PERAC AUDIT REPORT

Medford
Contributory Retirement System

JAN. 1, 2009 - DEC. 31, 2011

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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July 18, 2013

The Public Employee Retirement Administration Commission has completed an examination of the Medford 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, William Walsh and James Tivnan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

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EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Confirmation and Reporting for Wire Transfers

The auditor inspected a sample of wire transfers processed over the three year audit period. The Assistant Treasurer of the City of Medford performs the actual wire transfer function upon instructions by the Board investment consultant to the Retirement Board staff. We were unable to identify any formal Board authorization for many of these wire transfers. We observed that the documentation and confirming correspondence to support the audit trail associated with many wire transfer transactions was not readily available for our inspection.

Recommendation: The Board must formally approve or ratify all wire transfer transactions on either the monthly expenditure warrant document or a corresponding bank record substantiating the actual amount of the processed wire transfer. All related documentation prepared by the Board staff and other sources pertaining to the transaction should be maintained as documentation in support of the Board's consent for any transfer of retirement funds via wire or similar electronic notification.

Board Response:

We currently receive a recommendation transfer letter from our Investment Consultant to move such funds from individual Investment managers to cover our monthly bills and payrolls. These letters are placed on the monthly Board meeting agenda to be reviewed and approved by the Board and to have on file. The Retirement Administrator sends out the letters to the individual managers to process the transfers. These transactions reflect in the monthly book keeping. Our Assistant Treasurer, then does the wire transfer to our bank account to cover the expenses. We are now requesting a copy of the "wire transfer letter" to be kept on file in the Retirement Office, which will be placed on the Board meeting agenda and minutes as well as be included in the book keeping package that will be presented to the board each month for review, approval and signatures.

2. Retiree Payroll Register Review and Approval

The Payroll Register that details each retiree's monthly benefit and the deductions associated with that payroll is processed by an outside payroll vendor. The Board administrator inputs and transmits the monthly retiree payroll data via an electronic connection. The actual retiree benefit checks as well as the direct deposit advices are delivered by the vendor to the Board Administrator. The Administrator prepares the items for mailing directly to the respective retirees. Our observation of this process provided no apparent confirmation procedure or management supervision function included in the distribution of these benefits by the Board or other staff of the system.

Recommendation: In order to ensure that the system is distributing to all retirees only the benefits that they are entitled to receive, the Retiree Payroll Register must be made available, reviewed and approved by the Retirement Board. The proper segregation of duties requires the distribution of the benefit checks and mailing the direct deposit advices must be done by an individual independent of the payroll input and transmission function. We submit the implementation of this recommendation is easily accomplished with the existing staff of the Medford Retirement System.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:
The Retirement Payroll was being approved with the bills on the monthly board agenda and in the minutes. We now present the Board with a monthly payroll package report from the payroll register each month for them to review and sign off on. The payroll totals will still appear on the meeting agenda and will be documented in the minutes when they are reviewed and signed. As for the distribution of the checks, the Book keeper has been distributing the checks for mailing while the Administrator was inputting and transmitting the payroll. Going forward, when the Book keeper inputs and transmits the payroll, the administrator will distribute the checks for mailing.

3. Employer Reimbursements Related to Board Member Services
On numerous occasions during the three year audit period, one of the Medford Retirement Board members was reimbursed for "wages lost" while fulfilling Retirement System duties. The member had not actually lost wages, but instead used the Retirement Board reimbursement to directly pay the individuals who had filled in for the time away. There was minimal documentation provided by the employer.

Recommendation: PERAC Memo #3/2010 discusses this situation. It states: "Board Members are to be reimbursed from the expense fund of the system for any loss of salary or wages which they personally may incur through service on the Board…Costs incurred by employers in instances where a Board Member does not lose wages or salary can be reimbursed by the Board to the employer. This reimbursement cannot exceed the amount that would have been paid to the Board Member had he or she worked his or her shift. The reimbursement amount must be fully documented, discussed and specifically approved by the Board prior to payment being made."

Board Response:
Should this situation present itself in the future, The Retirement Office will make sure that such department is required to separately prepare an invoice containing the gross amount of wages which is supported by an approved time sheet specific to the time period involved and that the proper deductions were contributed. Once approved by the Retirement Board, the City of Medford will be reimbursed.

