

PERAC AUDIT REPORT



Melrose
Contributory Retirement System



JAN. 1, 2008 - DEC. 31, 2010



TABLE OF CONTENTS

Letter from the Executive Director	1
Statement of Ledger Assets and Liabilities.....	2
Statement of Changes in Fund Balances	3
Statement of Receipts.....	4
Statement of Disbursements.....	5
Investment Income	6
Schedule of Allocation of Investments Owned.....	7
Supplementary Investment Regulations	8
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions	9
Note 2 - Significant Accounting Policies	16
Note 3 - Supplementary Membership Regulations.....	18
Note 4 - Administration of the System	20
Note 5 - Actuarial Valuation and Assumptions.....	21
Note 6 - Membership Exhibit.....	22

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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

JOSEPH E. CONNARTON, *Executive Director*

August 4, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Melrose Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2008 to December 31, 2010. 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 Melrose Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners James Sweeney and 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



STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2010	2009	2008
Net Assets Available For Benefits:			
Cash	\$555,674	\$782,024	\$357,543
Pooled Alternative Investment Funds	1,690,121	1,468,721	1,723,991
Pooled Real Estate Funds	2,462,047	2,876,382	3,480,121
PRIT Cash Fund	2,476,540	212,827	5,203,905
PRIT Core Fund	50,555,595	42,858,654	37,781,893
Interest Due and Accrued	0	0	0
Accounts Receivable	102,155	4,796,732	85,720
Accounts Payable	<u>(2,750)</u>	<u>(11,760)</u>	<u>(13,432)</u>
Total	<u>\$57,839,381</u>	<u>\$52,983,580</u>	<u>\$48,619,741</u>
Fund Balances:			
Annuity Savings Fund	\$15,861,510	\$14,874,395	\$14,151,361
Annuity Reserve Fund	5,498,833	5,709,169	5,712,562
Pension Fund	0	916,975	2,246,036
Military Service Fund	58,525	49,851	44,973
Expense Fund	0	0	0
Pension Reserve Fund	<u>36,420,512</u>	<u>31,433,190</u>	<u>26,464,808</u>
Total	<u>\$57,839,381</u>	<u>\$52,983,580</u>	<u>\$48,619,741</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 (2008)	\$13,285,384	\$6,045,338	\$3,672,534	(\$468)	\$0	\$43,491,344	\$66,494,131
Receipts	1,689,135	173,857	4,888,346	58,188	520,724	(17,026,405)	(9,696,155)
Interfund Transfers	(464,278)	464,409	12,747	(12,747)	0	(131)	(0)
Disbursements	(358,880)	(971,042)	(6,327,590)	0	(520,724)	0	(8,178,236)
Ending Balance (2008)	14,151,361	5,712,562	2,246,036	44,973	(0)	26,464,808	48,619,741
Receipts	1,700,298	169,097	5,117,694	5,134	591,462	4,967,994	12,551,678
Interfund Transfers	(842,398)	842,267	0	(257)	0	388	(0)
Disbursements	(134,865)	(1,014,757)	(6,446,755)	0	(591,462)	0	(8,187,839)
Ending Balance (2009)	14,874,395	5,709,169	916,975	49,851	(0)	31,433,190	52,983,580
Receipts	1,896,216	166,878	5,244,623	8,418	406,309	5,450,248	13,172,691
Interfund Transfers	(638,308)	638,308	462,669	257	0	(462,926)	0
Disbursements	(270,793)	(1,015,522)	(6,624,266)	0	(406,309)	0	(8,316,890)
Ending Balance (2010)	<u>\$15,861,510</u>	<u>\$5,498,833</u>	<u>\$0</u>	<u>\$58,525</u>	<u>(\$0)</u>	<u>\$36,420,512</u>	<u>\$57,839,381</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Annuity Savings Fund:			
Members Deductions	\$1,570,068	\$1,547,259	\$1,426,239
Transfers from Other Systems	255,620	22,280	176,531
Member Make Up Payments and Re-deposits	10,321	62,693	9,475
Member Payments from Rollovers	14,151	0	0
Investment Income Credited to Member Accounts	<u>46,057</u>	<u>68,065</u>	<u>76,890</u>
Sub Total	<u>1,896,216</u>	<u>1,700,298</u>	<u>1,689,135</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>166,878</u>	<u>169,097</u>	<u>173,857</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	80,350	78,979	84,869
Pension Fund Appropriation	163,387	175,881	192,368
Settlement of Workers' Compensation Claims	5,000,886	4,862,834	4,611,109
	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>5,244,623</u>	<u>5,117,694</u>	<u>4,888,346</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	8,268	4,909	57,931
