MALDEN

RETIREMENT SYSTEM

AUDIT REPORT

JANUARY 1, 2015 - DECEMBER 31, 2019



TABLE OF CONTENTS

Letter from the Executive Director	I
Explanation of Findings and Recommendations	3
Supplementary Information:	
Schedule of Allocation of Investments Owned	5
Administration of the System	6
Board Regulations	6
Actuarial Valuation and Assumptions	7
Membership Exhibit	8
Independent Audit Reports:	
Roselli, Clark & Associates, Year Ended December 31, 2019	9
Roselli, Clark & Associates, Year Ended December 31, 2018	35
Roselli, Clark & Associates, Year Ended December 31, 2017	63
Roselli, Clark & Associates, Year Ended December 31, 2016	91
Roselli, Clark & Associates, Year Ended December 31, 2015	119



COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., Chairman

JOHN W. PARSONS, ESQ., Executive Director

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | RICHARD MacKINNON, Jr. | JENNIFER F. SULLIVAN

February 3, 2022

The Public Employee Retirement Administration Commission (PERAC) has completed a review of the audits of the Malden Retirement System conducted by the firm of Roselli, Clark & Associates Certified Public Accountants (CPAs). Roselli, Clark & Associates conducted these audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audits covered the period from January 1, 2015 to December 31, 2019.

We conducted an inspection of the work papers prepared by Roselli, Clark & Associates. We determined that the audits were conducted in a competent professional manner and the work papers demonstrated that audit tests and procedures were performed in sufficient detail to allow us to accept the final audit reports as issued.

We identified specific differences between these financial audits designed to provide an opinion on financial statements and our compliance audits performed in accordance with the accounting and management standards established by PERAC in regulation 840 CMR 25.00 and in compliance with the provisions specified in PERAC Memo #18/2019.

Accordingly, we supplemented the field work conducted in the audits by Roselli, Clark & Associates with certain limited procedures designed to provide additional assurance that the accounting and management standards established by PERAC were adhered to and complied with. The specific objectives of our review were to determine: I) that the Board is exercising appropriate fiduciary oversight, 2) that cash balances are accurately stated, 3) that procurements of investments complied with 23B and that management fees paid were in accordance with contracts, 4) that travel expenses were properly documented and accounted for, 5) that retirement contributions are accurately deducted, 6) that retirement allowances were correctly calculated, and 7) that required member documentation is maintained.

To achieve these objectives, we inspected certain records of the Malden Retirement Board in the above areas. Specifically, we reviewed the minutes of the Board meetings for compliance with fiduciary oversight, verified cash balances, examined a sample of investment procurements and recalculated management fees charged. We tested a sample of travel expenses for Board approvals, supporting documentation and proper accounting. We tested the payroll records of a sample of active members to confirm that the correct percentage of regular compensation is being deducted, including the additional two percent over \$30,000. We tested a sample of members who retired





Malden Audit Report February 3, 2022 Page 2

during our audit period to verify that their retirement allowance was calculated in accordance with the statute. We also reviewed a sample of member files for accuracy and completeness.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by PERAC with the exception of those related to our supplemental work which are detailed in the findings presented in this report.

It should be noted that the financial statements included in this audit report were based on the work performed by Roselli, Clark & Associates and the tests conducted for the periods referenced in their opinion. These audits were not performed by employees or representatives of PERAC. It should also be noted that the opinions expressed in these audit reports were based on the laws and regulations in effect at the time.

The financial statements and footnotes presented in this report were limited to the express results as of and for the years ended December 31, 2019, December 31, 2018, December 31, 2016, and December 31, 2015.

After field work concluded and prior to the issuance of this audit, PERAC learned of a cyberattack incident that occurred after the audit period involving the Board and one of its vendors. At the time of this audit's issuance, the Board and PERAC are in the process of reviewing and addressing the matter.

In closing, I wish to acknowledge the work of Roselli, Clark & Associates who conducted these examinations, and the PERAC examiners who conducted limited procedures to supplement the field work, and express my appreciation to the Malden Retirement Board and staff for their courtesy and cooperation.

Sincerely

John W. Parsons, Esq. Executive Director

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Cash Reconciliation:

- The Treasurer's office is preparing cash reconciliations for the payroll clearing account and accounts payable account. However, due to a high turnover rate in the position of Treasurer, they have not been done on a timely basis.
- At the end of the audit period (December 2019), there were 35 checks that had been outstanding for at least six months, going back as far as November 2013.
- The most recent reconciliation from the Treasurer's office reviewed during the field work (September 2020) had 55 stale dated checks, including the 35 from nine months earlier. This reconciliation also had an unexplained variance of approximately \$450.
- The Board administrator also prepares their own bank reconciliations and states that there
 are no stale checks in either of the reconciliations mentioned above as they have been voided.
 However, for internal control purposes the Treasurer is the one with the responsibility of
 preparing the bank reconciliations. The Treasurer was able to reconcile to the general ledger
 balance using the outstanding checks referenced above (with the exception of the \$450 in the
 previous bullet).

Recommendation: The monthly cash reconciliation from the Treasurer's office should be given to the Board members as part of the monthly financial packet. The handling of outstanding checks and unreconciled variances should be closely monitored. If checks are being reissued after six months by the Retirement Board, then the Treasurer must be informed so that the outstanding check list can be updated.

Board Response:

The bank reconciliations have been completed by the city treasurer and are now current. The reconciliations have been presented to the board and approved. As current reconciliations are completed by the treasurer, they will be presented at each monthly Board meeting. All stale dated checks have been reviewed and voided out by the city treasurer.

2. Active Members:

Four buyback calculations were reviewed with issues found in all. These include:

- Not charging interest in the year of the refund for the time period between the refund and the end of the year.
- During payment plans, interest was not adjusted as payments were made by the member. Instead it was always based on the starting amount owed. Chapter 32 interest is nearly always based on a balance at the end of the prior year.
- One member bought non-member time covering 1983-1988 and was charged 7% of the 1984 wages. When purchasing non-member time pursuant to c. 32, §4(2)(c), the contribution rate in effect must be used. The 1984 wages should have been multiplied by 8%.
- Refunded time being re-deposited pursuant to §3 has a one-year period when the calculation of the amount owed uses buyback interest before it doubles to actuarial interest. There was a Board vote to use buyback interest even if the one year had passed; this happened to one of the members reviewed.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Recommendation: The members mentioned above need to be corrected; return any overpayments and collect any underpayments. Section 20(5)(c)(1) requires the Board to correct errors "as far as practicable". Service purchases for other members should be reviewed for these and similar issues and also be corrected.

The Board must revisit its vote regarding interest under §3 as it has no authority to waive this statutory provision.

Board Response:

Member's make-up and buyback calculations noted above will be reviewed and corrected. Interest rate charged on make-up and buyback calculations will use the full actuarial rate as mentioned within §3 if applicable.

3. Regular Compensation:

There are two pay codes currently having retirement contributions withheld that do not qualify as regular compensation.

