

PERAC AUDIT REPORT



Andover Contributory Retirement System

JAN. 1, 2001 - DEC. 31, 2003 / PERAC 03: 11-015-03



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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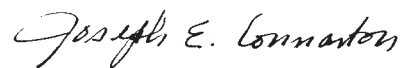
April 27, 2005

The Public Employee Retirement Administration Commission has completed an examination of the Andover Retirement System pursuant to G.L. c. 32, § 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 examiners James Ryan, James Sweeney and 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



Andover Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

1. Annual Statements

Based upon our inspection of the Annual Statements filed by the Board for the three year audit period, it was determined that certain line item amounts contained in the Annual Statement did not match the detailed supporting schedules. A variance was found in realized and unrealized gains and losses related to Fixed Income Securities. A journal entry was initiated to adjust the ending balance of Fixed Income Securities to agree with the net change in market value rather than the gross specific to gains and the gross specific to losses. The journal entries that were initiated to adjust the Equities portion of the portfolio were done correctly.

Recommendation:

The Annual Statement and supporting schedules are the primary source of financial information for third parties. They must provide complete and accurate information which will allow a reader to make a knowledgeable assessment of the systems financial condition without requiring reference to the general ledger. Prior to the submission of the Annual Statement, a review process should be established to ensure that all entries on the Annual Statement agree with the supporting schedules using the PERAC Annual Statement Guide published each year. Differences in custodian-provided schedules should be corrected, if necessary, and reconciled to the General Ledger prior to the completion of the Annual Statement.

Board Response:

The Board accepts the findings of the auditors and corrective steps have been taken.

2. Cash Reconciliation

The cash reconciliation is an awkward process that attempts to incorporate the balance of the Fleet (BoA) bank account as well as the Massachusetts Municipal Depository Trust account balance. Outstanding items are identified and described. However, the process includes comparing the balances with two separate accounts on the General Ledger, neither of which agrees with either balance for which a bank statement is provided.

Recommendation:

The Board should post cash and journal activity for the respective bank accounts in separate accounts established on its General Ledger. This will reflect the actual activity represented in these accounts. It will be necessary to perform separate reconciliation functions for each account. This is the only solution to the current practice, which essentially commingles the activity for both accounts on the detail for general ledger account #1040. The ultimate result will be the reclassification of bank transactions already posted to the current general ledger.

Andover Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

Board Response:

The Board accepts the findings of the auditors and corrective steps have been taken.

3. Members' Contributions

The Town currently has 337 different pay codes available to use for the classification of earnings. At least 51 of these are classified as exempt from qualifying retirement deductions. The procedure used to create, classify and confirm the proper categorization of these myriad codes was not easily discernible. Many codes were determined to be inactive. Our review disclosed that a pay code, which correlated to the payment of off duty detail work for firefighters, was included as regular compensation and subject to retirement deductions. This contradicts Chapter 32 and 840 CMR 15.03 (2) (a) which defines "regular compensation" shall not include any amounts paid for hours worked beyond the member's normal work schedule.

Recommendation:

The Town should review all of the existing controls regarding the initiation of new pay codes and the qualification of existing pay codes as exempt from retirement deductions to comply fully with the restrictions and limitations of Chapter 32 and 840 CMR 15.03. The town is in the process of refunding members' deductions withheld for this particular code in error. Activity relating to the use of this code was limited to calendar year 2004.

Board Response:

The Board understands the findings inasmuch as only 1 out of 337 pay codes was affected – and that error was due to a typographical error. The Board does not feel this is a significant problem, however, an informal process of review was previously in place. In order to ensure more accuracy in the development of new pay codes, a formal process will be established.

4. Review of Minutes and Board Member Attendance

The Auditor reviewed Board Meeting Minutes from January, 2001 through October, 2004. This review revealed that a member of the Board had a greater than twenty-five per cent absentee rate during those periods. This member was absent from thirty-three percent of the meetings held in 2002, forty percent in 2003 and thirty-three percent in 2004.

Recommendation:

Attendance at Board meetings is an obligation that must be fulfilled by all Board members. An absentee rate of twenty-five percent or more is considered excessive. It is the Board's responsibility to advise members who fail to uphold their fiduciary duties to the System, and to take appropriate action with such members, when necessary. The Board may want to consider adjusting the scheduling of Board meetings in order to better accommodate its members.

