

PERAC AUDIT REPORT



Quincy Contributory Retirement System

JAN. 1, 2000 - DEC. 31, 2002 / PERAC 02: 10-077-15



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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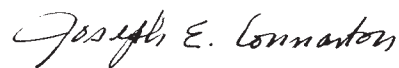
November 22, 2004

The Public Employee Retirement Administration Commission has completed an examination of the **Quincy** Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, **2000** to December 31, **2002**. 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 examiners Mary Dundas and Patrick H LePage 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



Quincy Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2002

1. Annuity Reserve Interest

In 2001, the accounting program failed to take into account annuities paid (#5750) and Option B refunds (#5759) when it calculated the annuity reserve interest, which led to that year's calculation being overstated by approximately \$52,400. The compounded effect of this error was \$53,960.39 at the end of 2002.

Recommendation:

The Executive Director plans to make an adjusting entry to the annuity reserve fund at year-end 2003. He should calculate the compounding effect through 2003 before making this entry. A review of the calculations before posting to the general ledger will likely prevent future errors. An error of similar size was noted in the last audit.

Board Response:

The Annuity Reserve Interest has been recalculated and corrected.

2. Change of Fund Balances

The balances in the Annuity Savings Fund for 2000, 2001, and 2002 do not match those on the supporting supplementary schedules filed with the Annual Statements. If the general ledger is correct, the 2000 supplemental schedule is understated by \$177,562.61, the 2001 schedule is understated by \$193,207.60, and 2002's schedule is understated by \$154,982.20.

Recommendation:

This is a continuation of a finding noted in the last audit. The Board has been unable to generate accurate supplemental schedules since 1996. The Executive Director was able to ascertain some small errors during this audit. Since these schedules detail the status and balances of members' accounts, it is imperative that errors be identified and reconciliation of each member's balance be completed.

Board Response:

We are making progress in correcting the supplemental statements and will continue to work on them until they are correct.

3. Minutes

a. One Board member's absenteeism rate ranged from 20% to 31% between 1/1/00 and 1/31/03. This member's attendance was determined to be excessive for 2000 and 2003, when his attendance dropped below 75%. This same member's attendance was found to be an issue during the last audit.

b. The Executive Director was several months behind in preparing meeting minutes. As a result, we were unable to review any minutes from 2004.

Quincy Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2002

- c. The Board was missing the minutes of some of its executive sessions.

Recommendation:

- a. Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to advise members to uphold their fiduciary duties to the System, and to take appropriate action with such members, when necessary. Since the City has granted Board members an annual stipend, the Board may want to consider adopting a supplemental regulation making payment of the stipend subject to reasonable attendance at Board meetings.
- b. The Executive Director should have the minutes of a meeting prepared for approval by the Board at the subsequent meeting.
- c. The Board is required to record the minutes of executive sessions in accordance with 840 CMR 6.12(2), 10.12(3)(e), 25.31(2), and G.L. c. 32, § 20(5).

Board Response:

The Board member's absenteeism is excused by the rest of the Board and the absent member is reached via a conference call for many of those missed meetings. His participation by phone will be noted in future minutes. The minutes are up to date and there are no missing executive session minutes.

4. Membership

The Board is not coordinating with other retirement systems in order to correctly withhold the incremental 2% deduction from members who have membership in more than one system. This issue was noted in our last audit.

Recommendation:

The Board must take steps to ensure that all members are appropriately contributing to their annuity savings funds. Dual members should be identified and the accuracy of their deductions examined.

Board Response:

The Board does not agree with this finding. There has never been any kind of a regulation or memo from PERAC stating that dual members should be having the additional 2% withheld regardless of their compensation.

5. Cash Reconciliation

- a. There are apparently three cash accounts in use. At year-end 2002, two unreconciled accounts had balances of approximately \$2,300 and \$41,000. The third account had a variance of almost \$201,000 that could not be completely accounted for in the reconciliations made available.

Quincy Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2002

This was the only account for which reconciliation was attempted by the Treasurer or Executive Director. It was also the only one recorded in the general ledger and reported on the Annual Statement. No recent reconciliations were made available for our review.

b. Evidence was not provided that the two other accounts cited in the last audit were closed.

Recommendation:

a. The Treasurer has a fiduciary responsibility for the care and custody of retirement funds, as outlined in G.L. c. 32, § 23(2)(a). As recommended in the last audit, bank reconciliations for all open accounts need to be completed monthly and reviewed by both the Treasurer, and the Executive Director. 'Zero-balance' accounts must also be reconciled, to verify that their balances are indeed zero. Any account with a balance other than zero must be recorded in the general ledger, and reported on the annual statements.

b. The Board must provide proof that the other accounts in question have been closed.

