2005

Travel Regulations:

The Northampton 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 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	\$51,298,467
The actuarial liability for inactive members was	876,041
The actuarial liability for retired members was	<u>56,671,051</u>
The total actuarial liability was	108,845,559
System assets as of that date were (actuarial value)	<u>71,799,314</u>
The unfunded actuarial liability was	<u>\$37,046,245</u>
The ratio of system's assets to total actuarial liability was	66.0%
As of that date the total covered employee payroll was	\$21,753,698

The normal cost for employees on that date was 8.58% of payroll
 The normal cost for the employer was 4.03% of payroll

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

Investment Return: 7.75% per annum
 Rate of Salary Increase: 7% first 8 years employed, 4% after

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	\$71,799,000	\$108,846,000	\$37,047,000	66.0%	\$21,754,000	170.3%
1/1/2007	\$65,385,000	\$101,978,000	\$36,593,000	64.1%	\$20,336,000	179.9%
1/1/2005	\$56,569,000	\$90,828,000	\$34,259,000	62.3%	\$18,120,000	189.1%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Retirement in Past Years										
Superannuation	N/A	13	30	50	5	9	2	14	15	16
Ordinary Disability	N/A	0	0	0	0	0	0	0	0	0
Accidental Disability	N/A	3	1	1	0	0	0	2	1	0
Total Retirements	N/A	16	31	51	5	9	2	16	16	16
Total Retirees, Beneficiaries and Survivors	270	277	299	332	326	325	331	333	338	343
Total Active Members	612	622	638	625	611	646	674	687	683	637
Pension Payments										
Superannuation	\$1,851,816	\$2,041,972	\$2,208,628	\$2,473,126	\$3,149,161	\$3,160,853	\$3,449,738	\$3,560,615	\$3,743,110	\$4,005,185
Survivor/Beneficiary Payments	239,912	246,885	249,854	246,931	263,632	248,864	251,952	261,501	254,287	260,479
Ordinary Disability	106,314	85,430	82,536	90,013	92,447	94,900	105,703	97,503	90,264	79,987
Accidental Disability	556,877	602,457	630,905	672,580	686,083	730,495	778,201	804,170	842,716	856,819
Other	229,118	257,560	263,155	274,745	280,203	288,559	321,189	331,128	316,894	353,945
Total Payments for Year	<u>\$2,984,037</u>	<u>\$3,234,304</u>	<u>\$3,435,078</u>	<u>\$3,757,395</u>	<u>\$4,471,526</u>	<u>\$4,523,671</u>	<u>\$4,906,783</u>	<u>\$5,054,917</u>	<u>\$5,247,271</u>	<u>\$5,556,415</u>

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