

PERAC AUDIT REPORT



Saugus Contributory Retirement System

JAN. 1, 2001 - DEC. 31, 2003 / PERAC 03: 11-081-03



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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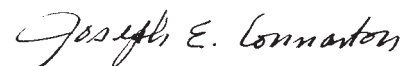
June 10, 2005

The Public Employee Retirement Administration Commission has completed an examination of the Saugus Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, 2001 to December 31, 2003. 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 and 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 James Tivnan 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



Saugus Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

1. Cash Reconciliation

We inspected the bank reconciliations prepared by the Treasurer's office. The reconciliations reviewed by the auditor do not agree with the amount reflected in the general ledger. The reconciliation process is flawed in that specific bank transactions are not matched to specific activity reflected in the general ledger. As a result, cash management lacks the primary control mechanisms necessary to alert the Board to cash requirements on a timely basis.

Recommendation: The City Treasurer shall be the custodian of the retirement system's funds according to G.L. c. 32, § 23(2)(a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. This process is necessary to maintain proper internal control of the retirement system by segregating reconciliatory duties. The Treasurer must forward appropriate paperwork (bank statement, reconciliation, and outstanding check list) to the Retirement Board on a monthly basis. The Retirement Board should then specifically identify all reconciling items between the bank and the General Ledger. The Board should research checks outstanding for more than six months so that the proper voiding and recording of these items can be completed. The Board must ensure that the Treasurer fulfill his/her obligation as custodian of the fund.

Board Response

The Board has instituted a new process for reconciling accounts on a monthly basis. As of January 1, 2005 the reconciliation's do balance to the General Ledger. There had been a delay in the deposits being credited to the current Bank account due to a change in the Banks internal mailing addresses. This has since been corrected. The Treasurer is in the process of researching a banking facility to better fit the needs of the Retirement Board.

2. Annual Statements

The Annual Statements filed by the Board for the three-year audit period were reviewed. It was determined that certain line item amounts contained in the Annual Statement did not match the detailed supporting schedules. Variances were found in Accounts Receivable (GL #1398) and Accounts Payable (GL #2020) between what was reported on the Assets and Liabilities page and what was provided in the detail supplied on Schedule A.

Recommendation: As a sole source of information to third parties, the Annual Statement and supporting schedules must be in agreement allowing readers to make an accurate assessment of the systems financial condition without having to reference the general ledger. Prior to submission of the Annual Statement, a review process should be established to ensure all entries on the Annual Statement agree with the detailed supporting schedules using the PERAC Annual Statement Guide published each year. Differences should be corrected and reconciled to the General Ledger prior to submission of the Annual Statement.

Saugus Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

Board Response

The variance that was reported in the Accounts Receivable and Accounts Payable line items was due to a doubling in amounts on the Schedule A. This happened during the restoring process and was corrected when the Annual Statement was printed. The actual Assets and Liability page was correct. The incorrect Schedule A was attached to the Annual Statement.

3. Appropriations

The Town of Saugus has been approved to remit payment quarterly for their portion of the annual appropriation. It was observed that the Town did not actually remit a payment for the portion of the assigned appropriation at the end of calendar year 2003. Payment was delayed due to budget and financial constraints until January 2004. However, the accounts receivable balance outstanding at year-end 2003 did not reflect this unpaid amount. The result was the understatement of both the balance of accounts receivable and the Pension Fund Appropriation in the amount of \$766,336.50 at the end of calendar year 2003.

Recommendation: Delays in approved funding schedules are a serious matter. Funding on an approved schedule incorporates many factors involving the time value of money, interest and anticipated future obligations to members. We recognize there are occasions when severe cash and budgetary restrictions prevent the Town from meeting its funding requirements.

Board Response

An Appropriation payment, which was set to be made in December was not credited and confirmed until January of the following year. The error was found after the Annual Statement was balanced. An adjusting error was made after consulting the PERAC Actuarial Unit.

4. Annuity Savings Fund

The Annuity Savings Fund general ledger account does not balance to the membership file supplemental schedule. The supplemental schedule lists the balance of each member's deductions plus interest and must agree with the Annuity Savings Fund Account balance carried on the general ledger. This issue is caused when changes are made to member's accounts without corresponding adjusting entries posted in the general ledger.

