PERAC AUDIT REPORT

Barnstable County Contributory Retirement System

JAN. 1, 2008 - DEC. 31, 2010

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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September 6, 2012

The Public Employee Retirement Administration Commission has completed an examination of the Barnstable County Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2008 to December 31, 2010. 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 that noted in the finding presented in this report.

In closing, I acknowledge the work of examiners James Tivnan and James Sweeney 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 FINDING AND RECOMMENDATION

Membership:
The Barnstable County Retirement System has more than 5,600 members from 47 member units. Making sure that all retirement deductions are submitted accurately is a major undertaking. The auditor sampled payrolls from all member units to determine that member's rate, base deductions, and 2% additional deductions were reasonably accurate. We requested the units provide a list of all pay types or codes used and identify whether they were included or excluded from the determination of base regular compensation used for retirement contributions. In addition, 100 member files were inspected for documentation that substantiated their assigned contribution rate, group classification, birth date, veteran's status, creditable service time accumulated, and other documentation in support of their membership classification.

- We observed that one employer unit had included actual overtime as qualified regular compensation for an extended period involving multiple employees. This was a repetition of a similar situation involving the same unit in a previous period. The system is required to refund deductions associated with this exception upon determining the extent of the error.

- We noted some pay types reported by employers were not included as regular compensation qualified for retirement purposes even though the compensation did appear to be consistent with the definition of regular compensation cited in 840 CMR 15.03. These relate to stipends for being on-call and differential premiums based on the time the work was assigned.

- An employer cited PERAC Memo's issued in 2001 to support a pay type relating to vehicle use included as regular compensation qualified for retirement purposes. This Memo had been superseded by several subsequent memos and other correspondence that clarified and reported the results of extensive litigation that contradicted the determination that this compensation qualified for retirement. It was specifically excluded by Chapter 21 of the Acts of 2009.

- The auditor disputed the Board conclusion relative to an Earnings Code not qualified for retirement deductions. The relevant Collective Bargaining Agreement states the designated "officer in charge shall receive an additional one (1) hour of overtime per eight hour shift worked ..." Based on this wording; the BCRA Board determined that this compensation is equivalent to "overtime" and confirmed it did NOT qualify as regular compensation. The Board was reluctant to infer that the contractual language did not specifically clarify the services performed for this compensation and relied primarily on the specific contract reference to "overtime". However, PERAC has previously cited similar compensation as qualifying under 840 CMR 15.03 based on the premise that "the determination of the basis for the ... compensation at an overtime rate does not disqualify the pay type from being considered regular compensation." This position would apply since it appears this pay otherwise complies with the current statutory and regulatory definition of "regular compensation"; payment for service rendered that was "predetermined, non-discretionary and guaranteed payments paid by the employer to similarly situated employees". Consequently, using an overtime rate as a basis to calculate for the payment of performing this additional service does not disqualify such pay from being regular compensation.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation: Staff turnover and attrition within the payroll offices of the member units require the system to initiate orientation and training sessions for the new payroll staff. The system must proactively identify staff changes within their payroll reporting units to avoid issues relating to misinterpreting what qualifies as regular compensation. All units must be informed on an ongoing basis of all retirement qualifying types of pay, as stipulated by Chapter 21 of the Acts of 2009 and recently-revised PERAC regulation 840 CMR 15.03.

We recommend the system insist that employers advise the Retirement Board of all new payroll codes initiated by the unit payroll officers. The Barnstable Retirement Board must be the ultimate authority to determine compensation that qualifies for retirement contributions subject to and within the guidelines prescribed in 840 CMR 15.03. A complete payroll register should be obtained from selected member units to investigate compliance on a regular basis. This function will provide an additional procedure to review and monitor compliance. It will provide an additional layer of internal financial control to confirm that contributions are accurate and benefits are earned within the established rules.

Board Response:
The response was provided by the Board's Attorney. It is attached as an Addendum to this audit report.