The first code is the police department's Hazardous Duty pay. This is not regular compensation because there is no service associated with it.

The second code is the Senior Captain pay. There is no service associated with this, and since it is not included in the portion of the contract that covers longevity pay it is similar to a bonus.

Recommendation: The payroll department should be instructed to stop withholding deductions from these codes.

Board Response:

Effective in January 2022, deductions for both Hazardous Duty, and Senior Captain pay were discontinued.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

SUPPLEMENTARY INFORMATION

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2019		
	PERCENTAG		
		OF TOTAL	
	MARKET VALUE	ASSETS	
Cash	\$5,927,584	2.1%	
Fixed Income Securities	109,763,124	38.9%	
Equities	166,203,145	<u>59.0%</u>	
Grand Total	<u>\$281,893,853</u>	<u>100.0%</u>	

For the year ending December 31, 2019, the rate of return for the investments of the Malden Retirement System was 11.76%. For the five-year period ending December 31, 2019, the rate of return for the investments of the Malden Retirement System averaged 6.74%. For the 35-year period ending December 31, 2019, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Malden Retirement System was 9.59%.

SUPPLEMENTARY INFORMATION (Continued)

ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Controller 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: Charles Ranaghan

Appointed Member: Domenic Fermano Serves until a successor is appointed

Elected Member: Donald Boyce Term Expires: 11/30/23

Elected Member: Warren Atkinson, Jr., Chairman Term Expires: 11/30/23

Fifth Member: Scott Lucey Term Expires: 9/16/22

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.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

BOARD REGULATIONS

The Malden Retirement Board has adopted Supplemental Regulations which are available on the PERAC website at https://mass.gov/Malden-retirement-board-regulations.

SUPPLEMENTARY INFORMATION (Continued)

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, 2020.

The actuarial liability for active members was	\$152,976,456
The actuarial liability for vested terminated members was	2,941,614
The actuarial liability for non-vested terminated members was	1,003,352
The actuarial liability for retired members was	212,544,756
The total actuarial liability was	\$369,466,178
System assets as of that date were (actuarial value)	269,239,167
The unfunded actuarial liability was	\$ <u>100,227,011</u>
The ratio of system's assets to total actuarial liability was	72.9%
As of that date the total covered employee payroll was	\$45,239,760

The normal cost for employees on that date was 8.9% of payroll The normal cost for the employer (including expenses) was 9.8% of payroll

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

Investment Return: 7.15% per annum

Rate of Salary Increase: Varies by group and service

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2020

Actuarial Valuation	Actuarial Value of Assets	Actuarial Accrued Liability	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Cov. Payroll
Date 1/1/2020	(a) \$269,239,167	(b) \$369,466,178	(b-a) \$100,227,011	(a/b) 72.9%	(c) \$45,239,760	((b-a)/c) 221.5%
1/1/2018	\$246,913,976	\$342,968,672	\$96,054,696	72.0%	\$42,288,097	227.1%
1/1/2016	\$225,649,278	\$316,442,031	\$90,792,753	71.3% 70.3%	\$39,867,546	227.7% 208.9%
1/1/2014	\$197,673,113 \$179,323,781	\$281,122,970 \$255,787,183	\$83,449,857 \$76,463,402	70.3%	\$39,954,949 \$37,916,487	208.9%

SUPPLEMENTARY INFORMATION (Continued)

MEMBERSHIP EXHIBIT

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Retirement in Past Years										
Superannuation	22	29	33	22	31	30	20	29	16	24
Ordinary Disability	1	0	I	0	0	0	l I	l I	0	0
Accidental Disability	5	2	6	2	9	4	2	0	2	0
Total Retirements	28	31	40	24	40	34	23	30	18	24
Total Retirees, Beneficiaries										
and Survivors	702	679	671	698	677	717	675	672	666	696
Total Active Members	807	812	810	824	795	798	746	783	816	846
Pension Payments										
Superannuation	\$7,888,330	\$8,473,670	\$8,674,769	\$9,263,203	\$9,824,679	\$10,544,635	\$10,989,615	\$11,433,633	\$11,700,849	\$12,123,108
Survivor/Beneficiary Payments	823,922	855,684	902,363	993,568	978,276	\$1,071,281	\$1,081,680	\$1,064,757	\$986,095	1,023,606
Ordinary Disability	179,822	173,775	161,105	162,619	147,499	\$164,279	\$166,658	\$165,689	\$165,603	168,963
Accidental Disability	2,766,173	2,845,412	2,801,923	2,815,979	3,065,194	\$3,233,209	\$3,336,436	\$3,275,201	\$3,277,452	3,275,375
Other	1,210,933	<u>1,268,855</u>	<u>1,296,141</u>	<u>1,270,292</u>	<u>1,374,200</u>	1,396,455	<u>1,390,755</u>	<u>1,543,973</u>	1,722,727	<u>1,922,812</u>
Total Payments for Year	\$12,869,180	<u>\$13,617,396</u>	<u>\$13,836,300</u>	<u>\$14,505,660</u>	<u>\$15,389,849</u>	<u>\$16,409,859</u>	<u>\$16,965,143</u>	<u>\$17,483,253</u>	<u>\$17,852,726</u>	\$18,513,864

ROSELLI, CLARK & ASSOCIATES Certified Public Accountants



MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(a Component Unit of the City of Malden, Massachusetts)

Report on Examination of Basic Financial Statements and Additional Information

Year Ended December 31, 2019

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

TABLE OF CONTENTS DECEMBER 31, 2019

	Page(s)
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 – 6
BASIC FINANCIAL STATEMENTS:	
Statement of Fiduciary Net Position	7
Statement of Changes in Fiduciary Net Position	8
Notes to Basic Financial Statements	9 – 16
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED:	
Schedule of Changes in Net Pension Liability and Related Ratios	17
Schedule of Contributions	18
Schedule of Investment Returns	18
Notes to Required Supplementary Information	19
OTHER REPORTS:	
Independent Auditors' Report on Audit of Specific Elements, Accounts	
and Items of Financial Statements	20 - 21
Pension Plan Schedules:	
Schedule of Employer Allocations	22
Schedule of Pension Amounts by Employer	23
Notes to Pension Plan Schedules	24



ROSELLI, CLARK & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073 www.roselliclark.com

INDEPENDENT AUDITORS' REPORT

To the Malden Retirement Board Malden Contributory Retirement System Malden, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Malden Contributory Retirement System (the "System"), a component unit of the City of Malden, Massachusetts, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Malden Contributory Retirement System

Page 1 of 24

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System as of December 31, 2019, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules listed under the required supplementary information section in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated November 4, 2020 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the System's internal control over financial reporting and compliance.

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts November 4, 2020

Malden Contributory Retirement System

Page 2 of 24

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Malden Contributory Retirement System's (the "System") financial performance provides an overview of the System's financial activities for the calendar year ended December 31, 2019. You should read this unaudited information in conjunction with the basic financial statements, footnotes and required supplementary information that follows this discussion.