Board Response:

We are taking control of the bank reconciliations effective July 1, 2004; this will allow us to have tighter controls.

6. Affidavits

Pursuant to 840 CMR15.01, each retired member who is receiving a pension, retirement allowance, or survivor allowance is required to submit an 'Annual Affidavit' to the Board certifying that the member is currently alive. In some cases, the Board accepted letters from nursing homes in lieu of affidavits signed by the members or their empowered agents.

Recommendation:

As stated in the last audit, the practice of allowing someone other than the member or someone duly authorized by the member to certify to the member's existence is one that leaves room for abuse. The Board must address this concern for the protection of members and retirement funds.

Board Response:

The Board accepts affidavits that are signed by a doctor or a nursing home only in the cases of the member being unable to sign the forms themselves.

Final Determination:

PERAC Auditors will follow up in six months to ensure that the appropriate actions have been taken regarding the audit findings.

Quincy Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDED DECEMBER 31, 2002**

	FOR THE PERIOD ENDED DECEMBER 31,		
ASSETS	2002	2001	2000
Cash	\$4,920,495	\$5,353,797	\$3,374,534
Short Term Investments	0	0	0
Fixed Income Securities (1998 at book value)	49,676,359	49,997,187	46,686,708
Equities	22,925,653	30,205,884	31,606,692
Pooled Short Term Funds	0	0	0
Pooled Domestic Equity Funds	68,733,285	85,752,935	95,135,109
Pooled International Equity Funds	13,242,740	14,851,808	19,754,129
Pooled Global Equity Funds	0	0	0
Pooled Domestic Fixed Income Funds	44,351,704	42,553,402	41,016,191
Pooled International Fixed Income Funds	0	0	0
Pooled Global Fixed Income Funds	0	0	0
Pooled Alternative Investment Funds	392,519	188,717	0
Pooled Real Estate Funds	17,145,344	15,866,483	15,449,158
Pooled Domestic Balanced Funds	0	0	0
Pooled International Balanced Funds	0	0	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	2,327,379	2,857,450	3,168,689
Interest Due and Accrued	535,193	652,341	603,726
Accounts Receivable	8,130,149	8,270,127	7,683,902
Accounts Payable	(1,103,023)	(594,973)	(77,012)
TOTAL	<u>\$231,277,798</u>	<u>\$255,955,158</u>	<u>\$264,401,826</u>
FUND BALANCES			
Annuity Savings Fund	\$51,074,306	\$55,294,229	\$52,932,127
Annuity Reserve Fund	40,113,205	34,216,791	34,700,166
Military Service Fund	10,398	10,254	10,063
Pension Fund	25,883,313	34,364,742	39,319,821
Expense Fund	0	0	0
Pension Reserve Fund	114,196,576	132,069,142	137,439,648
TOTAL	<u>\$231,277,798</u>	<u>\$255,955,158</u>	<u>\$264,401,826</u>

Quincy Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDED DECEMBER 31, 2002**

	Annuity Savings Fund	Annuity Reserve Fund	Military Service Fund	Pension Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2000)	\$55,350,216	\$33,814,263	\$10,340	\$44,638,132	\$0	\$134,259,539	\$268,072,491
Receipts	5,742,147	\$1,037,897	214	17,331,749	1,016,655	3,180,109	28,308,772
Interfund Transfers	(3,797,445)	3,797,937	(492)	0	0	0	0
Disbursements	<u>(4,362,790)</u>	<u>(\$3,949,931)</u>	<u>0</u>	<u>(22,650,060)</u>	<u>(1,016,655)</u>	<u>0</u>	<u>(31,979,437)</u>
Ending Balance (2000)	52,932,127	\$34,700,166	10,063	39,319,821	0	137,439,648	264,401,826
Receipts	6,000,951	1,075,069	191	18,094,551	987,485	(5,427,051)	20,731,197
Interfund Transfers	(2,354,877)	2,298,332	0	0	0	56,545	0
Disbursements	<u>(1,283,973)</u>	<u>(3,856,776)</u>	<u>0</u>	<u>(23,049,631)</u>	<u>(987,485)</u>	<u>0</u>	<u>(29,177,865)</u>
Ending Balance (2001)	55,294,229	34,216,791	10,254	34,364,742	0	132,069,142	255,955,158
Receipts	6,026,885	1,109,436	144	16,905,456	1,058,941	(17,873,540)	7,227,321
Interfund Transfers	(9,020,749)	9,019,775	0	0	0	975	(0)
Disbursements	<u>(1,226,059)</u>	<u>(4,232,797)</u>	<u>0</u>	<u>(25,386,884)</u>	<u>(1,058,941)</u>	<u>0</u>	<u>(31,904,681)</u>
Ending Balance (2002)	<u>\$51,074,306</u>	<u>\$40,113,205</u>	<u>\$10,398</u>	<u>\$25,883,313</u>	<u>\$0</u>	<u>\$114,196,576</u>	<u>\$231,277,798</u>