Recommendation: The Board should ensure that that the general ledger agrees with the Supplemental Schedule before the membership module is closed at year-end. All variances must be resolved to ensure member's individual account balances are correct. This was corrected at the end of the 2004 calendar-reporting year.

Saugus Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

Board Response

Prior to obtaining TAC's software interest was credited to member's accounts in December of the Calendar year not January. An adjustment to posting interest to member's accounts has been made.

5. Membership and buyback of prior service time

The Saugus Retirement Board has 35 concurrent buyback agreements with current members relating to prior creditable service time. These relate to a variety of errors incurred while using an outside vendor for payroll processing. The errors include using an incorrect deduction rate and the wrong qualifying time for creditable service purposes. The record keeping requirements are extensive. Members are annually informed in writing of the status of their arrangement. The concern is there is no general ledger control of the outstanding balances included in these arrangements. Many of these agreements are for a minimum of \$10 per pay period that extends the buyback over several years.

Recommendation: The general ledger is the primary financial record of the system. Amounts owed to the system as well as amounts owed by the system are expected to be properly reflected in these records. These activities must be recorded and reconciled similar to all other financial transactions. The Board should ensure that the general ledger agrees with the subsidiary records at year-end. All variances must be resolved to ensure member's individual account balances are correct.

Board Response

Currently an excel spreadsheet contains all the buyback and prior service time accounts and their payment schedules, which is updated on a monthly basis. An annual statement is sent to the member informing them of the amount paid in the past year along with the balance due. Although it is recommended to account for these balances as a whole on the Annual Statement, it still would not give a proper reflection of what is owed to the Retirement Board as a member can at any time decide to not finish completing their buyback and an adjustment would need to be made again. The Board is consulting other ways to better process these payments.

6. Affidavits

The Retirement Board has not required members and beneficiaries who receive a pension, retirement allowance, or survivor allowance to file an affidavit since November 2002. PERAC Regulation 840 CMR 15.01 requires that affidavits be filed at least biannually under penalties of perjury.

Recommendation: The Retirement System must require members and beneficiaries to file affidavits on a biannual basis. They should contain the following information:

Saugus Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

- a) Name of member or beneficiary;
- b) Address of member or beneficiary;
- c) Statement certifying member or beneficiary is currently living;
- d) Statement describing beneficiary's current marital status where beneficiary's marital status is relevant to continued receipt of benefits;
- e) Statement describing beneficiary's current dependency status where dependency is relevant to continued receipt of benefits; and
- f) Additional information as the Board may require to determine whether the member or beneficiary is entitled to continued benefits.

In addition, the Board must withhold retirement benefits from those individuals who do not file the affidavit within a prescribed period of time established by the Board. The regulation also requires the Board to randomly audit 5% of the affidavits filed.

Board Response

The Board is in the process of sending out the Annual Affidavits within the month.

7. Review of Minutes and Board Member Attendance

The Auditor reviewed Board Meeting Minutes from January 2001 through December 2004. An appointed Board member was absent from four monthly meetings held in 2001, two in 2002, four each in 2003 and 2004. This resulted in an attendance rate below the seventy-five percent minimum considered reasonable for three of the four years evaluated. Another Board member was absent from five monthly meetings held in 2001, two in 2002, five in 2003 and two in 2004. This resulted in an attendance rate below the seventy-five percent minimum considered reasonable for two of the four years evaluated.

Recommendation: Attendance at Board meetings is a paramount obligation that must be seriously considered by every Board member. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the scheduling of Board meetings in order to better accommodate its members. If the situation persists, it may be necessary to take appropriate action with members who fail to maintain minimum attendance requirements.

Board Response

The Board addressed this concern at its last meeting. The Board members that were absent had appointments scheduled due to health reasons that they wished not to have included in the Board minutes. In the future the Board will work together with the members in order to resolve this issue. The Board members do receive a monthly packet prior to the Board meeting that they review. They are also informed of the previous months meeting by the Chairman at the beginning of each monthly meeting.