Financial Highlights

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The System's actuary estimates that the System is nearly 76% funded at December 31, 2019.

The System's fiduciary net position increased nearly \$22.6 million in 2019 to approximately \$280.2 million. Current year additions of nearly \$45.4 million exceeded deductions of approximately \$22.8 million. The current year increase in fiduciary net position was far more favorable that the prior year's reported increase of nearly \$5.9 million. The System's investment performance for 2019, net of investment management fees, was nearly 11.2% versus 5.7% in 2018. The 2019 net investment return for the System exceeded its long-term expected discount rate, which is currently 7.15%.

Overview of the Financial Statements

The basic financial statements are comprised of the Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, Notes to Financial Statements and Required Supplementary Information. The basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP; specifically, GASB Statement No. 67, Financial Reporting for Pension Plans.

The Statement of Fiduciary Net Position reports the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position restricted for pensions. This statement reflects the System's investments at fair value, as well as cash, receivables and other assets and liabilities. Over time, the increase or decrease in fiduciary net position serves as a useful indicator of the System's financial health and condition.

The Statement of Changes in Fiduciary Net Position reports additions to and deductions from the System during the. This statement reflects contributions by members and participating employers along with deductions for retirement benefits, refunds, withdrawals and administrative expenses. Investment income, including realized and unrealized gains, during the year is also presented.

The Notes to the Financial Statements provide additional information that is essential for the reader to gain a full understanding of the data provided in the financial statements.

This report also includes Required Supplementary Information following the Notes to the Financial Statements that consist the schedules of changes in net pension liability and related ratios, investment returns and contributions and the notes to the schedule of contributions.

Malden Contributory Retirement System

Page 3 of 24

Financial Analysis

The condensed comparative Statements of Net Position for the two most recent years are as follows:

	Decem	ıber 31,	Dollar	Percent	
	2019	2018	Change	Change	
Assets:					
Cash and cash equivalents	\$ 5,927,584	\$ 3,884,340	\$ 2,043,244	53%	
Investments, at fair value	275,966,269	253,730,060	22,236,209	9%	
Receivables and other assets	5,594,726	5,054,624	540,102	11%	
Total Assets	287,488,579	262,669,024	24,819,555	9%	
Liabilities	7,319,879	5,084,919	2,234,960	44%	
Fiduciary Net Position	\$ 280,168,700	\$ 257,584,105	\$ 22,584,595	9%	

Total assets at December 31, 2019 approximated \$287.5 million and principally consisted of investments recorded at fair value. Total asset increased by approximately \$24.8 million in 2019, due primarily to a positive investment portfolio performance of nearly 11.2%. Receivables and liabilities increased approximately \$0.5 million and \$2.2 million, respectively, in 2019 due to the timing of investment purchases and sales.

The condensed comparative Statements of Changes in Fiduciary Net Position for the two most recent years are as follows:

	Year Ended I	December 31,	Dollar	Percent	
	2019	2018	Change	Change	
Additions:					
Contributions	\$ 17,905,483	\$ 16,918,342	\$ 987,141	6%	
Investment income, net	27,483,657	10,901,569	16,582,088	152%	
Total Additions	45,389,140	27,819,911	17,569,229	63%	
Deductions:					
Benefits and refunds to Plan members	22,470,833	21,576,579	894,254	4%	
Administrative and other expenses	333,712	346,216	(12,504)	-4%	
Total Deductions	22,804,545	21,922,795	881,750	4%	
Change in Fiduciary Net Position	\$ 22,584,595	\$ 5,897,116	\$ 16,687,479	283%	

Fiduciary net position increased nearly \$22.6 million in 2019, primarily as a result of net investment earnings of approximately \$27.5 million for the year.

Malden Contributory Retirement System

Page 4 of 24

Contributions to the System's Fiduciary Net Position primarily include employer and employee contributions in addition to transfers from other retirement systems. Contributions for 2019 totaled over \$17.9 million versus \$16.9 million in 2018.

Employer contributions represent the largest source of System contributions. In 2019, employer contributions totaled approximately \$13.0 million, or 72%, in of total contributions. Employer contributions are actuarially determined. Employee contributions totaled approximately \$4.5 million in 2019, which was approximately \$250,000, or 6%, greater than the prior year. This increase was due primarily to an increase in the number of active members within the System coupled with the effect normal pay raises.

Other contributions were relatively consistent year-over-year.

Investment income is presented net of associated investment management expenses. In 2019, the System reported nearly \$27.5 million in net investment income versus approximately \$10.9 million in 2018. The System's money-weighted rates of return for 2019 and 2018 were approximately 11.2% and 5.7%, respectively.

Deductions to the System's Fiduciary Net Position primarily include pension benefits to members and beneficiaries, refunds to inactive members, transfers and reimbursements to other Massachusetts public retirement systems and administrative expenses. Total deductions for 2019 increased approximately \$882,000 to over \$22.8 million versus \$21.9 million in 2018.

Pension benefits to members and beneficiaries represents the largest deduction from Fiduciary Net Position for the System. Pension benefits to members and beneficiaries represented over 96% and 98% of total 2019 and 2018 deductions, respectively. Pension benefits to members and beneficiaries increased approximately \$1.5 million, or 7%, in 2019. This increase was due to a greater average number of beneficiaries paid year-over-year coupled with the normal annual cost-of-living adjustments paid by the System.

The increase in pension benefits to members and beneficiaries was offset by an approximate \$487,000 decrease in transfers and reimbursements to other Massachusetts public retirement systems, which is a function of timing and employment trends/movements.

Administrative expenses were relatively consistent year-over-year.

Overall Financial Position

The System's positive investment performance in 2019 permitted it to maintain an approximate 76% funded ratio at December 31, 2019. The System's 30-year investment return as published by PERAC significantly exceeds the discount rate used by the System in its actuarial studies. Provided the System continues to garner strong investment performances, it is possible that the System will achieve fully funded status on or before the expected date included in latest actuarial valuation of 2030.

Although the System has been successful in garnering the yields necessary to achieve fully funded status in the required time frame, the System (like so many other institutional investors) has experienced a great deal of volatility in its investments. Management believes that the volatility in the worldwide markets may continue for the foreseeable future. Accordingly, management intends to actively monitor the System's investment positions to best maximize returns while mitigating risk as best as it can.

Malden Contributory Retirement System

Page 5 of 24

Contacting the System's Financial Management Personnel

Our discussion and analysis is designed to provide the Malden Retirement Board, our membership, taxpayers, investors and creditors with a general overview of the System's financial results and to demonstrate the System's accountability for the funding it receives. If you have any questions about this report or need additional financial information, contact the Retirement Board at 215 Pleasant Street, Malden, Massachusetts 02148.

