

# PERAC AUDIT REPORT



Stoneham Contributory Retirement System



JAN. 1, 2006 - DEC. 31, 2007



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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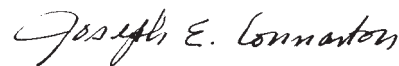
April 9, 2009

The Public Employee Retirement Administration Commission has completed an examination of the Stoneham Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2006 to December 31, 2007. 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 Carol M. Niemira and Martin J. Feeney 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. Cash Reconciliation**

Prior to January 2007, the Stoneham Retirement Board had one bank account at Bank of America. In January 2007, this account was closed and two new accounts were opened at Eastern Bank. Deposits for members' deductions, incoming transfers and buybacks, and appropriations are received into one deposit account. A separate account is used for all warrant activity including the retiree benefit allowances. It normally functions with a zero beginning and ending balance each month. A transfer is made from the custodial account to fund each month's payroll and warrant. All activity for both accounts is posted to one general ledger account. The Treasurer only provides one combined bank reconciliation for both accounts.

**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. The Retirement Board should formally advise the Treasurer that a separate bank reconciliation for each account should be provided to the Board each month.

### **Board Response:**

The Board does not agree with the auditors that two separate general ledger accounts must be maintained, and as such, will continue using the one cash account and the Treasurer will continue the bank reconciliation as usual.

**PERAC Response:** There is no authoritative source that would sanction the combining of transactions that occur in two separate bank accounts within a single general ledger account. Generally accepted auditing standards and any objective evaluation of internal controls would dictate that accounting entries reflect the source and destination of all cash flows. While Eastern Bank monthly statements accurately reflect these transactions, no entries currently appear on the System's general ledger to document them or provide a sufficient audit trail. Published Government Auditing Standards require auditors to comment on reportable conditions relating to internal control.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

### **2. Membership**

In examining payroll records, the auditor determined that employees who received a car allowance did not have retirement deductions withheld from these payments. These are regular, recurring payments, not in the nature of a reimbursement. These should be classified as regular earnings for retirement purposes.

**Recommendation:** Car allowances must be considered regular compensation pursuant to 840 CMR 15.03(1)(a) which states in part:

To be considered regular compensation, any compensation to an employee must ...

iii) be ordinary, normal, recurring, repeated...

iv) be made pursuant to an official written policy of the employer or to a collective bargaining agreement....

The Board must formally instruct the payroll officer to begin withholding retirement deductions on car allowances paid 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 is in agreement that employees who receive a car allowance should have deductions withheld from these payments, and this will be implemented.

### **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,	
	2007	2006
<b>Net Assets Available For Benefits:</b>		
Cash	\$144,602	\$15,781
PRIT Cash Fund	1,563,922	1,222,739
PRIT Core Fund	63,567,288	58,685,410
Accounts Receivable	2,320,389	1,003,271
Accounts Payable	(3,097)	(46,649)
<b>Total</b>	<u>\$67,593,104</u>	<u>\$60,880,553</u>
<b>Fund Balances:</b>		
Annuity Savings Fund	\$11,167,042	\$11,231,947
Annuity Reserve Fund	5,636,079	5,217,137
Pension Fund	3,306,894	3,375,036
Military Service Fund	26,131	18,112
Expense Fund	0	0
Pension Reserve Fund	47,456,957	41,038,322
<b>Total</b>	<u>\$67,593,104</u>	<u>\$60,880,553</u>

## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2006)	\$11,086,903	\$5,039,987	\$3,661,815	\$21,644	\$0	\$33,225,009	\$53,035,357
Receipts	1,034,356	153,291	4,329,404	108	571,036	7,813,313	13,901,507
Interfund Transfers	(734,944)	738,583	0	(3,640)	0	0	(0)
Disbursements	(154,368)	(714,725)	(4,616,182)	0	(571,036)	0	(6,056,311)
Ending Balance (2006)	11,231,947	5,217,137	3,375,036	18,112	0	41,038,322	60,880,553
Receipts	1,200,162	168,338	4,934,986	8,019	472,465	6,418,636	13,202,606
Interfund Transfers	(1,019,729)	1,019,729	0	0	0	0	0
Disbursements	(245,337)	(769,125)	(5,003,127)	0	(472,465)	0	(6,490,055)
Ending Balance (2007)	<u>\$11,167,042</u>	<u>\$5,636,079</u>	<u>\$3,306,894</u>	<u>\$26,131</u>	<u>\$0</u>	<u>\$47,456,957</u>	<u>\$67,593,104</u>

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2007	2006
<b>Annuity Savings Fund:</b>		
Members Deductions	\$930,491	\$948,345
Transfers from Other Systems	163,973	0
Member Make Up Payments and Re-deposits	13,254	23,089
Member Payments from Rollovers	30,649	0
Investment Income Credited to Member Accounts	<u>61,795</u>	<u>62,921</u>
Sub Total	<u>1,200,162</u>	<u>1,034,356</u>
<b>Annuity Reserve Fund:</b>		
Investment Income Credited to the Annuity Reserve Fund	<u>168,338</u>	<u>153,291</u>
<b>Pension Fund:</b>		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	68,463	71,323
Pension Fund Appropriation	<u>195,678</u>	<u>199,150</u>
Sub Total	<u>4,670,845</u>	<u>4,058,930</u>
<b>Military Service Fund:</b>		
Contribution Received from Municipality on Account of Military Service	7,889	0
Investment Income Credited to the Military Service Fund	<u>130</u>	<u>108</u>
Sub Total	<u>8,019</u>	<u>108</u>
<b>Expense Fund:</b>		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>472,465</u>	<u>571,036</u>
Sub Total	<u>472,465</u>	<u>571,036</u>
<b>Pension Reserve Fund:</b>		
Federal Grant Reimbursement	9,096	8,643
Pension Reserve Appropriation	0	0
Interest Not Refunded	2,419	444
Miscellaneous Income	0	0
Excess Investment Income	<u>6,407,121</u>	<u>7,804,226</u>
Sub Total	<u>6,418,636</u>	<u>7,813,313</u>
<b>Total Receipts</b>	<u>\$13,202,606</u>	<u>\$13,901,507</u>

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006
<b>Annuity Savings Fund:</b>		
Refunds to Members	\$107,795	\$34,271
Transfers to Other Systems	<u>137,542</u>	<u>120,097</u>
Sub Total	<u>245,337</u>	<u>154,368</u>
<b>Annuity Reserve Fund:</b>		
Annuities Paid	750,880	683,992
Option B Refunds	<u>18,245</u>	<u>30,733</u>
Sub Total	<u>769,125</u>	<u>714,725</u>
<b>Pension Fund:</b>		
Pensions Paid:		
Regular Pension Payments	3,547,315	3,217,110
Survivorship Payments	247,060	231,429
Ordinary Disability Payments	70,602	69,162
Accidental Disability Payments	563,187	571,024
Accidental Death Payments	305,667	308,234
Section 101 Benefits	73,362	71,312
3 (8) (c) Reimbursements to Other Systems	195,936	147,911
State Reimbursable COLA's Paid	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>5,003,127</u>	<u>4,616,182</u>
<b>Military Service Fund:</b>		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>		
Board Member Stipend	6,000	6,000
Salaries	110,259	135,767
Legal Expenses	26,720	32,689
Medical Expenses	114	65
Travel Expenses	7,246	4,824
Administrative Expenses	14,226	25,213
Furniture and Equipment	0	705
Management Fees	285,818	362,764
Custodial Fees	0	0
Consultant Fees	0	0
Rent Expenses	0	0
Service Contracts	18,786	0
Fiduciary Insurance	<u>3,296</u>	<u>3,008</u>
Sub Total	<u>472,465</u>	<u>571,036</u>
<b>Total Disbursements</b>	<u><b>\$6,490,055</b></u>	<u><b>\$6,056,311</b></u>

# INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,	
	2007	2006
<b>Investment Income Received From:</b>		
Cash	\$36,035	\$28,167
Pooled or Mutual Funds	2,050,017	1,826,237
Commission Recapture	0	0
<b>Total Investment Income</b>	<u>2,086,051</u>	<u>1,854,404</u>
<b>Plus:</b>		
Realized Gains	5,004,030	3,727,609
Unrealized Gains	4,994,748	5,072,342
Interest Due and Accrued - Current Year	0	0
Sub Total	<u>9,998,779</u>	<u>8,799,950</u>
<b>Less:</b>		
Realized Loss	0	0
Unrealized Loss	(4,974,981)	(2,062,772)
Interest Due and Accrued - Prior Year	0	0
Sub Total	<u>(4,974,981)</u>	<u>(2,062,772)</u>
<b>Net Investment Income</b>	<u>7,109,849</u>	<u>8,591,582</u>
<b>Income Required:</b>		
Annuity Savings Fund	61,795	62,921
Annuity Reserve Fund	168,338	153,291
Military Service Fund	130	108
Expense Fund	<u>472,465</u>	<u>571,036</u>
<b>Total Income Required</b>	<u>702,728</u>	<u>787,356</u>
Net Investment Income	<u>7,109,849</u>	<u>8,591,582</u>
Less: Total Income Required	<u>702,728</u>	<u>787,356</u>
<b>Excess Income To The Pension Reserve Fund</b>	<u>\$6,407,121</u>	<u>\$7,804,226</u>

# SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2007			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$144,602	0.22%	100%
PRIT Cash Fund	1,563,922	2.4%	100%
PRIT Core Fund	<u>63,567,288</u>	<u>97.4%</u>	100%
<b>Grand Total</b>	<u>\$65,275,812</u>	<u>100.0%</u>	

For the year ending December 31, 2007, the rate of return for the investments of the Stoneham Retirement System was 11.96%. For the five-year period ending December 31, 2007, the rate of return for the investments of the Stoneham Retirement System averaged 16.30%. For the 23-year period ending December 31, 2007, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Stoneham Retirement System was 10.46%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Stoneham Retirement System is invested 100% in PRIT, and therefore previously approved supplementary investment regulations are effectively rescinded.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Stoneham 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 \$687.96 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 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.

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

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

July 1, 2008

Effective July 1, 2008, the Stoneham Retirement Board ("Board") hereby incorporates by reference and amends its September 11, 2004 creditable service regulation as follows. Any member who is employed in a part-time capacity and has his or her hours temporarily increased from part-time to full-time will not have his or her part-time service prorated. Similarly, any member who is employed in a part-time capacity during his or her entire career with the Town of Stoneham and who either purchases past refunded service rendered in a full-time capacity or transfers into the Stoneham Retirement System with past full-time service rendered in another governmental unit and under the jurisdiction of another retirement board will continue to receive full credit for any part-time service rendered. A member who is employed in a part-time capacity and who purchases past refunded service rendered in a full-time capacity in the Town of Stoneham or a member unit of the Stoneham Retirement System shall have his or her part-time service prorated. The amount of creditable service granted for such prior refunded or full-time service rendered shall be determined by the retirement board which had jurisdiction over said service.

The existing provisions of the Board's September 22, 2004 regulation not inconsistent with this amendment remain in full force and effect.

March 23, 2005

Effective March 23, 2005 any individual who is permanently employed by the Town of Stoneham or is permanently employed by any member unit of the Stoneham Retirement System for at least 20 hours per week shall immediately become a member of the Stoneham Retirement System. Individuals who are employed in a temporary capacity by any member unit of the Stoneham Retirement System for at least 20 hours per week for 6 consecutive months shall become members of the Stoneham Retirement System upon completion of said period.

