PERAC AUDIT REPORT

Quincy
Contributory Retirement System

JAN. 1, 2006 - DEC. 31, 2007

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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June 22, 2009

The Public Employee Retirement Administration Commission has completed an examination of the Quincy Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2006 to December 31, 2007. 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 examiners John J. Shea, Scott C. Henderson and James F. Tivnan 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 FINDINGS AND RECOMMENDATIONS

1. Membership
PERAC auditors sampled members' deductions to determine that the correct rates are being withheld, and that the additional 2% deduction is withheld from those members who make over $30,000 and were hired after January 1, 1979.

- A review of all the pay codes used by the city revealed several that are subject to retirement deductions even though they are labeled as overtime. Overtime pay does not qualify as regular compensation for purposes of retirement.
- The City payroll contains multiple pay codes that are not subject to retirement. The Retirement System has not made a formal determination whether they qualify as regular compensation.
- A review of the Housing Authority payroll revealed one employee who had been working for three months in a full-time permanent position who was not contributing to the Retirement System.
- The Housing Authority also has approximately 20 employees who are paid through the payroll but are not members of the Retirement System, even though most have significant compensation.
- A Housing Authority payroll code that is normally subject to retirement contributions can be excluded if it is issued as a separate payroll check to a member. These are authorized by a supervisor. This discretion overrides the existing controls pertaining to qualifying regular compensation.
- The School department did not require the additional 2% retirement contribution from several employees for compensation paid in excess of $30,000 on an annualized basis. No explanation for this omission was provided.

Recommendation: The System must be notified of all new pay codes to formally determine whether they qualify as regular compensation. In addition, the System should periodically monitor more complete payroll reports for compliance. All persons charged with processing retirement deductions should receive copies of all correspondence relating to new regulations and other changes involving eligibility and contribution rates.

Per G.L. c. 32 § 3(2)(g), the Retirement Board should be informed of all new employees so that they may determine whether that person should be a member or not. If the person should be a member, the retirement deductions should start immediately. The Executive Director should periodically be notified of all personnel who are not contributing to the Retirement System. The membership status of these employees must be determined and documentation supporting legitimate exclusions must be provided and retained.

The System must comply with G.L. c. 32, § 22(1)(b), and PERAC Memo #43/1999, which discusses the additional 2% deductions. A more extensive review process must be considered to ensure compliance with these requirements.

Board Response:

The Board has adopted the recommendation of the auditors regarding the pay types in use by the City. We have obtained a complete list of all the various pay codes and have reviewed them.

The Housing Authority has been informed of the importance of notifying us whenever there is a new hire in order to determine eligibility of membership.

The Housing Authority has been asked for copies of the payrolls of the non-members and an explanation as to their exclusion from membership.

The School department employees in question did not exceed $30,000.00 in compensation and the auditors were informed of this. However, there was no formal policy in place; therefore, the Board is drafting a formal policy with the assistance of the School department. This policy will be implemented before the 6 month follow up.

2. Membership: Active Members Over Seventy

A sample of active members who were age seventy or older revealed that less than half of the members had made an election whether or not to continue contributing to the retirement system as required under G.L. c. 32, § 90(G)(3/4). At least 180 days before the last day of the month in which a member attains age seventy, the retirement office should contact the member about benefits, options and procedures for continuing in service beyond age seventy. There was no indication in the files that these members had been notified or counseled relative to the implications of this irrevocable election. Even members whose files did have the election form, had filled it out long after attaining seventy. There did not appear to be a reliable process for notifying the system of similar events in the future.

Recommendation: The System must comply with G.L. c. 32, § 90(G)(3/4). A procedure must be developed to initiate contact with members who are approaching the age of seventy. These members should be counseled on the relative merit of the benefits, options and procedures for continuing retirement contributions beyond age seventy. The PERAC Form "Application by Member Requesting to Continue Retirement Contributions Beyond the Age of 70 Pursuant to G.L. c. 32, § 90(G)(3/4)" is the source evidentiary document that supports this election. The form must be completed in its entirety and maintained in the members permanent files.

Board Response:

The Board has followed the recommendation of the auditors and developed a procedure and implemented it in accordance with G.L. c. 32 s 90(G)(3/4).

