PERAC AUDIT REPORT

Brookline
Contributory Retirement System

JAN. 1, 2009 - DEC. 31, 2011

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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October 12, 2012

The Public Employee Retirement Administration Commission has completed an examination of the Brookline Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2009 to December 31, 2011. 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 James Ryan 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

FIVE MIDDLESEX AVENUE, SUITE 304 | SOMERVILLE, MA 02145
PH 617 666 4446 | FAX 617 628 4002 | TTY 617 591 8917 | WWW.MASS.GOV/PERAC

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Board Member Attendance

A review of meeting attendance by Board members revealed an unacceptable level of absenteeism for one Board member. The Board member missed 38% of the meetings in 2009 and 31% of the meetings held in 2010. The result is an attendance rate that is below the seventy-five percent minimum considered reasonable. Such a level of absenteeism is considered excessive.

Recommendation: Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the schedule of Board meetings in order to better accommodate its members. In instances where a significant level of absenteeism occurs, it is the Board's responsibility to take appropriate action with members who fail to maintain minimum attendance requirements.

Board Response:

The Board understands its obligation and all the members take it very seriously. With the recent adoption of remote participation, the Board does not see this as an issue in the future.

2. Investment Consultant

The Retirement Board hired an Investment Consultant in 2009 before submitting the required regulatory documents to PERAC's Investment Director as required by 840 CMR 26.

Recommendation: The Board must comply with PERAC's Investment Regulations 840 CMR 26 which provides guidelines on specific paperwork to be filed with the Commission prior to the actual hiring of the Consultant.

Board Response:

The Board hired an Investment Consultant in 2009 and received PERAC approval prior to any funds being dispersed for their services. The Board understands the importance of PERAC regulations and will see that this does not happen in the future.

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, 2011	2010	2009
Net Assets Available For Benefits:			
Cash	$1,209,109	$2,402,589	$2,026,292
Equities	20,285,011	31,403,876	37,646,838
Pooled Domestic Equity Funds	20,411,618	31,555,496	31,216,592
Pooled International Equity Funds	19,272,085	28,626,144	21,712,070
Pooled Domestic Fixed Income Funds	39,915,336	45,529,513	43,020,024
Pooled International Fixed Income Funds	8,957,261	13,366,158	11,801,763
Pooled Alternative Investment Funds	33,159,807	30,754,088	35,204,890
Pooled Real Estate Funds	10,431,147	8,326,055	6,121,828
Hedge Funds	19,933,165	19,464,679	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	29,850,324	633,186	559,297
Interest Due and Accrued	0	388	21
Accounts Receivable	1,126,378	169,295	55,273
Accounts Payable	(70,748)	(182,232)	(37,292)
Total	$204,480,493	$212,049,235	$189,327,596
Fund Balances:			
Annuity Savings Fund	$60,772,436	$58,926,480	$56,299,657
Annuity Reserve Fund	22,978,092	22,302,016	22,297,420
Pension Fund	0	0	0
Military Service Fund	14,335	14,307	14,264
Expense Fund	0	0	0
Pension Reserve Fund	120,715,629	130,806,432	110,716,254
Total	$204,480,493	$212,049,235	$189,327,596

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 (2009)	$56,034,991	$20,063,070	$321,802	$14,193	$0	$82,862,712	$159,296,767
Receipts	5,867,329	626,311	13,473,114	71	1,273,440	33,752,064	54,992,328
Interfund Transfers	(4,662,781)	4,664,565	5,896,738	0	0	(5,898,522)	0
Disbursements	(939,882)	(3,056,525)	(19,691,654)	0	(1,273,440)	0	(24,961,500)
Ending Balance (2009)	56,299,657	22,297,420	0	14,264	0	110,716,254	189,327,596
Receipts	5,863,540	655,574	16,183,139	43	1,463,848	24,412,352	48,578,495
Interfund Transfers	(2,573,446)	2,573,340	4,322,280	0	0	(4,322,174)	0
Disbursements	(663,270)	(3,224,319)	(20,505,419)	0	(1,463,848)	0	(25,856,856)
Ending Balance (2010)	58,926,480	22,302,016	0	14,307	0	130,806,432	212,049,235
Receipts	6,015,518	657,151	15,891,078	29	1,540,783	(4,907,123)	19,197,436
Interfund Transfers	(3,452,761)	3,453,548	5,182,892	0	0	(5,183,679)	0
Disbursements	(716,802)	(3,434,623)	(21,073,970)	0	(1,540,783)	0	(26,766,178)
Ending Balance (2011)	$60,772,436	$22,978,092	$0	$14,335	$0	$120,715,629	$204,480,493

