

PERAC AUDIT REPORT



Westfield Contributory Retirement System

JAN. 1, 2005 - DEC. 31, 2006



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February 28, 2008

The Public Employee Retirement Administration Commission has completed an examination of the Westfield Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2005 to December 31, 2006. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Robert Madison who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

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

Joseph E. Connarton
Executive Director

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

Board Member Attendance:

A review of meeting attendance by Board members showed that in (2005 and 2006) two Board members missed 25% or more meetings and one member in this group missed 25% or more in both years.

Recommendation:

Attendance at Board meetings is an obligation that must be fulfilled by all Board members. Members who do not regularly attend meetings may jeopardize their fiduciary duty to the retirement system. Since this member has a work schedule that is likely to conflict with some regularly scheduled meetings, the Board should consider adjusting the schedule of Board meetings whenever possible in order to better accommodate all members.

Board Response:

Our Board does feel that attendance and participation is very important at Board meetings. We have set up a procedure that if a Board Member is not available due to the fact that they are out of town that a conference call will be held so they may be aware of topics discussed at the 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,	
	2006	2005
Net Assets Available for Benefits:		
Cash	\$1,660,738	\$3,979,289
Short Term Investments	182,939	0
Fixed Income Securities	11,035,430	10,714,231
Equities	5,062,201	17,231,979
Pooled Domestic Equity Funds	81,906,801	58,521,383
Pooled Domestic Fixed Income Funds	32,639,751	31,243,835
Interest Due and Accrued	106,591	117,292
Accounts Receivable	1,972,845	4,510
Accounts Payable	<u>(89,725)</u>	<u>(106,407)</u>
Total	<u>\$134,477,570</u>	<u>\$121,706,112</u>
Fund Balances:		
Annuity Savings Fund	\$29,880,872	\$28,114,858
Annuity Reserve Fund	9,400,313	9,462,575
Pension Fund	9,443,958	11,035,494
Military Service Fund	26,368	22,231
Pension Reserve Fund	<u>85,726,059</u>	<u>73,070,953</u>
Total	<u>\$134,477,570</u>	<u>\$121,706,112</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2005)	25,814,757	9,992,109	12,678,513	10,675	0	66,960,809	115,456,863
Receipts	3,052,934	289,304	6,131,725	11,556	778,806	6,093,237	16,357,562
Inter Fund Transfers	(339,541)	329,683	(7,049)	0	0	16,907	0
Disbursements	(413,291)	(1,148,522)	(7,767,695)	0	(778,806)	0	(10,108,314)
Ending Balance (2005)	28,114,858	9,462,575	11,035,494	22,231	0	73,070,953	121,706,112
Receipts	3,209,510	273,217	6,395,404	4,137	886,969	12,652,851	23,422,088
Inter Fund Transfers	(792,890)	794,207	(3,572)	0	0	2,255	0
Disbursements	(650,606)	(1,129,686)	(7,983,369)	0	(886,969)	0	(10,650,629)
Ending Balance (2006)	<u>\$29,880,872</u>	<u>\$9,400,313</u>	<u>\$9,443,958</u>	<u>\$26,368</u>	<u>\$0</u>	<u>\$85,726,059</u>	<u>\$134,477,570</u>

STATEMENT OF RECEIPTS

FOR THE PERIOD ENDING DECEMBER 31		
	2006	2005
Annuity Savings Fund:		
Members Deductions	\$2,823,123	\$2,663,846
Transfers from Other Systems	152,461	110,987
Member Make Up Payments and Re-deposits	53,123	41,434
Member Payments from Rollovers	15,844	83,926
Investment Income Credited to Member Accounts	<u>164,958</u>	<u>152,741</u>
Sub Total	<u>3,209,509</u>	<u>3,052,934</u>
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	<u>273,217</u>	<u>289,304</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems	152,112	145,456
Received from Commonwealth for COLA and Survivor Benefits	307,469	352,574
Pension Fund Appropriation	<u>5,935,824</u>	<u>5,633,695</u>
Sub Total	<u>6,395,404</u>	<u>6,131,725</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	4,003	11,394
Investment Income Credited to the Military Service Fund	<u>133</u>	<u>162</u>
Sub Total	<u>4,137</u>	<u>11,556</u>
Expense Fund:		
Investment Income Credited to the Expense Fund	<u>886,969</u>	<u>778,806</u>
Sub Total	<u>886,969</u>	<u>778,806</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	129,511	159,605
Interest Not Refunded	4,004	3,348
Miscellaneous Income	28,804	23,914
Excess Investment Income	<u>12,490,532</u>	<u>5,906,371</u>
Sub Total	<u>12,652,851</u>	<u>6,093,237</u>
Total Receipts	<u>\$23,422,087</u>	<u>\$16,357,562</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
Annuity Savings Fund:		
Refunds to Members	\$468,456	\$321,961
Transfers to Other Systems	<u>182,150</u>	<u>91,330</u>
Sub Total	<u>650,606</u>	<u>413,291</u>
Annuity Reserve Fund:		
Annuities Paid	1,127,400	1,111,364
Option B Refunds	<u>2,286</u>	<u>37,157</u>
Sub Total	<u>1,129,686</u>	<u>1,148,522</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	5,739,024	5,678,119
Survivorship Payments	525,490	528,974
Ordinary Disability Payments	49,328	36,340
Accidental Disability Payments	1,296,861	1,182,541
Accidental Death Payments	225,855	151,321
Section 101 Benefits	26,853	31,671
3 (8) (c) Reimbursements to Other Systems	<u>119,957</u>	<u>158,729</u>
Sub Total	<u>7,983,369</u>	<u>7,767,695</u>
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
Expense Fund:		
Board Member Stipend	18,000	18,000
Salaries	117,433	113,708
Legal Expenses	828	0
Travel Expenses	3,937	5,916
Administrative Expenses	2,421	3,350
Furniture and Equipment	13,994	474
Management Fees	685,458	577,529
Custodial Fees	26,811	42,868
Service Contracts	10,501	9,713
Fiduciary Insurance	<u>7,585</u>	<u>7,248</u>
Sub Total	<u>886,969</u>	<u>778,806</u>
Total Disbursements	<u>\$10,650,629</u>	<u>\$10,108,314</u>