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,		
	2010	2009	2008
Net Assets Available For Benefits:			
Cash	$1,129,246	$10,183,061	$7,690,755
Pooled Real Estate Funds	5,980,744	5,396,330	4,260,686
PRIT Cash Fund	1,500,632	3,000,739	1,201,431
PRIT Core Fund	572,820,506	490,463,033	407,509,676
Accounts Receivable	5,012,437	9,888,447	12,756,657
Accounts Payable	(5,250)	(40,960)	(10,993)
Total	$586,438,315	$518,890,650	$433,408,212
Fund Balances:			
Annuity Savings Fund	$204,417,858	$206,596,228	$192,617,739
Annuity Reserve Fund	56,796,622	52,745,913	50,276,212
Pension Fund	8,911,428	11,850,596	12,227,902
Military Service Fund	126,238	88,441	71,648
Expense Fund	0	0	0
Pension Reserve Fund	316,186,170	247,609,473	178,214,711
Total	$586,438,315	$518,890,650	$433,408,212

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2008)	$178,904,783	$48,486,723	$7,301,988	$77,268	$0	$354,748,272	$589,519,034
Receipts	24,056,991	1,434,974	41,265,796	12,176	3,794,990	(176,570,413)	(106,005,487)
Interfund Transfers	(6,905,971)	6,802,763	71,882	(5,526)	0	36,852	0
Disbursements	(3,438,064)	(6,448,247)	(36,411,764)	(12,269)	(3,794,990)	0	(50,105,335)
Ending Balance (2008)	192,617,739	50,276,212	12,227,902	71,648	0	178,214,711	433,408,212
Receipts	24,919,319	1,496,625	39,025,549	20,092	3,783,676	69,513,552	138,758,813
Interfund Transfers	(7,778,717)	7,915,044	(16,894)	(644)	0	(118,789)	0
Disbursements	(3,162,113)	(6,941,968)	(39,385,961)	(2,655)	(3,783,676)	0	(53,276,374)
Ending Balance (2009)	206,596,228	52,745,913	11,850,596	88,441	0	247,609,473	518,890,651
Receipts	22,889,498	1,604,669	39,713,993	39,980	3,535,108	68,498,210	136,281,458
Interfund Transfers	(10,220,593)	10,172,002	(27,711)	(2,183)	0	78,486	0
Disbursements	(14,847,275)	(7,725,961)	(42,625,449)	0	(3,535,108)	0	(68,733,794)
Ending Balance (2010)	$204,417,858	$56,796,622	$8,911,428	$126,238	$0	$316,186,170	$586,438,315

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Annuity Savings Fund:			
Members Deductions	$21,043,933	$22,481,239	$22,046,255
Transfers from Other Systems	531,281	732,211	352,261
Member Make Up Payments and Re-deposits	441,831	340,737	343,823
Member Payments from Rollovers	309,529	425,494	268,898
Investment Income Credited to Member Accounts	562,924	939,637	1,045,753
Sub Total	22,889,498	24,919,319	24,056,991
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	1,604,669	1,496,625	1,434,974
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	1,561,532	1,469,088	1,327,817
Received from Commonwealth for COLA and Survivor Benefits	844,511	936,838	1,081,706
Pension Fund Appropriation	37,276,225	36,465,008	38,856,273
Settlement of Workers' Compensation Claims	31,725	154,616	0
Sub Total	39,713,993	39,025,549	41,265,796
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	39,719	19,748	11,786
Investment Income Credited to the Military Service Fund	261	344	390
Sub Total	39,980	20,092	12,176
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	3,535,108	3,783,676	3,794,990
Sub Total	3,535,108	3,783,676	3,794,990
Pension Reserve Fund:			
Federal Grant Reimbursement	126,292	97,111	97,373
Pension Reserve Appropriation	3,494,119	3,355,445	2,969,960
Interest Not Refunded	12,365	21,162	27,089
Excess Investment Income (Loss)	64,865,435	66,039,834	(179,664,834)
Sub Total	68,498,210	69,513,552	(176,570,413)
Total Receipts, Net	$136,281,458	$138,758,813	($106,005,487)