EXPLANATION OF FINDINGS AND RECOMMENDATIONS
(Continued)

3. Financial Records

Our inspection of the financial records disclosed a number of issues. The system does not use separate general ledger accounts for each separate bank account. The City Treasurer's office reconciles the various bank accounts. The reconciliation process is distorted by the failure to initiate adjusting journal entries based on an examination of the items outstanding and included in the bank reconciliation. Several months worth of interest income credited to the system as a result of favorable balances maintained with Eastern Bank was not recognized in the general ledger for a considerable duration through this audit period. The City Treasurer's office reconciles to a register balance they maintain of the activity in the bank accounts. This register needs to be compared with the general ledger of the retirement system to avoid the creation of unrecognized differences being maintained as part of the reconciliation process.

The 2007 Annual Statement filed with PERAC listed all of the current open bank accounts. However, the two Eastern Bank account balances were not included in the summary total reported on Schedule 1. This occurs when the custodian provided activity does not include the local bank activity and that information is not added to the schedule as a manual disclosure. A related issue associated with this omission is the Interest Due and Accrued did not agree with the summary total reported at the end of period.

The Quincy system continues to acknowledge a significant discrepancy between the Annuity Savings Fund represented in the membership module of their automated system and the Annuity Savings Fund represented in the general ledger. Differences can occur when changes to the membership module are not matched by corresponding adjustments to the general ledger. The system continues to rely upon the manually posted cards that were the predecessor records prior to automation. Nearly all systems have discontinued using these cards for primary reference purposes.

Recommendation: Separate general ledger accounts must be used to record activity in all open active bank accounts. Combining bank activity in a single general ledger account is misleading to any independent observer. It leads to representative distortions of transactions that are difficult to identify. It is a poor practice that must be avoided.

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 System's 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 in custodian-provided schedules should be corrected, as necessary, and reconciled to the general ledger prior to submission of the Annual Statement.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

The system should engage in a single purpose project to compare and identify all differences between the manual cards and its automated records. These differences should be specifically identified and reconciled. At the conclusion of this process, the manual cards should be filed into each member's folder and the system staff should concentrate on using the automated system to its full potential.

Board Response:

The System has used separated General ledger accounts since 2007 to record the transactions in the cash accounts. We are in close contact with the City Treasurer's Office regarding the monthly reconciliation of the bank statements and anticipate quicker recognition of reconciling items.

The System has embarked upon a single purpose project, as recommended by the audit, to compare, identify and rectify all differences between the manual cards and its automate records. This will be completed prior to the 6 month follow-up.

Ongoing Issue

The system has been engaged in protracted litigation with the Quincy Housing Authority (QHA) over the appropriation allocation assigned upon the closing of the Quincy Hospital. The elimination of a major contributing employer resulted in a significant increase in the appropriation percentage for the QHA. The QHA instigated litigation that has not been settled yet. The Retirement Board has defended the allocation and most recently prevailed in Superior Court. That decision is being appealed to the Court of Appeals. The financial issue involves three appropriation payments currently maintained as reasonably collectible in Accounts Receivable. These relate to unpaid appropriations billed in FY05, FY06 and FY07 for $788,372.62, $389,374.24 and $385,662.71 respectively. The underpayments will continue until the court action brought by the QHA against the City is concluded.

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, 2007	2006
Net Assets Available For Benefits:		
Cash	$1,057,230	$4,706,373
Short Term Investments	0	0
Fixed Income Securities	0	0
Equities	23,706,693	45,819,417
Pooled Domestic Equity Funds	103,047,782	112,410,225
Pooled International Equity Funds	43,091,264	36,155,213
Pooled Domestic Fixed Income Funds	73,299,397	48,906,925
Pooled Global Fixed Income Funds	6,102,579	0
Pooled Alternative Investment Funds	22,199,446	5,658,263
Pooled Real Estate Funds	34,317,001	30,041,944
PRIT Cash Fund	0	0
PRIT Core Fund	5,516,948	4,098,742
Interest Due and Accrued	6,468	15,739
Accounts Receivable	3,068,887	19,998,367
Accounts Payable	(290,652)	(729,118)
Total	$315,123,044	$307,082,089
Fund Balances:		
Annuity Savings Fund	$62,225,368	$58,009,652
Annuity Reserve Fund	36,677,760	38,824,652
Pension Fund	13,741,686	(21,713,080)
Military Service Fund	6,331	6,293
Expense Fund	0	0
Pension Reserve Fund	202,471,899	231,954,572
Total	$315,123,044	$307,082,089

