

PERAC AUDIT REPORT



Wellesley
Contributory Retirement System



JAN. 1, 2009 - DEC. 31, 2011



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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December 6, 2012

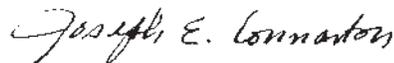
The Public Employee Retirement Administration Commission has completed an examination of the Wellesley Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2009 to December 31, 2011. This audit was conducted in accordance with the accounting and management 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.

We commend the Wellesley Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners Martin J. Feeney and Susan Kerr who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesies and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2011	2010	2009
Net Assets Available For Benefits:			
Cash	\$316,012	\$1,149,730	\$708,312
PRIT Cash Fund	1,450,112	114	145
PRIT Core Fund	111,654,434	116,206,716	107,098,828
Prepaid Expenses	6,627	7,311	5,985
Accounts Receivable	595,572	413,844	414,717
Accounts Payable	<u>(275,492)</u>	<u>(393,133)</u>	<u>(299,275)</u>
Total	<u>\$113,747,265</u>	<u>\$117,384,582</u>	<u>\$107,928,712</u>
Fund Balances:			
Annuity Savings Fund	\$30,360,426	\$29,063,856	\$27,353,325
Annuity Reserve Fund	6,669,367	6,471,986	6,583,510
Pension Fund	13,534,570	14,191,726	12,672,539
Military Service Fund	6,254	6,241	6,223
Expense Fund	0	0	0
Pension Reserve Fund	<u>63,176,648</u>	<u>67,650,773</u>	<u>61,313,114</u>
Total	<u>\$113,747,265</u>	<u>\$117,384,582</u>	<u>\$107,928,712</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2009)	\$25,290,674	\$6,675,284	\$11,966,708	\$6,186	\$0	\$52,557,714	\$96,496,566
Receipts	3,345,504	195,099	1,356,337	37	726,833	15,485,132	21,108,942
Interfund Transfers	(931,368)	931,550	6,729,550	0	0	(6,729,732)	0
Disbursements	(351,486)	(1,218,423)	(7,380,056)	0	(726,833)	0	(9,676,797)
Ending Balance (2009)	27,353,325	6,583,510	12,672,539	6,223	0	61,313,114	107,928,711
Receipts	3,258,082	191,309	2,318,394	19	699,699	13,204,901	19,672,403
Interfund Transfers	(961,755)	958,954	6,870,043	0	0	(6,867,242)	0
Disbursements	(585,796)	(1,261,787)	(7,669,251)	0	(699,698)	0	(10,216,532)
Ending Balance (2010)	29,063,856	6,471,986	14,191,726	6,241	0	67,650,773	117,384,582
Receipts	3,254,203	196,711	3,541,290	12	814,156	(636,669)	7,169,704
Interfund Transfers	(1,375,222)	1,375,222	3,837,456	0	0	(3,837,456)	0
Disbursements	(582,411)	(1,374,552)	(8,035,902)	0	(814,156)	0	(10,807,021)
Ending Balance (2011)	<u>\$30,360,426</u>	<u>\$6,669,367</u>	<u>\$13,534,570</u>	<u>\$6,254</u>	<u>\$0</u>	<u>\$63,176,648</u>	<u>\$113,747,265</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Annuity Savings Fund:			
Members Deductions	\$2,956,648	\$2,883,861	\$2,795,435
Transfers from Other Systems	206,047	269,787	143,238
Member Make Up Payments and Re-deposits	19,152	(304)	267,556
Member Payments from Rollovers	0	16,452	15,984
Investment Income Credited to Member Accounts	<u>72,356</u>	<u>88,286</u>	<u>123,291</u>
Sub Total	<u>3,254,203</u>	<u>3,258,082</u>	<u>3,345,504</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>196,711</u>	<u>191,309</u>	<u>195,099</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	214,260	108,529	139,655
Pension Fund Appropriation	<u>3,138,566</u>	<u>2,010,429</u>	<u>1,000,000</u>
Sub Total	<u>3,541,290</u>	<u>2,318,394</u>	<u>1,356,337</u>
Military Service Fund:			
Investment Income Credited to the Military Service Fund	<u>12</u>	<u>19</u>	<u>37</u>
