

PERAC AUDIT REPORT



Marblehead
Contributory Retirement System



JAN. 1, 2007 - DEC. 31, 2009



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

July 19, 2010

The Public Employee Retirement Administration Commission has completed an examination of the Marblehead Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2007 to December 31, 2009. 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 the finding presented in this report.

It should be noted that the findings determined in this audit report were based on the Laws and Regulations in effect during the time the audit was conducted for the period referenced in this report. These findings do not reflect the changes made to Chapter 32 after passage of Chapter 21 of the Acts of 2009.

In closing, I acknowledge the work of examiner James Ryan who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDING(S) AND RECOMMENDATION(S)

I. **Board Member Attendance:**

A review of meeting attendance by Board members revealed a significant level of absenteeism for one Board member. The Board member missed 42% of the meetings in 2007, and 33% of the meetings in both 2008 and 2009. The result is an attendance rate that is well below the seventy-five percent minimum considered reasonable for each of the audit years evaluated. Such a level of absenteeism is considered excessive.

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

Board Response: The Board member referenced in the report continues to be an active Board member as he attended all meetings where decisive issues were discussed or voted, such as disability applications, operational budgets, funding schedule and investments.

The Board members value their fiduciary responsibility to the retirement system and will make every effort to attend the monthly meetings. Currently, the Board is complying with the Commission's recommendation, as the Board has been meeting in the late afternoon to accommodate the board member's various schedules.