Malden Contributory Retirement System

Page 6 of 24

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

STATEMENT OF FIDUCIARY NET POSITION DECEMBER 31, 2019

Assets:		
Cash and cash equivalents	\$	5,927,584
Investments, at fair value:		
Fixed income securities		109,763,124
Equity securities		166,203,145
Receivables:		
Contributions		130,677
Interest income		582,273
Open trades	_	4,881,776
Total Assets	_	287,488,579
Liabilities:		
Accounts payable and accrued expenses		82,802
Open trades	_	7,237,077
Total Liabilities	_	7,319,879
Net Position Restricted for Pensions	<u>\$</u>	280,168,700

See accompanying notes to basic financial statements.

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION YEAR ENDED DECEMBER 31, 2019

Additions:	\$ 12.977.171
Employer contributions Employee contributions	\$ 12,977,171 4,501,609
Other contributions	423,152
Outer contributions	423,132
Total contributions	<u>17,901,932</u>
Investment income:	
Interest and dividends	4,910,811
Net appreciation in fair value of investments	23,337,717
Less investment management fees	(764,871)
Total net investment income	27,483,657
Other income	3,551
Total Additions	45,389,140
Deductions:	
Benefits and refunds to Plan members:	
Benefits to retirees and survivors	21,964,266
Member refunds	245,734
Transfers and reimbursements to other systems	260,833
Administrative expenses:	
Operations payroll and related personnel costs	235,134
Other	98,578
Total Deductions	22,804,545
Net Change in Net Position	22,584,595
Net Position Restricted for Pensions:	
Beginning of the year	257,584,105
End of the year	\$ 280,168,700

See accompanying notes to basic financial statements.

Malden Contributory Retirement System

Page 8 of 24

MALDEN CONTRIBUTORY RETIREMENT SYSTEM (A Component Unit of the City of Malden, Massachusetts)

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

1. DESCRIPTION OF THE PLAN

General – The Malden Contributory Retirement System (the "System") is a cost-sharing, multiple employer defined benefit pension plan established and administered by the Malden Retirement Board under the provisions of Chapter 32 of the Massachusetts General Laws ("MGL") to provide pension benefits for participants. The System is a component unit of the City of Malden (the "City"). The City, the Malden Housing Authority ("MHA") and Malden Redevelopment Authority ("MRA") contribute to the System.

Employees of the City (with the exception of teachers and certain administrative personnel employed by the School Department who participate in a separate plan), the MHA and MRA are covered by the System. Participation in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

At December 31, 2019, membership in the System consisted of:

Retirees and beneficiaries currently receiving benefits	696
Active plan members	846
Inactive plan members	<u>175</u>
Total	<u>1,717</u>

Plan Benefits – Massachusetts contributory retirement system benefits are uniform from one public pension system to another. For employees with service dates beginning before April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three-year average annual rate of regular compensation. For those employees who began their service after April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive five-year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and group classification.

The retirement allowance consists of two parts – an annuity and a pension. Participants' accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and annuity is the pension.

Participants who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees may be entitled to receive interest, which has accrued on those contributions. A vested employee who has not reached their eligible retirement age and elects to leave their accumulated total deductions on deposit may apply for benefits upon reaching their eligible retirement age.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Malden Contributory Retirement System

Page 9 of 24

Retirement Requirements – In order to receive retirement benefits, participants must meet one of the following two categories:

- 1) Normal Retirement Generally, normal retirement occurs between ages 65 and 67. However, most participants with a hire date before April 2, 2012, may retire after twenty years of creditable service or at any time after attaining age 55. For most participants hired on or after April 2, 2012, they must attain the age of 60 before they can retire. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55 or 60, as applicable. Participants become vested after ten years of service. Benefits commencing before age 65 are generally provided at a reduced rate. However, members working in certain occupations may retire with full benefits earlier than age 65.
- 2) Disability Retirements The System provides for both an ordinary and accidental disability retirement. An ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. An accidental disability is where a participant's disability is the result of an injury or illness received or aggravated in the performance their duty.

The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of creditable service, average compensation and veteran status. In addition, certain provisions are in place relative to death benefits for beneficiaries of participants who die in active service.

Public Availability of Financial Statements – The Malden Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Malden Retirement Board, 215 Pleasant Street, Malden, Massachusetts 02148.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The financial statements of the System have been prepared on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer is legally required to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the pension plan.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits and short-term holdings with original maturities of three months or less from the date of acquisition.

Malden Contributory Retirement System

Page 10 of 24

Investments – The carrying amounts of the System's investments approximate their fair value. When actively quoted observable prices are not available, the System generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- Level 1 Inputs are quoted prices in active markets for identical investments at the
 measurement date.
- Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3 Inputs reflect the System's best estimate of what market participants would use in pricing the investment at the measurement date.

The following table presents the fair value of the System's investments by type as of December 31, 2019:

	December 31,	Fair Value Measurements Using									
Investments by Fair Value Level	2019	Level 1	Level 2	Level 3							
Debt securities:											
U.S. Treasury notes	\$ 69,150,696	\$ 69,150,696	\$ -	\$ -							
Corporate bonds	23,066,628	23,066,628	-	-							
Asset-backed securities	17,545,800		17,545,800								
Total debt securities	109,763,124	92,217,324	17,545,800	-							
Equity securities	166,203,145	166,203,145									
Total investments by fair value level	\$ 275,966,269	\$ 258,420,469	\$ 17,545,800	\$ -							

3. SYSTEM ADMINISTRATION

The System is administered by a five-person Board consisting of the City Controller (ex-officio member), two members elected by the participants in or retired from the service of the System, one member appointed by the City's Mayor and one member appointed by the other members of the Board.

At the time of this report, the Board was comprised as follows:

		Term Expires
Ex-Officio Member:	Mr. Charles Ranaghan	No Specified Date
Appointed Member:	Mr. Scott Lucey, Esq.	September 16, 2022
Elected Member:	Mr. Warren Atkinson Jr. (Chair)	November 30, 2020
Elected Member:	Mr. Douglas Eisnor	November 30, 2020
Member Appointed by Other Members:	Mr. Domenic Fermano	No Specified Date

Malden Contributory Retirement System

Page 11 of 24

The Board is required to meet at least once a month and keep a record of its proceedings. The Board annually submits a financial statement of condition for the System to the Commissioner of the Massachusetts Public Employee Retirement Administration Commission, or PERAC. All retirement allowances are approved by the Board and submitted to a PERAC actuary for verification prior to payments being made. Expenses incurred by the System must be approved by at least two members of the Board.

4. DEPOSITS AND INVESTMENTS

MGL and PERAC regulations require the System to invest funds only in preapproved investment instruments, which include, but are not necessarily limited to, bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, certain corporate bonds and equities and investment pools.

Custodial Credit Risk: Deposits – Deposits are subject to the risk of bank failure. The System may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The System's policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation ("FDIC") insurance coverage for the first \$250,000 of deposits held at each financial institution. At December 31, 2019, the System had bank deposits of \$2,088,517 exposed to custodial credit risk because it was uninsured and uncollateralized.

Investment Policy – The investment of the System's funds is the responsibility of the Board. The Board manages its investments using a January 2016 investment policy. The System's investment objective is to invest assets in a prudent and cost-effective manner seeking a total return greater than or equal to the actuarial investment rate of return adopted by the Board (currently 7.35%) while maintaining an appropriate level of risk for a pension fund.

