PERAC AUDIT REPORT

Milford
Contributory Retirement System

JAN. 1, 2010 - DEC. 31, 2012

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

TABLE OF CONTENTS

Letter from the Executive Director 1

Explanation of Findings and Recommendations 2

Statement of Ledger Assets and Liabilities 3

Statement of Changes in Fund Balances 4

Statement of Receipts 5

Statement of Disbursements 6

Investment Income 7

Schedule of Allocation of Investments Owned 8

Supplementary Investment Regulations 9

Notes to Financial Statements:

- Note 1 - Summary of Plan Provisions 10
- Note 2 - Significant Accounting Policies 17
- Note 3 - Supplementary Membership Regulations 19
- Note 4 - Administration of the System 21
- Note 5 - Actuarial Valuation and Assumptions 22
- Note 6 - Membership Exhibit 23

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman* JOSEPH E. CONNARTON, *Executive Director*
PAUL V. DOANE | JAMES M. MACHADO | DONALD R. MARQUIS | ROBERT B. McCARTHY | GREGORY R. MENNIS

August 1, 2013

The Public Employee Retirement Administration Commission has completed an examination of the Milford Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2010 to December 31, 2012. 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 examiner Martin J. Feeney 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. Monthly Board Meetings

The Board did not hold the required monthly meeting in January of 2011. Monthly payroll and expense warrants were paid in this month without the Board's vote to disburse these monies. G.L. c. 32, § 23(2)(a) states in part that "Payments from such funds shall be made only upon vouchers signed by two persons designated by the board of any such system by a vote a duly attested copy of which…. No voucher shall be drawn unless it shall have been previously authorized by vote of the Board."

Recommendation: The Board must comply with G.L. c. 32, § 20 (5)(a) which requires boards to meet at least once monthly. The Board must also comply with G.L. c. 32, § 23(2)(a).

Board Response:

The missed meeting in January 2011 was due to weather. The board has re-arranged its meeting schedule so that a postponed or cancelled meeting can be re-scheduled in order to comply with the law.

2. Salary Expense

The Milford Retirement Board's salaries are paid through the Town of Milford. The Retirement Board advances money to the Town to fund the expense. When the fund is running low the Town requests another advance. There is no formal process for requesting the advance. An item is added to a monthly warrant indicating the amount of the requested advance which is presented to the Board for approval. Once the warrant is approved the check is drawn and the advance is charged to salary expense. There are normally two advances a year in the amount of $50,000. In 2011 there were three advances made which were charged to salary expense. The result is a salary expense that was significantly overstated for 2011.

Recommendation: A formal document requesting any advance should be presented to the Board indicating the reason for the advance so that there is a record in the files of the Retirement Board. The advance should be charged to a prepaid expense account.

Each month an entry should be made to the prepaid expense account and the salary account for the actual salary expense. This will ensure that the salary account is reflecting the correct account for the current year to date periods.

Board Response:

The Town will formalize the manner in which it requests payroll funding from the Retirement System and the Administrator will utilize the pre-paid expense account when applicable.

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,		
	2012	2011	2010
Net Assets Available For Benefits:			
Cash	$2,210,534	$2,060,470	$2,116,657
PRIT Cash Fund	475,067	450,055	450,084
PRIT Core Fund	59,985,863	52,905,533	53,077,564
Accounts Receivable	8,033	26,549	12,122
Accounts Payable	0	0	(1,031)
Total	$62,679,497	$55,442,607	$55,655,396
Fund Balances:			
Annuity Savings Fund	$20,415,619	$19,031,153	$18,022,346
Annuity Reserve Fund	1,820,850	2,252,584	2,250,535
Pension Fund	4,989,369	669,204	767,004
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	35,453,658	33,489,665	34,615,511
Total	$62,679,497	$55,442,607	$55,655,396