Saugus Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONT'D)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

Final Determination

PERAC auditors will follow-up in six (6) months to ensure that the appropriate actions have been taken regarding the audit findings.

Saugus Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,			
ASSETS	2003	2002	2001
Cash	\$570,152	\$264,975	\$295,003
Short Term Investments			
Fixed Income Securities (at book value)			
Equities			
PRIT Cash Fund	100,237	586,625	100,495
PRIT Core Fund	40,242,381	32,487,206	36,158,802
Accounts Receivable	2,444,449	1,572,022	1,492,959
Accounts Payable	(57,921)	(51,490)	(49,748)
TOTAL	<u>\$43,299,298</u>	<u>\$34,859,339</u>	<u>\$37,997,511</u>
FUND BALANCES			
Annuity Savings Fund	\$9,820,221	\$8,523,474	\$9,212,897
Annuity Reserve Fund	4,468,090	4,786,890	3,252,194
Pension Fund	1,861,656	2,544,234	2,844,722
Military Service Fund	2,341	0	0
Expense Fund	0	0	0
Pension Reserve Fund	27,146,989	19,004,741	22,687,699
TOTAL	<u>\$43,299,298</u>	<u>\$34,859,339</u>	<u>\$37,997,511</u>

Saugus Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2001)	\$8,397,755	\$3,240,883	\$2,836,407	\$0	\$0	\$25,159,602	\$39,634,647
Receipts	1,224,013	94,632	3,371,509	0	197,421	(2,471,904)	2,415,672
Interfund Transfers	(341,486)	341,486	0	0	0	0	0
Disbursements	(67,386)	(424,808)	(3,363,193)	0	(197,421)	0	(4,052,808)
Ending Balance (2001)	9,212,897	3,252,194	2,844,722	0	0	22,687,699	37,997,511
Receipts	1,424,605	106,463	3,406,717	0	199,719	(3,682,958)	1,454,547
Interfund Transfers	(1,890,325)	1,890,325	0	0	0	0	0
Disbursements	(223,703)	(462,092)	(3,707,205)	0	(199,719)	0	(4,592,719)
Ending Balance (2002)	8,523,474	4,786,890	2,544,234	0	0	19,004,741	34,859,339
Receipts	1,464,352	137,457	3,555,881	2,341	213,985	8,142,248	13,516,264
Interfund Transfers	(97,418)	97,418	0	0	0	0	0
Disbursements	(70,187)	(553,674)	(4,238,459)	0	(213,985)	0	(5,076,305)
Ending Balance (2003)	<u>\$9,820,221</u>	<u>\$4,468,090</u>	<u>\$1,861,656</u>	<u>\$2,341</u>	<u>\$0</u>	<u>\$27,146,989</u>	<u>\$43,299,298</u>

Saugus Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2003	2002	2001
Annuity Savings Fund:			
Members Deductions	\$1,051,972	\$1,054,219	\$962,932
Transfers from other Systems	263,585	198,817	53,199
Member Make Up Payments and Redeposits	64,684	69,712	56,337
Investment Income Credited to Member Accounts	<u>84,111</u>	<u>101,857</u>	<u>151,545</u>
Sub Total	<u>1,464,352</u>	<u>1,424,605</u>	<u>1,224,013</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>137,457</u>	<u>106,463</u>	<u>94,632</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	145,439	108,103	158,040
Received from Commonwealth for COLA and Survivor Benefits	242,782	254,092	286,484
Pension Fund Appropriation	<u>3,167,661</u>	<u>3,044,522</u>	<u>2,926,984</u>
Sub Total	<u>3,555,881</u>	<u>3,406,717</u>	<u>3,371,509</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	2,341	0	0
Investment Income Credited Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,341</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>213,985</u>	<u>199,719</u>	<u>197,421</u>
Sub Total	<u>213,985</u>	<u>199,719</u>	<u>197,421</u>
Pension Reserve Fund:			
Interest Not Refunded	19,063	522	1,108
Excess Investment Income	<u>8,123,185</u>	<u>(3,683,480)</u>	<u>(2,473,012)</u>
Sub Total	<u>8,142,248</u>	<u>(3,682,958)</u>	<u>(2,471,904)</u>
TOTAL RECEIPTS	<u>\$13,516,264</u>	<u>\$1,454,547</u>	<u>\$2,415,672</u>