Sub Total	<u>12</u>	<u>19</u>	<u>37</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>814,156</u>	<u>699,699</u>	<u>726,833</u>
Sub Total	<u>814,156</u>	<u>699,699</u>	<u>726,833</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	34,125	47,213	46,230
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	387	3,220	1,596
Miscellaneous Income	5,957	36,295	118,719
Excess Investment Income (Loss)	<u>(677,138)</u>	<u>13,118,173</u>	<u>15,318,588</u>
Sub Total	<u>(636,669)</u>	<u>13,204,901</u>	<u>15,485,132</u>
Total Receipts, Net	<u>\$7,169,704</u>	<u>\$19,672,403</u>	<u>\$21,108,942</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2011	2010	2009
Annuity Savings Fund:			
Refunds to Members	\$321,219	\$283,996	141,952
Transfers to Other Systems	<u>261,191</u>	<u>301,799.72</u>	<u>209,534</u>
Sub Total	<u>582,411</u>	<u>585,796</u>	<u>351,486</u>
Annuity Reserve Fund:			
Annuities Paid	1,357,320	1,261,787	1,202,774
Option B Refunds	<u>17,232</u>	<u>0</u>	<u>15,649</u>
Sub Total	<u>1,374,552</u>	<u>1,261,787</u>	<u>1,218,423</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	5,932,862	5,796,436	5,596,859
Survivorship Payments	541,414	541,942	562,677
Ordinary Disability Payments	56,981	36,492	35,578
Accidental Disability Payments	1,048,775	860,137	805,092
Accidental Death Payments	200,244	175,492	194,574
Section 101 Benefits	30,545	29,876	29,006
3 (8) (c) Reimbursements to Other Systems	<u>225,081</u>	<u>228,874</u>	<u>156,271</u>
Sub Total	<u>8,035,902</u>	<u>7,669,251</u>	<u>7,380,056</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Salaries	178,177	111,421	106,292
Legal Expenses	16,618	18,881	6,617
Medical Expenses	0	50	0
Travel Expenses	2,008	2,092	1,664
Administrative Expenses	13,715	13,608	12,668
Professional Services	8,400	26,400	13,680
Education and Training	810	1,170	850
Furniture and Equipment	0	266	0
Management Fees	572,573	506,890	572,011
Service Contracts	13,139	10,592	6,561
Fiduciary Insurance	<u>8,716</u>	<u>8,328</u>	<u>6,490</u>
Sub Total	<u>814,156</u>	<u>699,698</u>	<u>726,833</u>
Total Disbursements	<u>\$10,807,021</u>	<u>\$10,216,532</u>	<u>\$9,676,797</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Investment Income Received From:			
Cash	\$3,089	\$4,191	\$7,351
Pooled or Mutual Funds	<u>3,495,805</u>	<u>3,114,447</u>	<u>2,931,714</u>
Total Investment Income	<u>3,498,894</u>	<u>3,118,637</u>	<u>2,939,065</u>
Plus:			
Realized Gains	3,570,226	2,889,115	2,187,599
Unrealized Gains	<u>11,334,899</u>	<u>21,205,203</u>	<u>25,965,428</u>
Sub Total	<u>14,905,126</u>	<u>24,094,318</u>	<u>28,153,027</u>
Less:			
Realized Loss	(64,281)	(94,911)	(7,089,533)
Unrealized Loss	<u>(17,933,641)</u>	<u>(13,020,559)</u>	<u>(7,638,712)</u>
Sub Total	<u>(17,997,922)</u>	<u>(13,115,470)</u>	<u>(14,728,245)</u>
Net Investment Income (Loss)	<u>406,098</u>	<u>14,097,485</u>	<u>16,363,848</u>
Income Required:			
Annuity Savings Fund	72,356	88,286	123,291
Annuity Reserve Fund	196,711	191,309	195,099
Military Service Fund	12	19	37
Expense Fund	<u>814,156</u>	<u>699,698</u>	<u>726,833</u>
Total Income Required	<u>1,083,236</u>	<u>979,312</u>	<u>1,045,260</u>
Net Investment Income	<u>406,098</u>	<u>14,097,485</u>	<u>16,363,848</u>
Less: Total Income Required	<u>1,083,236</u>	<u>979,312</u>	<u>1,045,260</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>(\$677,138)</u>	<u>\$13,118,173</u>	<u>\$15,318,588</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2011		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$316,012	0.3%
PRIT Cash Fund	1,450,112	1.3%
PRIT Core Fund	<u>111,654,434</u>	<u>98.4%</u>
Grand Total	<u>\$113,420,558</u>	<u>100.0%</u>