Investment Income Credited to the Military Service Fund	<u>150</u>	<u>225</u>	<u>257</u>
Sub Total	<u>8,418</u>	<u>5,134</u>	<u>58,188</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>406,309</u>	<u>591,462</u>	<u>520,724</u>
Sub Total	<u>406,309</u>	<u>591,462</u>	<u>520,724</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	1,778	819	1,535
Miscellaneous Income	86	846	8,692
Excess Investment Income (Loss)	<u>5,448,384</u>	<u>4,966,329</u>	<u>(17,036,632)</u>
Sub Total	<u>5,450,248</u>	<u>4,967,994</u>	<u>(17,026,405)</u>
Total Receipts, Net	<u>\$13,172,691</u>	<u>\$12,551,678</u>	<u>(\$9,696,155)</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Annuity Savings Fund:			
Refunds to Members	\$127,756	\$91,507	\$181,230
Transfers to Other Systems	<u>143,036</u>	<u>43,357</u>	<u>177,649</u>
Sub Total	<u>270,793</u>	<u>134,865</u>	<u>358,880</u>
Annuity Reserve Fund:			
Annuities Paid	1,015,522	1,014,757	971,042
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>1,015,522</u>	<u>1,014,757</u>	<u>971,042</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	4,534,931	4,432,830	4,451,771
Survivorship Payments	391,813	362,453	354,403
Ordinary Disability Payments	135,312	132,203	129,110
Accidental Disability Payments	1,155,875	1,099,221	1,039,819
Accidental Death Payments	233,096	246,457	207,740
Section 101 Benefits	51,424	49,987	50,372
3 (8) (c) Reimbursements to Other Systems	121,815	123,604	94,375
State Reimbursable COLA's Paid	<u>0</u>	<u>0</u>	<u>0</u>
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>6,624,266</u>	<u>6,446,755</u>	<u>6,327,590</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	16,000	17,458	16,850
Salaries	89,795	149,655	116,852
Legal Expenses	8,700	67,775	12,293
Medical Expenses	<u>0</u>	<u>67</u>	<u>57</u>
Travel Expenses	2,965	2,562	5,815
Administrative Expenses	7,785	5,717	11,087
Professional Services	1,500	27,620	0
Education and Training	1,773	<u>0</u>	<u>0</u>
Furniture and Equipment	1,100	650	1,672
Management Fees	242,096	277,166	311,754
Custodial Fees	<u>0</u>	<u>0</u>	<u>5,215</u>
Consultant Fees	11,000	11,000	19,750
Service Contracts	18,735	27,300	15,130
Fiduciary Insurance	<u>4,862</u>	<u>4,490</u>	<u>4,249</u>
Sub Total	<u>406,309</u>	<u>591,462</u>	<u>520,724</u>
Total Disbursements	<u>\$8,316,890</u>	<u>\$8,187,839</u>	<u>\$8,178,236</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Investment Income Received From:			
Cash	\$3,421	\$2,294	\$15,413
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	0	0	0
Pooled or Mutual Funds	786,478	1,123,838	1,932,941
Commission Recapture	<u>0</u>	<u>0</u>	<u>9,449</u>
Total Investment Income	<u>789,899</u>	<u>1,126,132</u>	<u>1,957,803</u>
Plus:			
Realized Gains	1,491,699	912,753	791,760
Unrealized Gains	9,625,197	11,065,478	3,260,991
Interest Due and Accrued - Current Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>11,116,896</u>	<u>11,978,231</u>	<u>4,052,751</u>
Less:			
Realized Loss	(40,650)	(3,124,164)	(3,596,443)
Unrealized Loss	(5,798,368)	(4,185,021)	(18,676,466)
Interest Due and Accrued - Prior Year	<u>0</u>	<u>0</u>	<u>(2,549)</u>
Sub Total	<u>(5,839,018)</u>	<u>(7,309,185)</u>	<u>(22,275,458)</u>
Net Investment Income (Loss)	<u>6,067,778</u>	<u>5,795,178</u>	<u>(16,264,904)</u>
Income Required:			
Annuity Savings Fund	46,057	68,065	76,890
Annuity Reserve Fund	166,878	169,097	173,857
Military Service Fund	150	225	257
Expense Fund	<u>406,309</u>	<u>591,462</u>	<u>520,724</u>
Total Income Required	<u>619,394</u>	<u>828,850</u>	<u>771,728</u>
Net Investment Income (Loss)	<u>6,067,778</u>	<u>5,795,178</u>	<u>(16,264,904)</u>
Less: Total Income Required	<u>619,394</u>	<u>828,850</u>	<u>771,728</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$5,448,384</u>	<u>\$4,966,329</u>	<u>(\$17,036,632)</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2010		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$555,674	1.0%
Pooled Alternative Investment Funds	1,690,121	2.9%
Pooled Real Estate Funds	2,462,047	4.3%
PRIT Cash Fund	2,476,540	4.3%
PRIT Core Fund	<u>50,555,595</u>	<u>87.6%</u>
Grand Total	<u>\$57,739,976</u>	<u>100.0%</u>