September 24, 2004

Creditable Service

Members of the Stoneham Retirement System who wish to purchase creditable service for past service rendered shall do so in the following manner:

Members who previously rendered service and received a refund of said service, either from this Board or another retirement board under the jurisdiction of G.L. c. 32, are required to purchase the full amount of creditable service rendered, based on the amount withdrawn, together with regular interest. If said service was rendered under the jurisdiction of a retirement board other than this Board, it shall be the sole responsibility of the other retirement board to determine the amount of creditable service rendered, and what liability, if any, said board will accept pursuant to G.L. c. 32, § 3(8)(c). This Board will not accept liability for past refunded service rendered under the jurisdiction of another retirement board.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

Members who previously rendered service in the Town of Stoneham, and who were not eligible to participate in the Stoneham Retirement System, shall be eligible to purchase such past service rendered, in monthly increments, consistent with the provisions of M.G.L. c. 32, § 4(2)(b) and the Board's regulation regarding the calculation of creditable service, i.e. that 35 hours will be considered a full week of creditable service.

September 22, 2004

#### Creditable Service

Members of the Stoneham Retirement System who are employed in the Stoneham Public Schools shall receive creditable service for service rendered consistent with this regulation in the following manner.

For a member in service who is employed in a full-time capacity, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.

For a member in service who is employed in a part-time capacity through his/her entire career, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.

For a member in service who has been employed in both a full-time and part-time capacity, the member will receive full-time credit for full-time service, and prorated service for part-time service based on the full-time equivalency of 35 hours for the position.

For a member who is employed in a part-time capacity throughout his/her entire career, but who either purchases past refunded service, or who has transferred into the Stoneham Retirement System service rendered in a full-time capacity, the member's part-time position shall be prorated based on the full-time equivalency of the position.

In the case of School Department employees whose full-time employment requires them to work on or about September 1 to on or about June 30, including but not limited to cafeteria workers, clerical and secretarial staff, teacher's assistant and teaching professionals, such as therapists, said employees shall receive one month of creditable service for each full month the employee is receiving regular compensation, with 10 months being the equivalent of one year of creditable service.

Notwithstanding the foregoing, the Board recognizes that certain employees, including but not limited to certain secretaries and custodians, are required to work the entire calendar year, and in such a situation, said employees will receive one year's credit based on 12 months of employment, and partial year's credit based on a 12 month year.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

Creditable service for 10 month employees shall be calculated based on the equivalent of 1202.5 hours per year, whereas creditable service for 12 month employees shall be based on the equivalent of 1827 hours per year.

Any member who purchases past part-time service rendered shall have said service prorated based on 35 hours being considered a full week of service. (AMENDED July 1, 2008)

February 11, 2004

Creditable Service

Members of the Stoneham Retirement System who are employed on or after February 11, 2004 shall receive creditable service for service rendered consistent with this regulation in the following manner:

For a member in service who is employed in a full-time capacity while an employee in the Town of Stoneham, or in any member unit of the Stoneham Retirement System, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.

For a member in service who is employed in a part-time capacity throughout his/her entire career while an employee in the Town of Stoneham, or in any member unit of the Stoneham Retirement System, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.

For a member in service who has been employed in both a full-time and part-time capacity while an employee in the Town of Stoneham, or in any member unit of the Stoneham Retirement System, the member will receive full-time credit for full-time service, and prorated credit for part-time service based on the full-time equivalency of 35 hours for the position.

For a member who is employed in a part-time capacity throughout his/her entire career while an employee in the Town of Stoneham, or in any member unit of the Stoneham Retirement System, but who either purchases past refunded service, or has transferred into the Stoneham Retirement System, service rendered in a full-time capacity, the member's part-time service shall be prorated based on the full-time equivalency of the position.

