

PERAC AUDIT REPORT



Brockton
Contributory Retirement System



JAN. 1, 2007 - DEC. 31, 2008



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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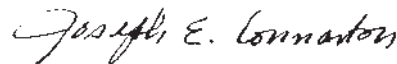
August 9, 2010

The Public Employee Retirement Administration Commission has completed an examination of the Brockton Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2007 to December 31, 2008. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Carol M. Niemira and John J. Shea 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



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Investment Approvals

Brockton Retirement System voted to invest in Ascent Venture Partners V, L.P., a pooled fund, at its May 30, 2008 meeting. The investment was funded that year prior to filing and receiving notice from PERAC's Investment Director that all required regulatory documents had been submitted. An application for exemption from investment restrictions was submitted April 13, 2009, and PERAC approved a supplementary regulation authorizing the investment on April 27, 2009.

Recommendation: The Board must comply with PERAC's Investment Regulations. Written acknowledgement from PERAC is required before funding any investment. PERAC Memorandum #12/2005 dated March 7, 2005 entitled "Overview of Investment Regulations Issues" provides explicit guidance on this issue.

Board Response:

It is the practice of the retirement board to comply with PERAC investment regulations. We cannot explain why this slipped through the cracks. We will take more care in the future.

2. Pooled Funds

Brockton Retirement System invests in more than 20 pooled funds. The System does not make use of the detailed statements issued by the investment managers as its primary data source when determining fees charged to the funds.

For example, the System posted management fees for only three pooled funds to its general ledger in 2008. A review of statements for the period ending December 31, 2008 showed that those postings accounted for approximately one-third of pooled fund fees. For the remaining funds, fees were netted out of unrealized gains or losses. Since these fees are a direct expense to each fund, neglecting to properly account for them understates gains and overstates losses attributable to these investments. In most cases, managers' statements specify fees paid directly from the funds. Fee information should be requested from managers whose statements do not provide that level of detail.

Recommendation: At least quarterly, data from pooled fund managers' statements should be used to post to the general ledger and reconciled to the custodian for accuracy. The System's future Annual Statements must be modified to list pooled fund fees on Schedules 5 and 6.

Board Response:

Letters have been sent to all pooled fund managers requesting management should be separately. Use of the pooled fund worksheet on the PERAC website is recommended.

3. Annuity Reserve Fund

Interest posted to the Annuity Reserve Fund was understated by \$13,896.59 for 2008. This was due to the posting of February's pension payout of \$2,150,665.29 to the Annuity Paid Account rather than the Pension Paid Account. The error was corrected in May 2008.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation: An adjusting entry (debit #3297 Pension Reserve Fund, credit #3294 Annuity Reserve Fund in the amount of \$13,896.59, posting date of 12/31/2009) should be made to correct the understated interest.

Board Response:

This was corrected during the audit.

4. Option C Retirees

The auditor sampled selected retiree files to determine if the superannuation benefit was correctly calculated and that the payroll matches the monthly allowance. Six out of eight Option C retiree files examined provided no marriage certificate to verify the spousal status of named beneficiaries.

Recommendation: The choice of Option C beneficiary is strictly limited to spouse, former spouse (provided he or she has not yet remarried), child, parent, or sibling. The Board should confirm the eligible status of any spouse chosen as beneficiary by inspecting a marriage certificate. A copy of this record should be maintained in the file.

Board Response:

The staff has instituted the procedure to obtain marriage certificates.

