

# Components of an Audit Report

January 2013

Commonwealth of Massachusetts

Public Employee Retirement Administration Commission

Harry Chadwick, *Chief Auditor*



***Commonwealth of Massachusetts***

**Public Employee Retirement Administration Commission**

The Honorable Domenic J. F. Russo, *Chairman* | Suzanne M. Bump, *Vice Chairman*

Alan G. Macdonald | James M. Machado | Donald R. Marquis | Robert B. McCarthy | Gregory R. Mennis

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## Components of an Audit Report

*Report of the Public Employee Retirement Administration Commission on the Examination of the Wachusett Contributory Retirement System for the Three Year Period, January 1, 2009 - December 31, 2011*

*Harry Chadwick, Chief Auditor*

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## Chief Auditor's Letter

The purpose of this document is to enable readers to more fully understand the Public Employee Retirement Administration Commission's (PERAC) audit examinations.

Our sample audit report is based on the "Wachusett Retirement System." Although the Wachusett Retirement System is fictional, our objective is to use it to present a typical audit report for your review. Several left-facing pages contain a "Key Points & Concepts" section explaining key features of the audit report pages that they face.

Once PERAC's field-auditors have completed an audit of a retirement system, they submit a draft report for review. Then, several other PERAC unit administrators also review the draft, and pursuant to their recommendations, further explanations or analysis may be added.

The completed audit report is sent to the retirement board for their review. The Retirement Board should discuss this version of the report. They are encouraged to respond to the findings and recommendations and their response will be included verbatim into the final version of the report.

If you have any questions about this sample audit report or if you have any questions about the operation of your retirement system in general, please do not hesitate to contact me.



Harry Chadwick  
*PERAC Chief Auditor*

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## Key Points & Concepts

- I This compliment is inserted only when there are no findings and recommendations included in the report.

# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

January 30, 2013

The Public Employee Retirement Administration Commission has completed an examination of the Wachusett Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2009 to December 31, 2011. 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.

**I** (We commend the Wachusett Retirement Board for the exemplary operation of the system.)

In closing, I acknowledge the work of examiners James Tivnan and James Ryan 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



## Key Points & Concepts

If PERAC auditors find an issue(s) that require(s) correction or further explanation, they will write about it in their Explanation of Findings and Recommendations. The auditor's examination will include, but not be limited to the following categories:

- General Administration or Operations
- Board Duties
- Contracts
- Transfers
- Cash
- Receipts
- Disbursements
- Investments
- Membership

In the course of auditing Wachusett, PERAC auditors found several issues:

- 1** **Cash/Bank Reconciliation**
- 2** **Appropriations**
- 3** **Membership**



# EXPLANATION OF FINDINGS AND RECOMMENDATIONS

## **1 Cash/Bank Reconciliation:**

The Treasurer's office has not provided a complete and formal reconciliation of the retiree payroll or other Citizens Bank account. The outstanding checks and miscellaneous adjustments had not been specifically identified and listed in detail. The most recent reconciliation of the Bank accounts provided to the auditor was more than six months in arrears. Sound internal control procedures would dictate that all bank accounts are reconciled on a timely basis by someone other than the retirement system staff who receive and/or disburse these funds.

### **Recommendation:**

The Town Treasurer shall be the custodian of the retirement system's funds according to G.L. c 32, § 23(2)(a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. This process is necessary to maintain proper internal control of the retirement system by segregating reconciliatory duties. The Treasurer must forward appropriate paperwork (bank statement, reconciliation, and outstanding check list) to the Retirement Board on a monthly basis. The Board must ensure that the Treasurer fulfill his/her obligation as custodian of the fund. Further the Treasurer must comply with G.L. c 41, § 35 dealing with the Treasurer's duties.

### **Board Reponse:**

The Treasurer's Office has undergone several staff cutbacks and personnel changes since the previous PERAC audit. Reconciliations for the period 7/1/08-6/30/09 have been completed and the Treasurer is committed to bringing the process fully up to date to satisfy the requirements of G.L. c 32, § 23(2)(a) and G.L. c 41, § 35.

## **2 Appropriations:**

Appropriation payments from the Town of Wachusett to the Retirement Board are generally paid on time. Payments from the other two Units are often times months late or received in the next fiscal year. No interest has been collected on any late payments.

### **Recommendation:**

The Board needs to work very closely with all Units to insure the full appropriation is collected on a timely basis. Appropriations shall be paid from any available funds in the treasury of the governmental unit obligated by law to support the system. If the actual payment does not conform to the schedule calculated by the Board's actuary or the PERAC actuary, the Board should request that its actuary and PERAC recalculate the appropriation amounts. Interest should be added to the amount due.

### **Board Response:**

The Retirement Board is working diligently with all units to ensure timely collection of appropriations due to the System. Should future late payments occur, recalculation of the amount to include interest will be requested.

## EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

### **3 Membership:**

PERAC auditors sampled members' deductions and reviewed pay codes to determine that the correct rates are being withheld, and that the additional 2% deduction is withheld from those members who make over \$30,000 and were hired after January 1, 1979. This inspection revealed pay types that are not coordinated between the multiple contribution rate classifications. This leads to a situation where a 7% contributor could have retirement deductions taken on a different base than an 8% contributor even when they each receive identical compensation. Also, there are pay types that do not qualify as regular compensation that are not excluded from retirement deductions, such as severance pay and overtime.

#### **Recommendation:**

The payroll exception report should be reviewed and corrected so that every deduction rate has the same set of exclusions and any payments that are not regular compensation are not subject to retirement deductions. The Retirement System should be notified of and review all pay codes to determine their proper classification for qualifying as retirement compensation. In addition, the Retirement System should continue to monitor payroll reports, including those generated from outside payroll services. All persons charged with processing retirement deductions should continue to receive copies of any and all memos or notices relating to new regulations and other changes involving eligibility and contribution rates.

#### **Board Response:**

The Retirement Board staff is working closely with the Town's payroll departments to ensure that all deduction codes are in compliance with the current definition of regular compensation. The Retirement Board staff will continue to provide all information regarding regulations, changes, memos and documents that pertain to eligibility and contribution rates to the Payroll and Human Resources Departments so that there is consistency and compliance through the organization.

#### **FINAL DETERMINATION:**

***PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings. 3***

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## Key Points & Concepts

The Statement of Ledger Assets and Liabilities shows the value of the Wachusett Retirement System's assets and how these assets are invested over a three-year time period (Year ending December 31st).

1

*Cash:* Funds deposited in savings accounts, checking accounts, or money market accounts that represent 'on demand money' are known as cash. Each cash account must be identified individually in the ledger and trial balance. Each transfer of funds between cash accounts requires a journal entry.

2

*Short Term Investments:* Invested funds (e.g., U.S. Treasury Bills, Commercial Paper, Certificates of Deposit, Cooperative Shares, Savings and Loan Shares, Term Deposits)) that can be readily obtained within 30 days are considered Short-Term Investments.

3

*Fixed Income Securities:* Bonds are Fixed Income Securities. Effective January 1, 2000, fixed income securities are valued at market value. Gains or losses on sales of fixed income securities are calculated as the difference between the sale price and the most recent market value.

4

*Equities:* Investments in shares of a corporation (stocks) are equities.

5

*Pooled Funds:* Pooled Funds are investment vehicles such as mutual funds, commingled funds, group trusts, real estate funds, limited partnership funds, and alternative investments. The distinguishing feature of a pooled fund is that a number of retirement boards or investors contribute money to the fund. This contrasts with a separate account in which only one Retirement Board or investor contributes money.

6

*PRIT Cash Fund/Core Fund:* The Pension Reserve Investment Trust (PRIT) is an investment income fund administered by the Commonwealth of Massachusetts.

7

*Accounts Receivable:* Monies that are due the retirement system must be recorded as an account receivable. Any transaction for a security that was sold prior to January 1st, with a settlement date after December 31st, should be recorded as an account receivable since the retirement system actually no longer owns this security on the transaction date. For city and town systems, any funds that have been appropriated for the current fiscal year but not received by December 31st should be considered a receivable. For county or regional systems, appropriations are due on July 1st and January 1st. Any funds not received from the July 1st portion of the appropriation should be considered a receivable. If by December 31st, a retirement system has not received all reimbursements for billings that have been sent to other governmental units, a receivable must be recorded.

8

*Accounts Payable:* Monies that the retirement system owes must be recorded as an account payable. Any transaction of a security that was purchased prior to January 1st, with a settlement date after December 31st, should be recorded as accounts payable since the retirement system actually owns this security on the transaction date and the funds are due to the seller. Administrative expenses and reimbursements to other systems that are billed prior to January 1st are also accounts payable.