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
BeginInging Balance (2006)	59,193,809	35,829,972	(9,967,497)	6,255	0	199,603,374	284,665,913
Receipts	6,584,879	1,188,744	20,611,816	38	1,464,604	32,447,658	62,297,738
Interfund Transfers	(7,075,073)	7,171,533	0	0	0	(96,460)	(0)
Disbursements	(693,963)	(5,365,597)	(32,357,399)	0	(1,464,604)	0	(39,881,562)
Ending Balance (2006)	58,009,652	38,824,652	(21,713,080)	6,293	0	231,954,572	307,082,089
Receipts	6,657,895	1,123,126	21,216,916	38	1,587,589	17,120,962	47,706,527
Interfund Transfers	(1,815,893)	1,814,467	46,605,061	0	0	(46,603,635)	0
Disbursements	(626,286)	(5,084,486)	(32,367,211)	0	(1,587,589)	0	(39,665,572)
Ending Balance (2007)	$62,225,368	$36,677,760	$13,741,686	$6,331	$0	$202,471,899	$315,123,044

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2007	2006
Annuity Savings Fund:		
Members Deductions	$6,173,369	$5,870,297
Transfers from Other Systems	43,753	197,408
Member Make Up Payments and Re-deposits	61,881	88,411
Member Payments from Rollovers	41,462	114,954
Investment Income Credited to Member Accounts	337,431	313,809
Sub Total	6,657,895	6,584,879
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	1,123,126	1,188,744
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems	507,905	512,331
Received from Commonwealth for COLA and Survivor Benefits	980,894	1,011,609
Pension Fund Appropriation	19,728,117	19,087,876
Sub Total	21,216,916	20,611,816
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	0	0
Investment Income Credited to the Military Service Fund	38	38
Sub Total	38	38
Expense Fund:		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	1,587,589	1,464,604
Sub Total	1,587,589	1,464,604
Pension Reserve Fund:		
Federal Grant Reimbursement	58,048	75,363
Pension Reserve Appropriation	0	0
Interest Not Refunded	6,704	12,217
Miscellaneous Income	0	0
Excess Investment Income	17,056,209	32,360,079
Sub Total	17,120,962	32,447,658
Total Receipts	$47,706,527	$62,297,738

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31	
	2007	2006
Annuity Savings Fund:		
Refunds to Members	$408,094	$497,716
Transfers to Other Systems	218,191	196,247
Sub Total	626,286	693,963
Annuity Reserve Fund:		
Annuities Paid	5,031,113	5,012,572
Option B Refunds	53,373	353,024
Sub Total	5,084,486	5,365,597
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	23,612,544	23,595,901
Survivorship Payments	1,406,047	1,326,473
Ordinary Disability Payments	141,239	141,941
Accidental Disability Payments	4,770,112	4,704,864
Accidental Death Payments	1,420,693	1,457,085
Section 101 Benefits	116,026	100,055
3 (8) (c) Reimbursements to Other Systems	648,669	775,460
State Reimbursable COLA's Paid	251,881	255,620
Chapter 389 Beneficiary Increase Paid	0	0
Sub Total	32,367,211	32,357,399
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	0	0
Expense Fund:		
Board Member Stipend	14,750	15,000
Salaries	236,380	229,697
Legal Expenses	47,451	40,810
Medical Expenses	94	264
Travel Expenses	9,499	8,254
Administrative Expenses	25,431	26,550
Furniture and Equipment	7,278	3,897
Management Fees	984,008	914,723
Custodial Fees	68,985	50,391
Consultant Fees	65,000	65,000
Rent Expenses	47,303	47,352
Service Contracts	61,237	44,275
Fiduciary Insurance	20,174	18,390
Sub Total	1,587,589	1,464,604
Total Disbursements	$39,665,572	$39,881,562