Andover Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

Board Response:

Board members make every effort to attend each meeting. The Board member in question has since resigned, however, he contributed a significant amount of time *outside* of meetings that proved invaluable to the Retirement System. He was kept abreast of all issues discussed at monthly meetings via email, monthly packets, and telephone calls.

Final Determination

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

Andover 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	\$3,514,593	\$10,195,789	\$4,809,138
Fixed Income Securities (at market value)	26,801,547	23,679,680	26,144,721
Equities	41,378,855	28,362,541	37,241,149
Interest Due and Accrued	408,177	356,736	384,728
Accounts Receivable	1,885,249	2,136,106	2,006,503
Accounts Payable	(470,803)	(1,286,926)	(344,711)
TOTAL	<u>\$73,517,618</u>	<u>\$63,443,926</u>	<u>\$70,241,528</u>
FUND BALANCES			
Annuity Savings Fund	\$21,990,930	\$20,365,391	\$18,764,797
Annuity Reserve Fund	6,047,280	5,789,823	5,590,987
Pension Fund	5,924,972	6,589,144	6,907,510
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	<u>39,554,435</u>	<u>30,699,568</u>	<u>38,978,235</u>
TOTAL	<u>\$73,517,618</u>	<u>\$63,443,926</u>	<u>\$70,241,528</u>

Andover 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)	\$17,232,093	\$5,228,909	\$6,983,657	\$0	\$0	\$43,201,161	\$72,645,821
Receipts	2,513,205	157,898	3,943,552	0	293,917	(4,222,926)	2,685,645
Interfund Transfers	(798,516)	798,516	0	0	0	0	0
Disbursements	<u>(181,985)</u>	<u>(594,336)</u>	<u>(4,019,700)</u>	<u>0</u>	<u>(293,917)</u>	<u>0</u>	<u>(5,089,938)</u>
Ending Balance (2001)	18,764,797	5,590,987	6,907,510	0	0	38,978,235	70,241,528
Receipts	2,519,397	164,068	3,962,019	0	396,266	(8,278,669)	(1,236,920)
Interfund Transfers	(618,361)	660,317	(41,958)	0	0	1	0
Disbursements	<u>(300,442)</u>	<u>(625,549)</u>	<u>(4,238,427)</u>	<u>0</u>	<u>(396,266)</u>	<u>0</u>	<u>(5,560,683)</u>
Ending Balance (2002)	20,365,391	5,789,823	6,589,144	0	0	30,699,568	63,443,926
Receipts	2,693,304	172,007	3,823,478	0	289,876	8,853,495	15,832,159
Interfund Transfers	(742,467)	743,518	(2,424)	0	0	1,373	0
Disbursements	<u>(325,297)</u>	<u>(658,068)</u>	<u>(4,485,226)</u>	<u>0</u>	<u>(289,876)</u>	<u>0</u>	<u>(5,758,467)</u>
Ending Balance (2003)	<u>\$21,990,930</u>	<u>\$6,047,280</u>	<u>\$5,924,972</u>	<u>\$0</u>	<u>\$0</u>	<u>\$39,554,435</u>	<u>\$73,517,618</u>

Andover 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	\$2,353,836	\$2,179,403	\$1,955,381
Transfers from other Systems	78,712	12,380	136,831
Member Make Up Payments and Redeposits	61,512	71,973	105,853
Investment Income Credited to Member Accounts	<u>199,244</u>	<u>255,641</u>	<u>315,140</u>
Sub Total	<u>2,693,304</u>	<u>2,519,397</u>	<u>2,513,205</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>172,007</u>	<u>164,068</u>	<u>157,898</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	91,632	89,588	89,200
Received from Commonwealth for COLA and Survivor Benefits	108,045	352,753	240,659
Pension Fund Appropriation	<u>3,623,802</u>	<u>3,519,677</u>	<u>3,613,693</u>
Sub Total	<u>3,823,478</u>	<u>3,962,019</u>	<u>3,943,552</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to Expense Fund	<u>289,876</u>	<u>396,266</u>	<u>293,917</u>
Sub Total	<u>289,876</u>	<u>396,266</u>	<u>293,917</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	159,507
Interest Not Refunded	3,207	3,696	1,971
Excess Investment Income	<u>8,850,287</u>	<u>(8,282,365)</u>	<u>(4,384,404)</u>
Sub Total	<u>8,853,495</u>	<u>(8,278,669)</u>	<u>(4,222,926)</u>
TOTAL RECEIPTS	<u>\$15,832,159</u>	<u>(\$1,236,920)</u>	<u>\$2,685,645</u>