## STATEMENT OF LEDGER ASSETS AND LIABILITIES

AS OF DECEMBER 31,			
	2011	2010	2009
<b>Net Assets Available For Benefits:</b>			
Cash and Equivalents <b>1</b>	\$780,759	\$624,687	\$975,077
Short Term Investments <b>2</b>	0	0	0
Fixed Income Securities <b>3</b>			
Equities <b>4</b>	0	0	13,773,076
Pooled Domestic Equity Funds	40,990,879	62,991,265	53,699,731
Pooled International Equity Funds	11,495,224	24,128,182	21,050,313
Pooled Domestic Fixed Income Funds	<b>5</b> 24,828,625	29,373,618	29,143,546
Pooled Alternative Investment Funds	11,698,112	12,860,901	1,520,642
Pooled Real Estate Funds	12,602,714	14,959,755	17,232,329
PRIT Cash Fund	0	0	0
PRIT Core Fund <b>6</b>	0	0	0
Interest Due and Accrued	0	0	0
Accounts Receivable <b>7</b>	3,479	349,469	129,366
Accounts Payable <b>8</b>	(78,783)	(162,116)	(191,096)
<b>Total</b>	<u>\$102,321,009</u>	<u>\$145,125,763</u>	<u>\$137,332,984</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$30,806,946	\$29,574,563	\$27,972,889
Annuity Reserve Fund	11,238,991	10,835,118	10,701,520
Pension Fund	1,143	0	0
Military Service Fund	20,174	18,977	19,693
Expense Fund	0	0	0
Pension Reserve Fund	60,253,755	104,697,105	98,638,881
<b>Total</b>	<u>\$102,321,009</u>	<u>\$145,125,763</u>	<u>\$137,332,984</u>

## Key Points & Concepts

The chart on the opposite page traces the movement of funds over the three-year audit period.

Each fund has a beginning balance. The fund balance may increase with the receipt of cash, interfund transfers may increase or decrease balances, and disbursements will decrease fund balances.

# 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 (2009)	\$26,028,024	\$10,996,920	(\$8,720,679)	\$19,576	\$0	\$92,663,604	\$120,987,447
Receipts	3,378,723	320,343	7,871,916	117	1,030,832	17,545,028	30,146,959
Interfund Transfers	(856,463)	856,463	11,569,751	0	0	(11,569,751)	0
Disbursements	(577,395)	(1,472,206)	(10,720,989)	0	(1,030,832)	0	(13,801,421)
Ending Balance (2009)	27,972,889	10,701,520	0	19,693	0	98,638,881	137,332,984
Receipts	3,411,029	313,376	8,367,644	113	1,199,768	8,550,717	21,842,647
Interfund Transfers	(1,334,463)	1,328,457	2,499,329	(830)	0	(2,492,492)	0
Disbursements	(474,893)	(1,508,235)	(10,866,973)	0	(1,199,768)	0	(14,049,869)
Ending Balance (2010)	29,574,563	10,835,118	0	18,977	0	104,697,105	145,125,763
Receipts	3,425,397	326,573	8,781,765	3,410	915,831	(41,775,876)	(28,322,899)
Interfund Transfers	(1,716,934)	1,718,003	2,668,618	(2,213)	0	(2,667,474)	0
Disbursements	(476,080)	(1,640,704)	(11,449,240)	0	(915,831)	0	(14,481,855)
Ending Balance (2011)	\$30,806,946	\$11,238,991	\$1,143	\$20,174	\$0	\$60,253,755	\$102,321,009

## Key Points & Concepts

The Statement of Receipts on the opposite page defines, for the last three-year period, the origins of the Wachusett Retirement System's funds and income.

1

### **Annuity Savings Fund**

This is the fund in which members' contributions are deposited. Active members contribute 5, 7, 8, or 9 percent of their gross regular compensation as well as 2% of gross regular compensation over \$30,000. Voluntary contributions, redeposits, and transfers to and from other systems are also accounted for in this fund.

Annuity Savings Fund accounts (4891, 4892 and 4893) must agree with the Supplementary Membership Schedule. The Supplementary Membership Schedule identifies, by member's name, yearly activity by category (transfers, refunds, interest, etc.). Beginning member balances must equal last year's ending member balances.

2

### **Annuity Reserve Fund**

This is the fund to which a member's account (total accumulated deductions, including interest) are transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portions of retirement allowances are paid from this fund. Interest is credited monthly to this fund at the rate of 3 percent annually (which is 0.025 each month) on the previous month's balance.

3

### **Pension Fund**

This fund contains specific amounts appropriated by the governmental units, as established by PERAC, to pay the pension portion of each retirement allowance.

4

### **Military Service Fund**

The Special Military Service Credit Fund contains contributions and interest related to the creditable service earned by members who are serving in the Armed Forces while on military leave.

5

### **Expense Fund**

This fund contains amounts transferred from investment income for the purposes of administering the retirement system (administration, legal, travel, etc).

6

### **Pension Reserve Fund**

This fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Excess interest earnings are also credited to this fund.



# STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31,  
2011                      2010                      2009

<b>1</b>	<b>Annuity Savings Fund:</b>			
	Members Deductions	\$ 3,083,589	\$ 3,049,332	\$ 3,020,856
	Transfers from Other Systems	115,909	171,528	166,599
	Member Make Up Payments and Re-deposits	55,242	26,347	37,067
	Member Payments from Rollovers	0	0	3,300
	Investment Income Credited to Member Accounts	<u>170,658</u>	<u>163,822</u>	<u>150,901</u>
	Sub Total	<u>3,425,397</u>	<u>3,411,029</u>	<u>3,378,723</u>
<b>2</b>	<b>Annuity Reserve Fund:</b>			
	Investment Income Credited to the Annuity Reserve Fund	<u>326,573</u>	<u>313,376</u>	<u>320,343</u>
<b>3</b>	<b>Pension Fund:</b>			
	3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	232,416	237,648	217,026
	Pension Fund Appropriation	<u>463,809</u>	<u>473,974</u>	<u>514,180</u>
	Sub Total	<u>8,085,541</u>	<u>7,656,022</u>	<u>7,140,710</u>
<b>4</b>	<b>Military Service Fund:</b>			
	Contribution Received from Municipality on Account of Military Service	3,282	0	0
	Investment Income Credited to the Military Service Fund	<u>129</u>	<u>113</u>	<u>117</u>
	Sub Total	<u>3,410</u>	<u>113</u>	<u>117</u>
<b>5</b>	<b>Expense Fund:</b>			
	Expense Fund Appropriation	0	0	0
	Investment Income Credited to the Expense Fund	<u>915,831</u>	<u>1,199,768</u>	<u>1,030,832</u>
	Sub Total	<u>915,831</u>	<u>1,199,768</u>	<u>1,030,832</u>
<b>6</b>	<b>Pension Reserve Fund:</b>			
	Federal Grant Reimbursement	43,382	20,924	1,308
	Pension Reserve Appropriation	0	0	0
	Interest Not Refunded	3,116	4,719	5,232
	Miscellaneous Income	103	0	32
	Excess Investment Income (Loss)	<u>(41,822,477)</u>	<u>8,525,074</u>	<u>17,538,455</u>
	Sub Total	<u>(41,775,876)</u>	<u>8,550,717</u>	<u>17,545,028</u>
	<b>Total Receipts</b>	<u>(\$28,322,899)</u>	<u>\$21,842,647</u>	<u>\$30,146,959</u>

## Key Points & Concepts

The Statement of Disbursements on the opposite page defines, for the last three-year period, disbursements made by the Wachusett Retirement System. A brief description of each major category is listed below.

1

### **Annuity Savings Fund**

Funds are deducted from the Annuity Savings Fund when a member is not eligible for retirement and withdraws his/her funds or when a member transfers to another retirement system.

2

### **Annuity Reserve Fund**

The Annuity Reserve Fund is the fund from which annuity payments are made. Such payments include the payment of the annuity portion of each retirement allowance, including interest, and refunds (balance of the member's annuity account) that are paid to Option B beneficiary(ies) upon a retiree's death.

3

### **Pension Fund**

Disbursements made from the Pension Fund represent, for the most part, funds paid to retirees.

4

### **Military Service Fund**

Disbursements are made from the Military Service Fund to the municipality for members who withdrew their funds.

5

### **Expense Fund**

Retirement systems must be diligent when they account for expenses. Board Member stipends must not be booked as staff salaries (or visa versa). Travel expenses must not be lumped with administrative expenses. Expenses paid for travel must be fully documented.

In all cases, invoices that are approved by Board Members should reference warrant numbers. The invoices must be retained. It is also a good idea to write a check number on each invoice, in case additional review is necessary.

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2011	2010	2009
<b>1 Annuity Savings Fund:</b>			
Refunds to Members	\$315,487	\$398,308	\$437,679
Transfers to Other Systems	<u>160,593</u>	<u>76,584</u>	<u>139,716</u>
Sub Total	<u>476,080</u>	<u>474,893</u>	<u>577,395</u>
<b>2 Annuity Reserve Fund:</b>			
Annuities Paid	1,615,467	1,506,103	1,472,206
Option B Refunds	<u>25,236</u>	<u>2,132</u>	<u>0</u>
Sub Total	<u>1,640,704</u>	<u>1,508,235</u>	<u>1,472,206</u>
<b>3 Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	7,453,642	7,028,802	6,957,904
Survivorship Payments	478,812	440,485	411,650
Ordinary Disability Payments	99,089	96,778	113,147
Accidental Disability Payments	2,389,918	2,225,092	2,272,805
Accidental Death Payments	658,721	634,378	611,904
Section 101 Benefits	156,015	145,566	133,433
3 (8) (c) Reimbursements to Other Systems	213,042	295,871	220,145
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>11,449,240</u>	<u>10,866,973</u>	<u>10,720,989</u>
<b>4 Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>5 Expense Fund:</b>			
Board Member Stipend	15,000	17,000	15,583
Salaries	152,537	137,936	125,208
Legal Expenses	40,000	33,925	55,138
Medical Expenses	60	0	0
Travel Expenses	6,675	7,855	14,629
Administrative Expenses	33,377	46,066	31,395
Furniture and Equipment	477	15,018	7,003
Management Fees	542,691	818,369	667,250
Custodial Fees	15,920	22,813	33,335
Consultant Fees	59,583	46,000	48,750
Rent Expenses	19,440	19,440	19,440
Service Contracts	21,829	27,357	5,815
Fiduciary Insurance	<u>8,241</u>	<u>7,988</u>	<u>7,286</u>
Sub Total	<u>915,831</u>	<u>1,199,768</u>	<u>1,030,832</u>
<b>Total Disbursements</b>	<u><b>\$14,481,855</b></u>	<u><b>\$14,049,869</b></u>	<u><b>\$13,801,421</b></u>