Saugus Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

FOR THE PERIOD ENDING DECEMBER 31,			
Annuity Savings Fund:	2003	2002	2001
Refunds to Members	\$45,271	\$5,654	\$34,803
Transfers to other Systems	<u>24,917</u>	<u>218,049</u>	<u>32,583</u>
Sub Total	<u>70,187</u>	<u>223,703</u>	<u>67,386</u>
Annuity Reserve Fund:			
Annuities Paid	552,801	460,650	424,808
Option B Refunds	<u>873</u>	<u>1,441</u>	<u>0</u>
Sub Total	<u>553,674</u>	<u>462,092</u>	<u>424,808</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	2,618,126	2,163,480	1,904,003
Survivorship Payments	129,812	132,744	121,075
Ordinary Disability Payments	33,663	44,320	52,372
Accidental Disability Payments	890,070	807,690	767,856
Accidental Death Payments	449,162	448,671	417,541
Section 101 Benefits	26,833	26,051	25,293
3 (8) (c) Reimbursements to Other Systems	57,268	50,889	41,495
State Reimbursable COLA's Paid	33,526	33,359	33,560
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>4,238,459</u>	<u>3,707,205</u>	<u>3,363,193</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	3,000	3,000	3,000
Salaries	41,991	40,180	35,959
Legal Expenses	677	0	0
Medical Expenses	1,481	0	0
Travel Expenses	46	867	188
Administrative Expenses	12,844	11,288	10,748
Furniture and Equipment	1,089	814	0
Management Fees	<u>152,857</u>	<u>143,571</u>	<u>147,527</u>
Sub Total	<u>213,985</u>	<u>199,719</u>	<u>197,421</u>
TOTAL DISBURSEMENTS	<u>\$5,076,305</u>	<u>\$4,592,719</u>	<u>\$4,052,808</u>

Saugus Retirement System

INVESTMENT INCOME

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2001
AND ENDING DECEMBER 31, 2003**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2003	2002	2001
Investment Income Received From:			
Pooled or Mutual Funds	1,175,476	1,147,458	1,211,754
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL INVESTMENT INCOME	<u>1,175,476</u>	<u>1,147,458</u>	<u>1,211,754</u>
Plus:			
Realized Gains	1,082,553	50,218	253,977
Unrealized Gains	7,153,336	3,699,100	4,795,380
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>8,235,889</u>	<u>3,749,319</u>	<u>5,049,357</u>
Less:			
Realized Loss	(95,453)	(1,115,235)	(458,728)
Unrealized Loss	<u>(757,175)</u>	<u>(7,056,983)</u>	<u>(7,831,795)</u>
Sub Total	<u>(852,628)</u>	<u>(8,172,218)</u>	<u>(8,290,524)</u>
NET INVESTMENT INCOME	<u>8,558,738</u>	<u>(3,275,441)</u>	<u>(2,029,413)</u>
Income Required:			
Annuity Savings Fund	84,111	101,857	151,545
Annuity Reserve Fund	137,457	106,463	94,632
Military Service Fund	0	0	0
Expense Fund	<u>213,985</u>	<u>199,719</u>	<u>197,421</u>
TOTAL INCOME REQUIRED	<u>435,553</u>	<u>408,039</u>	<u>443,599</u>
Net Investment Income	<u>8,558,738</u>	<u>(3,275,441)</u>	<u>(2,029,413)</u>
Less: Total Income Required	<u>435,553</u>	<u>408,039</u>	<u>443,599</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$8,123,185</u>	<u>(\$3,683,480)</u>	<u>(\$2,473,012)</u>

Saugus Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*	
Cash	\$570,152	1.39%	100	
Short Term	0	0.00%	100	
Fixed Income	0	0.00%	40 - 80	
Equities	0	0.00%	40	
PRIT Cash Fund	100,237	0.25%		
PRIT Core Fund	<u>40,242,381</u>	<u>98.36%</u>	100	
GRAND TOTALS	<u>\$40,912,770</u>	<u>100.00%</u>		

For the year ending December 31, 2003, the rate of return for the investments of the Saugus Retirement System was 26.19%. For the five-year period ending December 31, 2003, the rate of return for the investments of the Saugus Retirement System averaged 5.85%. For the 19-year period ending December 31, 2003, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Saugus Retirement System was 11.05%.