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,		
	2009	2008	2007
Net Assets Available For Benefits:			
Cash	\$138,974	\$28,004	\$37,846
PRIT Cash Fund	130,133	50,774	201,753
PRIT Core Fund	68,884,462	61,598,248	90,731,266
Interest Due and Accrued	0	0	0
Prepaid Expenses	0	0	0
Accounts Receivable	1,170,653	1,172,059	1,131,189
Premises and Equipment, Net	0	0	0
Accounts Payable	(2,514)	(958)	(853)
Total	<u>\$70,321,708</u>	<u>\$62,848,127</u>	<u>\$92,101,201</u>
Fund Balances:			
Annuity Savings Fund	\$13,674,886	\$13,317,815	\$12,929,367
Annuity Reserve Fund	6,190,973	6,047,665	5,897,824
Pension Fund	1,161,376	935,650	610,125
Military Service Fund	3,072	0	2,062
Expense Fund	0	0	0
Pension Reserve Fund	49,291,402	42,546,997	72,661,822
Total	<u>\$70,321,708</u>	<u>\$62,848,127</u>	<u>\$92,101,201</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2007)	\$12,998,868	\$5,404,074	\$1,022,423	\$2,049	\$0	\$65,553,807	\$84,981,222
Receipts	1,569,956	176,664	2,512,902	12	578,765	9,221,579	14,059,877
Interfund Transfers	(1,244,385)	1,244,385	2,113,564	0	0	(2,113,564)	0
Disbursements	(395,071)	(927,300)	(5,038,763)	0	(578,765)	0	(6,939,899)
Ending Balance (2007)	12,929,367	5,897,824	610,125	2,062	0	72,661,822	92,101,201
Receipts	1,616,035	182,219	2,580,172	2	531,504	(27,149,177)	(22,239,245)
Interfund Transfers	(862,477)	864,540	2,965,649	(2,064)	0	(2,965,649)	0
Disbursements	(365,112)	(896,918)	(5,220,296)	0	(531,504)	0	(7,013,829)
Ending Balance (2008)	13,317,815	6,047,665	935,650	0	0	42,546,996	62,848,127
Receipts	1,638,756	187,055	2,585,898	3,072	502,082	9,835,181	14,752,043
Interfund Transfers	(914,305)	914,305	3,090,775	0	0	(3,090,775)	(0)
Disbursements	(367,380)	(958,052)	(5,450,947)	0	(502,082)	0	(7,278,462)
Ending Balance (2009)	<u>\$13,674,886</u>	<u>\$6,190,973</u>	<u>\$1,161,376</u>	<u>\$3,072</u>	<u>\$0</u>	<u>\$49,291,402</u>	<u>\$70,321,708</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Members Deductions	\$1,425,057	\$1,427,419	\$1,323,134
Transfers from Other Systems	107,447	52,909	101,232
Member Make Up Payments and Re-deposits	32,094	51,686	53,917
Member Payments from Rollovers	11,864	10,428	20,792
Investment Income Credited to Member Accounts	<u>62,294</u>	<u>73,593</u>	<u>70,881</u>
Sub Total	<u>1,638,756</u>	<u>1,616,035</u>	<u>1,569,956</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>187,055</u>	<u>182,219</u>	<u>176,664</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	77,283	61,111	55,250
Pension Fund Appropriation	<u>161,330</u>	<u>171,775</u>	<u>191,385</u>
Settlement of Workers' Compensation Claims	<u>2,347,285</u>	<u>2,347,286</u>	<u>2,266,267</u>
	0	0	0
Sub Total	<u>2,585,898</u>	<u>2,580,172</u>	<u>2,512,902</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	3,072	0	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>2</u>	<u>12</u>
Sub Total	<u>3,072</u>	<u>2</u>	<u>12</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>502,082</u>	<u>531,504</u>	<u>578,765</u>
Sub Total	<u>502,082</u>	<u>531,504</u>	<u>578,765</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	1,943	2,193
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	1,552	6,028	1,668
Miscellaneous Income	0	0	0
Excess Investment Income	<u>9,833,628</u>	<u>(27,157,148)</u>	<u>9,217,718</u>
Sub Total	<u>9,835,181</u>	<u>(27,149,177)</u>	<u>9,221,579</u>
Total Receipts	<u>\$14,752,043</u>	<u>(\$22,239,245)</u>	<u>\$14,059,877</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Refunds to Members	\$139,000	\$231,149	\$193,818
Transfers to Other Systems	<u>228,380</u>	<u>133,963</u>	<u>201,254</u>
Sub Total	<u>367,380</u>	<u>365,112</u>	<u>395,071</u>
Annuity Reserve Fund:			
Annuities Paid	947,989	896,918	846,909
Option B Refunds	<u>10,064</u>	<u>0</u>	<u>80,390</u>
Sub Total	<u>958,052</u>	<u>896,918</u>	<u>927,300</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	4,068,209	3,829,040	3,650,229
Survivorship Payments	263,321	256,466	241,629
Ordinary Disability Payments	71,563	83,347	106,544
Accidental Disability Payments	571,975	581,939	587,726
Accidental Death Payments	233,608	219,712	183,544
Section 101 Benefits	13,744	11,468	10,756
3 (8) (c) Reimbursements to Other Systems	67,198	66,549	66,949
State Reimbursable COLA's Paid	140,475	154,781	174,138
Chapter 389 Beneficiary Increase Paid	<u>20,855</u>	<u>16,994</u>	<u>17,246</u>
Sub Total	<u>5,450,947</u>	<u>5,220,296</u>	<u>5,038,763</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	1,500	1,500	1,500
Salaries	99,198	95,387	91,841
Legal Expenses	9,897	10,174	8,975
Medical Expenses	0	0	0
Travel Expenses	11	42	0
Administrative Expenses	3,417	3,832	3,297
Professional Services	0	16,028	0
Education and Training	0	0	0
Furniture and Equipment	175	719	0
Management Fees	369,119	384,657	469,238
Custodial Fees	0	0	0
Consultant Fees	0	0	0
Rent Expenses	0	0	0
Service Contracts	14,500	15,130	0
Fiduciary Insurance	<u>4,265</u>	<u>4,035</u>	<u>3,913</u>
Depreciation	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>502,082</u>	<u>531,504</u>	<u>578,765</u>
Total Disbursements	<u>\$7,278,462</u>	<u>\$7,013,829</u>	<u>\$6,939,899</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Investment Income Received From:			
Cash	\$1,868	\$9,009	\$8,983
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	0	0	0
Pooled or Mutual Funds	1,896,437	2,732,429	2,936,367
Commission Recapture	0	0	0
Total Investment Income	<u>1,898,305</u>	<u>2,741,438</u>	<u>2,945,350</u>
Plus:			
Realized Gains	1,414,715	1,021,676	7,104,063
Unrealized Gains	16,789,390	4,403,283	7,078,357
Interest Due and Accrued - Current Year	0	0	0
Sub Total	<u>18,204,105</u>	<u>5,424,960</u>	<u>14,182,419</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(4,582,517)	(5,572,614)	0
Unrealized Loss	(4,934,833)	(28,963,614)	(7,083,729)
Interest Due and Accrued - Prior Year			
Sub Total	<u>(9,517,350)</u>	<u>(34,536,228)</u>	<u>(7,083,729)</u>
Net Investment Income (Loss)	<u>10,585,059</u>	<u>(26,369,830)</u>	<u>10,044,040</u>
Income Required:			
Annuity Savings Fund	62,294	73,593	70,881
Annuity Reserve Fund	187,055	182,219	176,664
Military Service Fund	0	2	12
Expense Fund	502,082	531,504	578,765
Total Income Required	<u>751,431</u>	<u>787,317</u>	<u>826,322</u>
Net Investment Income (Loss)	<u>10,585,059</u>	<u>(26,369,830)</u>	<u>10,044,040</u>
Less: Total Income Required	<u>751,431</u>	<u>787,317</u>	<u>826,322</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$9,833,628</u>	<u>(\$27,157,148)</u>	<u>\$9,217,718</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2009		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$138,974	0.2%
PRIT Cash Fund	130,133	0.2%
PRIT Core Fund	<u>68,884,462</u>	<u>99.6%</u>
Grand Total	<u>\$69,153,568</u>	<u>100.0%</u>