Andover 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,			
	2003	2002	2001
Annuity Savings Fund:			
Refunds to Members	\$184,970	\$238,213	\$77,956
Transfers to other Systems	<u>140,327</u>	<u>62,229</u>	<u>104,030</u>
Sub Total	<u>325,297</u>	<u>300,442</u>	<u>181,985</u>
Annuity Reserve Fund:			
Annuities Paid	658,068	621,786	594,336
Option B Refunds	<u>0</u>	<u>3,763</u>	<u>0</u>
Sub Total	<u>658,068</u>	<u>625,549</u>	<u>594,336</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	3,313,541	3,207,086	3,010,390
Survivorship Payments	216,712	265,685	281,052
Ordinary Disability Payments	97,502	104,786	126,904
Accidental Disability Payments	698,228	522,458	461,274
Accidental Death Payments	62,443	67,821	66,585
Section 101 Benefits	0	6,998	6,795
3 (8) (c) Reimbursements to Other Systems	96,801	63,592	66,701
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>4,485,226</u>	<u>4,238,427</u>	<u>4,019,700</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	0	0	0
Salaries	58,615	59,959	52,153
Legal Expenses	440	3,219	259
Medical Expenses	0	0	0
Travel Expenses	98	1,983	0
Administrative Expenses	16,297	5,450	5,813
Furniture and Equipment	890	89,136	0
Management Fees	190,913	202,880	215,564
Custodial Fees	20,123	21,084	20,128
Consultant Fees	<u>2,500</u>	<u>12,555</u>	<u>0</u>
Sub Total	<u>289,876</u>	<u>396,266</u>	<u>293,917</u>
TOTAL DISBURSEMENTS	<u>\$5,758,467</u>	<u>\$5,560,683</u>	<u>\$5,089,938</u>

Andover 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:			
Cash	\$64,292	\$30,532	\$55,554
Short Term Investments	0	73,665	0
Fixed Income	1,436,254	1,760,927	2,077,590
Equities	556,881	528,212	580,777
Pooled or Mutual Funds	0	0	0
TOTAL INVESTMENT INCOME	<u>2,057,427</u>	<u>2,393,335</u>	<u>2,713,921</u>
Plus:			
Realized Gains	1,871,501	1,581,256	1,229,107
Unrealized Gains	7,119,377	1,547,219	2,243,972
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>408,177</u>	<u>356,736</u>	<u>384,728</u>
Sub Total	<u>9,399,056</u>	<u>3,485,211</u>	<u>3,857,807</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(116,114)	(216,447)	(180,202)
Realized Loss	(1,030,322)	(8,346,331)	(6,789,104)
Unrealized Loss	(441,898)	(4,397,430)	(2,711,611)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(356,736)</u>	<u>(384,728)</u>	<u>(508,245)</u>
Sub Total	<u>(1,945,069)</u>	<u>(13,344,937)</u>	<u>(10,189,162)</u>
NET INVESTMENT INCOME	<u>9,511,414</u>	<u>(7,466,391)</u>	<u>(3,617,434)</u>
Income Required:			
Annuity Savings Fund	199,244	255,641	315,140
Annuity Reserve Fund	172,007	164,068	157,898
Military Service Fund	0	0	0
Expense Fund	<u>289,876</u>	<u>396,266</u>	<u>293,932</u>
TOTAL INCOME REQUIRED	<u>661,126</u>	<u>815,974</u>	<u>766,971</u>
Net Investment Income	<u>9,511,414</u>	<u>(7,466,391)</u>	<u>(3,617,434)</u>
Less: Total Income Required	<u>661,126</u>	<u>815,974</u>	<u>766,971</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$8,850,287</u>	<u>(\$8,282,365)</u>	<u>(\$4,384,405)</u>

Andover Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$2,287,970	\$2,287,970	3.19%	100
Short Term	1,226,623	1,226,623	1.71%	100
Fixed Income	26,801,547	26,801,547	37.38%	40 - 80
Equities	41,378,855	41,378,855	57.72%	40
GRAND TOTALS	<u>\$71,694,995</u>	<u>\$71,694,995</u>	<u>100.00%</u>	

* 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, 2003, the rate of return for the investments of the Andover Retirement System was 14.50%. For the five year period ending December 31, 2003, the rate of return for the investments of the Andover Retirement System averaged 2.85%. 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 Andover Retirement System was 10.82%.