The System's investment policy seeks to manage risk through diversification both across and within investment asset classes with a long-term bias towards equities. The Board, together with its external investment manager, determines the appropriate investment mix at its regular face-to-face meetings.

The System's investment policy seeks to invest no more than 75% of its investments in equities. No more than 60% of the System's investments can be invested in fixed income securities.

Custody of Investments – State Street Bank and Trust ("SSBT") is the custodian of the System's investment portfolio. SSBT held all System investment securities at December 31, 2019 and provided investment transaction and reporting services throughout all of 2019. SSBT is engaged to provide these services through December 31, 2023.

Investment Management – The deBurlo Group provided investment advisory services to the System throughout all of 2019 under a service agreement that is set to expire on February 1, 2026. The System may terminate this service agreement for various reasons including, but not limited to, certain breaches of contract.

Rate of Return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The 2019 money-weighted rate of return was approximately 11.2%.

Malden Contributory Retirement System

Page 12 of 24

Custodial Credit Risk: Investments – Custodial credit risk for investments is the risk that in the event of a failure of the counterparty the System will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The System's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the System. At December 31, 2019, the System was not exposed to custodial credit risk on its investments.

Foreign Currency Risk: Deposits and Investments – Foreign currency risk is a risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit. The System did not have any securities denominated in foreign currencies at December 31, 2019.

Concentration of Credit Risk: Investments – The System does not maintain any single investment that represents more than 5% of the System's total investments at December 31, 2019. However, there are multiple, separate investments in U.S. Treasury notes that in the aggregate represent approximately 63% of fixed income securities and 25% of total investments held at December 31, 2019.

Interest Rate Risk: Investments – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The System does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Interest rate risk is managed within the portfolio using the effective durance methodology.

At December 31, 2019, the System had the following investments and maturities:

			Investmen	t Maturities	
Investment Type	Fair Value	Less than 1 year	1 to 5 years	6 to 10 years	More than 10 years
U.S. Treasury notes Corporate bonds Asset-backed securities	\$ 69,150,696 23,066,628 17,545,800	\$ 6,692,418 - -	\$ 2,181,696 8,876,187 17,545,800	\$ 35,211,333 14,190,441	\$ 25,065,249
Investments with maturities	109,763,124	\$ 6,692,418	\$ 28,603,683	\$ 49,401,774	\$ 25,065,249
Equity securities	166,203,145				
Investments without maturities	166,203,145				
Total investments	\$ 275,966,269				

Credit Risk: Investments — In the case of investments, credit risks the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. As previously noted, MGL and PERAC have enacted regulations to reduce this risk. In evaluating its credit risk, the System relies on credit ratings assigned by nationally recognized credit rating agencies such as Moody's Investor Services, Inc. and Standard and Poor's Financial Services, LLC. The System does voluntarily self-impose certain investment restrictions; however, those can be changed at the Board's discretion. The System maintains a significant portion (approximately 96%) of its monetary assets as investment holdings.

Malden Contributory Retirement System

Page 13 of 24

Credit quality ratings of investments at December 31, 2019 were as follows:

	U.S.			
Quality	Government			
Rating	Treasuries &	Corporate	Asset-Backed	
(Moody's)	Agencies	Bonds	Securities	Total
Aaa	\$ 69,150,696	\$ 1,798,272	\$ 4,956,233	\$ 75,905,201
Aa1	-	2,374,223	-	2,374,223
Aa3	-	1,808,910	2,363,776	4,172,686
A1	-	4,258,777	-	4,258,777
A2	-	7,793,796	-	7,793,796
A3	-	5,032,650	-	5,032,650
Not Rated			10,225,791	10,225,791
	\$ 69,150,696	\$ 23,066,628	\$ 17,545,800	\$ 109,763,124

At December 31, 2019, uninsured short-term investments with fair values of \$3,641,049 were reported as cash equivalents. These funds represent temporary holdings of excess cash resources. The System intends to reinvest these amounts in less than one year. Accordingly, the fair value of these short-term investments has been classified as cash equivalents in these financial statements.

5. FUNDING

Employer Contributions – Under MGL, participating employers are assessed their share of the total retirement cost based on an independent actuarial study. Employer contributions totaled \$12,977,171 in 2019.

Employee Contributions – Employee contribution rates vary based on when an employee commenced their creditable service. Active members contribute 5%, 7%, 8% or 9% of their gross regular compensation depending on when their creditable service commenced. Employees hired after January 1, 1979 contribute an additional 2% of their regular gross compensation over \$30,000.

Cost-of-Living Adjustments – Cost-of-living adjustments granted between 1981 and 1997 and any increase in other pension benefits imposed by the Commonwealth of Massachusetts during those years are the financial responsibility of the Commonwealth. The Commonwealth is expected to continue funding the cost-of-living amounts granted over this period for the duration of their selected retirement option. Cost-of-living adjustments granted after 1997 must be approved and funded by the System. Cost-of-living adjustments cannot exceed the greater of CPI or 3%. The System approved a 3% cost-of-living adjustment on the first \$14,000 of pension benefits.

6. NET PENSION LIABILITY

The System is statutorily required to adopt the funding schedule that will fully amortize the unfunded actuarial accrued liability by June 30, 2040. As of the latest actuarial valuation, the System has selected a funding schedule that amortizes the unfunded actuarial accrued liability completely by June 30, 2030.

The components of the System's net pension liability at December 31, 2019 were as follows (dollar amounts in thousands):

Total pension liability \$ 369,466
Plan fiduciary net position 280,169
Net pension liability \$ 89,297

Plan fiduciary net position as a

percentage of total pension liability 75.8%

The total pension liability was determined by an actuarial valuation as of January 1, 2020 and rolled back to December 31, 2019. The significant actuarial assumptions used in the actuarial valuation report were as follows:

Actuarial cost method: Entry age normal

Amortization method: Total payments increase 8.6% per year until fiscal year

2029, with a final amortization payment in fiscal year

2030

Remaining amortization period: 10 years from July 1, 2020

Asset valuation method: Market value

Investment rate of return: 7.15% (previously 7.35%)

Projected salary increases: Service based table with ultimate ranges of 4.25% for

group 1 and 4.75% for group 4

Cost of living adjustments: 3% on the first \$14,000 of benefits

Mortality rates: Pre-retirement rates reflect the RP-2014 Blue Collar

Employees table projected generationally with Scale MP-

2018 (gender distinct)

Post-retirement rates reflect the RP-2014 Blue Collar Healthy Annuitant table projected generationally with

Scale MP-2018 (gender distinct)

Disabled life mortality: RP-2014 Blue Collar Healthy Annuitant Table set

forward 1 year projected generationally with Scale MP-

2018 (gender distinct)

Discount Rate — The discount rate used to measure the total pension liability in the December 31, 2019 actuarial valuation was 7.15%, which is a reduction from the previous rate of 7.35%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan

Malden Contributory Retirement System Page 15 of 24 Basic Annual Financial Statements

investments was applied to all periods of projected benefit payments to determine the total pension liability.