For the year ending December 31, 2009, the rate of return for the investments of the Marblehead Retirement System was 17.80%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Marblehead Retirement System averaged 4.18%. For the 25-year period ending December 31, 2008, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Marblehead Retirement System was 9.32%.

The composite rate of return for all retirement systems for the year ending December 31, 2009 was 18.22%. For the five-year period ending December 31, 2009, the composite rate of return for the investments of all retirement systems averaged 3.97%. For the 25-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.30%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Marblehead Retirement System is fully invested in PRIT and has no supplementary investment regulations on file with PERAC.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

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

ADMINISTRATION

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

PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

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

DEFERRED VESTED BENEFIT

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

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

WITHDRAWAL OF CONTRIBUTIONS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$708.60 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

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

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

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

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

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

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

METHODS OF PAYMENT

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

Cash 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 or real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

October 8, 2002

("The Marblehead Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request.)"

MEMBERSHIP:

October 23, 2001

After this date, membership eligibility will be limited to only those part-time employees who are employed 52 weeks a year with a minimum of 1040 hours per year worked. All full-time and eligible part-time employees shall be enrolled in the system at the inception of their employment.

March 26, 2001

Service Liability: The Marblehead Retirement Board will not accept any liability pursuant to the M.G.L. c. 32, § 3(8)(c) for any service that is rendered in the Town of Marblehead, which did not entitle the employee to membership in the Marblehead Retirement System, unless the employee subsequently becomes a member of the Marblehead Retirement System and purchases said service while employed in the Town of Marblehead.

CREDITABLE SERVICE:

January 12, 1989

A member who is compensated on a full time basis shall be credited with one year of service for such year.