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

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Net Assets Available For Benefits	AS OF DECEMBER 31, 2011	2010	2009
Cash	$89,111	$245,250	$354,766
Short Term Investments	1,119,176	1,031,411	1,143,682
Fixed Income Securities (at book value)	18,232,725	17,148,096	16,443,010
Equities	8,264	9,894	7,364
Pooled Domestic Equity Funds	25,936,781	36,521,262	32,576,933
Pooled International Equity Funds	16,294,035	18,099,997	16,518,189
Pooled Domestic Fixed Income Funds	27,212,006	27,724,375	26,173,415
Pooled Alternative Investment Funds	5,436,099	3,995,155	2,559,424
Pooled Real Estate Funds	7,314,950	3,035,107	3,424,746
Pooled International Balanced Funds	29,872,308	29,838,485	26,357,773
Hedge Funds	11,354,325	9,410,098	8,853,357
Interest Due and Accrued	131,630	124,585	126,348
Accounts Receivable	169,477	0	0
Accounts Payable	(558,401)	(219,537)	0
TOTAL	$142,612,486	$146,964,177	$134,539,009
FUND BALANCES			
Annuity Savings Fund	$40,276,555	$39,616,261	$38,634,195
Annuity Reserve Fund	12,276,566	11,980,786	11,567,960
Pension Fund	0	0	3,213,626
Military Service Fund	15,153	15,117	14,774
Expense Fund	0	0	0
Pension Reserve Fund	90,044,212	95,352,014	81,108,455
TOTAL	$142,612,486	$146,964,177	$134,539,009

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)	$37,335,153	$11,169,051	$2,860,933	$11,965	$0	$62,920,469	$114,297,571
Receipts	3,554,239	330,159	8,715,142	2,809	991,481	22,113,800	35,707,629
Interfund Transfers	(1,897,595)	1,867,872	3,955,537	0	0	(3,925,814)	0
Disbursements	(357,602)	(1,799,123)	(12,317,985)	0	(991,481)	0	(15,466,190)
Ending Balance (2009)	38,634,195	11,567,960	3,213,626	14,774	0	81,108,455	134,539,010
Receipts	3,284,606	341,870	8,319,832	1,556	1,000,835	15,602,462	28,551,161
Interfund Transfers	(1,919,269)	1,923,438	1,355,946	(1,213)	0	(1,358,903)	(0)
Disbursements	(383,273)	(1,852,482)	(12,889,404)	0	(1,000,835)	0	(16,125,993)
Ending Balance (2010)	39,616,261	11,980,786	0	15,117	0	95,352,014	146,964,178
Receipts	3,256,153	369,282	8,784,222	36	1,089,694	(514,404)	12,984,982
Interfund Transfers	(2,059,959)	2,067,271	4,786,085	0	0	(4,793,398)	0
Disbursements	(535,899)	(2,140,773)	(13,570,307)	0	(1,089,694)	0	(17,336,673)
Ending Balance (2011)	$40,276,555	$12,276,566	$0	$15,153	$0	$90,044,213	$142,612,487

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2011	2010	2009
Annuity Savings Fund:			
Members Deductions	$3,042,196	$3,136,678	$3,206,009
Transfers from Other Systems	79,961	0	122,383
Member Make Up Payments and Re-deposits	53,156	34,075	44,924
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	80,839	113,853	180,922
Sub Total	3,256,153	3,284,606	3,554,239
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	369,282	341,870	330,159
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	125,213	115,096	137,185
Received from Commonwealth for COLA and Survivor Benefits	187,058	394,316	443,955
Pension Fund Appropriation	8,460,381	7,797,795	8,134,002
Settlement of Workers' Compensation Claims	11,570	12,625	0
Sub Total	8,784,222	8,319,832	8,715,142
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	1,508	2,735
Investment Income Credited to the Military Service Fund	36	48	74
Sub Total	36	1,556	2,809
Expense Fund:			
Investment Income Credited to the Expense Fund	1,089,694	1,000,835	991,481
Sub Total	1,089,694	1,000,835	991,481
Pension Reserve Fund:			
Federal Grant Reimbursement	27,475	30,051	42,290
Interest Not Refunded	0	1,907	5,654
Miscellaneous Income	25	8	5
Excess Investment Income (Loss)	(541,904)	15,570,495	22,065,851
Sub Total	(514,404)	15,602,462	22,113,800
TOTAL RECEIPTS	$12,984,982	$28,551,161	$35,707,629

