

# PERAC AUDIT REPORT



Northbridge  
Contributory Retirement System



JAN. 1, 2013 - DEC. 31, 2016





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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

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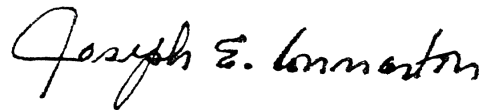
March 12, 2018

The Public Employee Retirement Administration Commission has completed an examination of the Northbridge Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2013 to December 31, 2016. 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 the finding presented in this report.

In closing, I acknowledge the work of examiners Carol Poladian, Richard Wrona, and Teri Coley, who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director





## EXPLANATION OF FINDING AND RECOMMENDATION

**Monthly Financial Reporting:** A review of the monthly board minutes indicated that the Board did not do a review of the monthly cash books during the audit period. In addition, we noted that during the years under audit, minutes did not indicate a review of monthly bank reconciliations.

**Recommendation:** Each month the Board administrator should present a packet for Board review which consists of the following items:

- Cash reconciliation including bank statements
- Trial Balance
- Cash Receipts
- Cash Disbursements
- Adjusting Journal Entries
- Budget to Actual Expense Comparison (if not monthly, quarterly)
- Cash Flow Forecast

This process will assist the Board in the exercise of their fiduciary responsibilities. The distribution of additional financial data will provide a basis for formalizing the supervision of the system by the Board. It will also help to determine that Board policy is implemented and adhered to. A notation should be made in the minutes indicating that the documents have been presented to the Board.

It is our understanding that the Administrator will be preparing a monthly packet going forward.

**Board Response:**

The Board Administrator will continue with the process of supplying the Board with the monthly Bank Reconciliations for their signatures and the Cash Books for their review. The process was implemented as soon as it became an issue during this audit.

**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,			
	2016	2015	2014	2013
<b>Net Assets Available For Benefits:</b>				
Cash	\$23,581	\$29,040	\$4,975	\$5,013
PRIT Cash Fund	54,159	104,718	43,961	117,956
PRIT Core Fund	30,902,361	28,906,437	28,847,700	27,029,936
Accounts Receivable	9,391	23,286	84,203	35,898
Accounts Payable	0	(158)	(1,450)	(210)
<b>Total</b>	<u>\$30,989,492</u>	<u>\$29,063,323</u>	<u>\$28,979,389</u>	<u>\$27,188,593</u>
<b>Fund Balances:</b>				
Annuity Savings Fund	\$8,554,719	\$8,073,382	\$7,691,174	\$7,433,842
Annuity Reserve Fund	1,663,529	1,826,563	1,727,245	1,635,647
Pension Fund	142,762	60,637	0	0
Expense Fund	0	0	0	0
Pension Reserve Fund	20,628,482	19,102,740	19,560,969	18,119,104
<b>Total</b>	<u>\$30,989,492</u>	<u>\$29,063,323</u>	<u>\$28,979,389</u>	<u>\$27,188,593</u>



## STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2013)	\$6,893,639	\$1,735,945	\$0	\$0	\$15,156,798	\$23,786,381
Receipts	830,965	50,125	1,413,461	225,874	3,337,599	5,858,024
Interfund Transfers	(176,011)	176,011	375,292	0	(375,292)	0
Disbursements	(114,751)	(326,434)	(1,788,753)	(225,874)	0	(2,455,812)
Ending Balance (2013)	7,433,842	1,635,647	0	0	18,119,104	27,188,593
Receipts	896,444	49,709	1,454,450	258,167	1,859,413	4,518,183
Interfund Transfers	(409,759)	403,531	423,775	0	(417,548)	0
Disbursements	(229,353)	(361,643)	(1,878,226)	(258,167)	0	(2,727,389)
Ending Balance (2014)	7,691,174	1,727,245	0	0	19,560,969	28,979,389
Receipts	1,000,093	51,739	1,547,008	253,559	4,521	2,856,921
Interfund Transfers	(422,385)	422,385	462,750	0	(462,750)	0
Disbursements	(195,501)	(374,806)	(1,949,121)	(253,559)	0	(2,772,987)
Ending Balance (2015)	8,073,382	1,826,563	60,637	0	19,102,740	29,063,323
Receipts	838,867	50,801	1,605,683	270,571	2,000,632	4,766,555
Interfund Transfers	(173,163)	173,163	474,891	0	(474,891)	0
Disbursements	(184,367)	(386,998)	(1,998,450)	(270,571)	0	(2,840,386)
Ending Balance (2016)	<u>\$8,554,719</u>	<u>\$1,663,529</u>	<u>\$142,762</u>	<u>\$0</u>	<u>\$20,628,482</u>	<u>\$30,989,492</u>

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
<b>Annuity Savings Fund:</b>				
Members Deductions	\$812,274	\$785,821	\$798,395	\$778,121
Transfers from Other Systems	9,689	206,387	60,551	19,506
Member Make Up Payments and Re-deposits (A)	0	(3,442)	23,494	4,619
Member Payments from Rollovers	0	0	709	19,642
Investment Income Credited to Member Accounts	<u>16,903</u>	<u>11,327</u>	<u>13,296</u>	<u>9,078</u>
Sub Total	<u>838,867</u>	<u>1,000,093</u>	<u>896,444</u>	<u>830,965</u>
<b>Annuity Reserve Fund:</b>				
Investment Income Credited to the Annuity Reserve Fund	<u>50,801</u>	<u>51,739</u>	<u>49,709</u>	<u>50,125</u>
<b>Pension Fund:</b>				
3 (B) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	54,320	50,756	53,538	49,248
Pension Fund Appropriation	21,823	24,875	25,940	41,595
Recovery of 91A Overearnings	1,529,541	1,471,377	1,374,972	1,322,618
	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>1,605,683</u>	<u>1,547,008</u>	<u>1,454,450</u>	<u>1,413,461</u>
<b>Expense Fund:</b>				
Investment Income Credited to the Expense Fund	<u>270,571</u>	<u>253,559</u>	<u>258,167</u>	<u>225,874</u>
<b>Pension Reserve Fund:</b>				
Federal Grant Reimbursement	385	785	0	0
Interest Not Refunded	30	0	452	1,283
Miscellaneous Income (Expense)	0	0	0	0
Excess Investment Income	<u>2,000,217</u>	<u>3,736</u>	<u>1,858,960</u>	<u>3,336,316</u>
Sub Total	<u>2,000,632</u>	<u>4,521</u>	<u>1,859,413</u>	<u>3,337,599</u>
<b>Total Receipts, Net</b>	<b><u>\$4,766,555</u></b>	<b><u>\$2,856,921</u></b>	<b><u>\$4,518,183</u></b>	<b><u>\$5,858,024</u></b>

(A) 2015 amount includes \$1,745 received and a write-off of \$5,187 for a previously accrued receivable for a member who left the system

# STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2016	2015	2014	2013
<b>Annuity Savings Fund:</b>				
Refunds to Members	\$107,006	\$124,314	\$81,595	\$74,364
Transfers to Other Systems	<u>77,361</u>	<u>71,187</u>	<u>147,758</u>	<u>40,388</u>
Sub Total	<u>184,367</u>	<u>195,501</u>	<u>229,353</u>	<u>114,751</u>
<b>Annuity Reserve Fund:</b>				
Annuities Paid	<u>386,998</u>	<u>374,806</u>	<u>361,643</u>	<u>326,434</u>
<b>Pension Fund:</b>				
Pensions Paid:				
Regular Pension Payments	1,457,710	1,411,407	1,347,781	1,281,555
Survivorship Payments	138,023	130,679	127,365	123,921
Ordinary Disability Payments	37,132	36,394	48,401	28,744
Accidental Disability Payments	240,520	237,748	224,938	226,281
Section 101 Benefits	6,367	6,058	5,759	5,468
3 (8) (c) Reimbursements to Other Systems	96,905	103,216	99,406	95,429
State Reimbursable COLA's Paid	<u>21,794</u>	<u>23,618</u>	<u>24,576</u>	<u>27,354</u>
Sub Total	<u>1,998,450</u>	<u>1,949,121</u>	<u>1,878,226</u>	<u>1,788,753</u>
<b>Expense Fund:</b>				
Board Member Stipend	3,000	3,000	3,000	3,000
Salaries (B)	50,250	50,122	59,658	45,127
Legal Expenses	0	10,537	974	5,528
Travel Expenses	1,680	1,837	1,971	4,331
Administrative Expenses	20,699	12,328	11,428	13,777
Actuarial Services	14,475	5,500	9,975	3,000
Accounting Services	2,399	3,158	5,219	4,727
Education and Training	800	810	810	2,700
Management Fees	159,932	149,719	149,332	141,331
Service Contracts	15,435	14,700	14,000	635
Fiduciary Insurance	<u>1,901</u>	<u>1,847</u>	<u>1,800</u>	<u>1,718</u>
Sub Total	<u>270,571</u>	<u>253,559</u>	<u>258,167</u>	<u>225,874</u>
<b>Total Disbursements</b>	<u>\$2,840,386</u>	<u>\$2,772,987</u>	<u>\$2,727,389</u>	<u>\$2,455,812</u>

(B) 2014 Salary includes prior year amounts not reimbursed to the town.

# INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,				
	2016	2015	2014	2013
<b>Investment Income Received From:</b>				
Cash	\$83	\$104	\$97	\$145
Short Term Investments	0	0	0	736,433
Pooled or Mutual Funds	<u>858,431</u>	<u>760,514</u>	<u>793,705</u>	<u>0</u>
<b>Total Investment Income</b>	<b><u>858,514</u></b>	<b><u>760,618</u></b>	<b><u>793,803</u></b>	<b><u>736,578</u></b>
<b>Plus:</b>				
Realized Gains	850,551	1,060,785	1,256,174	1,185,635
Unrealized Gains	<u>2,592,500</u>	<u>1,511,727</u>	<u>1,807,402</u>	<u>3,056,823</u>
Sub Total	<u>3,443,052</u>	<u>2,572,512</u>	<u>3,063,577</u>	<u>4,242,458</u>
<b>Less:</b>				
Realized Loss	(16,496)	(13,929)	0	0
Unrealized Loss	<u>(1,946,577)</u>	<u>(2,998,840)</u>	<u>(1,677,247)</u>	<u>(1,357,642)</u>
Sub Total	<u>(1,963,072)</u>	<u>(3,012,769)</u>	<u>(1,677,247)</u>	<u>(1,357,642)</u>
<b>Net Investment Income</b>	<b><u>2,338,493</u></b>	<b><u>320,361</u></b>	<b><u>2,180,133</u></b>	<b><u>3,621,393</u></b>
<b>Income Required:</b>				
Annuity Savings Fund	16,903	11,327	13,296	9,078
Annuity Reserve Fund	50,801	51,739	49,709	50,125
Expense Fund	<u>270,571</u>	<u>253,559</u>	<u>258,167</u>	<u>225,874</u>
<b>Total Income Required</b>	<b><u>338,276</u></b>	<b><u>316,625</u></b>	<b><u>321,172</u></b>	<b><u>285,077</u></b>
Net Investment Income	<u>2,338,493</u>	<u>320,361</u>	<u>2,180,133</u>	<u>3,621,393</u>
Less: Total Income Required	<u>338,276</u>	<u>316,625</u>	<u>321,172</u>	<u>285,077</u>
<b>Excess Income To The Pension Reserve Fund</b>	<b><u>\$2,000,217</u></b>	<b><u>\$3,736</u></b>	<b><u>\$1,858,960</u></b>	<b><u>\$3,336,316</u></b>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(Percentages by category)

AS OF DECEMBER 31, 2016		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$23,581	0.1%
PRIT Cash Fund	54,159	0.2%
PRIT Core Fund	<u>30,902,361</u>	<u>99.7%</u>
<b>Grand Total</b>	<b>\$30,980,101</b>	<b><u>100.0%</u></b>

For the year ending December 31 2016, the rate of return for the investments of the Northbridge Retirement System was 8.21%. For the five-year period ending December 31, 2016, the rate of return for the investments of the Northbridge Retirement System averaged 9.25%. For the 32-year period ending December 31, 2016, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Northbridge Retirement System was 9.26%.

The composite rate of return for all retirement systems for the year ending December 31, 2016 was 8.08%. For the five-year period ending December 31, 2016, the composite rate of return for the investments of all retirement systems averaged 9.12%. For the 32-year period ending December 31, 2016, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.11%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Northbridge Retirement System voted on October 21, 1987 to invest all of the system's assets with the PRIT fund as of June 30, 1988. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Northbridge 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 104 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 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

#### **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.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6% after achieving 30 years of creditable service.

### 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 at age 65. There is no mandatory retirement age for employees in Group 1.

### SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 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.

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.



## 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 (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, 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 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 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.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .125% reduction is applied for each year of age under the maximum age for the member's group.

### DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

### 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, s. 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”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

**Retirement Allowance:** For persons who became members prior to April 2, 2012, the benefit is 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.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. 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 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is 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 would have been entitled had they retired for superannuation.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 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 \$871.56 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 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. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

### 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 \$871.56 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 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 while in the performance of his duties that results 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 \$150,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 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. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

### DEATH IN ACTIVE SERVICE

**Allowance:** An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. 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 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, 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.

### 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 (COLA) 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%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### 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 is has not remarried, 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" to Option A) 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" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

### 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. In certain circumstances, if a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration may not be undertaken. This is because such a person may receive a separate retirement allowance from each 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 accounts are considered to be funds on deposit with banks and are 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 primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

#### **Creditable Service**

January 1, 2010

Credit for “part time or full time employees, either actively contributing, or in the computation to determine make-ups, shall be determined based upon the following, unless the person has retired or left the employ of the Town of Northbridge.”

Less than 2 weeks in any year	No Credit
Two weeks to one month	One Month Credit
One Month to Six Months	Month to Month
Seven Months and over	One Year

One year of credit for seven months of service may only be granted if the work is determined by the retirement board to be seasonal in nature. One year of credit for ten months of service may be granted for School employees whose work schedule is the academic school year.

No credit shall be granted for any employment that is for less than 28 hours per week. Purchases of credit is restricted to employment with the Town of Northbridge.

#### **Membership**

January 2, 2001

Members must make all military buybacks, creditable service buybacks, makeups and redeposit payments upon the approval vote taken by the Retirement Board. All payments must be completed by the members prior to their retirement. The Board requires total payments of under \$1,000 to be paid within 30 days of the Board's vote. Cash payments for buybacks, makeups and redeposits in excess of \$1,000 are to be paid over a period of not more than 90 days.

Members may make payments via payroll deductions. They must contribute their additional annuity in an amount equal to their current weekly amount of contribution. These payroll deductions will be fully taxable. Weekly payroll deductions must exceed the current amount of contribution if the balance due the system from the member will not be paid within a five year period using the double deduction method. The member seeking this method of buyback must complete the appropriate release form within 7 days of the Retirement Board vote.

Failure to complete the buyback within the periods stated above will nullify the approval vote of the Retirement Board.



## NOTES TO FINANCIAL STATEMENTS (Continued)

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

August 5, 1985

Credit for membership shall be computed as follows:

- Non Union and Union Contracts of 35 to 37 1/2 hours:
- 28 - 35 hours will receive 80% credit.
- 35 or more will receive 100% credit.
- Union Contracts of 40 hours:
- 28 - 40 hours will receive 70% credit.
- 40 hours will receive 100% credit.

February 7, 1985

C.E.T.A. employees are also subject to the above regulations.

December 27, 1984

Seasonal positions will be credited for a full year for not less than (9) nine months of actual full-time service during any one calendar year. Positions of less than full-time service will be credited on the basis of percentages of yearly credit as noted in amended regulation below.

#### **Make up Payment**

Creditable membership make-up payments for the full amount due will be accepted for the years of creditable membership voted by the Northbridge Retirement Board, as computed by the town accountant.

#### **Regular Compensation**

December 27, 1984

Regular employees shall have only (1) one position, considered as regular full-time employment. All other paid positions shall be considered overtime positions for the purposes of determining regular compensation only.

#### **Travel Regulations**

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

## 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: Neil Vaidya

Appointed Member: John Meagher, Chairman                      Term Expires: 6/30/2018

Elected Member: Tom Frieswyk                                      Term Expires: 7/31/2020

Elected Member: George Murray                                      Term Expires: 8/31/2020

Appointed Member: Sharon Susienka                                      Term Expires: 2/23/2018

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. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. 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.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consultant Inc. as of January 1, 2016.

The actuarial liability for active members was	\$22,287,964
The actuarial liability for inactive members was	379,153
The actuarial liability for retired members was	<u>22,074,622</u>
The total actuarial liability was	\$44,741,739
System assets as of that date were (actuarial value)	<u>30,343,788</u>
The unfunded actuarial liability was	<u>\$14,397,951</u>
The ratio of system's assets to total actuarial liability was	67.8%
As of that date the total covered employee payroll was	\$8,505,675

The normal cost for employees on that date was 9.0% of payroll  
 The normal cost for the employer was 4.1% of payroll

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

Investment Return: 7.75% per annum  
 Rate of Salary Increase: Varies by group & service

#### SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2016 (Dollars in Thousands)

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 )
1/1/2016	\$30,344	\$44,742	\$14,398	67.8%	\$8,506	169.3%
1/1/2014	\$25,887	\$40,054	\$14,167	64.6%	\$8,222	172.3%
1/1/2012	\$21,760	\$34,960	\$13,200	62.2%	\$7,299	180.8%
1/1/2010	\$20,630	\$29,678	\$9,049	69.5%	\$7,084	127.7%
1/1/2008	\$23,128	\$27,276	\$4,148	84.8%	\$6,833	60.7%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
<b>Retirement in Past Years</b>										
Superannuation	8	3	1	4	7	8	4	6	5	2
Ordinary Disability	0	0	1	0	0	0	0	0	0	1
Accidental Disability	1	0	0	0	2	0	0	1	0	0
<b>Total Retirements</b>	<b>9</b>	<b>3</b>	<b>2</b>	<b>4</b>	<b>9</b>	<b>8</b>	<b>5</b>	<b>8</b>	<b>7</b>	<b>11</b>
 Total Retirees, Beneficiaries and Survivors	 104	 100	 104	 102	 108	 112	 109	 113	 115	 112
 Total Active Members	 173	 204	 194	 189	 207	 216	 204	 203	 211	 206
<b>Pension Payments</b>										
Superannuation	\$873,431	\$969,128	\$1,037,610	\$1,052,253	\$1,107,138	\$1,233,136	\$1,281,555	\$1,347,781	\$1,411,407	\$1,457,710
Survivor/Beneficiary Payments	89,774	89,326	90,154	88,585	108,179	126,093	123,921	127,365	130,679	138,023
Ordinary Disability	0	0	6,932	27,694	27,904	28,324	28,744	48,401	36,394	37,132
Accidental Disability	202,595	205,346	173,543	162,020	249,682	234,997	226,281	224,938	237,748	240,520
Other	<u>87,300</u>	<u>84,839</u>	<u>85,201</u>	<u>95,956</u>	<u>127,072</u>	<u>123,896</u>	<u>128,251</u>	<u>129,741</u>	<u>132,892</u>	<u>125,066</u>
<b>Total Payments for Year</b>	<b><u>\$1,253,100</u></b>	<b><u>\$1,348,639</u></b>	<b><u>\$1,393,440</u></b>	<b><u>\$1,426,508</u></b>	<b><u>\$1,619,975</u></b>	<b><u>\$1,746,446</u></b>	<b><u>\$1,788,753</u></b>	<b><u>\$1,878,226</u></b>	<b><u>\$1,949,121</u></b>	<b><u>\$1,998,450</u></b>







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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOHN W. PARSONS, ESQ., *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. McCARTHY | JENNIFER F. SULLIVAN

John Meagher, Chairperson  
Northbridge Retirement Board  
7 Main Street  
Whitinsville, MA 01588

**REFERENCE:** Report of the Examination of the Northbridge Retirement Board for the four-year period from January 1, 2013 through December 31, 2016.

Dear Chairman Meagher:

The Public Employee Retirement Administration Commission has completed a follow-up review of the finding and recommendation contained in its audit report of the Northbridge Retirement Board for the period referenced above. We conduct these visits as a regular part of the oversight process to ensure the timely implementation of the recommendation contained in that report. The examination also addressed the other matters discussed at the completion of the audit. The results are as follows:

***The Audit Report cited a finding that the Board did not review the monthly cash books or the bank reconciliations at their monthly meetings.***

**Follow-up Result:** The Board minutes subsequent to the publication of the audit report note review and approval of all necessary financial information. This issue is resolved.

The other matters discussed with the Board at the completion of the audit were also reviewed and resolved.

The Commission wishes to acknowledge the effort demonstrated by the staff of the Northbridge Retirement Board in correcting the issue from the most recent examination of the system.

Thank you for your continued cooperation in this matter.

Sincerely,



John W. Parsons, Esq.  
Executive Director