INVESTMENT INCOME

FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005
Investment Income Received From:		
Cash	\$81,283	\$65,891
Short Term Investments	2,101	54
Fixed Income	704,519	872,721
Equities	40,194	499,056
Pooled or Mutual Funds	5,385,278	3,615,244
Commission Recapture	0	2,360
Total Investment Income	<u>6,213,374</u>	<u>5,055,327</u>
Plus:		
Realized Gains	2,671,564	4,709,404
Unrealized Gains	11,114,594	6,334,583
Interest Due and Accrued – Current Year	<u>106,591</u>	<u>117,292</u>
Sub Total	<u>13,892,749</u>	<u>11,161,279</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	(105,138)	(292,983)
Realized Loss	(1,190,749)	(2,854,744)
Unrealized Loss	(4,877,135)	(5,700,520)
Interest Due and Accrued – Prior Year	<u>(117,292)</u>	<u>(240,975)</u>
Sub Total	<u>(6,290,314)</u>	<u>(9,089,222)</u>
Net Investment Income	<u>13,815,810</u>	<u>7,127,384</u>
Income Required:		
Annuity Savings Fund	164,958	152,741
Annuity Reserve Fund	273,217	289,304
Military Service Fund	133	162
Expense Fund	<u>886,969</u>	<u>778,806</u>
Total Income Required	<u>1,325,277</u>	<u>1,221,013</u>
Net Investment Income	13,815,810	7,127,384
Less: Total Income Required	<u>1,325,277</u>	<u>1,221,013</u>
Excess Income To The Pension Reserve Fund	<u>\$12,490,532</u>	<u>\$5,906,371</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2006			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$1,660,738	1.3%	
Short Term	182,939	0.1%	
Fixed Income	11,035,430	8.3%	80%
Equities	5,062,201	3.8%	60%
Pooled Domestic Equity Funds	81,906,801	61.8%	
Pooled Domestic Fixed Income Funds	32,639,751	24.6%	
Pooled Real Estate Funds	<u>0</u>	0.0%	2%
Grand Total	<u>\$132,487,859</u>	<u>100.0%</u>	100%

For the year ending December 31, 2006, the rate of return for the investments of the Westfield Retirement System was 11.57%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Westfield Retirement System averaged 6.74%. For the twenty-two year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Westfield Retirement System was 9.87%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Westfield Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

March 26, 2002

16.08(1)

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

April 7, 2000

16.08(1)

In accordance with PERAC Investment Guideline 99-2, the Westfield Retirement Board may invest in the Loomis Sayles Investment Trust Small Company Value Fund. Investment in this commingled fund represents a modest modification to the System's existing investment mandate with Loomis Sayles, which had been in the form of a small cap value separate account. The commingled fund has the identical investment strategy as the separate account but will serve to reduce custodial and administrative expenses for the System.

In accordance with PERAC Investment Guideline 99-2, the Westfield Retirement Board may invest in the Loomis Sayles Investment Trust Small Company Growth Fund. The System has a long and satisfactory relationship with Loomis Sayles as its small cap equity manager. Proceeds to begin this investment will come from the System's small cap value account with Loomis Sayles.

February 4, 1992

20.04(6)

Non-United States based corporations and foreign government bonds provided such securities are denominated in the United States Currency, are listed on a United States exchange or traded over the counter in the United States, and provided further that the total of such securities not exceed 10% of the market value of the portfolio.

