

PERAC AUDIT REPORT



Westfield
Contributory Retirement System



JAN. 1, 2007 - DEC. 31, 2009



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October 26, 2010

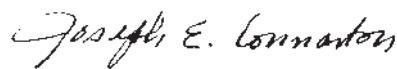
The Public Employee Retirement Administration Commission has completed an examination of the Westfield Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2007 to December 31, 2009. This audit was conducted in accordance with the accounting and management 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,

A handwritten signature in cursive script that reads "Joseph E. Connarton".

Joseph E. Connarton
Executive Director

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Regular Compensation

An examination of payroll records showed that each pay period some departments 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. 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.”

Recommendation: 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:

At its meeting on September 16, 2010 the Board discussed PERAC’s finding that in its opinion, the so-called on-call or “beeper” pay should be considered regular compensation. In light of the amendments to the definition of regular compensation, which went into effect on July 1, 2009, which defines regular compensation as “wages” and further defines wages as “base pay” the Board respectfully disagrees with PERAC’s opinion. On call or beeper pay is not base pay, i.e. compensation upon which overtime and/or cost of living adjustments are calculated, and thus not regular compensation.

PERAC Response:

The Commission has consistently opined that “on call” pay shall be deemed regular compensation, and such position will be maintained under the recently enacted definition of “wages”. Such definition was specifically stated in Chapter 21 of the Acts of 2009 as “base salary or **other base compensation** of an employee paid to that employee for employment by the employer”. It is further delineated in PERAC Regulations as:

*(b) “wages” shall mean the base salary or other base compensation of an employee paid to that employee for employment by an employer **including pre-determined, non-discretionary, guaranteed payments paid by the employer to similarly situated employees**, provided, that “wages” shall include payments made by the employer to the employee **because of the character of the work**, because of the employee’s length of service, because of the time at which the work takes place as a condition of employment in a particular position, because of educational incentives, and payments for holding the training, certification, licensing or other educational incentives approved by the employer for the performance of services related to the position the employee holds and payments made by the employer to the employee calculated as a percentage of base pay;*

Such definition for “wages” also lists specific exclusions for various forms of compensation and the “on call” compensation is not found among those specific exclusions. Therefore, the Commission disagrees with the Boards interpretation of “on call” pay as not regular compensation and directs the Board to immediately begin to withhold the correct contribution amounts from members

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

receiving such compensation. The pensionable item we are specifically referring to is the “on call” payment to the members as defined by regulation above, and not any overtime pay stemming from being called to service after normal working hours. Compliance to this directive will be subject to further review of the PERAC audit staff.

2. Board Member Attendance

One Board member missed 46% of the meetings in 2007. This Board member was physically not present and participated by conference call for 42% of the meetings in 2008. In 2009, this Board member missed 31% of the meetings. Through April 2010, this member has missed 43% of the Board meetings. Participation in Board meetings via conference call is not considered member attendance for the purpose of determining absentee rates under this finding. The result is an attendance rate for this Board member well below the seventy-five percent minimum considered reasonable for each of the years evaluated.

Recommendation: Attendance at Board meetings is an obligation that must be fulfilled by all Board members. The Board should consider adjusting the schedule of Board meetings in order to better accommodate its members. Participation by conference call may be permitted however, it does not qualify toward a quorum, nor is voting by conference call allowed. It is the Board’s responsibility to counsel members who do not regularly attend meetings. Relying on participation via conference call could compromise the Boards obligation to fulfill their fiduciary duties as trustees for the Retirement System.

Board Response:

The Board does feel it is very important that all Board members attend and participate at all Board meetings. Rich Russell has participated in almost every meeting he was unable to attend and the Board believes his contributions to the issues presented before the Board when he is not present are invaluable, and the Board is comfortable with the manner in which he participates, recognizing that he currently can not vote. At the Board’s September 16, 2010 meeting it was decided to ask the Attorney General for permission to use remote participation, which we feel will take care of this issue.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2009	2008	2007
Net Assets Available For Benefits:			
Cash	\$4,215,683	\$3,523,293	\$3,590,008
Short Term Investments	0	403,977	0
Fixed Income Securities	34,587,890	10,991,912	11,706,140
Equities	18,216,460	3,815,425	6,283,255
Pooled Domestic Equity Funds	58,434,158	57,472,803	87,124,747
Pooled Domestic Fixed Income Funds	11,998,757	30,468,934	34,224,879
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	380,670	112,651	105,738
Accounts Receivable	329,312	85,378	66,937
Accounts Payable	(271,465)	(81,674)	(84,987)
Total	<u>\$127,891,464</u>	<u>\$106,792,699</u>	<u>\$143,016,716</u>
Fund Balances:			
Annuity Savings Fund	\$34,509,029	\$33,438,156	\$31,609,015
Annuity Reserve Fund	10,666,422	9,680,844	9,609,125
Pension Fund	4,154,495	6,138,695	7,898,819
Military Service Fund	24,260	28,832	26,526
Expense Fund	0	0	0
Pension Reserve Fund	78,537,258	57,506,173	93,873,232
Total	<u>\$127,891,464</u>	<u>\$106,792,699</u>	<u>\$143,016,716</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)	\$29,880,872	\$9,400,313	\$9,443,958	\$26,368	\$0	\$85,726,059	\$134,477,570
Receipts	3,286,313	279,022	6,675,513	158	920,200	8,145,831	19,307,038
Interfund Transfers	(1,157,707)	1,157,045	(679)	0	0	1,341	(0)
Disbursements	(400,462)	(1,227,255)	(8,219,973)	0	(920,200)	0	(10,767,891)
Ending Balance (2007)	31,609,015	9,609,125	7,898,819	26,526	0	93,873,232	143,016,716
Receipts	3,438,564	288,258	6,813,619	2,305	893,987	(36,373,637)	(24,936,903)
Interfund Transfers	(1,094,081)	1,087,503	0	0	0	6,578	0
Disbursements	(515,342)	(1,304,042)	(8,573,743)	0	(893,987)	0	(11,287,114)
Ending Balance (2008)	33,438,156	9,680,844	6,138,695	28,832	0	57,506,173	106,792,699
Receipts	3,622,953	296,102	7,124,522	9,476	823,101	21,026,139	32,902,293
Interfund Transfers	(2,119,358)	2,124,944	2,294	(12,825)	0	4,946	0
Disbursements	(432,722)	(1,435,468)	(9,111,015)	(1,223)	(823,101)	0	(11,803,529)
Ending Balance (2009)	<u>\$34,509,029</u>	<u>\$10,666,422</u>	<u>\$4,154,495</u>	<u>\$24,260</u>	<u>\$0</u>	<u>\$78,537,258</u>	<u>\$127,891,464</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Members Deductions	\$3,235,742	\$3,061,517	\$2,973,139
Transfers from Other Systems	28,822	115,400	59,980
Member Make Up Payments and Re-deposits	167,141	37,045	43,927
Member Payments from Rollovers	30,500	40,015	34,528
Investment Income Credited to Member Accounts	<u>160,748</u>	<u>184,588</u>	<u>174,739</u>
Sub Total	<u>3,622,953</u>	<u>3,438,564</u>	<u>3,286,313</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>296,102</u>	<u>288,258</u>	<u>279,022</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	177,662	165,479	156,458
Pension Fund Appropriation	258,429	270,750	290,753
Settlement of Workers' Compensation Claims	6,688,430	6,377,390	6,228,302
	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>7,124,522</u>	<u>6,813,619</u>	<u>6,675,513</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	9,349	2,146	0
Investment Income Credited to the Military Service Fund	<u>127</u>	<u>159</u>	<u>158</u>
Sub Total	<u>9,476</u>	<u>2,305</u>	<u>158</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>823,101</u>	<u>893,987</u>	<u>920,200</u>
Sub Total	<u>823,101</u>	<u>893,987</u>	<u>920,200</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	134,339	130,272	159,500