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2011	2010	2009
Annuity Savings Fund:			
Members Deductions	$5,400,090	$5,286,198	$5,230,176
Transfers from Other Systems	417,178	274,600	167,069
Member Make Up Payments and Re-deposits	66,028	131,064	208,405
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	132,222	171,678	261,680
Sub Total	6,015,518	5,863,540	5,867,329
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	657,151	655,574	626,311
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	248,927	243,286	227,511
Received from Commonwealth for COLA and Survivor Benefits	617,151	618,366	658,761
Pension Fund Appropriation	15,025,000	15,321,487	12,568,346
Settlement of Workers' Compensation Claims	0	0	18,496
Sub Total	15,891,078	16,183,139	13,473,114
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	29	43	71
Sub Total	29	43	71
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	1,540,783	1,463,848	1,273,440
Sub Total	1,540,783	1,463,848	1,273,440
Pension Reserve Fund:			
Federal Grant Reimbursement	22,366	48,630	42,957
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	5,432	4,539	4,885
Miscellaneous Income	448	(6,636)	22,717
Excess Investment Income (Loss)	(4,935,370)	24,365,819	33,681,505
Sub Total	(4,907,123)	24,412,352	33,752,064
Total Receipts, Net	$19,197,436	$48,578,495	$54,992,328

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Annuity Savings Fund:			
Refunds to Members	$360,033	$344,660	$425,242
Transfers to Other Systems	356,769	318,610	514,640
Sub Total	716,802	663,270	939,882
Annuity Reserve Fund:			
Annuities Paid	3,434,623	3,224,319	3,056,525
Option B Refunds	0	0	0
Sub Total	3,434,623	3,224,319	3,056,525
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	11,343,938	11,123,282	11,146,230
Survivorship Payments	1,301,425	1,306,729	1,219,046
Ordinary Disability Payments	238,105	223,412	232,304
Accidental Disability Payments	5,491,911	5,366,248	4,995,899
Accidental Death Payments	1,140,448	1,072,245	1,075,574
Section 101 Benefits	235,962	231,379	243,960
3 (8) (c) Reimbursements to Other Systems	451,981	555,665	400,275
State Reimbursable COLA's Paid	870,199	626,460	378,364
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	21,073,970	20,505,419	19,691,654
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	0	0	0
Expense Fund:			
Board Member Stipend	0	0	0
Salaries	273,371	279,275	279,637
Legal Expenses	32,601	15,735	19,708
Medical Expenses	0	0	0
Travel Expenses	10,735	5,193	5,335
Administrative Expenses	25,868	21,830	50,654
Professional Services	0	21,000	0
Furniture and Equipment	0	0	1,700
Management Fees	975,814	850,057	734,263
Custodial Fees	92,531	98,739	85,360
Consultant Fees	115,000	107,079	83,493
Service Contracts	0	50,645	100
Fiduciary Insurance	14,864	14,296	13,191
Sub Total	1,540,783	1,463,848	1,273,440
Total Disbursements	$26,766,178	$25,856,856	$24,961,500