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Annuity Savings Fund:			
Refunds to Members	$1,865,436	$2,448,873	$2,464,149
Transfers to Other Systems	12,981,839	713,241	973,915
Sub Total	14,847,275	3,162,113	3,438,064
Annuity Reserve Fund:			
Annuities Paid	7,458,463	6,710,371	6,199,566
Option B Refunds	267,498	231,597	248,682
Sub Total	7,725,961	6,941,968	6,448,247
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	29,997,228	27,398,326	25,744,588
Survivorship Payments	1,692,407	1,548,989	1,466,605
Ordinary Disability Payments	792,511	780,611	739,992
Accidental Disability Payments	7,834,604	7,701,100	7,107,835
Accidental Death Payments	875,448	832,328	692,171
Section 101 Benefits	194,476	190,252	194,437
3 (8) (c) Reimbursements to Other Systems	1,238,775	934,354	466,136
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	42,625,449	39,385,961	36,411,764
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	0	2,655	12,269
Expense Fund:			
Board Member Stipend	15,000	15,000	16,125
Salaries	462,226	457,833	449,356
Legal Expenses	62,199	92,182	73,631
Medical Expenses	0	1,000	0
Travel Expenses	4,422	3,954	8,072
Administrative Expenses	247,586	267,935	234,937
Professional Services	9,000	72,500	0
Furniture and Equipment	1,393	0	13,337
Management Fees	2,531,575	2,652,030	2,810,696
Consultant Fees	15,750	25,750	28,500
Rent Expenses	123,312	123,312	123,312
Service Contracts	22,455	35,110	1,864
Fiduciary Insurance	40,189	37,070	35,159
Sub Total	3,535,108	3,783,676	3,794,990
Total Disbursements	$68,733,794	$53,276,374	$50,105,335

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2010	2009	2008
Investment Income Received From:			
Cash	$3,695	$5,014	$211,731
Short Term Investments	0	0	0
Fixed Income	0	0	417,602
Equities	43,595	64,088	13,784
Pooled or Mutual Funds	15,154,010	13,282,381	17,595,756
Commission Recapture	0	0	0
Total Investment Income	15,201,299	13,351,482	18,238,873
Plus:			
Realized Gains	14,228,708	9,966,501	6,611,087
Unrealized Gains	103,551,509	116,247,971	28,752,425
Interest Due and Accrued - Current Year	0	0	0
Sub Total	117,780,217	126,214,472	35,363,512
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(471,378)	(31,164,192)	(37,389,211)
Unrealized Loss	(61,941,742)	(36,141,645)	(189,601,901)
Interest Due and Accrued - Prior Year	0	0	0
Sub Total	(62,413,119)	(67,305,837)	(226,991,112)
Net Investment Income (Loss)	70,568,397	72,260,116	(173,388,727)
Income Required:			
Annuity Savings Fund	562,924	939,637	1,045,753
Annuity Reserve Fund	1,604,669	1,496,625	1,434,974
Military Service Fund	261	344	390
Expense Fund	3,535,108	3,783,676	3,794,990
Total Income Required	5,702,962	6,220,282	6,276,107
Net Investment Income (Loss)	70,568,397	72,260,116	(173,388,727)
Less: Total Income Required	5,702,962	6,220,282	6,276,107
Excess Income (Loss) To The Pension Reserve Fund	$64,865,435	$66,039,834	($179,664,834)

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2010	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$1,129,246	0.2%
Pooled Real Estate Funds	5,980,744	1.0%
PRIT Cash Fund	1,500,632	0.3%
PRIT Core Fund	572,820,506	98.5%
Grand Total	$581,431,128	100.0%

For the year ending December 31, 2010, the rate of return for the investments of the Barnstable County Retirement System was 13.55%. For the five-year period ending December 31, 2010, the rate of return for the investments of the Barnstable County Retirement System averaged 3.25%. For the 26-year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Barnstable County Retirement System was 7.35%.

The composite rate of return for all retirement systems for the year ending December 31, 2010 was 13.67%. For the five-year period ending December 31, 2010, the composite rate of return for the investments of all retirement systems averaged 4.39%. For the 26-year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.46%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Barnstable County Retirement System has more than 98 percent of their funds invested in the PRIT fund managed by the PRIM Board. Certain residual investment agreements related to holdings of Pooled Real Estate Funds could not be abrogated and remain under the care and custody of the Barnstable County Retirement System. Such residual investments generally consist of limited partnership subscriptions for a specific term. These terms are fixed for a period usually not to exceed ten years. As a result, the supplemental investment regulations that were previously approved by the Public Employee Retirement Administration Commission and remain on file at PERAC have been effectively rescinded, except as they pertain to the residual holdings referenced above. A complete list of these regulations is available upon written request and can be accessed via the internet at the following address:
http://www.mass.gov/perac/investsup/barnstableintsup.html

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Barnstable County 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 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

- Salary is defined as gross regular compensation. For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17).

- 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. Members 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. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

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". "Maximum age" applies only to employees classified in Group 4 who are subject to mandatory retirement.