Expected Rate of Return – The System's investment policy targets an investment return that meets or exceeds the actuarial investment rate of return (currently 7.15%). This long-term expected rate of return is presented neither as an arithmetic or geometric means.

Sensitivity Analysis – The following illustrates the net position liability at December 31, 2019 calculated using the current discount rate of 7.15%, as well as the projection of what the net position liability would be if it were calculated using a discount rate that is on percentage point lower or higher than the current rate (dollar amounts in thousands):

Current		Net Pension Liability At									
Discount Rate	1%	Decrease	Cu	rrent Rate	1% Increase						
7.15%	\$	130,022	\$	89,297	\$	54,803					

7. LEGALLY REQUIRED RESERVE ACCOUNTS

Net position restricted for pensions at December 31, 2019 was comprised of the following legally required reserves:

Description	Amount	Purpose					
Annuity Savings Fund	\$ 47,938,986	Active members' contribution balance					
Annuity Reserve Fund	14,156,815	Retirement members' contribution balance					
Military Service Fund	9,851	Members' contributions while on military leave					
Pension Fund	1,224,654	Amounts appropriated to fund future retirement					
Pension Reserve Fund	216,838,394	Remaining net fiduciary position					
	\$ 280,168,700						

8. COMMITMENTS AND CONTINGENCIES

The System is subject to a variety of claims that arise from time to time in the ordinary course of business. Although management of the System currently believes that resolving claims against the System, individually or in aggregate, will not have a material adverse impact on the System's financial position or its results of operations, these matters are subject to inherent uncertainties and management's views of these matters may change in the future.

Malden Contributory Retirement System

Page 16 of 24

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

(dollar amounts are in thousands)

		2019	_	2018	_	2017	_	2016	_	2015	_	2014
Total pension liability:												
Service cost	\$	7,233	\$	6,922	\$	6,581	\$	6,298	\$	6,039	\$	5,779
Interest		25,733		24,944		24,188		22,212		22,252		21,545
Changes in benefit terms		-		-		-		1,600		-		-
Differences between expected and actual experience		(4,268)		-		(990)		1,636		-		-
Changes in assumptions		8,800		-		7,580		14,620		-		-
Benefit payments, including refunds	_	(21,826)	_	(21,040)	_	(20,645)	_	(19,944)	_	(19,095)	_	(17,811)
Net change in total pension liability		15,672	_	10,826	_	16,714	_	26,422	_	9,196	_	9,513
Total pension liability - beginning of year		353,794	_	342,968	_	326,254	_	299,832	_	290,636	_	281,123
Total pension liability - end of year (a)	\$	369,466	\$	353,794	\$	342,968	\$	326,254	\$	299,832	\$	290,636
Plan fiduciary net position:												
Contributions - employer	\$	12,977	S	12,072	S	11,421	S	10,819	\$	10,304	\$	9,816
Contributions - employee	*	4,502	*	4,251	•	4,147	*	3,936	*	3,774	*	3,861
Contributions - nonemployer contributing entities		423		577		799		598		686		475
Net investment income		27,484		10,902		42,294		(1.965)		(3,268)		24,824
Benefit payments, including refunds		(22,471)		(21,577)		(21,256)		(20,793)		(19,669)		(18,393)
Administrative expenses		(334)		(346)		(332)		(355)		(373)		(318)
Other		4		18		1		40		16		37
Net change in plan fiduciary net position		22,585		5,897		37,074		(7,720)		(8,530)		20,302
Plan fiduciary net position - beginning of year		257,584	_	251,687	_	214,613	_	222,333	_	230,863		210,561
Plan fiduciary net position - end of year (b)	\$	280,169	\$	257,584	\$	251,687	\$	214,613	\$	222,333	\$	230,863
Net pension liability - end of year (a) - (b)	\$	89,297	\$	96,210	<u>s</u>	91,281	<u>\$</u>	111,641	<u>\$</u>	77,499	<u>\$</u>	59,773
Plan fiduciary net position as a percentage of the total pension liability		75.83%		72.81%		73.38%		65.78%		74.15%		79.43%
Covered payroll	\$	45,240	\$	42,288	\$	42,288	\$	39,868	\$	39,955	\$	39,955
Net pension liability as a percentage of covered payroll		197.39%		227.51%		215.86%		280.03%		193.97%		149.60%

These schedules are presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

Malden Contributory Retirement System

Page 17 of 24

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED

SCHEDULE OF CONTRIBUTIONS

(dollar amounts are in thousands)

Contributions in

			Re	lation to the						
	A	ctuarially	A	Actuarially		Contribution				Contributions as a
For Fiscal Year	D	etermined	D	etermined		Deficiency				Percentage of
Ended June 30,	0, Contribution Contribution		ontribution	(Excess)		_	Covered Payroll		Covered Payroll	
2019	\$	12,977	\$	12,977	\$	-	_	\$	45,240	28.68%
2018		12,072		12,072		-	-		42,288	28.55%
2017		11,421		11,421		-	-		42,288	27.01%
2016		10,819		10,819		-	-		39,868	27.14%
2015		10,304		10,304		-	-		39,955	25.79%
2015		9,816		9,816		-	-		39,955	24.57%

SCHEDULE OF INVESTMENT RETURNS

	Annual Money-
For Fiscal Year	Weighted Rate of
Ended June 30,	Return *
2019	11.16%
2019	5.70%
2017	20.26%
2016	-0.61%
2015	-1.75%
2014	11.51%

^{*} Net of investment expenses.

These schedules are presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

Malden Contributory Retirement System

Page 18 of 24

MALDEN CONTRIBUTORY RETIREMENT SYSTEM (A Component Unit of the City of Malden, Massachusetts)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

A. CHANGES OF BENEFIT TERMS

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the System's benefit terms in 2019.

B. SIGNIFICANT ACTUARIAL ASSUMPTIONS AND METHODS

The significant actuarial assumptions used in the January 1, 2020 report were as follows:

Actuarial cost method: Entry age normal

Amortization method: Total payments increase 8.6% per year until fiscal year

2029, with a final amortization payment in fiscal year

2030

Remaining amortization period: 10 years from July 1, 2020

Asset valuation method: Market value

Investment rate of return: 7.15% (previously 7.35%)

Projected salary increases: Service based table with ultimate ranges of 4.25% for

group 1 and 4.75% for group 4

Cost of living adjustments: 3% on the first \$14,000 of benefits

Mortality rates: Pre-retirement rates reflect the RP-2014 Blue Collar

Employees table projected generationally with Scale MP-

2018 (gender distinct)

Post-retirement rates reflect the RP-2014 Blue Collar Healthy Annuitant table projected generationally with

Scale MP-2018 (gender distinct)

Disabled life mortality: RP-2014 Blue Collar Healthy Annuitant Table set

forward 1 year projected generationally with Scale MP-

2018 (gender distinct)

C. CHANGES TO ACTUARIAL ASSUMPTIONS AND METHODS

The System adopted a number of changes to its actuarial assumptions and methods in its January 1, 2020 valuation. The most significant of these changes included (1) a decrease in the assumed investment rate of return, or discount rate, from 7.35% to 7.15% and (2) changes in mortality tables.