In the case of School Department or Town employees whose full-time employment requires them to work from on or about September 1 to on or about June 30, said employees shall receive one month of creditable service for each full month the employee is receiving regular compensation, with 10 months being the equivalent of one year of creditable service.

Any member who purchases past part-time service rendered shall have said service prorated based on 35 hours being considered a full week of service.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

Any member of the Stoneham Retirement System who has purchased and received creditable service prior to February 11, 2004 will not be affected by this regulation. (AMENDED July 1, 2008)

#### Membership

Effective February 11, 2004, any individual who is permanently employed by the Town of Stoneham or is permanently employed by any member unit of the Stoneham Retirement System for at least 20 hours per week shall immediately become a member of the Stoneham Retirement System. (AMENDED March 25, 2005)

#### August 13, 1999

##### Creditable Service

Any member of the Stoneham Retirement System who has on or before May 1, 1999 purchased part-time service previously rendered in the Town of Stoneham and retires on or after May 1, 1999 shall be granted full-time credit for such service. All creditable service rendered on or after May 1, 1999 by the members of the Stoneham Retirement System as employees of the Town of Stoneham shall be deemed to be full-time service.

#### February 11, 2003

The Board 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 Buck Consultants, LLC as of January 1, 2007.

The actuarial liability for active members was	\$33,676,228
The actuarial liability for retired members was	<u>46,343,008</u>
The total actuarial liability was	80,019,236
System assets as of that date were	<u>54,605,288</u>
The unfunded actuarial liability was	<u>\$25,413,948</u>
The ratio of system's assets to total actuarial liability was	68.2%
As of that date the total covered employee payroll was	\$11,577,527

The normal cost for employees on that date was 7.79% of payroll

The normal cost for the employer was 6.16% of payroll

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

Investment Return: 8.00% per annum  
 Rate of Salary Increase: 5.00% per annum

#### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2007

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 )
1/1/2007	\$54,605,288	\$80,019,236	\$25,413,948	68.2%	\$11,577,527	219.5%
1/1/2005	\$46,351,933	\$76,388,950	\$30,037,017	60.7%	\$11,669,754	257.4%
1/1/2003	\$41,590,531	\$68,583,203	\$26,992,672	60.6%	\$11,290,975	239.1%
1/1/2001	\$41,395,778	\$61,670,998	\$20,275,220	67.1%	\$10,805,406	187.6%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
<b>Retirement in Past Years</b>										
Superannuation	12	9	12	12	3	21	8	5	9	10
Ordinary Disability	0	0	0	0	2	0	0	0	0	0
Accidental Disability	1	0	2	1	0	1	0	1	0	0
<b>Total Retirements</b>	13	9	14	13	5	22	8	6	9	10
Total Retirees, Beneficiaries and Survivors	273	275	283	283	281	296	303	291	290	292
Total Active Members	279	336	359	307	339	304	314	346	305	293
<b>Pension Payments</b>										
Superannuation	\$1,784,856	\$1,935,538	\$2,012,813	\$2,237,933	\$2,431,852	\$2,864,734	\$2,951,255	\$3,035,422	\$3,217,110	\$3,547,315
Survivor/Beneficiary Payments	187,659	199,764	177,112	186,112	199,377	202,322	219,950	227,888	231,429	247,060
Ordinary Disability	88,978	90,372	92,154	84,412	85,675	84,041	82,164	67,722	69,162	70,602
Accidental Disability	478,035	455,981	503,603	530,178	553,426	560,245	580,691	628,940	571,024	563,187
Other	300,562	407,568	417,636	392,111	367,074	405,932	454,267	480,949	527,457	574,964
<b>Total Payments for Year</b>	<u>\$2,840,090</u>	<u>\$3,089,223</u>	<u>\$3,203,318</u>	<u>\$3,430,746</u>	<u>\$3,637,404</u>	<u>\$4,117,274</u>	<u>\$4,288,327</u>	<u>\$4,440,921</u>	<u>\$4,616,182</u>	<u>\$5,003,127</u>

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