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 $751.80 per year (or $312 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. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, §. 1 receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

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 $751.80 per year, per child (or $312 per year in systems in which the local option contained in G.L. c. 32, §. 9(2)(d)(ii) has not been adopted) 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. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is $9,000.

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 (COLA) 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 COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, § 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of $1,000. Presently that amount is $12,000. Each increase must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

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 is unmarried at the time of retirement 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" to Option A) 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" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

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.

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.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them, and also relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

March 1, 2000
Creditable service
As of July 1, 1977 eligibility for membership in the Barnstable County Retirement Association for individuals whose membership commenced on or after July 1, 1977 shall be based upon regular employment of not less than 25 hours per week per calendar year (1300 hours) or 25 hours per week per school year (900 hours) for individuals providing service to any member unit of the Barnstable County Retirement Association.

Employees of member units of the Barnstable County Retirement Association holding part-time permanent positions working not less than 25 hours per week who work the full time required for the position as certified by the Treasurer, Department Head or other authorized entity to determine the hours for each position will be given full creditable service for the services performed in said position. If said part-time employees, however, become full-time employees, the creditable service earned during the member's part-time employment shall be prorated.

July 27, 1999
Group classification
Full-time employees who serve as full-time police, fire or emergency medical dispatchers whose job title is Emergency Telecommunications Dispatcher have replaced the job titles of Fire and Police Signal Operators, as listed in G.L. c. 32, § 3(2)(g) Group 2, provided that no member who attains age sixty-five (65) while classified in Group 1 may thereafter be classified in Group 2.

February 6, 1995
Membership
Effective January 1, 1995 call fire fighters and reserve police officers regularly employed for not less than 25 hours per week per calendar year (1300) hours shall be eligible for membership.

February 6, 1995
Membership
Seasonal employees excluded from membership unless membership has otherwise been established.

February 6, 1995
Creditable service
A part-time permanent, provisional, temporary, temporary provisional, seasonal, or intermittent employee receiving weekly or monthly salaries or wages for prescribed periods of employment shall be given creditable service based on actual service rendered provided that in the case of any such employee whose work is found by the board to be seasonal in its nature the Board shall credit as one (1) year of service actual full-time service of not less than seven (7) months during any one calendar year.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

October 29, 1990
Form
Change of Beneficiary Form

October 16, 1990
Creditable service
A full year of creditable service will be granted to school department employees who are employed for a full "school year".

December 13, 1988
Creditable service
Call firefighter or reserve police officer may be granted full time creditable service not to exceed a maximum of five years prior to the commencement of the member's full time employment. Such service shall be credited only if such call fire fighter or reserve police officer is later appointed as a permanent member of the fire or police department in the same governmental unit. (Revises board's rule #3 approved December 27, 1984 by adding two sentences).

December 27, 1984
Disability retirement
5. As of July 1, 1977 the Board shall require a one year waiting period between the filing of duplicate application by a member/department head for the same type (ordinary or accidental) of disability retirement.

December 27, 1984
Membership
6. As of July 1, 1977, eligibility for membership for individuals whose employment commences on or after July 1, 1977 shall be based upon regular employment of not less than 25 hours per week per calendar year (1300 hours) or 25 hours per week per school year (900 hours).

December 27, 1984
Creditable service
7. Pro-ration of creditable service in the case of part-time employees who become full-time or full-time employees who become part-time. Full-time credit shall be considered to be 261 work days and 7 1/2 hours per day, or 1957 hours per annum.

For any part-time, provisional, temporary, seasonal, intermittent or on-call status of employment rendered by an employee prior to, or during membership service status, who becomes, or was employed in a full-time position, shall at the time of retirement, receive full membership service credit for the periods of full-time employment and partial, or pro-rata membership service credit for all categories of less than full-time employment, based upon, as far as practicable, the actual number of hours worked by a regular permanent, full-time employee.

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the County Director Of Finance 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:	E. Mark Zielinski, Chairman		
Appointed Member:	C. Randall Sherman	Term Expires:	12/31/2013
Elected Member:	Mark Foley	Term Expires:	1/6/2015
Elected Member:	Mary Pat Flynn	Term Expires:	1/3/2013
Appointed Member:	Karen V. Walden	Term Expires:	12/31/2014

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. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement . 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:

Treasurer - Custodian:	)	MACRS Blanket Policy:
Ex-officio Member:	)	$50,00,000 Fiduciary Liability
Elected Members:	)	$1,000,000 Fidelity (ERISA) Bond
Appointed Members:	)	St.Paul Travelers Insurance Company
Staff Employees:	)	National Union Fire
		Arch Insurance Company

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, 2010.