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2007	2006
Investment Income Received From:		
Cash	$154,554	$223,222
Short Term Investments	0	0
Fixed Income	0	0
Equities	499,716	536,205
Pooled or Mutual Funds	2,360,877	1,713,428
Commission Recapture	9,450	4,647
Total Investment Income	3,024,598	2,477,501
Plus:		
Realized Gains	7,191,437	2,997,254
Unrealized Gains	42,302,753	45,442,375
Interest Due and Accrued - Current Year	6,468	15,739
Sub Total	49,500,657	48,455,368
Less:		
Realized Loss	(5,019,166)	(2,246,120)
Unrealized Loss	(27,385,956)	(13,330,044)
Interest Due and Accrued - Prior Year	(15,739)	(29,433)
Sub Total	(32,420,861)	(15,605,597)
Net Investment Income	20,104,394	35,327,273
Income Required:		
Annuity Savings Fund	337,431	313,809
Annuity Reserve Fund	1,123,126	1,188,744
Military Service Fund	38	38
Expense Fund	1,587,589	1,464,604
Total Income Required	3,048,184	2,967,194
Net Investment Income	20,104,394	35,327,273
Less: Total Income Required	3,048,184	2,967,194
Excess Income To The Pension Reserve Fund	$17,056,209	$32,360,079

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2007		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	$1,057,230	0.3%	100%
Short Term	0	0.0%	
Fixed Income	0	0.0%	
Equities	23,706,693	7.6%	35-45%
Pooled Domestic Equity Funds	103,047,782	33.0%	35-45%
Pooled International Equity Funds	43,091,264	13.8%	13-17%
Pooled Domestic Fixed Income Funds	73,299,397	23.5%	2-19%
Pooled Global Fixed Income Funds	6,102,579	2.0%	2-19%
Pooled Alternative Investment Funds	22,199,446	7.1%	3-7%
Pooled Real Estate Funds	34,317,001	11.0%	7-13%
PRIT Cash Fund	0	0.0%	100%
PRIT Core Fund	5,516,948	1.8%	100%
Grand Total	$312,338,341	100.0%	

For the year ending December 31, 2007, the rate of return for the investments of the Quincy Retirement System was 6.75%. For the five-year period ending December 31, 2007, the rate of return for the investments of the Quincy Retirement System averaged 11.70%. For the twenty-three-year period ending December 31, 2007, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Quincy Retirement System was 9.65%.

SUPPLEMENTARY INVESTMENT REGULATIONS

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

March 4, 2008
19.01(3)
Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, including 840 CMR 21.01(6), the City of Quincy Retirement Board may exercise its investment discretion to invest funds of the City of Quincy Retirement System (the “system”) in the shares of a real estate investment trust known as Hancock Timberland IX Inc. (the “Fund”), as contemplated by 840 CMR 19.01(6), and while funds of the System are invested in shares of the Fund, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., investments of the System shall not be deemed to include any of the underlying assets of the Fund, but shall only include the shares of the Fund; provided that at all times the Fund qualifies as a “real estate operating company” within the meaning of the Employee Retirement Security Act of 1974, as amended (“ERISA”) and the regulations promulgated thereunder, or the assets of the Fund are otherwise not treated as “plan assets” of the System and that fees paid to the advisor of the Fund be exempt from 840 CMR 19.01(7)(a)(6) as they are consistent with industry practice.

January 2, 2008
19.00
Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Quincy Retirement Board may invest funds of the Quincy Retirement System (“System”) in the fund known as UBS (US) Trumbull Property Income Fund LP (“Fund”), and while the assets of the System are so invested, the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., the System’s interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times the Fund qualifies as a “venture capital operating company” within the meaning of the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated there under.

January 2, 2008
19.00
Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Quincy Retirement Board may invest funds of the Quincy Retirement System (“System”) in the fund known as UBS (US) Trumbull Property Fund LP (“Fund”), and while the assets of the System are so invested, the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., the System’s interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times the Fund qualifies as a “venture capital operating company” within the meaning of the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

June 4, 2007
17.03
Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Quincy Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the Institutional Retirement Trust (IRT) International Equity Trust (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

December 4, 2006
16.08
In accordance with Investment Guideline 99-2, the Quincy Retirement Board is authorized to modify its passive fixed income management mandate with State Street Global Advisors. The Board's current investment in SSgA's Lehman Index strategy will be supplemented by an allocation to SSgA's TIPS Index strategy. This allocation will give the Board additional diversification within its fixed income portfolio as well as an inflation hedge. The Board and its consultant have determined that, on the basis of both investment capability and fees, the SSgA fund is the best option by which to achieve this objective.