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 (2010)	$16,687,013	$2,657,589	$1,750,911	$0	$0	$28,565,664	$49,661,177
Receipts	1,702,957	73,393	3,493,480	0	358,901	6,049,847	11,678,578
Interfund Transfers	(233,921)	233,921	0	0	0	0	0
Disbursements	(133,703)	(714,368)	(4,477,387)		(358,901)	0	(5,684,359)
Ending Balance (2010)	18,022,346	2,250,535	767,004	0	0	34,615,511	55,655,396
Receipts	1,853,264	64,241	3,721,704	0	465,427	(361,755)	5,742,882
Interfund Transfers	(668,374)	668,374	764,092	0	0	(764,092)	0
Disbursements	(176,083)	(730,565)	(4,583,596)		(465,427)	0	(5,955,671)
Ending Balance (2011)	19,031,153	2,252,584	669,204	0	0	33,489,665	55,442,607
Receipts	1,862,337	61,112	4,083,638	0	450,841	6,964,356	13,422,285
Interfund Transfers	(280,361)	280,723	5,000,000	0	0	(5,000,362)	0
Disbursements	(197,510)	(773,570)	(4,763,474)		(450,841)	0	(6,185,394)
Ending Balance (2012)	$20,415,619	$1,820,850	$4,989,369	$0	$0	$35,453,658	$62,679,497

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2012	2011	2010
Annuity Savings Fund:			
Members Deductions	$1,709,940	$1,660,888	$1,594,133
Transfers from Other Systems	39,734	0	24,746
Member Make Up Payments and Re-deposits	25,693	47,881	34,521
Member Payments from Rollovers	64,242	102,086	0
Investment Income Credited to Member Accounts	22,728	42,410	49,556
Sub Total	1,862,337	1,853,264	1,702,957
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	61,112	64,241	73,393
Sub Total	61,112	64,241	73,393
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	104,362	93,681	83,753
Received from Commonwealth for COLA and Survivor Benefits	95,747	55,303	117,818
Pension Fund Appropriation	3,883,530	3,572,721	3,291,909
Sub Total	4,083,638	3,721,704	3,493,480
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	0	0	0
Sub Total	0	0	0
Expense Fund:			
Investment Income Credited to the Expense Fund	450,841	465,427	358,901
Sub Total	450,841	465,427	358,901
Pension Reserve Fund:			
Federal Grant Reimbursement	81,379	97,358	97,942
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	1,066	973	2,398
Miscellaneous Income	455	7,263	1,435
Excess Investment Income	6,881,456	(467,349)	5,948,073
Sub Total	6,964,356	(361,755)	6,049,847
Total Receipts, Net	$13,422,285	$5,742,882	$11,678,578

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	$97,429	$149,009	$112,421
Transfers to Other Systems	100,081	27,074	21,282
Sub Total	197,510	176,083	133,703
Annuity Reserve Fund:			
Annuities Paid	773,570	730,565	709,808
Option B Refunds	0	0	4,561
Sub Total	773,570	730,565	714,368
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	3,366,608	3,221,581	3,155,214
Survivorship Payments	149,463	143,989	140,099
Ordinary Disability Payments	88,214	81,581	80,087
Accidental Disability Payments	819,726	818,283	844,143
Accidental Death Payments	169,580	166,442	133,683
Section 101 Benefits	8,683	8,430	8,184
3 (8) (c) Reimbursements to Other Systems	161,200	143,289	115,977
Sub Total	4,763,474	4,583,596	4,477,387
Expense Fund:			
Salaries	100,000	150,000	100,000
Legal Expenses	588	0	0
Travel Expenses	437	347	26
Administrative Expenses	23,382	23,545	6,818
Furniture and Equipment	0	1,200	1,846
Management Fees	302,778	261,183	229,627
Custodial Fees	0	6,888	0
Service Contracts	18,735	17,500	16,000
Fiduciary Insurance	4,922	4,765	4,585
Sub Total	450,841	465,427	358,901
Total Disbursements	$6,185,394	$5,955,671	$5,684,359