For the year ending December 31, 2011, the rate of return for the investments of the Wellesley Retirement System was 0.22%. For the five-year period ending December 31, 2011, the rate of return for the investments of the Wellesley Retirement System averaged 0.55%. For the twenty-seven 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 Wellesley Retirement System was 9.97%.

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 twenty-seven 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 Wellesley Retirement System voted on August 29, 2007 to invest all of the system's assets with the PRIT fund . As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration Commission were effectively rescinded.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Wellesley 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 (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.

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

Cash 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

March 29, 1985

Comprehensive Rules

- I Introduction
- II Eligibility for Membership
- III Membership
- IV Classification of Employees
- V Service After Age 70
- VI Average Annual Rate of Compensation
- VII Amount of Creditable Service
- VIII Involuntary Retirement
- IX Application for Superannuation Retirement
- X Application for Disability Retirement
- XI [Not Approved]
- XII Rehabilitation

Forms

- 3. Information Required Under Sec. 5-Superannuation Retirement
- 4. Information Required Under Sec. 6-Ordinary Disability Retirement
- 5. Information Required Under Sec. 7-Accidental Disability Retirement
- 6. Information Required Under Sec. 94-The Heart Law
- 7. Information Required Under Sec. 94A-The Smoke Law
- 8. Worksheet For Section 8 Adjustments
- 8a. Worksheet if there has been a previous adjustment under Sec. 8, Refer to PERA Rules

July 3, 1985

Amendments to Comprehensive Rules

- XI Adjustment of Disability Retirement Allowance Under Sec. 8

Travel Regulations:

The Wellesley 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/Wellesley>.

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 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: Sheryl Strother

Appointed Member: David Kornwitz - Chairman Term Expires:
Until a successor is appointed

Elected Member: Timothy Furdon Term Expires: 6/30/2013

Elected Member: Timothy Barros Term Expires: 6/30/2014

Appointed Member: Charles Cahill Term Expires: 7/30/2015

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:)	Travelers, National Union Fire,
Elected Members:)	Arch Insurance Company
Appointed Members:)	\$1,000,000 Fidelity Bond ERISA
Staff Employees:)	Crime Policy

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Company as of January 1, 2012.

The actuarial liability for active members was	\$82,832,589
The actuarial liability for inactive members was	2,095,111
The actuarial liability for retired members was	<u>80,480,531</u>
The total actuarial liability was	\$165,408,231
System assets as of that date were	<u>125,424,614</u>
The unfunded actuarial liability was	<u>\$39,983,617</u>
The ratio of system's assets to total actuarial liability was	75.8%
As of that date the total covered employee payroll was	\$33,919,655

The normal cost for employees on that date was 9.3% of payroll

The normal cost for the employer including expenses was 5.3% of payroll

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

Investment Return: 7.75% per annum
 Rate of Salary Increase: Based on years of service and job group