Saugus Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

The Saugus Retirement System has no supplementary investment regulations on file with PERAC since all of its funds are invested in the PRIT Fund.

Saugus Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 1 - THE SYSTEM

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

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year.

Saugus Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

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 Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. 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.

Saugus Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

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 Saugus Retirement System has no supplementary membership regulations on file with PERAC.

October 23, 2002

The Board adopted Supplemental Travel Regulations under the provisions of G.L. c.7, § 50 and G.L. c.32, § 21(4), consistent with 840 CMR 2.00 et seq. (Regulation available upon written request).

Saugus Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

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: Joseph Tassone

Appointed Member: Henry E. MacKenzie Term Expires: 09/30/2005

Elected Member: William E. Cross III Term Expires: 12/05/2004

Elected Member: Doreen L. DiBari Term Expires: 01/06/2006

Appointed Member: Eugene F. Decareau Term Expires: N/A

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
Elected Member:)	Cray-Dowd Insurance Agency
Appointed Member:)	Through MACRS per endorsement
Staff Employee:)	

Saugus Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by PERAC as of January 1, 2003.

The actuarial liability for active members was	\$28,271,848
The actuarial liability for vested terminated members was	88,253
The actuarial liability for non-vested terminated members was	70,809
The actuarial liability for retired members was	<u>42,350,340</u>
The total actuarial liability was	70,781,250
System assets as of that date were	<u>40,088,240</u>
The unfunded actuarial liability was	<u>\$30,693,010</u>
The ratio of system's assets to total actuarial liability was	56.6%
As of that date the total covered employee payroll was	<u>\$12,166,305</u>

The normal cost for employees on that date was 7.88% of payroll

The normal cost for the employer was 7.26% of payroll

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

Investment Return: 8.25% per annum
Rate of Salary Increase: Varies by group and service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2003

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)
1/1/2003	\$ 40,088,240	\$ 70,781,250	\$ 30,693,010	56.6%	\$ 12,166,305	252.3%
1/1/2001	\$ 39,634,647	\$ 61,002,498	\$ 21,367,851	65.0%	\$ 11,413,134	187.2%
1/1/1999	\$ 31,867,797	\$ 50,221,159	\$ 18,353,362	63.5%	\$ 10,375,985	176.9%
1/1/1997	\$ 23,061,571	\$ 41,006,802	\$ 17,945,231	56.2%	\$ 8,596,915	208.7%

Saugus Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Superannuation	12	7	12	4	7	10	9	5	38	1
Ordinary Disability	0	0	1	0	0	0	0	0	0	0
Accidental Disability	0	0	0	0	0	1	4	2	1	0
Total Retirements	12	7	13	4	7	11	13	7	39	1
Total Retirees, Beneficiaries and Survivors	264	264	268	264	265	269	277	286	317	293
Total Active Members	264	306	310	320	340	340	336	343	339	351
Pension Payments										
Superannuation	\$1,351,855	\$1,437,512	\$1,501,251	\$1,550,113	\$1,570,464	\$1,594,311	\$1,801,146	\$1,904,003	\$2,163,480	\$2,618,126
Survivor/Beneficiary Payments	103,009	99,510	98,834	115,389	106,968	117,231	112,461	121,075	132,744	129,812
Ordinary Disability	54,705	55,495	55,759	57,082	57,082	69,496	59,658	52,372	44,320	33,663
Accidental Disability	707,753	708,595	752,172	700,205	666,440	671,275	734,603	767,856	807,690	890,070
Other	194,588	230,846	264,860	526,772	412,957	482,999	493,565	517,888	558,971	566,789
Total Payments for Year	\$2,411,910	\$2,531,958	\$2,672,876	\$2,949,561	\$2,813,911	\$2,935,312	\$3,201,432	\$3,363,193	\$3,707,205	\$4,238,459

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