For the year ending December 31, 2010, the rate of return for the investments of the Melrose Retirement System was 13.00%. For the five-year period ending December 31, 2010, the rate of return for the investments of the Melrose Retirement System averaged 3.38%. For the 26-year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Melrose Retirement System was 8.53%.

The composite rate of return for all retirement systems for the year ending December 31, 2010 was 13.67%. For the five-year period ending December 31, 2010, the composite rate of return for the investments of all retirement systems averaged 4.39%. For the 26-year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.46%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Melrose Retirement System has more than 90 percent of their funds invested in the PRIT fund managed by the PRIM Board. Certain residual investment agreements related to holdings of Pooled Alternative Investments and Pooled Real Estate Funds could not be abrogated and remain under the care and custody of the Melrose Retirement System. Such residual investments generally consist of limited partnership subscriptions for a specific term. These terms are fixed for a period usually not to exceed ten years. As a result, the supplemental investment regulations that were previously approved by PERAC and remain on file at PERAC have been effectively rescinded, except as they pertain to the residual holdings referenced above. A complete list of these regulations is available upon written request and can be accessed via the Internet as follows: <http://www.mass.gov/perac/investsup/melroseintsup.html>

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

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

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. 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 \$729.84 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. An additional \$15.00 per year of service, not to exceed \$300 annually may be added to the benefit in systems in which the local option contained in G.L. 32, §. 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 \$729.84 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.

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

May 10, 2011

Creditable Service Purchase – Installment Policy:

Members of the Melrose Retirement Board (sic) will be allowed to purchase up to four years of military service, creditable service for certain periods of non-membership employment (service) for a MA governmental unit in which deductions were NOT taken, and creditable service for previous service with a MA governmental unit in which they received a refund of contributions consistent with the provisions of MA General Law Chapter 32 and PERAC 840 CMR Regulation 15.02.

It the policy of the Melrose Retirement Board to require that any request to purchase applicable creditable service will be paid in either 1 lump sum payment in full OR based on a signed, written (weekly or monthly) installment payment plan submitted by the Member, subject to Board approval, that will pay the necessary amount, including interest, within a maximum 12 month or 52 week period. The Member shall make the payments on a weekly or monthly basis to the Melrose Retirement Board. A Member who sustains or endures a hardship may petition the Board for a period of payment in excess of 12 months or 52 weeks.

If a Member becomes inactive or a non- member (resign, termination, sick etc...) during the installment payment period without making the final payment(s), the creditable service granted will be prorated based on the payments received and the creditable service being purchased. No refunds are allowed after purchasing this creditable service except by a refund of ALL accumulated deductions.

The purchased service time will only be 100% credited upon successful receipt of all installments. Members may NOT purchase any entire military, buyback, or make-up of creditable service or a portion(s) of creditable service with more than ONE 12 month written (weekly or monthly) installment payment plan.