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2012

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)
1/1/2012	\$125,424,614	\$165,408,231	\$39,983,617	75.8%	\$33,919,655	117.9%
1/1/2010	\$129,514,453	\$149,447,086	\$19,932,633	86.7%	\$32,053,329	62.2%
1/1/2008	\$144,298,124	\$136,021,926	(\$8,276,198)	106.1%	\$30,256,013	-27.4%
1/1/2006	\$127,011,492	\$123,086,217	(\$3,925,275)	103.2%	\$26,392,253	-14.9%

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	6	11	6	10	7	4	13	14	16
Ordinary Disability	1	0	1	1	0	0	0	0	0	0
Accidental Disability	2	2	1	1	0	0	1	1	1	4
Total Retirements	36	8	13	8	10	7	5	14	15	20
Total Retirees, Beneficiaries and Survivors	420	413	418	414	410	407	399	402	402	406
Total Active Members	599	596	654	656	621	669	709	660	674	654
Pension Payments										
Superannuation	\$4,374,337	\$5,041,682	\$5,207,103	\$5,313,897	\$5,283,196	\$5,340,264	\$5,384,121	\$5,596,859	\$5,796,436	\$5,932,862
Survivor/Beneficiary Payments	312,892	357,253	483,546	462,252	465,936	540,902	530,316	562,677	541,942	541,414
Ordinary Disability	14,201	24,600	28,564	29,834	32,955	52,214	34,669	35,578	36,492	56,981
Accidental Disability	530,354	547,534	666,555	710,226	796,720	756,341	737,926	805,092	860,137	1,048,775
Other	304,882	352,957	355,874	363,120	399,185	554,747	297,373	379,851	434,242	455,870
Total Payments for Year	\$5,536,666	\$6,324,026	\$6,741,642	\$6,879,329	\$6,977,992	\$7,244,468	\$6,984,405	\$7,380,056	\$7,669,251	\$8,035,902

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS

Chapter 88 of the Acts of 2004 allowed the town of Wellesley to establish a Group Insurance Liability Fund to pay premium costs and claim costs on behalf of retired town employees and eligible spouses and dependents. Section 2(b) states that the fund shall be subject to PERAC's triennial audit.

The most recent actuarial valuation of the Town of Wellesley's Group Insurance Liability Fund was prepared by The Segal Group as of June 30, 2010.

The actuarial liability for active members was	\$53,729,716
The actuarial liability for retired members was	<u>71,852,627</u>
The total actuarial liability was	\$125,582,343
System assets as of that date were	<u>11,133,131</u>
The unfunded actuarial liability was	<u>\$114,449,212</u>
The ratio of system's assets to total actuarial liability was	<u>8.9%</u>

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	\$11,133,131	\$125,582,343	\$114,449,212	8.9%	N/A	N/A
6/30/2008	\$3,961,548	\$109,103,295	\$105,141,747	3.6%	N/A	N/A
12/31/2005	\$0	\$96,056,671	\$96,056,671	0.0%	N/A	N/A

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

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)
2007	N/A	N/A	N/A	N/A	N/A	N/A	N/A
2008	\$7,794,493	\$0		\$7,794,493	\$7,524,218	\$270,275	\$270,275
2009	\$8,159,418	\$0	\$0	\$8,159,418	\$10,491,432	(\$2,332,014)	\$2,061,739
2010	\$8,506,559	\$0	\$0	\$8,506,559	\$9,519,441	(\$1,012,882)	\$3,074,621
2011	\$9,127,366	(\$230,597)	\$175,659	\$9,072,428	\$0	\$0	\$0

Other Required Information

Actuarial Cost Method	Projected Unit Credit
Amortization Method	4.0% Increasing
Remaining Amortization Period	29 years (as of 7/1/10)
Asset Valuation	Market Value

Actuarial Assumptions

Investment Rate of Return	7.5%
Inflation Rate	4.0%
Medical/Drug Cost Trend Rate	9.0%, decreasing 0.50% for 8 years for an ultimate rate of 5.0%

Plan Membership

Actives	923
Retirees, Beneficiaries, and Dependents	866
Total	1,789

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