## Key Points & Concepts

The Wachusett Retirement System's Investment Income Schedule identifies investment activity for the three-year period. The investment activity represents activity for the year from January 1st to December 31st, for the year ending December 31st.

The total investment income plus gains on investments, less losses on investments, and monies taken from funds must equal Excess Income to the Pension Reserve Fund. This value is the same value that must be shown under Excess Investment Income appearing on the Statement of Receipts (refer to page 9).

Income Required is interest that the retirement system is obligated to provide to individual member account balances based on the member's balance at the previous year end. Interest must be calculated separately for each fund at the appropriate rate defined by statute.

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
<b>Investment Income Received From:</b>			
Cash and Equivalents	\$19,118	\$36,623	\$39,965
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	0	10,991	60,955
Pooled or Mutual Funds	815,469	838,333	787,248
Commission Recapture	0	0	0
<b>Total Investment Income</b>	<u>834,586</u>	<u>885,947</u>	<u>888,167</u>
<b>Plus:</b>			
Realized Gains	270,339	2,578,375	1,190,299
Unrealized Gains	16,612,300	19,179,529	20,285,028
Interest Due and Accrued- Current Year	0	0	0
Sub Total	<u>16,882,639</u>	<u>21,757,904</u>	<u>21,475,327</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(5,820,537)	(104,973)	(350,591)
Unrealized Loss	(52,305,975)	(12,336,726)	(2,972,255)
Interest Due and Accrued- Prior Year	0	0	0
Sub Total	<u>(58,126,512)</u>	<u>(12,441,698)</u>	<u>(3,322,846)</u>
<b>Net Investment Income (Loss)</b>	<u>(40,409,287)</u>	<u>10,202,153</u>	<u>19,040,649</u>
<b>Income Required:</b>			
Annuity Savings Fund	170,658	163,822	150,901
Annuity Reserve Fund	326,573	313,376	320,343
Military Service Fund	129	113	117
Expense Fund	915,831	1,199,768	1,030,832
<b>Total Income Required</b>	<u>1,413,191</u>	<u>1,677,079</u>	<u>1,502,193</u>
Net Investment Income (Loss)	<u>(40,409,287)</u>	<u>10,202,153</u>	<u>19,040,649</u>
Less: Total Income Required	1,413,191	1,677,079	1,502,193
<b>Excess Income (Loss) to the Pension Reserve Fund</b>	<u>(\$41,822,477)</u>	<u>\$8,525,074</u>	<u>\$17,538,455</u>

## Key Points & Concepts

The 'Statement of Allocation of Investments' on the opposite page helps readers understand how the Wachusett Retirement System has allocated its monies among various investment categories. The schedule also identifies the rate of return for Wachusett's investments. For the year ending December 31, 2011, the rate of return was 12.00%.

The allocation of total assets shown on the opposite page is not necessarily a typical example. Since each retirement system has its own investment strategy, investment allocations vary from system to system.

# SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2011			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash and Equivalents	\$780,759	0.8%	100.0%
Pooled Domestic Equity Funds	40,990,879	40.0%	43.0%
Pooled International Equity Funds	11,495,224	11.2%	15.0%
Pooled Domestic Fixed Income Funds	24,828,625	24.2%	20.0%
Pooled Alternative Investment Funds	11,698,112	11.4%	12.0%
Pooled Real Estate Funds	12,602,714	12.3%	10.0%
PRIT Cash Fund	0	0.0%	
PRIT Core Fund	0	0.0%	
<b>Grand Total</b>	<b><u>\$102,396,313</u></b>	<b><u>100.0%</u></b>	

For the year ending December 31, 2011, the rate of return for the investments of the Wachusett Retirement System was -27.95%. For the five-year period ending December 31, 2011, the rate of return for the investments of the Wachusett Retirement System averaged 2.23%. For the twenty-seven year period ending December 31, 2011, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Wachusett Retirement System was 9.64%.

## Key Points & Concepts

A Retirement Board may ask PERAC to approve a new supplementary regulation. A Retirement Board may also request that PERAC approve a regulation that differs from regulations already promulgated. This policy enables Retirement Boards to customize regulations to better fit their own needs. PERAC reviews each supplementary regulation request on a case-by-case basis.