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Annuity Savings Fund:			
Refunds to Members	$366,957	$135,978	$219,969
Transfers to Other Systems	168,942	247,295	137,632
Sub Total	535,899	383,273	357,602
Annuity Reserve Fund:			
Annuities Paid	2,025,307	1,852,482	1,723,195
Option B Refunds	115,466	0	75,927
Sub Total	2,140,773	1,852,482	1,799,123
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	7,602,729	7,142,246	6,810,651
Survivorship Payments	760,987	695,862	651,380
Ordinary Disability Payments	157,378	164,486	170,358
Accidental Disability Payments	3,543,990	3,444,047	3,301,323
Accidental Death Payments	941,604	888,908	831,594
Section 101 Benefits	110,391	103,970	108,035
3 (8) (c) Reimbursements to Other Systems	351,995	361,946	357,104
State Reimbursable COLA's Paid	101,234	87,938	87,539
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	13,570,307	12,889,404	12,317,985
Expense Fund:			
Board Member Stipend	17,700	17,700	19,902
Salaries	141,261	125,732	157,954
Legal Expenses	14,066	4,286	8,492
Travel Expenses	6,610	3,425	6,558
Administrative Expenses	18,627	31,169	17,924
Education and Training	800	0	0
Management Fees	768,545	709,296	615,226
Custodial Fees	55,801	37,227	42,428
Consultant Fees	55,750	72,000	113,644
Fiduciary Insurance	10,535	0	9,354
Sub Total	1,089,694	1,000,835	991,481
TOTAL DISBURSEMENTS	$17,336,673	$16,125,993	$15,466,190

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Investment Income Received From:			
Cash	$2,098	$9,384	$13,106
Fixed Income	778,850	776,173	1,437,070
Equities	58,282	23,181	36,881
Pooled or Mutual Funds	2,040,885	2,146,695	2,047,364
Total Investment Income	2,880,116	2,955,433	3,534,421
Plus:			
Realized Gains	714,722	589,729	1,962,560
Unrealized Gains	20,291,552	31,353,405	31,581,826
Interest Due and Accrued - Current Year	131,630	124,585	126,348
Sub Total	21,137,904	32,067,719	33,670,734
Less:			
Paid Accrued Interest on Fixed Income Securities	(17,777)	(56,683)	(88,625)
Realized Loss	(332,258)	(577,593)	(8,309,841)
Unrealized Loss	(22,545,453)	(17,235,426)	(5,011,304)
Interest Due and Accrued - Prior Year	(124,585)	(126,348)	(226,898)
Sub Total	(23,020,073)	(17,996,051)	(13,636,667)
Net Investment Income	997,947	17,027,101	23,568,488
Income Required:			
Annuity Savings Fund	80,839	113,853	180,922
Annuity Reserve Fund	369,282	341,870	330,159
Military Service Fund	36	48	74
Expense Fund	1,089,694	1,000,835	991,481
Total Income Required	1,539,850	1,456,606	1,502,637
Net Investment Income	997,947	17,027,101	23,568,488
Less: Total Income Required	1,539,850	1,456,606	1,502,637
Excess Income (Loss) To The Pension Reserve Fund	($541,904)	$15,570,495	$22,065,851

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2011	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$89,111	0.1%
Short Term Investments	1,119,176	0.8%
Fixed Income Securities (at book value)	18,232,725	12.8%
Equities	8,264	0.0%
Pooled Domestic Equity Funds	25,936,781	18.2%
Pooled International Equity Funds	16,294,035	11.4%
Pooled Domestic Fixed Income Funds	27,212,006	19.0%
Pooled Alternative Investment Funds	5,436,099	3.8%
Pooled Real Estate Funds	7,314,950	5.1%
Pooled International Balanced Funds	29,872,308	20.9%
Hedge Funds	11,354,325	7.9%
GRAND TOTALS	$142,869,780	100.0%

For the year ending December 31, 2011, the rate of return for the investments of the Medford Retirement System was 0.71%. For the five-year period ending December 31, 2011, the rate of return for the investments of the Medford Retirement System averaged 2.85%. 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 Medford Retirement System was 8.97%.

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

December 4, 2011
The MRB may forego the normal procurement process for an investment related service (840 CMR 16.08) and transfer assets from the Mellon Capital Management EB Daily Valued Global Alpha I Fund into the Mellon Capital Management EB Daily Valued Expanded Alpha I Fund.