If a member's or applicant's work is part-time, provisional, temporary, temporary provisional, temporary intermittent, seasonal or permanent intermittent, then the retirement board shall determine total hours for which said member or applicant was paid regular compensation in any specified year, divide said hours by the average of the actual hours worked during any period of three consecutive years of creditable service for which such rate of compensation was the highest, or on the average annual rate of regular compensation received by such member during the period or periods, whether consecutive or not constituting his three years of creditable service preceding retirement, and allow creditable service for a percentage in each year on the basis of said average.

The number of years, months or days (assuming 365 days in a year) of creditable service to be used in computing the member's retirement allowance shall be taken as the sum of the amount of service credited for each of the years during which the individual was a member of the Retirement System.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

REGULAR COMPENSATION:

MISCELLANEOUS:

August 30, 2000

Recovery of Earnings in Excess of the Statutory Limitations Set Forth in M.G.L. c. 32, § 91A:

If a disability retiree of the Marblehead Retirement System whose earnings exceed the limitations set forth in M.G.L. c. 32, § 91A can demonstrate that a lump-sum payment of said over earnings to the System would result in financial hardship, the Board shall, in its sole discretion, develop a monthly payment schedule to address the member's financial needs, not to exceed six months. If the disability retiree elects to utilize said monthly payment schedule, the method of payment shall be by automatically withholding the predetermined amount from the member's monthly retirement allowance.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	\$39,590,118
The actuarial liability for vested terminated members was	469,031
The actuarial liability for non-vested terminated members was	432,670
The actuarial liability for retired members was	<u>53,416,671</u>
The total actuarial liability was	93,908,490
System assets as of that date were	<u>84,442,905</u>
The unfunded actuarial liability was	<u>\$9,465,585</u>
The ratio of system's assets to total actuarial liability was	89.9%
As of that date the total covered employee payroll was	\$15,827,608

The normal cost for employees on that date was 8.10% of payroll
 The normal cost for the employer was 5.70% of payroll

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

Investment Return: 8.00% per annum
 Rate of Salary Increase: 5.00% per annum

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2008	\$84,442,905	\$93,908,490	\$9,465,585	89.9%	\$15,827,608	59.8%
1/1/2006	\$69,105,082	\$82,948,269	\$13,843,187	83.3%	\$14,159,647	97.8%
1/1/2004	\$64,490,373	\$76,875,640	\$12,385,267	83.9%	\$13,982,752	88.6%
1/1/2002	\$60,615,356	\$71,022,123	\$10,406,767	85.3%	\$13,268,405	78.4%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Retirement in Past Years										
Superannuation	12	12	8	15	11	19	9	20	12	12
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	1	0	2	1	2	0	1	1	0
Total Retirements	12	13	8	17	12	21	9	21	13	12
Total Retirees, Beneficiaries and Survivors	324	325	313	320	316	320	317	324	322	326
Total Active Members	400	417	400	384	384	370	370	361	354	352
Pension Payments										
Superannuation	\$2,236,348	\$2,482,245	\$2,627,850	\$2,759,689	\$2,939,912	\$3,294,906	\$3,473,426	\$3,650,229	\$3,829,040	\$4,068,209
Survivor/Beneficiary Payments	35,615	37,410	38,703	46,299	64,863	40,303	38,721	241,629	256,466	263,321
Ordinary Disability	159,232	154,571	157,541	159,962	156,403	149,595	139,754	106,544	83,347	71,563
Accidental Disability	325,756	306,210	321,545	374,812	413,916	499,524	533,045	587,726	581,939	571,975
Other	526,261	502,082	481,844	127,532	129,926	448,897	506,688	452,635	469,504	475,879
Total Payments for Year	<u>\$3,283,212</u>	<u>\$3,482,518</u>	<u>\$3,627,483</u>	<u>\$3,468,294</u>	<u>\$3,705,020</u>	<u>\$4,433,225</u>	<u>\$4,691,634</u>	<u>\$5,038,763</u>	<u>\$5,220,296</u>	<u>\$5,450,947</u>

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