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2011	2010	2009
Investment Income Received From:			
Cash	$957	$2,762	$2,920
Equities	477,499	650,814	845,863
Pooled or Mutual Funds	3,188,606	2,729,230	1,076,559
Commission Recapture	0	0	0
Total Investment Income	3,667,062	3,382,806	1,925,343
Plus:			
Realized Gains	3,553,685	3,625,186	3,851,674
Unrealized Gains	24,037,791	38,715,677	50,541,808
Interest Due and Accrued - Current Year	0	388	21
Sub Total	27,591,477	42,341,251	54,393,504
Less:			
Realized Loss	(1,579,065)	(1,552,493)	(5,925,047)
Unrealized Loss	(32,284,270)	(17,514,582)	(14,550,038)
Interest Due and Accrued - Prior Year	(388)	(21)	(755)
Sub Total	(33,863,723)	(19,067,097)	(20,475,840)
Net Investment Income (Loss)	(2,605,184)	26,656,961	35,843,007
Income Required:			
Annuity Savings Fund	132,222	171,678	261,680
Annuity Reserve Fund	657,151	655,574	626,311
Military Service Fund	29	43	71
Expense Fund	1,540,783	1,463,848	1,273,440
Total Income Required	2,330,185	2,291,142	2,161,501
Net Investment Income (Loss)	(2,605,184)	26,656,961	35,843,007
Less: Total Income Required	2,330,185	2,291,142	2,161,501
Excess Income (Loss) To The Pension Reserve Fund	($4,935,370)	$24,365,819	$33,681,505

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2011	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$1,209,109	0.6%
Equities	20,285,011	10.0%
Pooled Domestic Equity Funds	20,411,618	10.0%
Pooled International Equity Funds	19,272,085	9.5%
Pooled Domestic Fixed Income Funds	39,915,336	19.6%
Pooled International Fixed Income Funds	8,957,261	4.4%
Pooled Alternative Investment Funds	33,159,807	16.3%
Pooled Real Estate Funds	10,431,147	5.1%
Hedge Funds	19,933,165	9.8%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	29,850,324	14.7%
Grand Total	$203,424,863	100.0%

For the year ending December 31, 2011, the rate of return for the investments of the Brookline Retirement System was -1.39%. For the five-year period ending December 31, 2011, the rate of return for the investments of the Brookline Retirement System averaged 1.25%. For the 27-year period ending December 31, 2011, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Brookline Retirement System was 8.68%.

The composite rate of return for all retirement systems for the year ending December 31, 2011 was 0.27%. For the five-year period ending December 31, 2011, the composite rate of return for the investments of all retirement systems averaged 1.38%. For the 27-year period ending December 31, 2011, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.11%.

SUPPLEMENTARY INVESTMENT REGULATIONS

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

November 2, 2010
21.01(2)-(5)
About 85% of the portfolio activity of the Wellington Management Company Commodities approach will consist of futures contracts. Almost all of the futures contracts used will be exchange-traded on U.S. exchanges. A small portion of the portfolio could consist of over-the-counter swaps, puts and/or calls, ETFs, or contracts based in foreign exchanges. The manager will have net long-only positions on all commodities used in the fund, although short positions on specific contracts may be taken when valuation inefficiencies are observed.

September 8, 2008
16.08
In accordance with Investment Guideline 99-3, the Brookline Retirement Board is authorized to invest in INVESCO Venture Partnership Fund V, L.P. The Board has been a satisfied investor in a predecessor fund. Performance has been good and the portfolio management team is essentially unchanged. The manager has submitted an updated Exemption Application.

September 24, 2007
16.08
The Brookline Retirement Board is authorized to invest in State Street Global Advisors' MSCI-EAFE Fund on a temporary basis. After several months of having the firm on "watch" due to long-term underperformance, the Board voted to terminate its previous international equity manager, The Boston Company, on September 18, 2007. The SSgA fund was selected for this mandate because the Board has two existing index fund relationships with the firm and SSgA offered the lowest cost, most efficient option.

September 24, 2007
16.08
The Brookline Retirement Board is authorized to invest in State Street Global Advisors' Lehman Aggregate Index Fund. At its September 18, 2007 meeting, the Board terminated its investment grade bond mandate with BlackRock for long-term underperformance. The SSgA fund was selected for this mandate because the Board has two existing index fund relationships with the firm and SSgA offered the lowest cost, most efficient option.

May 7, 2007
16.08
In accordance with Investment Guideline 99-3, the Brookline Retirement Board is authorized to invest in HarbourVest Partners VIII. The Board has been a satisfied investor in HarbourVest's predecessor fund, which has had a strong return to date. The management team remains essentially intact, the strategy is unchanged, and the Board has submitted the required updated regulatory documents.

April 6, 2001
21.01
The Brookline Retirement Board has authorized State Street Research & Management Company to utilize financial futures and options in the management of its fixed income portfolio. These instruments will be used solely as tools to manage portfolio risk with regard to such measures as duration, convexity, and yield curve analysis. Use of these instruments is limited to 25% of the total value of the fixed income portfolio. (All other Prohibited Investments of 21.01 still apply).

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 Brookline Retirement Board 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 Brookline 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 Brookline Retirement Board request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.

June 28, 1999
21.01
The Brookline Retirement Board has authorized State Street Research & Management Company to utilize financial futures and options in the management of its fixed income portfolio. These instruments will be used solely as tools to manage portfolio risk with regard to such measures as duration, convexity, and yield curve analysis. Use of these instruments is limited to 25% of the total value of the fixed income portfolio.
(All other Prohibited Investments of 21.01 still apply).

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

March 7, 1996
20.03(1)
Equity investments shall not exceed 60% of the total book value of the portfolio at the time of purchase.

November 11, 1995
20.06(8)
Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve month period, excluding cash and short term obligations.
20.07(6)
Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve month period.

February 21, 1992
4.03:
Copies to be Sent to PERA Within four (4) weeks of the close of each month, after all entries for the month have been posted and a trial balance performed, the board shall send to the Public Employee Retirement Administration a photocopy of the following for the month:
(a)cash book entries;
(b)trial balance; and
(c)journal entries.

February 20, 1991
16.02(4)
The board may charge custodian bank expenses against earned income from investments in an amount not to exceed $29,763.96.

December 11, 1991
16.02(3)
The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:
(a)1% of the value of the fund for the first $5 million; and
(b)0.5% of the value of the fund in excess of $5 million.

16.02(4)
The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one year .08% of the value of the fund.

September 12, 1990
20.03(1)
Equity investments shall not exceed 50% of the total book value of the portfolio at the time of purchase.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

August 24, 1989
20.03(4)
International equity and fixed income investments shall not exceed 15% of the total portfolio valued at market.

20.04(6)
Foreign corporations and obligations issued and guaranteed by foreign governments.

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

February 9, 1989
4.03(1)
Within four (4) weeks of the close of each month, after all entries for the month have been posted and a trial balance performed, the board shall send to the Public Employee Retirement Administration a
photocopy of the following for the month:
(a)monthly checking account activity
(b)trial balance
(c)journal entries

4.03(2)
The board shall instruct its custodian bank to send to the Public Employee Retirement Administration a tape of daily cash settlement activity and purchase and sale transaction information within four (4) weeks of the close of each month.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Brookline 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.

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.

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". "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. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. 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 $774.36 per year 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. An additional $15.00 per year of service, not to exceed $300 annually may be added to the benefit in systems in which the local option contained in G.L. 32, S. 7(2)(e) has been adopted.

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 $774.36 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 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.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

November 12, 2003

Membership

All part-time, provisional, temporary of intermittent employees who are regularly scheduled to work twenty (20) hours per week are required to become members of the Brookline Contributory Retirement System and to make weekly contributions to the system pursuant to G.L.c.32, 22 (1)(B). Those employees who are not regularly scheduled to work at least twenty (20) hours per week will not be allowed membership in the Brookline Contributory Retirement System.

All appointed officials serving in non-compensated positions are ineligible for membership in the Brookline Contributory Retirement System.

All non-elected appointed officials, board members and commissioners who receive compensation and work less than twenty (20) hours per week are eligible for membership in the System. Creditable service shall be one (1) year of creditable service for every year of service in such capacity, so long as the member does not receive in excess of one (1) year of combined service for dual functions in any calendar year.

Any permanent employee of the Brookline School Department who is not a certified teacher is eligible for membership in the retirement system. Said employees will be granted credit for a full year of creditable service if they are employed full time for the job they perform even if the job only occurs during the school year.

The Board shall have full jurisdiction to determine the eligibility of employees for membership in all cases involving part-time, provisional, temporary provisional, seasonal or intermittent employment.

Creditable Service

A member whose entire service is in a part-time position shall receive one year of creditable service for each year worked provided the member works the number of hours required by the position held.

A member employed on a part-time basis who becomes a full-time employee for more than fifteen months provided those fifteen months are to be used in as part of the retirement allowance calculation in accordance with section 5(1) shall receive credit for his part-time service on a pro-rated basis as is relates to a full-time position.

A member employed on a full-time basis who becomes part-time shall receive credit for his part-time service on a pro rated basis as it relates to a full-time position.

Part-time membership service performed on or before [the date of the regulation] shall be credited with full-time service. Thereafter, all part-time service shall receive credit in accordance with the rules stated in this regulation.

NOTES TO FINANCIAL STATEMENTS (Continued)

Any member in service authorized by law to purchase prior creditable service may purchase such creditable service by authorizing a payroll deduction of not less than $25.00 per week for a period not to exceed five (5) years.

Federal Grant Service

1. Employees of a member unit of the Brookline Contributory Retirement System, whose compensation is paid through a federal grant and whose employment terms and conditions would otherwise qualify them for membership, are eligible for membership in the Brookline Contributory Retirement System.

2. Members of the Brookline Contributory Retirement System who previously rendered service in a member unit under a Federal Grant (e.g. CETA, EAP, Title 1, LEAA,) but were excluded or omitted from membership in the Brookline Contributory Retirement System due solely to the federal source of payment of the compensation, and whose employment terms and conditions would otherwise qualify them for membership in the Brookline Contributory Retirement System to the date of such exclusion or omission, upon full and complete payment into the retirement system of the appropriate retirement contribution. Such members are entitled to the benefits of membership which were in effect at the time of such exclusion or omission.

3. Members of the Brookline Contributory Retirement System who have rendered prior employment service in a non-member unit and whose compensation for such service was paid through a federal grant, are eligible to purchase creditable service for such prior employment service, if such prior employment service, if rendered in a member unit, would have been eligible to be purchased. The grant of creditable service for such prior employment service shall not serve to establish retroactive membership in the Brookline Contributory Retirement System.

Forms

Every employee who becomes a member of the Brookline Contributory Retirement System must fill out the necessary forms as furnished by the Retirement Board and name a beneficiary. At the time of enrollment, the member must also furnish the board with a copy of their birth certificate, and if a veteran, a copy of the Discharge of Military Service which shall be kept on file by the Board.

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 Town Comptroller 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:	Judith A. Haupin		
Appointed Member:	Stephen E. Cirillo	Term Expires:	1/15/15
Elected Member:	Robert Ward	Term Expires:	12/19/14
Elected Member:	James J. Riley, Chairman	Term Expires:	12/19/14
Appointed Member:	Gary D. Altman	Term Expires:	1/22/15

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:	)	$50,000,000 Fiduciary Liability
Elected Members:	)	$1,000,000 Fidelity (ERISA) Bond
Appointed Members:	)	St. Paul Travelers Insurance Company
Staff Employees:	)	National Union Fire

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Group, Inc. as of January 1, 2010.

The actuarial liability for active members was	$146,010,638
The actuarial liability for inactive members was	9,901,905
The actuarial liability for retired members was	202,068,372
The total actuarial liability was	$357,980,915
System assets as of that date were	220,576,982
The unfunded actuarial liability was	$137,403,933
The ratio of system's assets to total actuarial liability was	61.6%
As of that date the total covered employee payroll was	$58,622,493

The normal cost for employees on that date was	9.0% of
The normal cost for the employer including administrative expenses was	4.8% of

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

Investment Return:	8.15% per annum
Rate of Salary Increase:	5.00% per annum

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	$220,576,982	$357,980,915	$137,403,933	61.6%	$58,622,493	234.4%
1/1/2008	$223,598,975	$332,222,063	$108,623,088	67.3%	$59,789,007	181.7%
1/1/2006	$190,818,205	$299,355,769	$108,537,564	63.7%	$57,008,822	190.4%
1/1/2004	$177,153,465	$265,441,629	$88,288,164	66.7%	$52,378,086	168.6%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Retirement in Past Years										
Superannuation	33	22	26	27	18	36	3	52	22	30
Ordinary Disability	1	0	1	0	0	1	1	0	0	0
Accidental Disability	6	9	6	11	5	4	2	5	4	7
Total Retirements	40	31	33	38	23	41	6	57	26	37
Total Retirees, Beneficiaries and Survivors	803	844	842	841	827	841	844	847	849	865
Total Active Members	1,450	1,562	1,702	1,599	1,778	1,843	1,925	1,383	1,292	1,338
Pension Payments										
Superannuation	$7,410,872	$7,767,003	$8,232,313	$8,656,924	$9,387,117	$9,684,205	$10,369,545	$11,146,230	$11,123,282	$11,343,938
Survivor/Beneficiary Payments	824,253	925,202	932,587	947,792	1,019,697	1,079,345	1,171,785	1,219,046	1,306,729	1,301,425
Ordinary Disability	177,576	166,957	181,840	169,168	167,335	258,081	171,347	232,304	223,412	238,105
Accidental Disability	3,234,400	3,539,983	3,866,859	4,098,785	4,457,257	4,617,327	4,747,735	4,995,899	5,366,248	5,491,911
Other	1,295,272	1,528,047	1,381,837	1,767,450	1,669,427	1,696,818	1,754,200	2,098,174	2,485,749	2,698,590
Total Payments for Year	$12,942,373	$13,927,192	$14,595,436	$15,640,119	$16,700,833	$17,335,776	$18,214,612	$19,691,654	$20,505,419	$21,073,970

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS

Chapter 472 of the Acts of 1998 allowed the town of Brookline to establish a Retiree Healthcare Liability Trust Fund to pay premium costs and claim costs on behalf of retired town employees and eligible spouses and dependents.

The most recent actuarial valuation of the Town of Brookline's Group Insurance Liability Fund was prepared by The Segal Group, Inc. as of July 1, 2010.

The actuarial liability for active members was	$106,989,878
The actuarial liability for retired members was	108,251,774
The total actuarial liability was	$215,241,652
System assets as of that date were	7,355,050
The unfunded actuarial liability was	$207,886,602
The ratio of system's assets to total actuarial liability was	3.4%

GASB DISCLOSURE INFORMATION
AS OF JULY 1, 2010

Schedule of Funding Progress

`	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)
6/30/2010	$7,355,050	$215,241,652	$207,886,602	3.4%	$124,608,849	166.8%
6/30/2008	$0	$323,225,372	$323,225,372	0.0%	$120,100,000	269.1%
6/30/2006	$0	$325,834,939	$325,834,939	0.0%	$115,000,000	283.3%

The Town's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount calculated in accordance with GASB 45. The ARC represents the amount that is projected to cover each year's normal cost and amortize the unfunded liability over a period not to exceed 30 years.

The OPEB fund is audited by Powers & Sullivan LLC as a component of the town's audit.

NOTES TO FINANCIAL STATEMENTS (Continued)

Net OPEB Obligation (NOO)

Fiscal Year Ending 6/30	Annual Required Contribution (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost a+b+c (d)	Actual Contribution (e)	Net Increase in NOO d-e (f)	NOO as of following date (g)
2011	$14,945,299	$2,189,307	($1,572,272)	$15,562,334	$11,043,394	$4,518,940	$34,716,281
2010	21,473,717	2,193,331	(1,689,865)	21,977,183	18,061,974	3,915,209	30,197,341
2009	20,503,147	0	0	20,503,147	9,532,102	10,971,045	26,282,132
2008	21,528,296	0	0	21,528,296	6,217,209	15,311,087	15,311,087

Other Required Information

Actuarial Cost Method	Projected Unit Credit
Amortization Method	4.0% Increasing
Remaining Amortization Period	29 years (as of 7/1/08)
Asset Valuation	Market Value

Actuarial Assumptions

Investment Rate of Return	7.25%
Inflation Rate	4.0%
Medical/Drug Cost Trend Rate	10.0%, decreasing 0.75% for 6 years and 0.5% for 1 year for an ultimate rate of 5.0%

Plan Membership

Actives	1,560
Retirees, Beneficiaries, and Dependents	1,382
Total	2,942

PERAC
Five Middlesex Avenue | Third Floor
Somerville, MA | 02145
Ph: 617.666.4446 | Fax: 617.628.4002
TTY: 617.591.8917 | Web: www.mass.gov/perac