March 30, 2006
19.01(6)
Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Quincy Retirement Board may invest funds of the Quincy Retirement System (the "System") in the fund known as AEW Partners V, L.P. ("the Fund"), and while the funds of the System are so invested, the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq.; the System's interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, the Fund qualified as a "venture capital operating company" or "real estate operating company" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated there under.

The Limitations and restrictions of 840 CMR Section 19.01(6) shall not apply to the Fund for the two-year period commencing on the date of the Fund's initial investment.

March 23, 2005
16.08
In accordance with Investment Guideline 99-2, the Quincy Retirement System is authorized to modify its large cap equity index mandate with RhumbLine Advisors. Both the S&P 500 Index and the Russell 1000 Index track the universe of large capitalization stocks, and the performance of the

two indices are very similar over time. Investing concurrently in the Value and Growth sub-indices of the Russell 1000 will give the Board the flexibility to periodically re-balance between the two sub-indices and should increase returns over time. Thus, the Board is transferring its assets from RhumbLine's S&P 500 Fund to approximately equal-weighted investments in RhumbLine's Russell 1000 Growth Fund and Russell 1000 Value Fund. The Board has had a satisfactory relationship with RhumbLine since 1992.

November 25, 2003
16.08
In accordance with PERAC Investment Guideline 99-2, the Quincy Retirement Board is authorized to modify its existing fixed income mandate with State Street Global Advisors. In transferring from SSGA's Government/Credit index strategy to its Lehman Aggregate index strategy, the board will be adding exposure to mortgage-backed securities. This added diversification will reduce the account's duration or interest-rate sensitivity.

June 10, 1998
20.06(2)
Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 15% of the market value of fixed income investments may be invested in bonds with a quality rating of B and Ba or equivalent as rated by one or more recognized bond rating services.

20.06(4)
Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed one year, however, 15% of the market value of fixed income investments may be invested in bonds with a quality rating of B and Ba or equivalent.

May 4, 1995
20.03(1)
Equity investments shall not exceed 50% of the portfolio valued at market, including international equities which shall not exceed 10% of the portfolio valued at market.

20.04(1)
United States based corporations and equities of foreign corporations.

20.07(5)
Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

February 21, 1992
4.03
Copies to be sent to PERA

(1) Within four (4) weeks of the close of each month, after all entries for the month have been posted and a trial balance performed, the board shall send to the Public Employee Retirement Administration a photocopy of the following for the month:

(a) cashbook entries;

(b) trial balance; and

(c) journal entries.

June 15, 1990
20.04(1)
United States based corporations, bonds of foreign based corporations and fixed income Canadian securities, provided that:

(a) all such foreign bonds are denominated in U.S. currency and issued and traded in U.S. markets, and the total of all such foreign bonds shall be considered part of the board's fixed income asset allocation and shall not exceed 5% of the total market value of the portfolio; and

(b) all such Canadian securities are denominated in U.S. currency and issued and traded in U.S. markets, and the total of all such securities shall be considered part of the board's fixed income asset allocation and shall not exceed 5% of the total market value of the portfolio.

20.04(6)
American Depository Receipts denominated in U.S. currency and listed on a United States stock exchange or traded over the counter in the United States, provided that the total of all such investments shall be considered part of the board's equity assets allocation and shall not exceed 5% of the total market value of the portfolio.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Quincy 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 no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

- Salary is defined as gross regular compensation.

- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

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

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

WITHDRAWAL OF CONTRIBUTIONS

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

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

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

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

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

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $687.96 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.

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. Certain comparative balances have been reclassified to conform to the current presentation.

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

December 12, 1984
Membership Regularly Employed

Full-Time Employees - Obliged to join immediately.

Temporary Employees - Obliged to join after six (6) months.

