

PERAC AUDIT REPORT



Southbridge
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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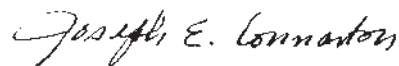
April 21, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Southbridge 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.

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 FINDINGS AND RECOMMENDATIONS

I. Board Member Attendance

A review of meeting attendance by Board members revealed a significant level of absenteeism. One member missed four out of twelve (33%) meetings in 2008. A second member missed four out of fifteen (27%) of the meetings in 2009. The result was an attendance rate that was below the seventy-five percent minimum considered reasonable.

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. It should be noted that Board members receive a stipend in consideration for regular attendance and participation at the monthly Board meetings. 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:

At the meeting of March 30, 2011, the Board voted to adopt the following policy: After three (3) excused absences in a calendar year, the stipend will be withheld accordingly.

2. Make-up Payments

PERAC auditors identified a retiree who was allowed to purchase creditable service time and determined that the individual was ineligible to claim. A police officer asked to purchase service for a period when he served as an unpaid auxiliary police officer. The Board had declined this request in 2007 based on the advice of its attorney. In 2009, PERAC was asked to provide an opinion as to whether this time could be purchased and included in the officer's retirement calculations. PERAC opined that the retirement calculation should not have been changed since there was nothing in the statute that allows an unpaid auxiliary police officer to qualify for that time. Subsequently, the Board voted to allow the service to be purchased based on the premise the time involved was rendered as a cadet. The make-up calculation used the member's starting police officer salary as the basis for the purchase of this time.

Recommendation: The Board should not have accepted the revised premise submitted by the retiree without substantive correlation from a reliable source. There are source records that exist to establish the claim of title in matters of public safety positions. Absent any authoritative support for this claim, the Board must recalculate the retirement benefit and exclude the time associated with this discrepancy of job title.

Board Response:

At the meeting of March 30, 2011, the Board voted that a letter be sent to the retiree advising him of the audit finding and that his benefit will be reduced in April based upon the recalculation which will exclude the buyback period and that he has until April 15, 2011 to provide documentation regarding his cadet time that will be acceptable to PERAC. The Board will follow-up on this issue at the April 25, 2011 meeting.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

3. Retirees

PERAC auditors inspected recent retiree's files to determine that the benefit was calculated by confirming wage, age and service factors. We observed that the three-year average salary information is "backed into" from contributions posted to the System for employees. This revealed that actual payroll records are not used to confirm the calculation of a member's high three-year average salary. Some folders had a form from the payroll department listing the last three years' salary history, but these forms were not referenced in the benefit calculation.

Approximately 25% of the retirees sampled did not have a specific date of retirement cited on their application.

Recommendation: The system must utilize the data provided by the payroll department that includes actual salary information. This process will confirm the actual salary of the retiring member. Any difference between that salary and the salary calculated from the retirement deductions should be reconciled. Actual payroll records are the primary source for confirming these deductions.

Members are allowed to select their specific date of retirement pursuant to G. L. c. 32 §5 (1) (a). This often has a direct bearing on the benefit factors used to calculate their pension. Applications that do not contain a specific retirement date should be returned to the member for completion.

Board Response:

Employer Payroll Information Missing:

Enclosed you will find a form that will be sent to each unit when one of their employees has submitted an application for retirement. Whenever possible we will request that actual computer generated payroll documents be provided in order to properly verify salary calculations prior to retirement.

Retirement Date missing from application:

As part of the retirement counseling session, the Administrator will make sure that the applicant inserts their date of retirement.