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	3,393	2,079	3,012
Miscellaneous Income	55,171	25,701	26,333
Excess Investment Income (Loss)	<u>20,833,235</u>	<u>(36,531,688)</u>	<u>7,956,986</u>
Sub Total	<u>21,026,139</u>	<u>(36,373,637)</u>	<u>8,145,831</u>
Total Receipts, Net	<u>\$32,902,293</u>	<u>(\$24,936,903)</u>	<u>\$19,307,038</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Refunds to Members	\$251,524	\$280,348	\$273,460
Transfers to Other Systems	<u>181,197</u>	<u>234,994</u>	<u>127,002</u>
Sub Total	<u>432,722</u>	<u>515,342</u>	<u>400,462</u>
Annuity Reserve Fund:			
Annuities Paid	1,382,330	1,273,682	1,191,771
Option B Refunds	<u>53,138</u>	<u>30,360</u>	<u>35,484</u>
Sub Total	<u>1,435,468</u>	<u>1,304,042</u>	<u>1,227,255</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	6,669,008	6,246,488	5,954,267
Survivorship Payments	648,970	576,152	549,995
Ordinary Disability Payments	109,576	93,425	70,263
Accidental Disability Payments	1,219,559	1,199,681	1,181,627
Accidental Death Payments	271,487	283,005	264,947
Section 101 Benefits	29,343	28,489	27,659
3 (8) (c) Reimbursements to Other Systems	163,071	146,503	171,215
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>9,111,015</u>	<u>8,573,743</u>	<u>8,219,973</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>1,223</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	15,250	14,250	15,000
Salaries	140,316	131,806	125,932
Legal Expenses	7,519	2,273	3,097
Travel Expenses	5,952	5,777	7,073
Administrative Expenses	8,452	3,354	3,344
Education and Training	3,356	0	0
Furniture and Equipment	125	4,600	4,737
Management Fees	557,702	669,341	711,361
Custodial Fees	75,461	35,245	25,517
Service Contracts	146	18,801	15,991
Fiduciary Insurance	<u>8,823</u>	<u>8,539</u>	<u>8,149</u>
Sub Total	<u>823,101</u>	<u>893,987</u>	<u>920,200</u>
Total Disbursements	<u>\$11,803,529</u>	<u>\$11,287,114</u>	<u>\$10,767,891</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Investment Income Received From:			
Cash	\$17,908	\$62,174	\$95,841
Short Term Investments	0	1,225	2,061
Fixed Income	1,747,573	734,863	716,869
Equities	139,311	18,750	12,762
Pooled or Mutual Funds	1,294,174	2,659,440	5,658,275
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>
Total Investment Income	<u>3,198,965</u>	<u>3,476,452</u>	<u>6,485,807</u>
Plus:			
Realized Gains	3,817,195	1,312,487	5,407,770
Unrealized Gains	26,851,548	3,617,452	10,439,187
Interest Due and Accrued - Current Year	<u>380,670</u>	<u>112,651</u>	<u>105,738</u>
Sub Total	<u>31,049,413</u>	<u>5,042,590</u>	<u>15,952,694</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(357,185)	(97,117)	(94,072)
Realized Loss	(3,246,923)	(8,868,870)	(1,274,769)
Unrealized Loss	(8,418,305)	(34,612,014)	(11,631,965)
Interest Due and Accrued - Prior Year	<u>(112,651)</u>	<u>(105,738)</u>	<u>(106,591)</u>
Sub Total	<u>(12,135,063)</u>	<u>(43,683,739)</u>	<u>(13,107,396)</u>
Net Investment Income (Loss)	<u>22,113,314</u>	<u>(35,164,696)</u>	<u>9,331,106</u>
Income Required:			
Annuity Savings Fund	160,748	184,588	174,739
Annuity Reserve Fund	296,102	288,258	279,022
Military Service Fund	127	159	158
Expense Fund	<u>823,101</u>	<u>893,987</u>	<u>920,200</u>
Total Income Required	<u>1,280,079</u>	<u>1,366,992</u>	<u>1,374,119</u>
Net Investment Income (Loss)	<u>22,113,314</u>	<u>(35,164,696)</u>	<u>9,331,106</u>
Less: Total Income Required	<u>1,280,079</u>	<u>1,366,992</u>	<u>1,374,119</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$20,833,235</u>	<u>(\$36,531,688)</u>	<u>\$7,956,986</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2009		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$4,215,683	3.3%
Fixed Income	34,587,890	27.1%
Equities	18,216,460	14.3%
Pooled Domestic Equity Funds	58,434,158	45.8%
Pooled Domestic Fixed Income Funds	11,998,757	9.4%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	<u>0</u>	<u>0.0%</u>
Grand Total	<u>\$127,452,947</u>	<u>100.0%</u>