September 14, 1989

(1)

Real estate investments shall not total more than \$600,000 at the time of purchase and shall consist of real estate trusts and partnerships, provided that:

- (a) trust participants or limited partners do not participate in the selection of trustees or general partners and should a trust participant or limited partner be required to participate in the selection of a trustee or general partner, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action, and

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

- (b) such trustees or general partners retain authority in the decision making process, and
- (c) should an investment in a trust or limited partnership result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

November 17, 1988

(1)

Real estate investments shall not exceed 2% of the total book value of the portfolio at the time of purchase and shall consist of real estate trusts and partnerships, provided that:

- (a) trust participants or limited partners do not participate in the selection of trustees or general partners and should a limited partner be required to participate in the selection of a general partner, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action, and
- (b) such trustees or general partners retain authority in the decision making process, and
- (c) such an investment in a trust or limited partnership result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

September 1, 1988

20.03(1)

Equity investments shall not exceed 60% of the total book value of the portfolio at the time of purchase.

20.03(2)

At least 30% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

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

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

RATE OF INTEREST

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

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

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

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

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

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

G.L. c. 32 provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”.

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$667.92 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full-time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

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

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

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

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Westfield Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

April 2, 2004

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

September 17, 2003

The Board's mileage reimbursement rate is \$.36/mile.

The Board's maximum daily reimbursement rate for meals is \$75.00.

January 26, 1994

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

April 1, 1988

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

December 19, 1984

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

CETA employees who worked for the City of Westfield and later became City employees can obtain creditable service by make-up payment documented by gross earnings by calendar year and dates of service.

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

Creditable Service for paid Commissioners is determined by pro-rating hours of service as compared to a forty (40) hour work week.

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 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: Deborah A. Strycharz

Appointed Member: John E. Kane

Elected Member: Kevin J. Regan, Chairman Term Expires: 3/02/10

Elected Member: Richard F. Russell Term Expires: 12/30/08

Appointed Member: William Leahy Term Expires: 1/06/09

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 and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of 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:

Treasurer - Custodian:)	
Ex-officio Member:)	\$50,000,000 AMITY Liability
Elected Member:)	\$1,000,000 Fidelity ERISA/Crime
Appointed Member:)	
Staff Employee:)	

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2007.

The actuarial liability for active members was	\$90,832,522
The actuarial liability for vested terminated members was	1,105,295
The actuarial liability for non-vested terminated members was	248,407
The actuarial liability for retired members was	<u>83,236,436</u>
The total actuarial liability was	175,422,660
System assets as of that date were	<u>129,873,128</u>
The unfunded actuarial liability was	<u>\$45,549,532</u>
The ratio of system's assets to total actuarial liability was	74.0%
As of that date the total covered employee payroll was	\$33,008,287

The normal cost for employees on that date was 8.3% of payroll
 The normal cost for the employer was 6.50% of payroll

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

Investment Return: 8.00% per annum
 Rate of Salary Increase: Varies based on group and service

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2007	\$129,873,128	\$175,422,660	\$45,549,532	74.0%	\$33,008,287	138.0%
1/1/2005	\$115,160,120	\$159,762,257	\$44,602,137	72.1%	\$30,543,628	146.0%
1/1/2003	\$98,045,518	\$143,447,991	\$45,402,473	68.3%	\$28,216,541	160.9%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retirement in Past Years										
Superannuation	20	20	12	16	14	90	6	13	6	17
Ordinary Disability	1	0	1	0	0	2	0	0	0	1
Accidental Disability	3	0	1	4	2	2	3	4	2	1
Total Retirements	24	20	14	20	16	94	9	17	8	19
Total Retirees, Beneficiaries and Survivors	452	458	454	457	455	532	528	534	526	528
Total Active Members	858	899	924	951	957	915	910	920	924	939
Pension Payments										
Superannuation	\$2,818,338	\$3,060,862	\$3,171,517	\$3,351,773	\$3,619,826	\$5,629,003	\$5,613,802	\$5,629,003	\$5,678,119	\$5,739,024
Survivor/Beneficiary Payments	336,499	178,978	184,352	360,437	409,823	533,669	448,885	533,669	528,974	525,490
Ordinary Disability	46,708	41,824	34,251	21,665	11,917	35,508	34,921	35,508	36,340	49,328
Accidental Disability	784,693	796,585	815,313	861,300	958,783	1,079,345	993,153	1,079,345	1,182,541	1,296,861
Other	310,459	412,804	420,723	287,431	276,050	178,746	334,876	337,235	341,721	372,666
Total Payments for Year	<u>\$4,296,697</u>	<u>\$4,491,053</u>	<u>\$4,626,156</u>	<u>\$4,882,606</u>	<u>\$5,276,399</u>	<u>\$7,456,271</u>	<u>\$7,425,638</u>	<u>\$7,614,760</u>	<u>\$7,767,695</u>	<u>\$7,983,369</u>

PERAC

Five Middlesex Avenue | Suite 304

Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

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