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	\$3,081,005	\$13,891,562	\$1,682,695
Pooled Domestic Equity Funds	0	1,328,747	12,800,401
Pooled International Equity Funds	0	0	5,242,106
Pooled Domestic Fixed Income Funds	0	0	5,585,105
Pooled Real Estate Funds	1,422,787	2,310,453	2,593,301
PRIT Cash Fund	300,074	0	0
PRIT Core Fund	18,540,249	0	0
Interest Due and Accrued	0	221	109
Accounts Receivable	40,796	3,187,961	98,134
Accounts Payable	(1,645)	(25,474)	(32,290)
Total	<u>\$23,383,265</u>	<u>\$20,693,470</u>	<u>\$27,969,561</u>
Fund Balances:			
Annuity Savings Fund	\$9,935,929	\$9,202,609	\$8,485,587
Annuity Reserve Fund	2,564,379	2,509,045	2,377,186
Pension Fund	933,643	770,715	679,790
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	9,949,315	8,211,101	16,426,998
Total	<u>\$23,383,265</u>	<u>\$20,693,470</u>	<u>\$27,969,561</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)	\$7,981,684	\$2,183,717	\$568,105	\$0	\$0	\$15,245,202	\$25,978,708
Receipts	1,153,121	63,269	2,370,521	0	312,798	1,181,164	5,080,874
Interfund Transfers	(442,798)	442,166	0	0	0	632	(0)
Disbursements	(206,419)	(311,966)	(2,258,837)	0	(312,798)	0	(3,090,021)
Ending Balance (2007)	8,485,587	2,377,186	679,790	0	0	16,426,998	27,969,561
Receipts	1,307,095	75,023	2,527,783	0	267,984	(8,177,413)	(3,999,529)
Interfund Transfers	(420,676)	406,331	52,828	0	0	(38,484)	(0)
Disbursements	(169,398)	(349,496)	(2,489,685)	0	(267,984)	0	(3,276,563)
Ending Balance (2008)	9,202,609	2,509,044	770,715	0	0	8,211,101	20,693,469
Receipts	1,285,389	74,501	2,721,260	0	249,924	1,738,220	6,069,294
Interfund Transfers	(342,316)	342,323	0	0	0	(6)	0
Disbursements	(209,753)	(361,489)	(2,558,332)	0	(249,924)	0	(3,379,498)
Ending Balance (2009)	<u>\$9,935,929</u>	<u>\$2,564,379</u>	<u>\$933,643</u>	<u>\$0</u>	<u>\$0</u>	<u>\$9,949,315</u>	<u>\$23,383,265</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Members Deductions	\$1,125,111	\$1,083,053	\$958,700
Transfers from Other Systems	104,218	168,779	74,089
Member Make Up Payments and Re-deposits	11,232	6,224	73,121
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	44,829	49,039	47,211
Sub Total	<u>1,285,389</u>	<u>1,307,095</u>	<u>1,153,121</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	74,501	75,023	63,269
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	30,975	19,207	15,041
Pension Fund Appropriation	151,687	94,397	105,480
Settlement of Workers' Compensation Claims	2,538,598	2,414,179	2,250,000
	0	0	0
Sub Total	<u>2,721,260</u>	<u>2,527,783</u>	<u>2,370,521</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	0	0	0
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	249,924	267,984	312,798
Sub Total	<u>249,924</u>	<u>267,984</u>	<u>312,798</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	1,082	617	1,480
Miscellaneous Income	22	3,608	0
Excess Investment Income (Loss)	1,737,116	(8,181,638)	1,179,685
Sub Total	<u>1,738,220</u>	<u>(8,177,413)</u>	<u>1,181,164</u>
Total Receipts, Net	<u>\$6,069,294</u>	<u>(\$3,999,529)</u>	<u>\$5,080,874</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Refunds to Members	\$133,943	\$45,889	\$124,040
Transfers to Other Systems	<u>75,809</u>	<u>123,509</u>	<u>82,380</u>
Sub Total	<u>209,753</u>	<u>169,398</u>	<u>206,419</u>
Annuity Reserve Fund:			
Annuities Paid	361,489	349,496	303,976
Option B Refunds	<u>0</u>	<u>0</u>	<u>7,990</u>
Sub Total	<u>361,489</u>	<u>349,496</u>	<u>311,966</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	1,778,150	1,700,689	1,525,017
Survivorship Payments	73,083	63,232	60,190
Ordinary Disability Payments	12,019	9,934	0
Accidental Disability Payments	414,185	445,310	444,382
Accidental Death Payments	109,359	103,145	107,371
Section 101 Benefits	39,055	37,099	31,693
3 (8) (c) Reimbursements to Other Systems	132,482	130,276	90,183
State Reimbursable COLA's Paid	<u>0</u>	<u>0</u>	<u>0</u>
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,558,332</u>	<u>2,489,685</u>	<u>2,258,837</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	15,000	15,000	15,000
Salaries	59,810	52,983	51,547
Legal Expenses	1,023	986	3,155
Medical Expenses	<u>0</u>	<u>0</u>	<u>0</u>
Travel Expenses	295	4,211	274
Administrative Expenses	12,157	20,703	19,169
Professional Services	9,650	<u>0</u>	<u>0</u>
Education and Training	1,186	<u>0</u>	<u>0</u>
Furniture and Equipment	60	18,147	275
Management Fees	96,857	104,387	154,721
Custodial Fees	15,038	24,804	24,903
Consultant Fees	19,000	24,000	23,000
Service Contracts	17,241	300	18,364
Fiduciary Insurance	<u>2,607</u>	<u>2,463</u>	<u>2,389</u>
Sub Total	<u>249,924</u>	<u>267,984</u>	<u>312,798</u>
Total Disbursements	<u>\$3,379,498</u>	<u>\$3,276,563</u>	<u>\$3,090,021</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Investment Income Received From:			
Cash	\$32,760	\$28,676	\$18,340
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	0	0	0
Pooled or Mutual Funds	614,292	0	0
Commission Recapture	0	0	0
Total Investment Income	<u>647,052</u>	<u>28,676</u>	<u>18,340</u>
Plus:			
Realized Gains	0	0	0
Unrealized Gains	4,052,787	1,283,070	3,531,837
Interest Due and Accrued - Current Year	0	221	109
Sub Total	<u>4,052,787</u>	<u>1,283,291</u>	<u>3,531,945</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(1,063,202)	0	0
Unrealized Loss	(1,530,047)	(9,101,450)	(1,947,320)
Interest Due and Accrued - Prior Year	(221)	(109)	(2)
Sub Total	<u>(2,593,470)</u>	<u>(9,101,559)</u>	<u>(1,947,322)</u>
Net Investment Income (Loss)	<u>2,106,370</u>	<u>(7,789,593)</u>	<u>1,602,963</u>
Income Required:			
Annuity Savings Fund	44,829	49,039	47,211
Annuity Reserve Fund	74,501	75,023	63,269
Military Service Fund	0	0	0
Expense Fund	249,924	267,984	312,798
Total Income Required	<u>369,254</u>	<u>392,046</u>	<u>423,279</u>
Net Investment Income (Loss)	<u>2,106,370</u>	<u>(7,789,593)</u>	<u>1,602,963</u>
Less: Total Income Required	<u>369,254</u>	<u>392,046</u>	<u>423,279</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$1,737,116</u>	<u>(\$8,181,638)</u>	<u>\$1,179,685</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2009	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$3,081,005	13.2%
Pooled Real Estate Funds	1,422,787	6.1%
PRIT Cash Fund	300,074	1.3%
PRIT Core Fund	<u>18,540,249</u>	<u>79.4%</u>
Grand Total	<u>\$23,344,114</u>	<u>100.0%</u>