Quincy Retirement System

STATEMENT OF INCOME

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDED DECEMBER 31, 2002**

	FOR THE PERIOD ENDED DECEMBER 31,		
	2002	2001	2000
Annuity Savings Fund:			
Members Deductions	\$4,864,258	\$4,651,987	\$4,240,693
Transfers from other Systems	294,102	252,786	149,553
Member Make Up Payments and Redeposits	229,668	122,869	316,756
Investment Income Credited to Member Accounts	<u>638,858</u>	<u>973,309</u>	<u>1,035,145</u>
Sub Total	<u>6,026,885</u>	<u>\$6,000,951</u>	<u>\$5,742,147</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>1,109,436</u>	<u>\$1,075,069</u>	<u>\$1,037,897</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	262,795	252,945	215,723
Received from Commonwealth for COLA and Survivor Benefits	1,062,288	2,125,126	2,125,284
Pension Fund Appropriation	<u>15,580,373</u>	<u>15,716,481</u>	<u>14,990,743</u>
Sub Total	<u>16,905,456</u>	<u>\$18,094,551</u>	<u>\$17,331,749</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>144</u>	<u>191</u>	<u>214</u>
Sub Total	<u>144</u>	<u>\$191</u>	<u>\$214</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>1,058,941</u>	<u>987,485</u>	<u>1,016,655</u>
Sub Total	<u>1,058,941</u>	<u>\$987,485</u>	<u>\$1,016,655</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	81,767	57,878	76,276
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	16,214	44,743	50,822
Excess Investment Income	<u>(17,971,521)</u>	<u>(5,529,672)</u>	<u>3,053,011</u>
Sub Total	<u>(17,873,540)</u>	<u>(5,427,051)</u>	<u>3,180,109</u>
TOTAL RECEIPTS	<u>\$7,227,321</u>	<u>\$20,731,197</u>	<u>\$28,308,772</u>

Quincy Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDED DECEMBER 31, 2002**

	FOR THE PERIOD ENDED DECEMBER 31,		
	2002	2001	2000
Annuity Savings Fund:			
Refunds to Members	\$748,490	\$1,081,463	\$4,068,163
Transfers to other Systems	477,568	202,510	294,627
Sub Total	<u>1,226,059</u>	<u>\$1,283,973.01</u>	<u>\$4,362,790.22</u>
Annuity Reserve Fund:			
Annuities Paid	4,084,840	3,702,164	3,678,527
Option B Refunds	147,957	154,613	271,404
Sub Total	<u>4,232,797</u>	<u>\$3,856,776.35</u>	<u>\$3,949,931.01</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	18,473,420	16,452,157	16,277,967
Survivorship Payments	1,187,369	1,043,779	973,589
Ordinary Disability Payments	183,744	200,042	198,656
Accidental Disability Payments	3,420,942	3,268,475	2,906,040
Accidental Death Payments	1,344,527	1,295,984	1,158,361
Section 101 Benefits	80,159	89,052	107,945
3 (8) (c) Reimbursements to Other Systems	465,605	470,921	660,284
State Reimbursable COLA's Paid	231,117	229,222	367,218
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>25,386,884</u>	<u>23,049,631</u>	<u>22,650,060</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	18,774	15,000	15,000
Salaries	192,457	178,126	178,311
Management Fees	641,466	651,790	690,220
Custodial Fees	38,436	36,086	41,623
Investment Consultant Fees	34,605	34,500	34,500
Legal Expenses	18,167	0	0
Medical Expenses	0	0	0
Administrative Expenses	63,318	61,590	40,658
Furniture and Equipment	41,730	0	0
Travel Expenses	9,989	10,393	16,343
Sub Total	<u>1,058,941</u>	<u>987,485</u>	<u>1,016,655</u>
TOTAL DISBURSEMENTS	<u>\$31,904,681</u>	<u>\$29,177,865</u>	<u>\$31,979,437</u>