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,	
	2008	2007
Net Assets Available For Benefits:		
Cash	\$6,302,363	\$12,652,382
Short Term Investments	0	0
Fixed Income Securities	52,718,533	54,401,281
Equities	98,025,502	167,545,319
Pooled International Equity Funds	21,553,415	43,675,517
Pooled Global Equity Funds	16,219,928	25,729,638
Pooled Domestic Fixed Income Funds	4,474,397	3,369,977
Pooled Global Fixed Income Funds	22,544,923	20,540,182
Pooled Alternative Investment Funds	12,079,544	10,913,553
Pooled Real Estate Funds	22,119,165	23,713,645
Pooled Domestic Balanced Funds	10,790,047	30,046,016
PRIT Cash Fund	0	0
PRIT Core Fund	0	0
Interest Due and Accrued	818,010	823,188
Accounts Receivable	695,089	1,275,045
Accounts Payable	(870,850)	(2,745,155)
Total	<u>\$267,470,068</u>	<u>\$391,940,587</u>
Fund Balances:		
Annuity Savings Fund	\$67,485,798	\$65,879,305
Annuity Reserve Fund	26,464,781	24,001,429
Pension Fund	60,625,148	75,116,503
Military Service Fund	70,144	65,541
Expense Fund	0	0
Pension Reserve Fund	<u>112,824,197</u>	<u>226,877,810</u>
Total	<u>\$267,470,068</u>	<u>\$391,940,587</u>