Malden Contributory Retirement System

Page 19 of 24



ROSELLI, CLARK & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

INDEPENDENT AUDITORS' REPORT ON AUDIT OF SPECIFIC ELEMENTS, ACCOUNTS AND ITEMS OF FINANCIAL STATEMENTS

To the Malden Retirement Board Malden Contributory Retirement System Malden, Massachusetts

We have audited the accompanying schedule of employer allocations of the Malden Contributory Retirement System (the "System"), a component unit of the City of Malden, Massachusetts, as of and for the year ended December 31, 2019. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources and total pension expense included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended December 31, 2019, and the related notes thereto.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer.

Malden Contributory Retirement System

Page 20 of 24

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities of the System as of and for the year ended December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the System as of and for the year ended December 31, 2019, and our report thereon, dated November 4, 2020, expressed an unmodified opinion on those financial statements.

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts

November 4, 2020

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

SCHEDULE OF EMPLOYER ALLOCATIONS YEAR ENDED DECEMBER 31, 2019

Dollar amounts are in thousands

	Eı	Employer Allocation		
Employer		tributions	Percentage	
City of Malden	\$	11,511	88.7%	
Malden Housing Authority		1,252	9.6%	
Malden Redevelopment Authority		214	1.7%	
Total	\$	12,977	100.0%	

See notes to schedule of employer allocation and schedule of pension amounts by employer.

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER YEAR ENDED DECEMBER 31, 2019

	Malden Housing City of Malden Authority		Malden Redevelopment Authority	Total
Net pension liability	\$ 79,206,439	\$ 8,572,512	\$ 1,518,049	\$ 89,297,000
Deferred outflows of resources: Differences between actual and expected experience Changes of assumptions Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 266,100 11,168,217 798,000	\$ 28,800 1,208,736	\$ 5,100 214,047	\$ 300,000 12,591,000 798,000
Total deferred outflows of resources	\$ 12,232,317	\$ 1,237,536	\$ 219,147	\$ 13,689,000
Deferred inflows of resources: Differences between actual and expected experience Net difference between projected and actual investment earnings on pension plan investments Changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 3,337,781 8,346,670	\$ 361,248 903,360 563,000	\$ 63,971 159,970 235,000	\$ 3,763,000 9,410,000 798,000
Total deferred inflows of resources	<u>\$ 11,684,451</u>	\$ 1,827,608	\$ 458,941	\$ 13,971,000
Pension expense (income): Proportionate share of plan pension expense Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 16,147,100 <u>538,170</u>	\$ 1,747,600		\$ 18,204,171
Total employer pension expense (income)	\$ 16,685,270	\$ 1,398,933	\$ 119,968	\$ 18,204,171

See notes to schedule of employer allocation and schedule of pension amounts by employer.

MALDEN CONTRIBUTORY RETIREMENT SYSTEM (A Component Unit of the City of Malden, Massachusetts)

NOTES TO PENSION PLAN SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

A. INTRODUCTION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, establishes financial reporting requirements for governments that provide employees with pension benefits. GASB 68 requires employers to recognize a net pension liability or net pension asset as employees earn pension benefits. Employers participating in the Malden Contributory Retirement System (the "System") will recognize their proportionate share of the collective pension amounts for all benefits provided by the Retirement System.

B. METHOD OF PROPORTIONATE SHARE ALLOCATION

The basis for the proportionate share allocation by employer as found in the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer is consistent with the manner in which employer contributions to the Retirement System are determined. The net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense is based upon actual historical employer contributions to the System from the census data submitted by the Retirement System for pay periods ending December 31, 2019.

C. EXPECTED FUTURE AMORTIZATION OF DEFERRED BALANCES

The following table summarizes the expected amortization of the deferred outflows of resources and inflows of resources into pension expense (benefit):

Measurement Period Ended December 31:		City of Malden		Malden Housing Authority	Re	Malden edevelopment Authority		Total
2020 2021 2022	\$	3,416,879 (2,804,156) 730,160	\$	58,032 (423,248) (45,720)	\$	(57,911) (160,596) (4,440)	\$	3,417,000 (3,388,000) 680,000
2023	<u>\$</u>	(795,017) 547,866	<u>\$</u>	(179,136) (590,072)	<u>\$</u>	(16,847) (239,794)	<u>\$</u>	(991,000) (282,000)

ROSELLI, CLARK & ASSOCIATES Certified Public Accountants



MALDEN CONTRIBUTORY RETIREMENT SYSTEM (a Component Unit of the City of Malden, Massachusetts)

Report on Examination of Basic Financial Statements and Additional Information

Year Ended December 31, 2018

Report on Internal Control and Compliance Year Ended December 31, 2018

MALDEN CONTRIBUTORY RETIREMENT SYSTEM (A Component Unit of the City of Malden, Massachusetts)

TABLE OF CONTENTS DECEMBER 31, 2018

	Page(s)
INDEPENDENT AUDITORS' REPORT	1 – 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 – 5
BASIC FINANCIAL STATEMENTS:	
Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position Notes to Basic Financial Statements	6 7 8 – 16
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED:	
Schedule of Changes in Net Pension Liability and Related Ratios Schedule of Contributions Schedule of Investment Returns Notes to Required Supplementary Information	17 18 18 19
OTHER REPORTS:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	20 – 21
Independent Auditors' Report on Audit of Specific Elements, Accounts and Items of Financial Statements	22 – 23
Pension Plan Schedules: Schedule of Employer Allocations Schedule of Pension Amounts by Employer	24 25
Notes to Pension Plan Schedules	26



ROSELLI, CLARK & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073 www.roselliclark.com

INDEPENDENT AUDITORS' REPORT

To the Malden Retirement Board Malden Contributory Retirement System Malden, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Malden Contributory Retirement System (the "System"), a component unit of the City of Malden, Massachusetts, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Malden Contributory Retirement System

Page 1 of 26

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System as of December 31, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules listed under the required supplementary information section in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated June 14, 2019 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the System's internal control over financial reporting and compliance.

Roselli, Clark & Associates Certified Public Accountants

Roselli, Clark & Associates

Woburn, Massachusetts

June 14, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Malden Contributory Retirement System's (the "System") financial performance provides an overview of the System's financial activities for the calendar year ended December 31, 2018. You should read it in conjunction with the basic financial statements, footnotes and required supplementary information that follows this discussion.

Financial Highlights

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The System's actuary estimates that the System is nearly 73% funded at December 31, 2018.

The System's investment performance outpaced the major U.S. stock and bond indices and benchmarks, most of which reported negative returns in 2018. The System's investment portfolio returned over 5% in 2018, net of investment management fees. The majority of Massachusetts public pension plans reported negative investment returns in 2018.