For the year ending December 31, 2009, the rate of return for the investments of the Southbridge Retirement System was 13.87%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Southbridge Retirement System averaged 0.22%. For the 25-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 Southbridge Retirement System was 7.94%.

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 25-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

In a letter dated September 3, 2008, the Southbridge Retirement System was notified that the Board must transfer all assets to PRIT pursuant to Chapter 68 of the Acts of 2007. This transfer, with the exception of one real estate investment, took place in 2009. The remaining real estate investment was liquidated and the residual funds transferred in 2010. Any prior investment regulations have been effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Southbridge 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. 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 \$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.

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 relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain or a 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 Southbridge Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

July 30, 1999

Buy-Backs

In all cases involving part-time, stipend, provisional, temporary provisional, seasonal, or intermittent employment or service of any employee in any governmental unit [prior to membership], said [member] shall be entitled to buy back said service, provided that (1) said [member] was later appointed to full-time service, (2) said [member] worked at least 20 hours per week, (3) said [member] pays back into the system an amount equal to that which would have been deducted from wages plus interest. The Southbridge Retirement Board shall determine how much service in any calendar year is equivalent to a year of service.

October 23, 2002

The Southbridge 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 the Public Employee Retirement Administration Commission as of January 1, 2010.

The actuarial liability for active members was	\$27,902,392
The actuarial liability for vested terminated members was	374,102
The actuarial liability for non-vested terminated members was	278,023
The actuarial liability for retired members was	<u>26,066,060</u>
The total actuarial liability was	54,620,577
System assets as of that date were (actuarial value)	<u>25,721,592</u>
The unfunded actuarial liability was	<u>\$28,898,985</u>
The ratio of system's assets to total actuarial liability was	47.1%
As of that date the total covered employee payroll was	\$12,646,064

The normal cost for employees on that date was 8.70% of payroll

The normal cost for the employer was 5.70% of payroll

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

Investment Return: 8.00% per annum
 Rate of Salary Increase: Varies by service and group

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2010

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)
1/1/2010	\$25,721,592	\$54,620,577	\$28,898,985	47.1%	\$12,646,064	228.5%
1/1/2008	\$27,786,980	\$47,435,879	\$19,648,899	58.6%	\$10,641,013	184.7%
1/1/2006	\$22,976,815	\$44,101,616	\$21,124,801	52.1%	\$10,089,006	209.4%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Retirement in Past Years										
Superannuation	5	1	2	15	1	4	8	6	6	6
Ordinary Disability	0	0	0	0	0	0	0	0	1	0
Accidental Disability	2	2	0	1	0	0	0	0	0	0
Total Retirements	7	3	2	16	1	4	8	6	7	6
Total Retirees, Beneficiaries and Survivors	148	152	156	160	156	150	154	170	165	172
Total Active Members	354	310	339	314	315	301	323	413	361	340
Pension Payments										
Superannuation	\$779,438	\$1,377,851	\$812,903	\$1,236,666	\$1,201,890	\$1,286,763	\$1,395,505	\$1,525,017	\$1,700,689	\$1,778,150
Survivor/Beneficiary Payments	42,746	N/A	45,733	35,939	54,959	83,927	62,990	60,190	63,232	73,083
Ordinary Disability	0	N/A	0	0	0	0	0	0	9,934	12,019
Accidental Disability	330,858	N/A	413,732	444,129	412,589	554,546	500,496	444,382	445,310	414,184
Other	405,678	310,694	493,032	309,415	332,749	84,627	258,634	229,247	270,520	280,896
Total Payments for Year	<u>\$1,558,720</u>	<u>\$1,688,545</u>	<u>\$1,765,400</u>	<u>\$2,026,149</u>	<u>\$2,002,187</u>	<u>\$2,009,863</u>	<u>\$2,217,625</u>	<u>\$2,258,837</u>	<u>\$2,489,685</u>	<u>\$2,558,332</u>

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