March 28, 2011

Non-Member Creditable Service Purchase Policy:

Members of the Melrose Retirement Board will be allowed to purchase creditable service for periods of non-membership employment (service) for a governmental unit in which deductions were NOT taken, consistent with the provisions of MA General Law Chapter 32 and PERAC 840 CMR Regulation 15.02.

For full time Non-Member service, the employee will receive 12 months of creditable service for each year of service purchased.

For part time Non-Member service, it is the policy of the Melrose Retirement Board to calculate the purchased part time creditable service using actual hours worked on a proportional basis of a 40 hour work week, consistent with the Creditable Service and Membership Supplemental Regulations.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

November 15, 1985

Creditable Service:

Part time employees credit will be granted depending on 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 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 the 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 2 years of part time service. An alternative computation of creditable service will be made by using actual hours worked. This computation will be made using a ratio the dividend of which will represent the hours to be worked. The percentage thus computed will be that portion of a year's credit for the part time work. Any interpretation of this paragraph shall be done on an individual basis by the Board.

July 1, 1985

Membership:

Employees working less than 20 hours per week are ineligible for membership.

Permanent employees working for at least 20 hours per week and less than 35 shall be granted creditable service prated on the basis of a 40- hour week. If employed for at least 20 hours per week, and if this comprises the full time prescribed for the position, said part time employees shall be credited with 12 months membership service (i.e., Traffic Supervisors and School Lunch Employees).

All regular permanent employees who work at least 35 or more hours per week shall be granted creditable service of 12 months for each year of employment.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2010.

The actuarial liability for active members was	\$39,882,311
The actuarial liability for retirees, survivors, and inactive members was	<u>67,064,824</u>
The total actuarial liability was	106,947,135
System assets as of that date were	<u>58,281,938</u>
The unfunded actuarial liability was	<u>\$48,665,197</u>
The ratio of system's assets to total actuarial liability was	54.5%
As of that date the total covered employee payroll was	\$16,543,077

The normal cost for employees on that date was 8.7% of payroll
 The normal cost for the employer was 7.0% of payroll

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

Investment Return: 8.00% per annum
 Rate of Salary Increase: Service based rates at 4.75%, 5.00% and
5.25% for groups 1,2, and 4 respectively

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2010	\$58,281,938	\$106,947,135	\$48,665,197	54.5%	\$16,543,077	294.2%
1/1/2008	\$63,527,582	\$98,380,646	\$34,853,064	64.6%	\$15,463,779	225.4%
1/1/2006	\$55,100,381	\$92,725,012	\$37,624,631	59.4%	\$13,847,540	271.7%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Retirement in Past Years										
Superannuation	14	37	21	10	12	5	7	7	9	8
Ordinary Disability	1	2	0	2	0	0	0	0	0	0
Accidental Disability	2	2	2	0	0	2	3	3	1	0
Total Retirements	17	41	23	12	12	7	10	10	10	8
Total Retirees, Beneficiaries and Survivors	345	375	388	389	395	404	408	382	375	373
Total Active Members	425	420	428	434	449	418	409	403	384	390
Pension Payments										
Superannuation	\$2,794,186	\$3,095,286	\$3,698,292	\$4,045,784	\$4,233,023	\$4,471,997	\$4,409,142	\$4,451,771	\$4,432,830	\$4,534,931
Survivor/Beneficiary Payments	277,881	292,728	296,954	309,779	330,179	340,401	341,746	354,403	362,453	391,813
Ordinary Disability	111,275	126,690	130,858	134,201	119,933	126,035	122,975	129,110	132,203	135,312
Accidental Disability	590,154	618,896	649,316	711,381	765,568	959,899	879,672	1,039,819	1,099,221	1,155,875
Other	240,364	277,974	305,816	356,521	350,812	367,735	355,069	352,488	420,048	406,335
Total Payments for Year	<u>\$4,013,860</u>	<u>\$4,411,575</u>	<u>\$5,081,235</u>	<u>\$5,557,666</u>	<u>\$5,799,515</u>	<u>\$6,266,066</u>	<u>\$6,108,604</u>	<u>\$6,327,590</u>	<u>\$6,446,755</u>	<u>\$6,624,266</u>

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