Quincy Retirement System

INVESTMENT INCOME

**FOR THE THREE-YEAR PERIOD BEGINNING JANUARY 1, 2000
AND ENDED DECEMBER 31, 2002**

	FOR THE PERIOD ENDED DECEMBER 31,		
	2002	2001	2000
Investment Income Received From:			
Cash	\$112,955	\$114,252	\$272,288
Short Term Investments	0	0	0
Fixed Income	3,581,289	4,188,798	4,848,926
Equities	451,726	488,772	414,500
Pooled or Mutual Funds	1,647,469	1,781,670	1,535,171
PRIT Fund			
Commission Recapture	<u>16,129</u>	<u>13,743</u>	<u>12,269</u>
TOTAL INVESTMENT INCOME	<u>5,809,568</u>	<u>6,587,236.03</u>	<u>7,083,154</u>
Plus:			
Increase in Amortization of Fixed Income Securities			
Realized Gains	2,784,784	5,287,597	10,103,951
Unrealized Gains	26,853,389	29,295,464	40,022,186
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>535,193</u>	<u>652,341</u>	<u>603,726</u>
Sub Total	<u>30,173,366</u>	<u>35,235,402</u>	<u>50,729,863</u>
Less:			
Decrease in Amortization of Fixed Income Securities			
Paid Accrued Interest on Fixed Income Securities	(584,479)	(825,306)	(1,979,455)
Realized Loss	(9,858,552)	(5,445,195)	(7,228,056)
Unrealized Loss	(40,051,703)	(37,442,029)	(41,838,361)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(652,341)</u>	<u>(603,726)</u>	<u>(624,223)</u>
Sub Total	<u>(51,147,076)</u>	<u>(44,316,256)</u>	<u>(51,670,094)</u>
NET INVESTMENT INCOME	<u>(15,164,142)</u>	<u>(2,493,617)</u>	<u>6,142,923</u>
Income Required:			
Annuity Savings Fund	638,858	973,309	1,035,145
Annuity Reserve Fund	1,109,436	1,075,069	1,037,897
Military Service Fund	144	191	214
Expense Fund	<u>1,058,941</u>	<u>987,485</u>	<u>1,016,655</u>
TOTAL INCOME REQUIRED	<u>2,807,379</u>	<u>3,036,055</u>	<u>3,089,912</u>
Net Investment Income	<u>(15,164,142)</u>	<u>(2,493,617)</u>	<u>6,142,923</u>
Less: Total Income Required	<u>2,807,379</u>	<u>3,036,055</u>	<u>3,089,912</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>(\$17,971,521)</u>	<u>(\$5,529,672)</u>	<u>\$3,053,011</u>

Quincy Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2002

		<u>2002</u>	PERCENTAGE	
	<u>BOOK VALUE*</u>	<u>MARKET VALUE</u>	OF TOTAL	PERCENTAGE
			ASSETS	ALLOWED*
Cash		\$4,920,495	2.20%	100
Short Term		0	0.00%	100
Fixed Income		49,676,359	22.21%	40 - 80
Equities		22,925,653	10.25%	50**
Pooled Short Term Funds		0	0.00%	
Pooled Domestic Equity Funds		68,733,285	30.72%	50**
Pooled International Equity Funds		13,242,740	5.92%	10**
Pooled Global Equity Funds		0	0.00%	
Pooled Domestic Fixed Income Funds		44,351,704	19.83%	
Pooled International Fixed Income Funds		0	0.00%	
Pooled Global Fixed Income Funds		0	0.00%	
Pooled Alternative Investment Funds		392,519	0.18%	
Pooled Real Estate Funds		17,145,344	7.66%	
Pooled Domestic Balanced Funds		0	0.00%	
Pooled International Balanced Funds		0	0.00%	
PRIT Cash Fund		0	0.00%	
PRIT Core Fund		<u>2,327,379</u>	<u>1.04%</u>	100
GRAND TOTALS	<u>\$0</u>	<u>\$223,715,479</u>	<u>100.00%</u>	

** Total Equities not to exceed 50% including International Equities not to exceed 10%

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, **2002**, the rate of return for the investments of the **Quincy** Retirement System was -5.92%. For the five-year period ending December 31, **2002**, the rate of return for the investments of the **Quincy** Retirement System averaged 4.64%. For the eighteen-year period ending December 31, **2002**, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the **Quincy** Retirement System was 9.09%.

Quincy Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2002

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

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.

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.

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.

Quincy Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2002

SUPPLEMENTARY INVESTMENT REGULATIONS - (Cont'd.)

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.

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.

Quincy Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2002

NOTE 1 - THE SYSTEM

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.

Instituted in 1946, 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

Quincy Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2002

benefits that were due each year. 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, redeposits, 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.