An example of a supplementary regulation request is for a Board to request authorization of an investment. The Board might state that this request is being made so as to achieve an investment objective determined by the Retirement Board.

Upon PERAC's approval of the change, PERAC will issue a letter to the Retirement Board authorizing them to make the changes. As you will note, on the opposing page, the Wachusett Retirement System has voted to place all of their investments in the PRIT fund. The result of such a vote is to effectively rescind all of their existing supplementary investment regulations.



## SUPPLEMENTARY INVESTMENT REGULATIONS

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

September 23, 2009

21.01(1)

The Wachusett Retirement Board is authorized to invest in the Advent Legacy Securities PPIF, which is part of the US Treasury's Public-Private Investment Program. As part of this program, the manager may employ leverage up to 1x.

May 11, 2009

16.08

In accordance with Investment Guideline 99-2, the Wachusett Retirement Board is modifying its international equity mandate with State Street Global Advisors. In order to save on fees and to assure benchmark performance, the Board will transfer assets from SSgA's actively-managed "All International Allocation Fund" to the passively managed "MSCI ACWI ex-US Index NL Fund".

October 17, 2008

21.01(2)(3)(4)(5)

The provisions of 840 CMR 21.01(2)(3)(4) and (5) shall not apply to the investment of the Wachusett Retirement Board in the fund known as the Westfield Large Cap Growth Fund Limited Partnership.

February 14, 2007

17.04

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Wachusett Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO U.S. Venture Partnership Fund IV, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, and the underlying funds in which the Fund may invest, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Wachusett Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO International Partnership Fund IV, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, and the underlying funds in which the Fund may invest, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent

## SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

September 11, 2006

16.08

In accordance with Investment Guideline 99-2, the Wachusett Retirement Board is authorized to make a modest modification to its international equity mandate with State Street Global Advisors. Assets currently in SSgA’s International Alpha Fund will be moved into the firm’s All International Allocation Strategy. The latter fund also invests in the International Alpha Fund but supplements it with limited, opportunistic investments in other SSgA international equity funds. By gaining exposure to such sectors as emerging markets and international small cap, the Board will be achieving greater diversification within its international equity holdings.

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## Key Points & Concepts

Note 1 focuses on the system and provides a summary of the plan used to determine the eligibility for the benefits provided. The governing statute for public retirement systems and pensions is Chapter 32 of the Massachusetts General Laws.

**Note 1 includes, but is not limited to, the following provisions:**

- The maximum allowable retirement is 80% of a member's highest three-year average annual rate of regular compensation.
- Members become vested after 10 years of creditable service.
- A superannuation allowance may be received after twenty years of service or upon reaching age 55 with ten years of service.
- A retirement allowance consists of two parts: an annuity and a pension.
- Active members contribute 5, 7, 8 or 9% of their regular gross compensation.
- Members joining after January 1, 1979 must contribute an additional 2% on regular compensation earned over \$30,000.
- Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance.

# NOTES TO FINANCIAL STATEMENTS

## NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Wachusett 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:**

Electricians and other 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 \$751.80 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.

## Key Points & Concepts

**Note 2 provides a brief description of the various funds that are used to maintain the distinct purposes for which the systems operate.**

- Each member is credited with the contribution made by payroll deductions over the term of their employed service plus the interest allowed per statute/regulation.
- These funds are transferred to the Annuity Reserve Fund when the member retires. The Annuity portion of the benefit is paid from this Fund.
- The Pension Fund is funded by appropriations contributed by the participating employer units. It is depleted by payments made for the pension portion of each retiree's benefit.
- Administrative expenses are funded through the investment income generated by the invested assets of the system.
- Retirement accounting records are maintained on a calendar year basis which corresponds with the annual reporting requirements for payments made to retirees and beneficiaries, as well as the contributions collected by payroll deductions during the calendar pay period.

## 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.

## Key Points & Concepts

### **Note 3 - Supplementary Membership Regulations**

A retirement board may ask PERAC to approve supplementary membership regulations. A retirement board may also request that PERAC approve a regulation that differs from regulations already promulgated. This policy permits retirement boards to customize regulations to better fit their own needs. PERAC reviews each supplementary regulation request on a case-by-case basis.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

December 7, 2009

#### Creditable Service

- For a member in service who is employed in a full-time capacity, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Wachusett Retirement System, with said service not to exceed one year (1) year of creditable service in any calendar year.
- For a member in service who is employed in a part-time capacity throughout his/her entire career, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Wachusett Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.
- For a member who has rendered membership service in the Wachusett Retirement System in both a full-time and part-time capacity, the member shall receive full credit for all full-time service and prorated credit for part-time service based on the full-time equivalency of 35 hours per week.
- For a member who is employed in a part-time capacity throughout his/her career but who either purchases past refunded service, or who has transferred into the Wachusett Retirement System previous service rendered in a full-time capacity, the member's part-time service shall be prorated based on the full-time equivalency of 35 hours per week.
- In the case of School Department employees whose full-time employment requires them to work from on or about September 1<sup>st</sup> to on or about June 30<sup>th</sup>, 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 ten (10) months being the equivalent of one (1) year of creditable service. School Department employees who are employed in a part-time capacity shall have their creditable service prorated in the same manner as all members of the Wachusett Retirement System as set forth in this regulation.

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

- The Board recognizes that certain School Department employees, including but not limited to custodians and secretaries, are required to work the entire calendar year, and in such a situation, said employee's creditable service will be calculated based on a twelve (12) month year.
- Creditable service for 10 month employees shall be based on 1,202.5 hours being the equivalent of 1 year, whereas creditable service for 12 month employees shall be based on 1,827 hours per year.
- Any member purchasing past part-time service rendered shall have said service prorated based on 35 hours per week being considered a full week service. Notwithstanding the foregoing any member who works part-time his/her entire career, and purchases past part-time service rendered, will have all creditable service deemed to be full-time.

#### September 22, 2003

##### Purchase of Past Service as a Veteran

Any member of the Wachusett Retirement System ("System") who is a veteran as defined in M.G.L. c. 32, §1 must, within one hundred and eighty (180) days of being notified by the Weymouth Retirement Board ("Board") of his/her eligibility to purchase past service rendered in the armed forces of the United States, make application to purchase said service with the Board. Upon making such application, the member may purchase his/her past military service by remitting a lump-sum payment to the Board, in an amount equal to ten percent (10%) of the regular annual compensation of the member when the member first entered a retirement system subject to the provisions of M.G.L. c. 32, for each year the member wishes to purchase, not to exceed a maximum of four (4) years of service.

Alternatively, any member may elect to purchase his/her past military service rendered by means of an installment plan, with said plan not to exceed ten (10) years. If the member purchases his/her military service in five (5) years or less, then no interest will accrue on the principal amount due. If the member takes between five (5) and ten (10) years to purchase his/her military service, regular interest will accrue on any principal balance remaining at the end of the fifth (5) year. The installment plan will be by annual payment only, and will be payable each year on the anniversary date of the expiration of the one-hundred eighty (180) days after issuance of the notice to the member of his/her eligibility.

If any member is laid-off or his/her position is eliminated due to budgetary constraints, then the buyback period is tolled, and in the event that the member is rehired or resumes employment with the Town of Wachusett and is then again eligible to contribute to the system, he/she must resume the installment schedule in effect prior to the layoff or termination. If the member voluntarily leaves employment with the Town of Weymouth or is terminated for cause, the buyback period will not be tolled, and the Board will grant creditable service on a prorated basis consistent with the total amount due on the buyback and the amount remitted to the Board prior to the termination of employment.



## NOTES TO FINANCIAL STATEMENTS (Continued)

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

In the event that a member transfers to another retirement system prior to the completion of the installment plan, the Board will determine the amount of service purchased based on the payments received, and accept liability for said service consistent with the provisions of M.G.L. c. 32, §3(8)(c).

#### October 3, 1984

1. Persons employed as full-time permanent must join the retirement system as of their date of employ. (under age 65)
2. Persons employed as full-time temporary may join the retirement system as of their date of employ and must join after six months of employment even though still “temporary”.
3. Persons employed as part-time permanent must join if they work 20 or more hours a week.
4. Persons employed as part-time permanent cannot join if they work less than 20 hours per week.
5. Persons employed as part-time temporary cannot join. Part-time if go below 20 hours a week can continue for 6 months. After 6 months go inactive. Interest for 2 years. Can withdraw any time after going under 20 hours a week. Cannot buy back time if under 20 hours a week. (Amended March 8, 1985.)

If back to 20 (or more) within 6 months – as if they never left.

Full year credit for part time.

#### October 24, 2002

##### Travel Regulations

The Wachusett Retirement System has adopted Travel Supplemental Regulations under the provisions of M.G.L. c. 7, § 50 and M.G.L. c. 32, § 21(4). These regulations are available upon written request and are also available on the PERAC website (<http://www.mass.gov/perac>).

## Key Points & Concepts

### **Note 4 - Administration of the System**

The five person Retirement Board is identified by position, name, and term expiration date. Please note that the Ex Officio Member has an indefinite term.

Included among the Notes on the opposite page are the following:

- Board Members must meet at least once a month.
- The Board must maintain a written record of its proceedings.
- The Board must develop an annual budget.
- The Board is responsible for investing the system's funds.
- All Board Members and retirement system staff shall be bonded in an amount sufficient to provide reasonable protection against losses due to dishonesty and fraud. Each shall be bonded for no less than 10% of the amount of the fund or \$500,000 (840 CMR 17.01).
- There is often coverage on a separate policy for breach of fiduciary responsibilities, and negligent acts, errors or omissions in the administration of the plan.

# NOTES TO FINANCIAL STATEMENTS (Continued)

## NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: George Washington

Appointed Member: Thomas Jefferson Term Expires: 12/31/15

Elected Member: Abraham Lincoln Term Expires: 12/31/14

Elected Member: Millard Fillmore Term Expires: 12/31/13

Appointed Member: Benjamin Franklin Term Expires: 06/30/14

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing companies licensed to do business in Massachusetts as follows:

Ex-officio Member:	)	MACRS Blanket Policy
Elected Members:	)	Coverage for 92 Retirement Systems
Appointed Members:	)	\$50,000,000 Fiduciary Liability
Staff Employees:	)	\$1,000,000 Fidelity (ERISA) Bond
		Issued as a Rider:
		Travelers Casualty/Surety
		National Union Fire
		Arch Insurance Company

## Key Points & Concepts

1

### Note 5 - Actuarial Valuation and Assumptions

The chart on the opposite page summarizes the most important actuarial statistics from the most recent actuarial valuation of the system. The Wachusett Retirement System must have **\$190,920,432** in savings to pay for all future retirees. Since they have system assets of **\$137,332,984** (71.9% of required savings), they face an unfunded actuarial liability of **\$53,587,448**.

The Wachusett Retirement System must become fully funded by 2028. Adopting and adhering to an appropriately structured funding schedule will accomplish this objective.

A more detailed explanation of actuarial valuations and assumptions can be found in the PERAC booklet entitled, "Understanding an Actuarial Valuation Report."

2

The Government Accounting Standards Board (GASB) established GASB Statement Number 25, relating to Financial Reporting and Accounting for pension plans. The objective of this GASB disclosure is to establish a uniform approach to pension financial statements.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2012.

The actuarial liability for active members was	\$ 86,893,860
The actuarial liability for inactive members was	898,502
The actuarial liability for retired members and beneficiaries was	<u>103,128,070</u>
The total actuarial liability was	190,920,432
System assets as of that date were	<u>137,332,984</u>
The unfunded actuarial liability was	<u>\$53,587,448</u>
The ratio of system's assets to total actuarial liability was	71.9%
As of that date the total covered employee payroll was	\$ 34,808,391

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

The normal cost for the employer was 4.90% 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, 2012

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 )
1/1/2012	\$137,332,984	\$190,920,432	\$53,587,448	71.9%	\$34,808,391	154.0%
1/1/2010	\$113,780,000	\$174,530,000	\$60,750,000	65.2%	\$30,671,000	198.1%
1/1/2008	\$82,343,000	\$159,560,000	\$77,217,000	51.6%	\$28,228,000	273.5%

## Key Points & Concepts

### **Note 6 - Membership Exhibit**

The Membership Exhibit on the opposite page contains 'headcount' information and 'pension payment' information for the past 10 years for the Wachusett Retirement System. Retirement Board Members and staff can use this 10-year historical record to predict future pension needs.

NOTES TO FINANCIAL STATEMENTS (Continued)

**NOTE 6 - MEMBERSHIP EXHIBIT**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Retirement in Past Years</b>										
Suprannuation	23	24	22	63	18	13	11	11	11	21
Ordinary Disability	0	0	0	0	0	0	3	0	0	0
Accidental Disability	3	2	1	3	0	2	0	6	3	1
<b>Total Retirements</b>	26	26	23	66	18	15	14	17	14	22
Total Retirees, Beneficiaries and Survivors	609	613	619	699	680	631	631	635	630	635
Total Active Members	811	843	877	856	818	867	854	861	895	864
<b>Pension Payments</b>										
Suprannuation	\$4,068,343	\$4,530,288	\$4,820,699	\$5,457,943	\$6,318,533	\$6,664,482	\$6,908,541	\$6,957,904	\$7,028,802	\$7,453,642
Survivor/Beneficiary Payments	397,819	421,542	364,745	421,441	364,381	394,000	392,700	411,650	440,485	478,812
Ordinary Disability	128,402	125,811	115,017	103,094	103,636	96,575	177,843	113,147	96,778	99,089
Accidental Disability	1,479,543	1,581,785	1,680,205	1,737,855	1,815,941	1,810,068	1,982,218	2,272,805	2,225,092	2,389,918
Other	642,553	671,688	788,128	803,932	838,561	862,252	881,344	965,482	1,075,815	1,027,778
<b>Total Payments for Year</b>	<b>\$6,716,660</b>	<b>\$7,331,114</b>	<b>\$7,768,794</b>	<b>\$8,524,265</b>	<b>\$9,441,052</b>	<b>\$9,827,377</b>	<b>\$10,342,646</b>	<b>\$10,720,989</b>	<b>\$10,866,973</b>	<b>\$11,449,240</b>

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## Notes









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