Part-time Employees - a) Obliged to join immediately if working 24 hours or more per week on a permanent basis.
b) Obliged to join after six (6) months if working 24 hours or more per week on a temporary basis.

Members of the Retirement System have to resign or be discharged in order to withdraw their funds.

Membership must be continued regardless of reduction of hours.

Employees who work 24 hours or more per week must join the Retirement System.

Creditable Service will be pro-rated using a full time work schedule for the position as a base to calculate part-time credit.

August 12, 2002
Travel Regulations:
The Quincy Retirement Board has adopted travel regulations promulgated by PERAC. (Regulations available upon written Request.)

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. The City Auditor is an appointee of the City Council and the position has been vacant pending an appointment. 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:	Vacant	Term Expires:	Co-Terminous
Appointed Member:	Robert E. Foy III	Term Expires:	At discretion of the Mayor
Elected Member:	Robert P. Crespi	Term Expires:	12/16/2010
Elected Member:	George F. McCray Chairman	Term Expires:	11/19/2011
Appointed Member:	Vacant	Term Expired:	12/17/2008

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

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

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

Ex-officio Member:	)	$50,000,000 Fiduciary Liability
Elected Members:	)	$1,000,000 Fidelity (ERISA) Bond
Appointed Member:	)	MACRS Blanket Policy:
Staff Employees:	)	Issued as a Rider:
	)	St. Paul Travelers Insurance Company
		National Union Fire
		Arch Insurance Company

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting, Inc. as of January 1, 2007.

The actuarial liability for active members was	$146,079,732
The actuarial liability for retired and inactive members was	326,189,454
The total actuarial liability was	472,269,186
System assets as of that date were	307,082,089
The unfunded actuarial liability was	$165,187,097
The ratio of system's assets to total actuarial liability was	65.0%
As of that date the total covered employee payroll was	$66,709,914

The normal cost for employees on that date was	8.9% of payroll
The normal cost for the employer was	3.2% of payroll

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

Investment Return:	8.25% per annum
Rate of Salary Increase:	4.25% per annum ultimate rate

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	$307,082,089	$472,269,186	$165,187,097	65.0%	$66,709,914	247.6%
1/1/2005	$276,793,988	$474,568,932	$197,774,944	58.3%	$59,492,900	332.4%
1/1/2003	$231,277,798	$436,352,345	$205,074,547	53.0%	$58,949,749	347.9%
1/1/2001	$264,401,826	$369,363,953	$104,962,127	71.6%	$56,824,726	184.7%

NOTE 6 - MEMBERSHIP EXHIBIT

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Retirement in Past Years										
Superannuation	136	56	18	21	14	43	17	32	6	22
Ordinary Disability	1	0	0	0	1	0	0	0	0	0
Accidental Disability	14	3	3	6	1	2	2	5	1	3
Total Retirements	151	59	21	27	16	45	19	37	7	25
Total Retirees, Beneficiaries and Survivors	1,676	1,835	1,761	1,746	1,891	2,028	1,835	1,888	1,732	1,801
Total Active Members	2,518	1,923	1,873	1,849	1,726	1,425	1,350	1,408	1,444	1,461
Pension Payments										
Superannuation	$11,094,257	$12,281,825	$16,277,967	$16,452,157	$18,473,420	$20,171,841	$22,179,164	$23,287,201	$23,595,901	$23,612,544
Survivor/Beneficiary Payments	874,413	933,237	973,589	1,043,779	1,187,369	1,229,508	1,240,110	1,302,475	1,326,473	1,406,047
Ordinary Disability	188,905	189,128	198,656	200,042	183,744	173,713	146,145	129,654	141,941	141,239
Accidental Disability	2,733,806	2,659,908	2,906,040	3,268,475	3,420,942	3,793,230	4,248,811	4,392,078	4,704,864	4,770,112
Other	1,341,216	1,895,926	1,926,590	1,855,957	1,890,291	2,182,491	2,229,640	2,494,473	2,588,220	2,437,269
Total Payments for Year	$16,232,597	$17,960,024	$22,282,842	$22,820,410	$25,155,766	$27,550,783	$30,043,870	$31,605,881	$32,357,399	$32,367,211

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