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Investment Income Received From:			
Cash	$8,799	$9,387	$11,412
Pooled or Mutual Funds	1,805,826	1,633,515	1,410,016
Total Investment Income	1,814,626	1,642,901	1,421,429
Plus:			
Realized Gains	1,459,441	1,664,188	1,310,770
Unrealized Gains	7,142,561	5,275,935	8,813,633
Sub Total	8,602,002	6,940,123	10,124,403
Less:			
Realized Loss	0	(30,234)	(42,785)
Unrealized Loss	(3,000,491)	(8,448,062)	(5,073,124)
Sub Total	(3,000,491)	(8,478,296)	(5,115,908)
Net Investment Income	7,416,137	104,729	6,429,923
Income Required:			
Annuity Savings Fund	22,728	42,410	49,556
Annuity Reserve Fund	61,112	64,241	73,393
Military Service Fund	0	0	0
Expense Fund	450,841	465,427	358,901
Total Income Required	534,681	572,077	481,850
Net Investment Income	7,416,137	104,729	6,429,923
Less: Total Income Required	534,681	572,077	481,850
Excess Income (Loss) To The Pension Reserve Fund	$6,881,456	($467,349)	$5,948,073

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2012	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$2,210,534	3.5%
PRIT Cash Fund	475,067	0.8%
PRIT Core Fund	59,985,863	95.7%
Grand Total	$62,671,464	100.0%

For the year ending December 31, 2012, the rate of return for the investments of the Milford Retirement System was 13.46%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Milford Retirement System averaged .52%. For the twenty-eight year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Milford Retirement System was 8.15%.

The composite rate of return for all retirement systems for the year ending December 31, 2012 was 13.84%. For the five-year period ending December 31, 2012, the composite rate of return for the investments of all retirement systems averaged 1.83%. For the twenty-eight year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.27%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Milford Retirement System is invested 100% in PRIT and therefore, has no supplementary investment regulations.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Milford 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 $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 primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

Membership
October 28, 1991
Employees who are available for employment for at least thirty-four (34) weeks, of not less than twenty (20) hours each week in every calendar year or employees earning at least $5,000.00 annually, must become members of the system.
Call fire fighters and Auxiliary Police shall be excluded from membership as of July 1, 1991.

January 18, 1985
Employees hired on a regular basis who work a minimum of twenty hours per week. (Amended by supplementary rule approved October 28, 1991).

January 3, 1985
Intermittent provisional employees shall join the system after six months employment.
Creditable Service

October 28, 1991
Part-time employees' credit will be granted depending upon the work history of the employee. Two categories of employment are considered as follows:

A. Employees in this category will have worked on a less (less than 35 hours per week) than full time basis throughout their years of service. For this category of employee, credit will be granted on the basis of one year of credit for each year of service. The pension thus computed will be on an equitable basis as a full time employee. The deciding factor in the computation of the pension will be three-year average earnings.

B. Employees in this category will have worked on both a full time and part time capacity during their years of service. In this category, credit for service will be computed on an individual basis. For the full time service the employee will receive one year of credit for each year of service. For the part time service the employee will receive one year of credit for two years of part time service. An alternative computation of creditable service will be made by using actual hours worked that may be verified by actual payroll records. This computation will be made by using a ratio the dividend of which will represent the hours worked per year and the divisor will represent the normal hours to be worked. The percentage thus computed will be that portion of a year's credit for the part time work.

January 3, 1985
Part-time employees' credit will be granted depending upon the work history of the employee. Two categories of employment are considered as follows:

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

A. Employees in this category will have worked on a less than full time basis throughout their years of service. For this category of employee, credit will be granted on the basis of one year of credit for each year of service.

B. Employees in this category will have worked on both a full time and part time capacity during their years of service. In this category, credit for service will be computed on an individual basis. For the full time service the employee will receive one year of credit for each year of service. For the part time service the employee will receive one year of credit for two years of part time service. An alternative computation of creditable service will be made by using actual hours worked. This computation will be made by using a ratio the dividend of which will represent the hours worked per year and the divisor will represent the normal hours to be worked. The percentage thus computed will be that portion of a year's credit for the part time work. (Amended by supplementary rule approved October 28, 1991)

Proof of Employment
September 4, 1985
Pursuant to § 18, the Board may require the employee to submit certain information as may be required to administer the system.