June 5, 2007
21.01(2)
State Street Global Advisors is authorized to "short sell" securities up to 30% of the market value of the fund. This exemption from 840 CMR 21.01(2) allows the manager to pursue the 130/30 strategy that comprises its Index Plus Edge Strategy.

March 5, 2007
17.03
Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Medford Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the Institutional Retirement Trust (IRT) International Equity Trust (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 ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

September 26, 2006
21.01(2)(3)
In order to expand the range of investment opportunities and to better manage risk, Wellington Management Company's Opportunistic Investment Approach is authorized to utilize long and short positions in certain derivative instruments. These positions would be used to implement pair-wise relative value trades involving various asset classes and subclasses, regions, currencies, and other market segments. The instruments used will be highly liquid, no net leverage will be employed, and there will be no individual stocks sold short. The notational value of such instruments will be limited to 15% of the total market value of the portfolio.

21.01(2)(3)(4)(5)
The PIMCO All Asset Fund seeks to achieve real rates of return by opportunistically investing in a broad range of SEC-regulated PIMCO mutual funds. In addition to funds that invest in short and long-term investment grade bonds, high yield bonds, global bonds, emerging market bonds, Treasury Inflation-Protected Securities, real estate securities, domestic and international stocks, the Fund may invest in the PIMCO Commodity Real Return Strategy Fund. Also, all the funds are permitted to achieve exposure to their respective markets by the use of derivative instruments, including options, futures, options on futures, and swaps. This strategy allows the funds to seek incremental returns

by investing the available cash in short and intermediate-term fixed income instruments. Although not a fundamental part of the funds' strategies, the underlying funds are permitted to execute short sales.

21.01(2)(3)(4)(5)
Mellon Capital Global Alpha I seeks to produce absolute returns by entering into long and/or short asset positions in any of the countries and/or asset classes in the MSCI World and Citigroup WGBI Indices, or in the currencies of these countries. The fund takes positions in the stock and bond markets of the ten largest developed countries and eleven major currencies. It takes positions only in equity index funds and government bonds in the various countries. Utilizing long and/or short positions in these markets, the fund may make relative value bets within and among the stock markets, bond markets, or currencies of the major developed country markets. There will be no net short positions in the major asset classes and no leverage is employed. Market exposures may be achieved through the use of derivative contracts, all of which are expected to be fully collateralized, exchange-traded, and independently priced.

March 13, 2002
16.08
In accordance with Investment Guideline 99-2, the Medford Retirement Board is authorized to modify its small cap value mandate with Loomis, Sayles & Company. The Small Company Value Fund in which the Board is currently invested is being closed and liquidated by the company. The Board's assets invested in that fund will be transferred into the Loomis Sayles Small Cap Value Fund, which has the same investment strategy, is managed by the same team, and has the same expenses as the prior fund.

January 12, 1995
20.07(9) Commingled real estate shall not exceed 10% of the total book value of the portfolio at the time of purchase provided that: (a) the retirement board does not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERAC to determine the appropriate course of action; (b) such personnel retain authority in the decision making process; and (c) should an investment in real estate result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture is prudent.

July 28, 1992
20.04(1) United States based corporations and equities of foreign corporations.

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

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.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

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

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 $751.80 per year (or $312 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. 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. c. 32, § 7(2)(e) has been adopted.

ACCIDENTAL DEATH

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

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $751.80 per year, per child (or $312 per year in systems in which the local option contained in G.L. c. 32, § 9(2)(d)(ii) has not been adopted) payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

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

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is $9,000.

DEATH IN ACTIVE SERVICE

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

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

COST OF LIVING

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

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

METHODS OF PAYMENT

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

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

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

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is unmarried at the time of retirement for a member whose retirement becomes

effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them 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 Medford Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Creditable Service
July 5, 2005
Members who are part time employees shall have their creditable service prorated based on the number of hours worked as a part time employee.

July 22, 1988
School Physicians are allowed 1 year of creditable service for each 10 months of school year employment.

Permanent Part Time Elementary School Clerks are allowed one year of creditable service based on 5 days per week, 5 1/4 hours per day, 180 days per school year
.
School Lunchroom Employees who work 6 hours per day, five days per week, 40 school weeks per year are allowed one year of creditable service. For each 1200 hours, (30 x 40) they are granted one year of creditable service.

Traffic Supervisors who work 3 hours per day, for five days per week, ten school months per year, are allowed one year of creditable service.

School Health Aides employed 15 hours per week, 180 days per school year, are granted one year of creditable service.