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 (2007)	\$62,527,575	\$23,560,348	\$89,716,421	\$60,680	\$0	\$199,998,435	\$375,863,460
Receipts	7,149,765	700,060	11,165,056	364	3,081,850	26,883,871	48,980,967
Interfund Transfers	(3,253,457)	3,253,457	0	4,496	0	(4,496)	0
Disbursements	(544,579)	(3,512,437)	(25,764,974)	0	(3,081,850)	0	(32,903,840)
Ending Balance (2007)	65,879,305	24,001,429	75,116,503	65,541	0	226,877,810	391,940,587
Receipts	7,728,460	723,187	12,285,336	395	2,451,939	(114,048,868)	(90,859,550)
Interfund Transfers	(5,473,309)	5,473,846	0	4,208	0	(4,745)	0
Disbursements	(648,658)	(3,733,681)	(26,776,691)	0	(2,451,939)	0	(33,610,970)
Ending Balance (2008)	<u>\$67,485,798</u>	<u>\$26,464,781</u>	<u>\$60,625,148</u>	<u>\$70,144</u>	<u>\$0</u>	<u>\$112,824,197</u>	<u>\$267,470,068</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2008	2007
Annuity Savings Fund:		
Members Deductions	\$6,898,406	\$6,571,993
Transfers from Other Systems	314,897	78,603
Member Make Up Payments and Re-deposits	144,828	137,599
Member Payments from Rollovers	0	0
Investment Income Credited to Member Accounts	<u>370,330</u>	<u>361,571</u>
Sub Total	<u>7,728,460</u>	<u>7,149,765</u>
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	<u>723,187</u>	<u>700,060</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	168,970	146,497
Pension Fund Appropriation	1,200,173	412,006
Pension Fund Appropriation	10,916,193	10,606,552
Settlement of Workers' Compensation Claims	<u>0</u>	<u>0</u>
Sub Total	<u>12,285,336</u>	<u>11,165,056</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	0	0
Investment Income Credited to the Military Service Fund	<u>395</u>	<u>364</u>
Sub Total	<u>395</u>	<u>364</u>
Expense Fund:		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>2,451,939</u>	<u>3,081,850</u>
Sub Total	<u>2,451,939</u>	<u>3,081,850</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	29,370	33,221
Pension Reserve Appropriation	0	3,000
Interest Not Refunded	5,111	8,096
Miscellaneous Income	3,005	5,164
Excess Investment Income (Loss)	<u>(114,086,354)</u>	<u>26,834,390</u>
Sub Total	<u>(114,048,868)</u>	<u>26,883,871</u>
Total Receipts (Net)	<u>(\$90,859,550)</u>	<u>\$48,980,967</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2008	2007
Annuity Savings Fund:		
Refunds to Members	\$396,872	\$271,286
Transfers to Other Systems	<u>251,786</u>	<u>273,293</u>
Sub Total	<u>648,658</u>	<u>544,579</u>
Annuity Reserve Fund:		
Annuities Paid	3,640,631	3,297,240
Option B Refunds	<u>93,050</u>	<u>215,197</u>
Sub Total	<u>3,733,681</u>	<u>3,512,437</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	16,818,762	15,919,655
Survivorship Payments	1,324,959	1,065,198
Ordinary Disability Payments	362,506	340,597
Accidental Disability Payments	6,558,207	6,251,052
Accidental Death Payments	1,017,094	1,446,188
Section 101 Benefits	148,991	152,099
3 (8) (c) Reimbursements to Other Systems	546,172	590,184
State Reimbursable COLA's Paid	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>26,776,691</u>	<u>25,764,974</u>
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
Expense Fund:		
Board Member Stipend	16,685	16,384
Salaries	263,859	257,487
Legal Expenses	21,285	23,820
Medical Expenses	0	0
Travel Expenses	18,558	4,818
Administrative Expenses	53,790	29,996
Professional Services	0	0
Education and Training	0	0
Furniture and Equipment	99	0
Management Fees	1,577,464	2,248,759
Custodial Fees	158,259	136,018
Consultant Fees	173,100	171,550
Rent Expenses	38,254	38,506
Service Contracts	68,616	91,744
Fiduciary Insurance	61,969	62,769
Depreciation	<u>0</u>	<u>0</u>
Sub Total	<u>2,451,939</u>	<u>3,081,850</u>
Total Disbursements	<u>\$33,610,970</u>	<u>\$32,903,840</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,	
	2008	2007
Investment Income Received From:		
Cash	\$268,180	\$427,911
Short Term Investments	0	48,791
Fixed Income	3,724,615	3,727,957
Equities	2,989,758	2,264,143
Pooled or Mutual Funds	2,564,535	1,689,334
Commission Recapture	<u>142,506</u>	<u>76,077</u>
Total Investment Income	<u>9,689,595</u>	<u>8,234,213</u>
Plus:		
Realized Gains	7,435,686	22,056,324
Unrealized Gains	48,112,442	53,207,745
Interest Due and Accrued - Current Year	<u>818,010</u>	<u>823,188</u>
Sub Total	<u>56,366,138</u>	<u>76,087,256</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	(233,766)	(490,485)
Realized Loss	(102,001,868)	(24,218,992)
Unrealized Loss	(73,537,413)	(27,808,938)
Interest Due and Accrued - Prior Year	<u>(823,188)</u>	<u>(823,331)</u>
Sub Total	<u>(176,596,235)</u>	<u>(53,341,746)</u>
Net Investment Income (Loss)	<u>(110,540,502)</u>	<u>30,979,724</u>
Income Required:		
Annuity Savings Fund	370,330	361,571
Annuity Reserve Fund	723,187	700,060
Military Service Fund	395	364
Expense Fund	<u>2,451,939</u>	<u>3,081,850</u>
Total Income Required	<u>3,545,851</u>	<u>4,143,846</u>
Net Investment Income (Loss)	<u>(110,540,502)</u>	<u>30,979,724</u>
Less: Total Income Required	<u>3,545,851</u>	<u>4,143,846</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>(\$114,086,354)</u>	<u>\$26,835,878</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2008			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$6,302,363	2.4%	1%
Short Term	0	0.0%	
Fixed Income	52,718,533	19.8%	30%
Equities	98,025,502	36.7%	34%
Pooled International Equity Funds	21,553,415	8.1%	13%
Pooled Global Equity Funds	16,219,928	6.1%	13%
Pooled Domestic Fixed Income Funds	4,474,397	1.7%	30%
Pooled Global Fixed Income Funds	22,544,923	8.4%	8%
Pooled Alternative Investment Funds	12,079,544	4.5%	6%
Pooled Real Estate Funds	22,119,165	8.3%	8%
Pooled Domestic Balanced Funds	10,790,047	4.0%	
PRIT Cash Fund	0	0.0%	
PRIT Core Fund	0	0.0%	
Grand Total	<u>\$266,827,819</u>	<u>100.0%</u>	

*based upon current target weights

For the year ending December 31, 2008, the rate of return for the investments of the Brockton Retirement System was -29.26%. For the five-year period ending December 31, 2008, the rate of return for the investments of the Brockton Retirement System averaged 0.95%. For the twenty-four-year period ending December 31, 2008, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Brockton Retirement System was 8.44%.

The composite rate of return for all retirement systems for the year ending December 31, 2008 was -28.61%. For the five-year period ending December 31, 2008, the composite rate of return for the investments of all retirement systems averaged 3.13%. For the twenty-four-year period ending December 31, 2008, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 8.94%.

SUPPLEMENTARY INVESTMENT REGULATIONS

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

July 16, 2009

16.08

In accordance with Investment Guideline 99-2, the Brockton Retirement Board is authorized to modify its international fixed income mandate with Mondrian Investment Partners by transferring assets from the Delaware Investments DPT International Fixed Income Fund to the Mondrian Global Fixed Income Fund. As a result of this transfer, the Board will have its funds managed by essentially the same investment team it hired in 1999, with the same strategy, and with a slightly reduced management fee.

April 27, 2009

16.08

In accordance with Investment Guideline 99-3, the Brockton Retirement Board is authorized to invest in Ascent Venture Partners V. The Board has been a satisfied investor in Ascent Ventures' three predecessor partnerships and has submitted the required regulatory documents.

December 17, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Brockton Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO Non-US Partnership Fund III, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

December 8, 2003

16.08

In accordance with PERAC Investment Guideline 99-3, the Brockton Retirement Board may invest in Ascent Venture Partners IV, L.P. The board has had a satisfactory relationship with Ascent Venture Partners through investment in the firm's two prior partnerships. The Board seeks to maintain its targeted level of investment in venture capital as two of its current investments in this asset class are in the process of returning capital.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

August 13, 2002

Notwithstanding the provisions of the Public Employee Retirement Administration Commission Regulations, the Brockton Retirement Board may invest funds of the Brockton Contributory Retirement System (the "System") with the real estate investment fund known as Realty Associates Fund VI Corporation (the "Fund"), and while the assets of the System are so invested,

(i) the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., the System's interest in the Fund but not any of the underlying assets of the Fund or the operating partnership in which the Fund is invested (the "OP"); provided that, at all times, the Fund and the OP qualify as "venture capital operating companies" or "real estate operating companies" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated thereunder, or the assets of the Fund and the OP otherwise would not be treated as plan assets under ERISA; and

(ii) the limitation set forth in 840 CMR 19.01(6) shall be deemed satisfied if no single investment of the OP, valued at cost, exceeds 20% of the capital commitments to the Fund and the OP.

November 15, 2001

1. Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c) – This Regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, that sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to operate. Consequently, the Brockton Retirement Board's request as it applies to 840 CMR 17.04(1)(c) is approved.

2. Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for in the Partnership Agreement and/or as disclosed in INVESCO's Form ADV – This Regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Brockton Retirement Board's request as it applies to 840 CMR 17.04(6).

3. Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Brockton Retirement Board's request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

4. Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) to the extent as otherwise permitted under the applicable agreement – These Regulations prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (short sales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01(5) prohibits the purchase of options other than as required to close out option positions. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows:“ Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for nonspeculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of the funds.”

PERAC approves the exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) for the limited purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in a non US currency.

Please be advised that this Supplemental Regulation as it exempts the Brockton Retirement Board from PERAC Regulations, only does so in relation to the INVESCO Funds that are the subject of the Supplementary Regulation. In all other circumstances, these Regulations apply to the Brockton Retirement Board.

The Supplementary Regulations approved herein are applicable only to the Brockton Retirement System's investment in the INVESCO Non-U.S. Partnership Fund III. Exemption from the regulations pertaining to prohibited investments is limited to the purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limiting currency risk of the funds where a commitment to a fund was made in a non-U.S. currency.

March 15, 2000

16.08

In accordance with PERAC Investment Guideline 99-3, the Brockton Retirement Board may invest in Ascent Venture Partners III, L.P. The board has had a positive relationship with the vendor in its investment in Ascent Venture Partners II, L.P. and has submitted the required documentation relative to this new investment.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Brockton Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

RATE OF INTEREST

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

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

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

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

WITHDRAWAL OF CONTRIBUTIONS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$708.60 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of \$100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of \$1,440 per year for the first child, and \$1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash is considered to be funds on deposit with banks and is 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 of the 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

June 20, 1991

Creditable Service:

Board will grant full-time creditable service to all employees working twenty or more hours per week effective July 1, 1991.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, 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: Heidi Chuckran

Appointed Member: William Farmer, Chairman Term Expires: 1/31/13

Elected Member: William Parlow Term Expires: 6/30/12

Elected Member: Edward Mack Term Expires: 6/30/10

Appointed Member: Matthew McLaughlin Term Expires: 12/31/11

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 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:)	\$10,000,000 fiduciary liability policy through
Ex-officio Member:)	National Union Fire Insurance Co. of Pittsburgh,
Elected Members:)	Pa. Separate fidelity bond for coverage pertaining
Appointed Members:)	to ERISA/Crime to a limit of \$1,000,000 issued
Staff Employees:)	through Travelers Casualty and Surety Company
)	(MACRS policy), deductible \$10,000.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants, LLC as of January 1, 2008.

The actuarial liability for active members was	\$186,589,996
The actuarial liability for retired and inactive members was	<u>250,532,902</u>
The total actuarial liability was	437,122,898
System assets as of that date were	<u>392,205,582</u>
The unfunded actuarial liability was	<u>\$44,917,316</u>
The ratio of system's assets to total actuarial liability was	89.7%
As of that date the total covered employee payroll was	\$74,357,273

The normal cost for employees on that date was	8.27% of payroll
The normal cost for the employer was	6.58% 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 group and service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2008

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)
1/1/2008	\$392,205,582	\$437,122,898	\$44,917,316	89.7%	\$74,357,273	60.4%
1/1/2007	\$375,863,460	\$421,210,968	\$45,347,508	89.2%	\$72,260,162	62.8%
1/1/2006	\$346,311,739	\$399,505,110	\$53,193,371	86.7%	\$69,892,659	76.1%
1/1/2005	\$233,723,778	\$376,361,371	\$142,637,593	62.1%	\$69,027,871	206.6%
1/1/2004	\$208,285,714	\$359,824,966	\$151,539,252	57.9%	\$67,054,199	226.0%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Retirement in Past Years										
Superannuation	44	37	32	37	29	5	37	39	48	48
Ordinary Disability	0	1	1	0	0	0	2	0	1	1
Accidental Disability	9	5	2	1	11	0	3	6	6	9
Total Retirements	53	43	35	38	40	5	42	45	55	58
Total Retirees, Beneficiaries and Survivors	1,276	1,282	1,229	1,281	1,274	1,226	1,223	1,282	1,300	1,320
Total Active Members	1,647	1,701	1,822	1,907	1,921	1,921	1,919	1,911	1,889	1,817
Pension Payments										
Superannuation	\$9,677,180	\$10,676,791	\$11,147,418	\$12,047,528	\$12,780,874	\$13,552,408	\$14,413,927	\$15,264,544	\$15,919,655	\$16,818,762
Survivor/Beneficiary Payments	3,947,316	926,506	954,249	1,043,113	1,060,918	1,088,500	1,108,494	1,209,414	1,065,198	1,324,959
Ordinary Disability	311,325	305,926	326,077	313,021	311,007	301,242	339,475	321,733	340,597	362,506
Accidental Disability	759,028	4,277,810	4,428,052	4,475,317	5,169,507	5,286,462	5,383,033	5,672,024	6,251,052	6,558,207
Other	1,204,471	1,414,884	954,914	1,234,910	1,205,249	1,316,748	1,422,585	1,707,386	2,188,471	1,712,257
Total Payments for Year	<u>\$15,899,320</u>	<u>\$17,601,917</u>	<u>\$17,810,710</u>	<u>\$19,113,889</u>	<u>\$20,527,555</u>	<u>\$21,545,360</u>	<u>\$22,667,514</u>	<u>\$24,175,101</u>	<u>\$25,764,974</u>	<u>\$26,776,691</u>

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