In cases where the member requests credit for prior service or for retirement under S56-60, it will be the responsibility of the member to prove such prior service with adequate documentation. Adequate documentation shall mean documentation that has significant indicia of reliability and independence of relationship to the member. Actual payroll documentation is the most reliable documentation. When such is not available, the Board may, in its discretion, accept secondary documentation of a contemporaneous independent and reliable nature such as Town Reports and publications and newspaper articles. Affidavits, which clearly indicate the time and place the member was employed, the relationship of the affiant to the member and the reason why or circumstances that the affiant remembers the member's employment during the period at issue may also be accepted provided that such affidavits have sufficient indicia of reliability and are otherwise supported by some contemporaneous secondary documents as described above.

January 3, 1985
In all cases where the member requests credit for prior service or for retirement under sections 56-60 of chapter 32, it will be the responsibility of the member to prove with adequate documentation as the board may require. In the case of retirement under sections 56-60 only actual payroll documentation will be accepted. (Amended by supplementary rule approved September 4, 1985)

Travel Regulations
The Milford Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website http://www.mass.gov/perac/Milford.

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant 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:	Zachary A. Taylor		
Appointed Member:	Michael A. Diorio	Term Expires:	6/30/15
Elected Member:	Phyllis A. Ahearn	Term Expires:	6/30/14
Elected Member:	Gerald Hennessy	Term Expires:	6/30/13
Appointed Member:	Ernest P. Pettinari, Chairman	Term Expires:	1/24/15

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:	)	$50,000,000 Fiduciary
Ex-officio Member:	)	$1,000,000 Fidelity ERISA Bond
Elected Members:	)	MACRS Master Policy
Appointed Members:	)	Travelers Casualty and Surety,
Staff Employees:	)	National Union Fire, State National Insurance Companies

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by PERAC as of January 1, 2011.

The actuarial liability for active members was	$53,899,243
The actuarial liability for vested terminated members was	309,615
The actuarial liability for non-vested terminated members was	193,071
The actuarial liability for retired members was	44,123,038
The total actuarial liability was	$98,524,967
System assets as of that date were	61,220,936
The unfunded actuarial liability was	$37,304,031
The ratio of system's assets to total actuarial liability was	62.1%
As of that date the total covered employee payroll was	$17,669,158

The normal cost for employees on that date was	8.4% of payroll
The normal cost for the employer was	5.6% of payroll

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

Investment Return:	8.0% per annum
Rate of Salary Increase:	Service based

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2011

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)
1/1/2011	$61,220,936	$98,524,967	$37,304,031	62.1%	$17,669,158	211.1%
1/1/2009	$51,887,450	$89,386,638	$37,499,188	58.0%	$17,271,236	217.1%
1/1/2007	$58,885,516	$80,167,747	$21,282,231	73.5%	$15,519,681	137.1%

NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retirement in Past Years										
Superannuation	6	8	4	11	9	5	14	6	9	6
Ordinary Disability	1	0	1	0	0	1	0	0	0	0
Accidental Disability	3	0	4	1	1	0	0	0	0	1
Total Retirements	10	8	9	12	10	6	14	6	9	7
Total Retirees, Beneficiaries and Survivors	287	285	296	290	290	281	279	274	270	269
Total Active Members	425	435	419	436	449	459	425	442	468	478
Pension Payments										
Superannuation	$2,433,601	$2,579,911	$2,673,462	$2,715,339	$2,810,781	$2,870,766	$2,996,485	$3,155,214	$3,221,581	$3,366,608
Survivor/Beneficiary Payments	121,899	119,320	119,990	137,183	131,832	139,257	161,451	140,099	143,989	149,463
Ordinary Disability	36,205	39,711	44,706	44,315	45,402	49,696	78,786	80,087	81,581	88,214
Accidental Disability	658,307	681,318	756,218	787,124	836,999	842,855	844,044	844,143	818,283	819,726
Other	163,570	213,811	239,590	207,621	244,851	216,784	235,665	257,844	318,162	339,463
Total Payments for Year	$3,413,582	$3,634,071	$3,833,966	$3,891,582	$4,069,865	$4,119,358	$4,316,431	$4,477,387	$4,583,596	$4,763,474

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