September 16, 2005
Elections for the two elected member positions on the Medford Retirement Board shall be run simultaneously, with all of those active and/or retired members who are eligible to seek an elected seat, acquire the appropriate signatures on nominations papers provided by the Board and submit said nomination papers to the Board within the established filing period shall have their names appear on one (1) ballot, which will then be distributed to those active and retired members who are eligible to vote in said election. The names on the ballot shall appear randomly, with the word "incumbent" next to any Board member who is seeking re-election. If there are more than two (2) candidates seeking election the Board, and the terms are uneven, then the candidate who receives the most votes shall be elected to the seat which carries the greater term, and the candidate who receives the second highest vote count shall be elected to the seat with the lesser term. In the event that a seat on the Board becomes vacant due to death or resignation, the Board shall run a special election as soon as practicable and the new elected member shall serve the remainder of the term of the vacated seat.

September 1, 1993
Forms
Approval of three forms for use by board: Medical Information Release Form; Cover Letter to Retiree and Questionnaire to be Completed by Retiree's Physician.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

June 15, 1992
Forms
Approval of three forms for use by board: Disability Retiree Employment and Earnings Verification Form; Disability Retiree Medical Questionnaire Retirees' Authorization Form for Verification of Outside Employment to be Completed By Employers.

October 29, 1986
Administration
Various provisions pertaining to administration of the retirement board office.

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Financial Director/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:	Anne C. Baker		
Appointed Member:	Thomas A. Cangiano, Chair	Term Expires:	12/20/2014
Elected Member:	Rick Jordan	Term Expires:	12/19/2014
Elected Member:	Patrick Ripley	Term Expires:	7/1/2014
Appointed Member:	James Vieria	Term Expires:	1/27/2015

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:	)	$50,000,000 Fiduciary coverage
Ex-officio Member:	)	under a Master Policy issued to
Elected Members:	)	MACRS by rider through
Appointed Members:	)	Travelers Casualty & Surety Co. of
Staff Employees:	)	America, National Union Fire and
		Arch Insurance Co.
		$1,000,000 Fidelity Bond

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants as of January 1, 2010.

The actuarial liability for active members was	$114,403,367
The actuarial liability for retired and inactive members was	119,424,503
The total actuarial liability was	$233,827,870
System assets as of that date were (actuarial value)	150,489,230
The unfunded actuarial liability was	$83,338,640
The ratio of system's assets to total actuarial liability was	64.4%
As of that date the total covered employee payroll was	$35,463,705

The normal cost for employees on that date was	8.2% of payroll
The normal cost for the employer was	8.5% of payroll

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

Investment Return:	7.50% per annum
Rate of Salary Increase:	4.50% 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	$150,489,230	$233,827,870	$83,338,640	64.4%	$35,463,705	235.0%
1/1/2008	$149,580,056	$216,373,833	$66,793,777	69.1%	$34,011,464	196.4%
1/1/2006	$129,336,285	$199,132,315	$69,796,030	64.9%	$30,498,599	228.8%

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Superannuation	12	58	5	7	10	6	12	14	18	22
Ordinary Disability	0	3	0	0	0	0	0	0	0	0
Accidental Disability	1	4	4	2	4	0	4	5	5	3
Total Retirements	13	65	9	9	14	6	16	19	23	25
Total Retirees, Beneficiaries and Survivors	676	706	681	674	663	629	603	602	632	636
Total Active Members	805	740	742	724	738	750	765	746	694	671
Pension Payments										
Superannuation	$5,479,008	$6,544,956	$6,750,030	$6,728,967	$6,837,623	$6,897,030	$6,760,999	$6,810,651	$7,142,246	$7,602,729
Survivor/Beneficiary Payments	492,779	499,408	492,936	501,169	553,296	590,899	613,061	651,380	695,862	760,987
Ordinary Disability	126,487	160,158	167,038	167,554	173,260	168,034	168,559	170,358	164,486	157,378
Accidental Disability	2,454,076	2,633,539	2,835,869	2,869,866	3,202,594	3,043,522	3,307,424	3,301,323	3,444,047	3,543,990
Other	1,037,918	1,065,947	1,076,483	1,313,853	1,308,644	1,273,496	1,191,718	1,384,273	1,442,762	1,505,224
Total Payments for Year	$9,590,268	$10,904,008	$11,322,356	$11,581,409	$12,075,417	$11,972,981	$12,041,761	$12,317,985	$12,889,404	$13,570,307

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