For the year ending December 31, 2009, the rate of return for the investments of the Westfield Retirement System was 21.53%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Westfield Retirement System averaged 3.00%. 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 Westfield Retirement System was 8.53%.

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

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

March 29, 2010

16.04

The Westfield Retirement Board is granted an exemption from the regulatory requirement to employ a custodial bank. The Board has determined that it will no longer be cost-effective or necessary to have a custodial bank once it completes its transition out of separately-managed investment accounts. All separate accounts are expected to be liquidated by May 31, 2010. This authorization takes into account the fact that the Board has a highly experienced Board Administrator whom it deems capable of handling any remaining responsibilities pertaining to cash flows and record keeping.

March 26, 2002

16.08

In accordance with Investment Guideline 99-2, the Westfield Retirement Board is authorized to modify its small cap value mandate with Loomis, Sayles & Company. The Small Company Value Fund in which the Board is currently invested is being closed and liquidated by the company. The Board's assets invested in that fund will be transferred into the Loomis Sayles Small Cap Value Fund, which has the same investment strategy, is managed by the same team, and has the same expenses as the prior fund.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Westfield Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

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

PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, 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. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$729.84 per year (or \$312 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. An additional \$15.00 per year of service, not to exceed \$300 annually may be added to the benefit in systems in which the local option contained in G.L. 32, §. 7(2)(e) has been adopted.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$729.84 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, §. 9(2)(d)(ii) has not been adopted) payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

NOTES TO FINANCIAL STATEMENTS (Continued)

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The 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 officer 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 Westfield Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

January 26, 1994

Buy-Backs

Employees who start employment with the City of Westfield under 20 hours/week and are contributing to FICA and MEDICARE can buy-back this time for creditable service on a pro-rated basis after they have become eligible for membership by working 20 or more hours/week. This proration will be based on the number of hours worked -per week when becoming a member to the average of the hours worked while not a member. Members of the Retirement System who drop under 20/hours/week will continue retirement deductions and will receive full-time creditable service.

April 1, 1988

Creditable Service

Creditable Service up to five (5) years will be granted to reserve police officers and firefighters who continue or establish membership in any Massachusetts Contributory Retirement System regardless of the department of employment.

December 19, 1984

Creditable Service

Affidavits are not acceptable as proof of employment. Official city records such as payroll checks or records, board minutes, official department logs, civil service records, etc. are deemed by the Board to be official;

C.E.TA. employees who worked for the City of Westfield and later became City employees can obtain creditable service by make-up payments documented by gross earnings by calendar year and date of services;

Part-time employment for membership in the retirement system must be at least twenty (20) hours per week on regular basis;

Creditable service for paid commissioners is determined by pro-rating hours of service as compared to a forty (40) hour work week.(AMENDED April 1, 1988)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

September 17, 2003

The Westfield 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.)

April 2, 2004

The board will reimburse mileage at the IRS rate for reimbursement and whenever the IRS rate changes, the Board's rate will also change.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2009.

The actuarial liability for active members was	\$102,672,637
The actuarial liability for vested terminated members was	680,646
The actuarial liability for non-vested terminated members was	273,342
The actuarial liability for retired members was	<u>89,793,366</u>
The total actuarial liability was	193,419,991
System assets as of that date were (actuarial value)	<u>122,811,604</u>
The unfunded actuarial liability was	<u>\$70,608,387</u>
The ratio of system's assets to total actuarial liability was	63.5%
As of that date the total covered employee payroll was	\$35,161,871

The normal cost for employees on that date was 8.3% of payroll
 The normal cost for the employer was 6.2% 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 group and service

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2009	\$122,811,604	\$193,419,991	\$70,608,387	63.5%	\$35,161,871	200.8%
1/1/2007	\$129,873,128	\$175,422,660	\$45,549,532	74.0%	\$33,008,287	138.0%
1/1/2005	\$115,160,120	\$159,762,257	\$44,602,137	72.1%	\$30,543,628	146.0%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Retirement in Past Years										
Superannuation	16	14	90	6	13	6	17	21	20	27
Ordinary Disability	0	0	2	0	0	0	1	1	0	1
Accidental Disability	4	2	2	3	4	2	1	1	0	1
Total Retirements	20	16	94	9	17	8	19	23	20	29
Total Retirees, Beneficiaries and Survivors	457	455	532	528	534	526	528	535	543	552
Total Active Members	951	957	915	910	920	924	939	936	932	898
Pension Payments										
Superannuation	\$3,351,773	\$3,619,826	\$5,629,003	\$5,613,802	\$5,629,003	\$5,678,119	\$5,739,024	\$5,954,267	\$6,246,488	\$6,669,008
Survivor/Beneficiary Payments	360,437	409,823	533,669	448,885	533,669	528,974	525,490	549,995	576,152	648,970
Ordinary Disability	21,665	11,917	35,508	34,921	35,508	36,340	49,328	70,263	93,425	109,576
Accidental Disability	861,300	958,783	1,079,345	993,153	1,079,345	1,182,541	1,296,861	1,181,627	1,199,681	1,219,559
Other	<u>287,431</u>	<u>276,050</u>	<u>178,746</u>	<u>334,876</u>	<u>337,235</u>	<u>341,721</u>	<u>372,666</u>	<u>463,821</u>	<u>457,997</u>	<u>463,901</u>
Total Payments for Year	<u>\$4,882,606</u>	<u>\$5,276,399</u>	<u>\$7,456,271</u>	<u>\$7,425,637</u>	<u>\$7,614,760</u>	<u>\$7,767,695</u>	<u>\$7,983,369</u>	<u>\$8,219,973</u>	<u>\$8,573,743</u>	<u>\$9,111,015</u>

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac