PERAC AUDIT REPORT

Methuen
Contributory Retirement System

JAN. 1, 2011 - DEC. 31, 2013

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman* JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATE FITZPATRICK | JOHN B. LANGAN | JAMES M. MACHADO | ROBERT B. McCARTHY

January 16, 2015

The Public Employee Retirement Administration Commission has completed an examination of the Methuen Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2011 to December 31, 2013. 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 finding presented in this report.

In closing, I acknowledge the work of examiners James Ryan and Susan Kerr who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

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EXPLANATION OF FINDING AND RECOMMENDATION

Monthly Financial Reporting:
Financial information provided to the Board on a monthly basis are the payrolls, expense warrants and the Trial Balance. Board members are not provided the monthly bank reconciliations or any other accounting information. In addition, there is no summary of actual expenditures compared to the approved fiscal budget.

Recommendation: Each month the Board Administrator should prepare a packet 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 Retirement 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 Retirement 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 Retirement Board.

Board Response:
While the Retirement Board is in agreement with the auditor's recommendation, it should be noted the Chairman of the Retirement Board reviews the financial data with the Administrator on a monthly basis. However, in order to be in full compliance with our fiduciary responsibility, the entire Board has, and will continue to review the financial data at each board meeting.

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,		
	2013	2012	2011
Net Assets Available For Benefits:			
Cash	$297,232	$300,966	$381,773
Pooled Alternative Investment Funds	1,888,685	2,442,688	2,667,691
Pooled Real Estate Funds	2,721,225	2,276,540	1,878,885
PRIT Cash Fund	100,060	300,088	72
PRIT Core Fund	100,210,722	85,449,632	74,571,168
Accounts Receivable	115,743	66,237	68,404
Accounts Payable	(24,061)	(552)	(989)
Total	$105,309,606	$90,835,598	$79,567,005
Fund Balances:			
Annuity Savings Fund	$34,936,730	$33,196,439	$31,489,891
Annuity Reserve Fund	10,091,377	10,161,134	9,958,635
Pension Fund	0	0	0
Military Service Fund	8,129	8,121	8,113
Expense Fund	0	0	0
Pension Reserve Fund	60,273,370	47,469,905	38,110,366
Total	$105,309,606	$90,835,598	$79,567,005

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 (2011)	$30,035,259	$10,244,735	$0	$10,361	$0	$39,246,715	$79,537,069
Receipts	2,958,326	295,541	7,634,653	16	595,909	82,883	11,567,328
Interfund Transfers	(909,432)	911,676	1,219,252	(2,264)		(1,219,232)	0
Disbursements	(594,262)	(1,493,316)	(8,853,905)		(595,909)	0	(11,537,392)
Ending Balance (2011)	31,489,891	9,958,635	0	8,113	0	38,110,366	79,567,005
Receipts	3,494,131	301,636	8,541,831	8	648,954	10,056,392	23,042,952
Interfund Transfers	(1,394,330)	1,397,226	693,959	0	0	(696,855)	0
Disbursements	(393,253)	(1,496,362)	(9,235,790)		(648,954)	0	(11,774,360)
Ending Balance (2012)	33,196,439	10,161,134	(0)	8,121	0	47,469,904	90,835,598
Receipts	3,246,607	302,330	9,335,081	8	765,852	13,084,900	26,734,780
Interfund Transfers	(1,205,807)	1,177,801	309,441	0	0	(281,434)	0
Disbursements	(300,510)	(1,549,888)	(9,644,522)		(765,852)	0	(12,260,772)
Ending Balance (2013)	$34,936,729	$10,091,377	$0	$8,129	$0	$60,273,370	$105,309,605

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2013	2012	2011
Annuity Savings Fund:			
Members Deductions	$3,062,164	$2,939,625	$2,768,034
Transfers from Other Systems	36,366	431,260	20,998
Member Make Up Payments and Re-deposits	80,840	53,109	57,615
Member Payments from Rollovers	14,065	34,482	37,777
Investment Income Credited to Member Accounts	53,172	35,655	73,902
Sub Total	3,246,607	3,494,131	2,958,326
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	302,330	301,636	295,541
Sub Total	302,330	301,636	295,541
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	179,562	179,089	157,258
Received from Commonwealth for COLA and Survivor Benefits	137,884	148,424	174,620
Pension Fund Appropriation	9,010,375	8,201,418	7,302,776
Settlement of Workers' Compensation Claims	3,000	8,700	0
Recovery of 91A Overearnings	4,260	4,200	0
Sub Total	9,335,081	8,541,831	7,634,653
Military Service Fund:			
Investment Income Credited to the Military Service Fund	8	8	16
Sub Total	8	8	16
Expense Fund:			
Investment Income Credited to the Expense Fund	765,852	648,954	595,909
Sub Total	765,852	648,954	595,909
Pension Reserve Fund:			
Federal Grant Reimbursement	21,390	23,083	72,173
Interest Not Refunded	8,321	2,937	2,574
Miscellaneous Income	80	197	493
Excess Investment Income	13,055,110	10,030,175	7,643
Sub Total	13,084,900	10,056,392	82,883
Total Receipts, Net	$26,734,780	$23,042,952	$11,567,328

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2013	2012	2011
Annuity Savings Fund:			
Refunds to Members	$282,874	$161,558	$393,445
Transfers to Other Systems	17,636	231,696	200,817
Sub Total	300,510	393,253	594,262
Annuity Reserve Fund:			
Annuities Paid	1,549,888	1,496,362	1,493,316
Sub Total	1,549,888	1,496,362	1,493,316
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	6,955,019	6,632,016	6,288,465
Survivorship Payments	450,211	452,744	470,535
Ordinary Disability Payments	65,084	63,274	60,711
Accidental Disability Payments	1,588,758	1,597,493	1,597,992
Accidental Death Payments	301,073	307,833	258,543
Section 101 Benefits	73,208	72,342	63,607
3 (8) (c) Reimbursements to Other Systems	211,169	110,088	114,051
Sub Total	9,644,522	9,235,790	8,853,905
Expense Fund:			
Board Member Stipend	15,000	15,000	15,000
Salaries	134,499	125,763	122,400
Legal Expenses	5,607	6,059	12,761
Travel Expenses	3,662	3,456	3,588
Administrative Expenses	4,932	3,849	1,853
Education and Training	1,510	1,350	0
Furniture and Equipment	968	205	0
Management Fees	570,888	465,535	409,038
Consultant Fees	0	0	3,750
Service Contracts	21,880	20,840	20,840
Fiduciary Insurance	6,907	6,898	6,678
Sub Total	765,852	648,954	595,909
Total Disbursements	$12,260,772	$11,774,360	$11,537,392

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2013	2012	2011
Investment Income Received From:			
Cash	$0	$3,920	$90
Pooled or Mutual Funds	2,891,975	2,676,863	2,445,846
Total Investment Income	2,891,975	2,680,783	2,445,936
Plus:			
Realized Gains	4,715,508	2,167,705	2,410,539
Unrealized Gains	11,658,598	11,299,929	8,287,199
Sub Total	16,374,106	13,467,635	10,697,737
Less:			
Realized Loss	0	0	(43,893)
Unrealized Loss	(5,089,609)	(5,131,989)	(12,126,770)
Sub Total	(5,089,609)	(5,131,989)	(12,170,663)
Net Investment Income	14,176,472	11,016,429	973,011
Income Required:			
Annuity Savings Fund	53,172	35,655	73,902
Annuity Reserve Fund	302,330	301,636	295,541
Military Service Fund	8	8	16
Expense Fund	765,852	648,954	595,909
Total Income Required	1,121,362	986,253	965,368
Net Investment Income	14,176,472	11,016,429	973,011
Less: Total Income Required	1,121,362	986,253	965,368
Excess Income (Loss) To The Pension Reserve Fund	$13,055,110	$10,030,175	$7,643

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2013	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$297,232	0.3%
Pooled Alternative Investment Funds	1,888,685	1.8%
Pooled Real Estate Funds	2,721,225	2.6%
PRIT Cash Fund	100,060	0.1%
PRIT Core Fund	100,210,722	95.2%
Grand Total	$105,217,924	100.0%

For the year ending December 31, 2013, the rate of return for the investments of the Methuen Retirement System was 15.55%. For the five-year period ending December 31, 2013, the rate of return for the investments of the Methuen Retirement System averaged 11.34%. For the twenty-nine year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Methuen Retirement System was 8.08%.

The composite rate of return for all retirement systems for the year ending December 31, 2013 was 15.57%. For the five-year period ending December 31, 2013, the composite rate of return for the investments of all retirement systems averaged 12.13%. For the twenty-nine year period ending December 31, 2013, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.49%.

SUPPLEMENTARY INVESTMENT REGULATIONS

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

The Methuen Retirement System has more than ninety five per-cent of their funds invested in the PRIT fund managed by the PRIM Board. Certain residual investment agreements related to holdings of Pooled Alternative Investments and Pooled Real Estate Funds could not be abrogated and remain under the care and custody of the Methuen Retirement System. Such residual investments generally consist of limited partnership subscriptions for a specific term. These terms are fixed for a period usually not to exceed ten years. As a result, the supplemental investment regulations that were previously approved by the Public Employee Retirement Administration Commission and remain on file at PERAC have been effectively rescinded, except as they pertain to the residual holdings referenced above. A complete list of these regulations is available upon written request and can be accessed via the Internet at the following address:

http://www.mass.gov/perac/investsup/methuenintsup.html

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Methuen 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 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.

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 55. 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.

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.

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 $797.64 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 $797.64 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 $100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

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.

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. 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 will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

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 (retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the) (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.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

Creditable Service:

April 1, 2008

Members of the Methuen Retirement System who are in a "no pay" status or who are taken off the payroll for any reason during any given calendar month will only accrue creditable service during that calendar month if the member works seventy-five percent (75 %) of the scheduled monthly hours required by the position. Members who are in a no pay status or who are taken off the payroll during any calendar month and who do not work the requisite 75% of the hours in the calendar month may combine two or more consecutive months during which the member did not work 75% of the required hours to accrue additional creditable service. For example: If 75% of the required hours for a particular position equals 120 hours and a member works 60 hours in two different consecutive calendar months, the member would receive one (1) month of creditable service.

December 3, 2003

Members wishing to purchase creditable service for service on a paid [unelected] board will be granted three months of service time for each year served. The retirement board determined that one week per month of service is fair and equitable where a member received a stipend for service on a City board resulting in twelve weeks of service per calendar year.

November 29, 2001

Any member employed on a full-time basis who becomes part-time shall receive credit for his/her part-time service on a pro-rated basis as it related to a full-time position.

November 29, 2001

Any member who became part-time before [the date of this regulation] shall receive creditable service as though full-time creditable service has been performed, and as of [the date of this regulation] shall receive credit for his/her part-time service on a pro-rated basis as it related to a full-time position.

November 2, 2001

The purchase of military service time [pursuant to the voluntary purchase provisions of G.L. c. 32, § 4(1)(h)] must be paid in full before retirement, [and] the payment can be spread over five years. The decision to purchase this service [after the member has applied within the 180 day application period] must be made 30 days from notification.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

October 12, 2001

The purchase of military service time [pursuant to the voluntary purchase provisions of G.L. c. 32, § 4(1)(h)] must be paid in full before retirement, [and] the payment can be spread over five years.

May 9, 1995

Employees whose beginning service was less than 20 hours/40 weeks will have this creditable service credited as actual. When calculating part time service prior to March 27, 1995 for the purposes of a buy back, the retirement board will grant creditable service equal to what was actually worked using 40 weeks a year as the minimum for a full year of service. Example, if an employee worked 20 hours a week for 40 weeks a year for ten years they would be allowed to purchase 5.7 years of service (20/35x10=5.7143). When calculating retirement allowances of part time employees currently in the system, full years of service and actual salary will be used.

December 26, 1985

When calculating creditable service, the exact number of weeks in proportion to the normal full time workweek for the particular position would be used. Example, if a person works 20 hours a week and the full workweek is 35 hours, they would be given 20/35 or 4/7 of a year as creditable service That 35 hours be considered the standard workweek for High School Lunch employees in calculating their pensions. That 40 weeks be considered a full year of service for cafeteria workers, teacher aides, and school secretaries.

Membership:
May 9, 1995

The criterion for eligibility for membership is that the individual works a minimum of thirty hours a week, for a minimum of forty weeks a year. All employees will then be considered full time and earn creditable service in full years.

January 7, 1994

The criterion for eligibility to become a member of the retirement system is that the individual works a minimum of 20 hours per week. (Amended by supplementary rule approved May 9, 1995)

December 26, 1985

The criteria for eligibility to become a member of the retirement system is that the individual work a minimum of 20 hours per week or receive a minimum salary of $4,000 annually. (Amended by supplementary rule approved January 7, 1994).

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

In all cases of application for membership, when no set hours are required, the retirement board shall determine, after hearing evidence, the eligibility of the applicant pursuant to G.L. c. 32, § 4(2)(b).

In the case of a person employed as a temporary worker, upon the extension of their initial employment period, the retirement board would then review their status as to whether he/she would become a full time employee.

Appeal Procedures:
May 1, 1991

Upon receipt of any written decision of the Division of Administrative Law Appeals and after consultation with the Solicitor; the Administrator, Chairman and Secretary will confer via telephone and decide by a majority of the Board if Objections should be filed in the case. At the next regularly scheduled Board meeting this action will be either ratified or the objections will be withdrawn.

Travel:
October 23, 2003
(The Methuen 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/Methuen).

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor 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:	Thomas J. Kelly, Chairman		
Appointed Member:	John T. Sheehy	Until a successor is appointed	
Elected Member:	A. James Trott III	Term Expires:	7/1/16
Elected Member:	Michael Hennessy	Term Expires:	12/31/17
Appointed Member:	Robert J. Deluca	Term Expires:	1/5/15

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.

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

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 of America.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2014.

The actuarial liability for active members was	$102,151,928
The actuarial liability for retired and inactive members was	108,555,511
The total actuarial liability was	$210,707,439
System assets as of that date were	98,229,012
The unfunded actuarial liability was	$112,478,427
The ratio of system's assets to total actuarial liability was	46.6%
As of that date the total covered employee payroll was	$32,255,564

The normal cost for employees on that date was	8.9% of payroll
The normal cost for the employer was	5.3% of payroll

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

Investment Return:	7.75% per annum
Rate of Salary Increase:	Service based table with ultimate rates of 4.25%, 4.50%, and 4.75% for groups 1, 2, and 4 respectively.

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2014

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)
1/1/2014	$98,229,012	$210,707,439	$112,478,427	46.6%	$32,255,564	348.7%
1/1/2012	$86,498,317	$184,918,524	$98,420,207	46.8%	$29,440,881	334.3%
1/1/2010	$83,414,310	$168,427,213	$85,012,903	49.5%	$29,781,891	285.5%

NOTE 6 - MEMBERSHIP EXHIBIT

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Retirement in Past Years										
Superannuation	33	5	11	11	12	10	35	13	14	14
Ordinary Disability	0	0	0	0	0	0	0	0	1	0
Accidental Disability	1	1	0	4	1	2	1	2	0	0
Total Retirements	34	6	11	15	13	12	36	15	15	14
Total Retirees, Beneficiaries and Survivors	419	415	412	419	407	404	425	419	423	419
Total Active Members	699	683	705	697	681	634	602	609	642	618
Pension Payments										
Superannuation	$4,406,171	$4,642,358	$4,732,815	$4,951,976	$5,121,970	$5,384,647	$5,751,129	$6,288,465	$6,632,016	$6,955,019
Survivor/Beneficiary Payments	294,257	372,019	391,346	415,776	421,103	461,441	475,254	470,535	452,744	450,211
Ordinary Disability	90,548	74,429	75,869	77,309	93,169	64,571	59,631	60,711	63,274	65,084
Accidental Disability	1,210,407	1,256,848	1,243,480	1,320,037	1,497,499	1,569,433	1,589,138	1,597,992	1,597,493	1,588,758
Other	348,898	363,581	425,381	411,680	409,106	395,983	450,005	436,201	490,263	585,451
Total Payments for Year	$6,350,281	$6,709,235	$6,868,891	$7,176,778	$7,542,847	$7,876,075	$8,325,157	$8,853,905	$9,235,790	$9,644,522

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman* JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATE FITZPATRICK | JOHN B. LANGAN | JAMES M. MACHADO | ROBERT B. MCCARTHY

February 11, 2016

Mr. Thomas J. Kelly, Chairman
Methuen Retirement Board
41 Pleasant Street
Methuen, MA 01844

REFERENCE: Report of the Examination of the Methuen Retirement Board for the three-year period from January 1, 2011 through December 31, 2013.

Dear Mr. Kelly:

The Public Employee Retirement Administration Commission has completed a follow-up review of the finding and recommendation contained in its audit report of the Methuen Retirement Board for the most recent period referenced above. We conduct these visits as a regular part of the oversight process. They are designed to ensure the timely implementation of corrective action for the recommendation cited in that report. The result is as follows:

The Audit Report cited a finding that only some financial information of payrolls, expense warrants and the trial balance were provided to the Board on a monthly basis. Board members were not provided the monthly bank reconciliations or any other accounting information. In addition, there was no summary of actual expenditures compared to the approved fiscal budget.

Follow-up Result: The Board Administrator now prepares a packet of financial information of the monthly bank cash reconciliation, including the bank statements, cash receipts and disbursements, adjusting journal entries, budget to actual expenses and the forecast of cash flow for every monthly board meeting. This finding is resolved.

The Commission wishes to acknowledge the effort demonstrated by the staff of the Methuen Retirement Board to correct the deficiencies cited in the most recent examination of the system.

Thank you for your continued cooperation in this important matter.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton,
Executive Director

cc: Methuen Retirement Board Members

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