Andover Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

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

March 10, 1994

20.03(1) Equity investments shall not exceed 60% of the total book value of the portfolio at the time of purchase.

20.04(6) American Depository Receipts denominated in U. S. currency and listed on the New York Stock Exchange, provided that the total of all such investments shall be considered part of the board's equity asset allocation and shall not exceed 5% of the total market value of the portfolio.

March 20, 2001

1.01(2) It is the Board's position that its fiduciary duty requires that the Board participate in all class action lawsuits in which there exists reasonable cause to believe that the Board's assets have been diminished or, otherwise negatively affected, as a result of misconduct or fraud. In addition, the Board, in its sole discretion, may decide to participate in such actions as Lead Plaintiff under circumstances that would justify that role as an appropriate discharge of the Board's fiduciary responsibility.

Therefore, it shall be Board policy to direct any and all money managers having custody of or investment authority over any Board assets to enter into any and all class actions as described *automatically and without specific instructions* from the Board.

The decision to participate as Lead Plaintiff, however, shall be exclusively that of the Board.

Andover 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 Andover 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.

Andover 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, 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.

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

March 31, 1997

The Board voted to approve Veterans' Service Guidelines for purchases of veterans' service under chapter 71 of the acts of 1996.

March 12, 2001

The Board voted to require the spouse of any married employee retiring under G.L. c. 32 must sign the acknowledgement of his or her retiring spouse's option choice in the presence of an Andover Retirement Contributory System staff or Board member.

Andover Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2003

August 27, 2003

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).

Andover 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 the The Segal Company as of January 1, 2004.

The actuarial liability for active members was	\$58,527,951
The actuarial liability for inactive members was	439,695
The actuarial liability for retired members was	<u>45,264,252</u>
The total actuarial liability was	104,231,898
System assets as of that date were	<u>81,431,072</u>
The unfunded actuarial liability was	<u>\$22,800,826</u>
The ratio of system's assets to total actuarial liability was	78.12%
As of that date the total covered employee payroll was	\$29,155,715

The normal cost for employees on that date was 8.46% of payroll
 The normal cost for the employer was 6.26% of payroll

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

Investment Return: 8.50% per annum
Rate of Salary Increase: 6.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2004

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)
1/1/04	\$ 81,431,072	\$ 104,231,898	\$ 22,800,826	78.12%	\$ 29,155,715	78.20%
1/1/01	\$ 69,751,700	\$ 86,928,000	\$ 17,176,300	80.24%	\$ 24,595,800	69.83%
1/1/99	\$ 59,349,800	\$ 76,915,300	\$ 17,565,500	77.16%	\$ 21,631,400	81.20%

Andover 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	3	24	11	12	20	16	19	10	11	1
Ordinary Disability	2	0	0	1	0	0	0	0	0	0
Accidental Disability	0	0	0	0	1	1	1	2	4	0
Total Retirements	5	24	11	13	21	17	20	12	15	1
Total Retirees, Beneficiaries and Survivors	294	288	288	294	303	311	329	317	330	335
Total Active Members	554	551	570	630	674	685	748	765	821	761
Pension Payments										
Superannuation	\$1,775,553	\$2,476,224	\$1,823,020	\$1,937,469	\$2,203,843	\$2,552,069	\$2,769,177	\$3,010,390	\$3,207,086	\$3,313,541
Survivor/Beneficiary Payments	124,003	*	149,404	172,741	185,006	210,960	205,101	281,052	265,685	216,712
Ordinary Disability	107,937	*	92,283	115,445	105,323	96,953	111,241	126,904	104,786	97,502
Accidental Disability	392,819	*	384,789	387,160	388,745	408,244	428,093	461,274	522,458	698,228
Other	<u>77,085</u>	<u>39,568</u>	<u>108,731</u>	<u>79,010</u>	<u>80,026</u>	<u>80,422</u>	<u>118,118</u>	<u>140,080</u>	<u>138,411</u>	<u>159,244</u>
Total Payments for Year	<u>\$2,477,397</u>	<u>\$2,515,792</u>	<u>\$2,558,227</u>	<u>\$2,691,825</u>	<u>\$2,962,943</u>	<u>\$3,348,648</u>	<u>\$3,631,730</u>	<u>\$4,019,700</u>	<u>\$4,238,427</u>	<u>\$4,485,226</u>

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

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