The actuarial liability for active members was	$554,727,876
The actuarial liability for inactive members was	14,970,948
The actuarial liability for retired members was	460,511,497
The total actuarial liability was	$1,030,210,321
System assets as of that date were	554,876,554
The unfunded actuarial liability was	$475,333,767
The ratio of system's assets to total actuarial liability was	53.9%
As of that date the total covered employee payroll was	$234,374,075

The normal cost for employees on that date was	9.2% of payroll
The normal cost for the employer (including administrative expenses) was	5.0% of payroll

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

Investment Return:	8.00% per annum
Rate of Salary Increase:	Varies by service and group classification

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2010

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)
1/1/2010	$554,876,554	$1,030,210,321	$475,333,767	53.9%	$234,374,075	202.8%
1/1/2009	$520,089,855	$966,564,614	$446,474,759	53.8%	$249,971,296	178.6%
1/1/2007	$517,396,087	$825,863,068	$308,466,981	62.6%	$226,391,633	136.3%
1/1/2006	$465,637,984	$765,747,723	$300,109,739	60.8%	$215,474,180	139.3%

NOTE 6 - MEMBERSHIP EXHIBIT

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Retirement in Past Years										
Superannuation	95	162	105	112	81	97	93	94	100	137
Ordinary Disability	3	2	7	5	2	3	2	4	3	2
Accidental Disability	16	17	6	11	16	6	21	11	15	10
Total Retirements	114	181	118	128	99	106	116	109	118	149
Total Retirees, Beneficiaries and Survivors	2,039	2,142	2,214	2,171	2,302	2,339	2,413	2,437	2,481	2,495
Total Active Members	4,991	4,982	5,064	5,215	5,306	5,356	5,420	5,346	5,195	4,812
Pension Payments										
Superannuation	$13,698,471	$15,476,175	$18,190,735	$20,179,934	$21,375,419	$22,738,000	$24,330,518	$25,744,588	$27,398,326	$29,997,228
Survivor/Beneficiary Payments	696,997	1,136,978	1,126,534	1,149,720	1,192,560	1,269,008	1,359,771	1,466,605	1,548,989	1,692,407
Ordinary Disability	4,197,824	671,232	729,862	788,725	774,470	781,106	786,418	739,992	780,611	792,511
Accidental Disability	971,722	4,649,317	4,858,995	5,402,366	5,835,695	6,447,773	6,636,089	7,107,835	7,701,100	7,834,604
Other	944,722	1,076,630	1,142,017	1,264,895	1,297,102	1,562,575	1,492,600	1,352,744	1,956,935	2,308,699
Total Payments for Year	$20,509,736	$23,010,332	$26,048,143	$28,785,640	$30,475,245	$32,798,462	$34,605,396	$36,411,764	$39,385,961	$42,625,449

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James H. Quirk, Sr. (1916-1996)
James H. Quirk, Jr.

July 9, 2012

VIA E-MAIL AND FIRST CLASS MAIL

Joseph E. Connarton, Executive Director
Public Employee Retirement Administration Commission
Five Middlesex Avenue, Suite 304
Somerville, MA 02145

RE: BARNSTABLE COUNTY RETIREMENT BOARD
(WRITTEN COMMENTS IN RESPONSE TO PERAC'S EXAMINATION OF THE BARNSTABLE COUNTY RETIREMENT SYSTEM RECORDS FROM JANUARY 1, 2008 TO DECEMBER 31, 2010)
OUR FILE NO. 425/6753

Dear Mr. Connarton:

Please be advised that my client has asked that I provide a response to issues raised in the audit findings presented in the Report.

As the audit points out during the period covered by the audit, the System had more than 5,600 members from 47 member units. The way that PERAC has expressed the audit findings creates the impression that they are significant. This impression is not in keeping with the facts.

The first Finding:

> "• We find that one employer unit has included actual overtime as qualified regular compensation for an extended period involving multiple employees. This was a repetition of a similar situation involving the same unit in a previous period. The system is required to refund deductions associated with this

exception upon determining the extent of the error."

This is a unit which was taking deductions from three (3) employees who received overtime pay. The Retirement Staff has had discussions with the staff performing payroll for the Unit. They have been advised that overtime is not regular compensation. Everything has been done to insure that the employer complies with Chapter 32. The Retirement System has its own safeguards reviewing members' benefits prior to performing calculations to insure pension benefits are solely based on regular compensation based on the number of System wide membership. A Finding related to three (3) individuals is dominus. The correction was made prior to the release of the draft audit making the Finding unnecessary.

The second Finding:

"• We noted some pay types reported by employers were not included as regular compensation qualified for retirement purposes even though the compensation did appear to be consistent with the definition of regular compensation cited in 840 CMR 15.03. These relate to stipends for being on-call and differential premiums based on the time the work was assigned."

This audit Finding relates to a single member of one of the System's units. The issue in questions relates to the consideration of a pager stipend as regular compensation. The deductions were changed at the time they were discovered prior to the release of the draft audit making the Finding unnecessary.

The third Finding:

"• An employer cited PERAC Memo's issued in 2001 to support a pay type relating to vehicle use included as regular compensation qualified for retirement purposes. This Memo had been superseded by several subsequent memos and other correspondence that clarified and reported the results of extensive litigation that contradicted the determination that this compensation qualified for retirement. It was specifically excluded by Chapter 21 of the Acts of 2009."

Two units have few individuals who received the daily rate vehicle allowance of $1.50 travel each way to and from work for 249 days per year that was included on W-2's. The Finding comment indicates that Chapter 21 of the Acts of 2009 specifically excludes these payments from the category of regular compensation. The legislation is much less direct than portrayed. Regardless the deductions were changed before the issuance of the audit which makes the Finding unnecessary.

"• The auditor disputed the Board conclusion relative to an Earnings Code not qualified for retirement deductions. The relevant Collective Bargaining Agreement states the designated 'officer in charge shall receive an additional one (1) hour of overtime per eight hour shift worked ...' Based on this wording; the BCRA Board determined that this compensation is equivalent to 'overtime' and confirmed it did NOT qualify as regular compensation. The Board was reluctant to infer that the contractual language did not specifically clarify the services performed for this compensation and relied primarily on the specific contract reference to 'overtime'. However, PERAC has previously cited similar compensation as qualifying under 840 CMR 15.03 based on the premise that 'the determination of the basis for the ... compensation at an overtime rate does not disqualify the pay type from being considered regular compensation.' This position would apply since it appears this pay otherwise complies with the current statutory and regulatory definition of 'regular compensation'; payment for service rendered that was 'predetermined, non-discretionary and guaranteed payments paid by the employer to similarly situated employees'. Consequently, using an overtime rate as a basis to calculate for the payment of performing this additional service does not disqualify such pay from being regular compensation.

Again, this relates to a Collective Bargaining Agreement interpretation made by the Retirement Board at the request of the Unit Treasurer in 2007.

If the PERAC auditors are looking at the pay codes and then decide to overrule the Board's determination of regular compensation, why is the Board responsible for the review of all contracts and determination of regular compensation?

The last paragraph of the Recommendations shows the contradiction. It states:

> "The Barnstable Retirement Board must be the ultimate authority to determine compensation that qualifies for retirement contributions subject to and within the guidelines prescribed by 804 CMR 15.03."

Finally, if the recommendation for this Finding represents PERAC's view, then the Recommendation should really be part of a memo to all Boards. If they feel this is important enough to add to our audit report I would recommend that they put this in Memo format and share this with all Boards. It is a good suggestion that we audit all Units' pay codes on a regular basis, other Boards would benefit from this suggestion.

I am disappointed that the Findings do not recognize the exceptional efforts of the staff to ensure accurate retirement deductions, estimates and benefits. The Barnstable County Retirement Board and staff are aware of their fiduciary responsibility and their role and responsibility for the efficient administration of the Retirement System.

My client has always worked in the best interest of its members in order to insure that each member can rely upon the accuracy of its determinations.

Thank you for your attention to this matter. Please do not hesitate to contact me should you have any questions.

Very truly yours,

James H. Quirk, Jr.

JHQ:cam

cc: Debra L. Cohen, Executive Director
Harry Chadwick via email only HTChadwick@per.state.ma.us

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