Quincy Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2002

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 PERAC on:

December 12, 1984

Regularly Employed

Full-Time Employees – Obligated to join immediately.

Temporary Employees – Obligated to join after six (6) months.

Part-Time Employees – a) Obligated to join immediately if working 24 hours or more per week on a permanent basis.

Quincy Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2002

NOTE 3 -SUPPLEMENTARY MEMBERSHIP REGULATIONS - (Cont'd.)

Part-Time Employees – (Cont'd)

- b) Obligated 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.

October 8, 2002

The Board has adopted Travel Supplemental Regulations under the provisions of M.G.L. c.7, § 50 and M.G.L. c.32, § 21(4). (Regulation available upon written request.)

Quincy Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2002

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the 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: Richard D. Fitzpatrick

Appointed Member: Francis X. McCauley Term Expires: 02/04/2005

Elected Member: George F. McCray Term Expires: 11/19/2005

Elected Member: Richard P. Crespi Term Expires: 12/16/2004

Appointed Member: Roger E. Perfetti Term Expires: 12/17/2005

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:)	\$30,000,000
Elected Member:)	Fiduciary Insurance
Appointed Member:)	\$1,000,000
Staff Employee:)	Fidelity Insurance

Quincy Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2002

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the **Stone Consulting, Inc.** as of **January 1, 2003**.

The actuarial liability for active members was	\$153,592,964
The actuarial liability for retired members was	<u>282,759,381</u>
The total actuarial liability was	436,352,345
System assets as of that date were	<u>231,277,798</u>
The unfunded actuarial liability was	<u>\$205,074,547</u>
The ratio of system's assets to total actuarial liability was	53.0%
As of that date the total covered employee payroll was	\$58,949,749

The normal cost for employees on that date was 7.99% of payroll

The normal cost for the employer was 4.93% of payroll

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

Investment Return: 8.25% per annum

Rate of Salary Increase: 5.00% per annum

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	\$ 231,277,798	\$ 436,352,345	\$ 205,074,547	53.0%	\$ 58,949,749	347.88%
1/1/2001	\$ 264,401,826	\$ 369,363,953	\$ 104,962,127	71.6%	\$ 56,824,726	184.71%
1/1/1999	\$ 241,890,839	\$ 354,342,249	\$ 112,451,410	68.3%	\$ 83,911,305	134.01%
1/1/1997	\$ 170,435,562	\$ 277,764,236	\$ 107,328,674	61.4%	\$ 78,452,786	136.81%
1/1/1996	\$ 149,460,063	\$ 235,298,018	\$ 85,837,955	63.5%	\$ 66,662,571	128.76%

Quincy Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE-YEAR PERIOD ENDED DECEMBER 31, 2002

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Superannuation	65	30	53	38	54	136	56	18	21	14
Ordinary Disability	2	1	1	0	0	1	0	0	0	1
Accidental Disability	4	9	5	7	8	14	3	3	6	1
Total Retirements	71	40	59	45	62	151	59	21	27	16
Total Retirees, Beneficiaries and Survivors	1,443	1,449	1,458	1,465	1,474	1,676	1,835	1,761	1,746	1,891
Total Active Members	2,083	2,093	2,093	2,138	2,286	2,518	1,923	1,873	1,849	1,726
Pension Payments										
Superannuation	\$8,783,013	\$9,180,983	\$9,569,672	\$10,006,969	\$10,822,745	\$11,094,257	\$12,281,825	\$16,277,967	\$16,452,157	\$18,473,420
Survivor/Beneficiary Payments	769,791	804,425	826,879	901,359	829,362	874,413	933,237	973,589	1,043,779	1,187,369
Ordinary Disability	247,908	233,926	212,049	200,075	199,478	188,905	189,128	198,656	200,042	183,744
Accidental Disability	2,145,432	2,402,093	2,361,409	2,485,157	2,629,349	2,733,806	2,659,908	2,906,040	3,268,475	3,420,942
Other	<u>1,139,184</u>	<u>1,092,946</u>	<u>1,141,949</u>	<u>1,140,408</u>	<u>1,187,639</u>	<u>1,341,216</u>	<u>1,895,926</u>	<u>1,926,590</u>	<u>1,855,957</u>	<u>1,890,291</u>
Total Payments for Year	<u>\$13,085,328</u>	<u>\$13,714,373</u>	<u>\$14,111,958</u>	<u>\$14,733,968</u>	<u>\$15,668,573</u>	<u>\$16,232,598</u>	<u>\$17,960,024</u>	<u>\$22,282,842</u>	<u>\$22,820,409</u>	<u>\$25,155,767</u>

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