The System's fiduciary net position increased nearly \$5.9 million in 2018.

Overview of the Financial Statements

This discussion and analysis is intended as an introduction to the System's basic financial statements. The basic financial statements are comprised of a Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, Notes to Financial Statements and Required Supplementary Information.

Statement of Fiduciary Net Position – presents information on the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position restricted for pensions. This statement reflects the System's investments at fair value, as well as cash, receivables and other assets and liabilities. Over time, the increase or decrease in fiduciary net position serves as a useful indicator of the System's financial health and condition.

Statement of Changes in Fiduciary Net Position – presents information showing how the System's fiduciary net position changed during the year. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds, withdrawals and administrative expenses. Investment income, including realized and unrealized gains, during the year is also presented.

Notes to the Financial Statements – provide additional information that is essential for the reader to gain a full understanding of the data provided in the financial statements.

Required Supplementary Information – includes this management's discussion and analysis and various unaudited schedules.

Malden Contributory Retirement System

Page 3 of 26

Financial Analysis

Fiduciary Net Position

The System's total assets as of December 31, 2018 approximated \$262.7 million and principally consisted of investments recorded at fair value. Total asset increased by approximately \$10.9 million in 2018, due primarily to a positive investment portfolio performance. Receivables and liabilities increased approximately \$4.3 million and \$5.0 million, respectively, in 2018 due to the timing of investment purchases and sales.

	December 31,				
	2018	2017			
Assets:					
Cash and cash equivalents	\$ 3,884,340	\$ 1,980,267			
Investments, at fair value	253,730,060	249,022,939			
Receivables and other assets	5,054,624	756,460			
Total Assets	262,669,024	251,759,666			
Liabilities	5,084,919	72,677			
Fiduciary Net Position	\$ 257,584,105	\$ 251,686,989			

Change in Fiduciary Net Position

Fiduciary net position increased nearly \$5.9 million in 2018, primarily as a result of net investment earnings of over \$10.9 million for the year.

	Year Ended I	December 31,
	2018	2017
Additions:		
Contributions	\$ 16,918,342	\$ 16,368,713
Investment income, net	10,901,569	42,294,081
Total Additions	27,819,911	58,662,794
Deductions:		
Benefits and refunds to Plan members	21,576,579	21,256,259
Administrative and other expenses	346,216	332,176
Total Deductions	21,922,795	21,588,435
Change in Fiduciary Net Position	\$ 5,897,116	\$ 37,074,359

Malden Contributory Retirement System

Page 4 of 26

Additions – The amount needed to finance pension benefits is accumulated through the collection of employer and employees contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 Cost of Living Adjustments and through earnings on investments. Contributions increased nearly \$550,000 year-over-year. Employer contributions represent nearly \$12.1 million, or approximately 71%, of total contributions. Employer contributions are determined by actuarial valuation.

The System's investment portfolio produced a 2018 return of 5.7%, net of investment management fees. This return was among the highest for public pension plans in the Commonwealth of Massachusetts and one of the few that reported positive investment returns. The System shifted its investment composition from domestic equities (particularly technology) and towards fixed income securities in the fourth calendar quarter. This shift contributed greatly towards the positive investment performance in 2018; the S&P 500 composite and Dow Jones Industrial Average returned -6.2% and -5.6%, respectively, for 2018.

Deductions – The primary deductions for the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions and the costs of administering the system. Benefit payments represented over 98% of total 2018 deductions and were approximately \$320,000 higher than 2017 benefit payments.

The remaining 2018 administrative and other expenses approximated \$346,000, which was consistent with the prior year.

Overall Financial Position

The System's positive investment performance in 2018 permitted it to maintain an approximate 73% funded ratio at December 31, 2018. The System's 30-year investment return as published by PERAC significantly exceeds the discount rate used by the System in its actuarial studies. Provided the System continues to garner strong investment performances, it is possible that the System will achieve fully funded status on or before the expected date included in latest actuarial valuation of 2030.

Although the System has been successful in garnering the yields necessary to achieve fully funded status in the required time frame, the System (like so many other institutional investors) has experienced a great deal of volatility in its investments. Management believes that the volatility in the worldwide markets may continue for the foreseeable future. Accordingly, management intends to actively monitor the System's investment positions to best maximize returns while mitigating risk as best as it can.

Contacting the System's Financial Management Personnel

Our discussion and analysis is designed to provide the Malden Retirement Board, our membership, taxpayers, investors and creditors with a general overview of the System's financial results and to demonstrate the System's accountability for the funding it receives. If you have any questions about this report or need additional financial information, contact the Retirement Board at 17 Pleasant Street, Malden, Massachusetts 02148.

Malden Contributory Retirement System

Page 5 of 26

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Malden, Massachusetts)

STATEMENT OF FIDUCIARY NET POSITION DECEMBER 31, 2018

Assets:		
	c	2 004 240
Cash and cash equivalents	\$	3,884,340
Investments, at fair value:		
Fixed income securities		141,356,606
Equity securities		112,373,454
Receivables:		
Contributions		101,589
Interest income		651,504
Open trades		4,286,968
Other	_	14,563
Total Assets	_	262,669,024
Liabilities:		
Accounts payable and accrued expenses		92,889
Open trades		4,992,030
•		5,004,010
Total Liabilities	_	5,084,919
Net Position Restricted for Pensions	\$	257,584,105

See accompanying notes to basic financial statements.

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Malden, Massachusetts)

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION YEAR ENDED DECEMBER 31, 2018

Additions:	0 10 051 505
Employer contributions	\$ 12,071,787
Employee contributions	4,251,358
Other contributions	577,040
Total contributions	16,900,185
Investment income:	
Interest and dividends	3,914,241
Net appreciation in fair value of investments	7,747,365
Less investment management fees	(760,037)
Total net investment income	10,901,569
Other income	18,157
Total Additions	27,819,911
Deductions:	
Benefits and refunds to Plan members:	
Benefits to retirees and survivors	20,493,216
Member refunds	335,583
Transfers and reimbursements to other systems	747,780
Administrative expenses:	
Operations payroll and related personnel costs	233,555
Other	112,661
Total Deductions	21,922,795
Net Change in Net Position	5,897,116
Net Position Restricted for Pensions:	
Beginning of the year	251,686,989
End of the year	\$ 257,584,105

See accompanying notes to basic financial statements.

Malden Contributory Retirement System

Page 7 of 26

MALDEN CONTRIBUTORY RETIREMENT SYSTEM (A Component Unit of the City of Malden, Massachusetts)

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

1. DESCRIPTION OF THE PLAN

General – The Malden Contributory Retirement System (the "System") is a multi-employer defined benefit pension plan established and administered by the Malden Retirement Board under the provisions of Chapter 32 of the Massachusetts General Laws to provide pension benefits for participants. The System is a component unit of the City of Malden (the "City"). The City, the Malden Housing Authority ("MHA") and Malden Redevelopment Authority ("MRA") contribute to the System.

Employees of the City (with the exception of teachers and certain administrative personnel employed by the School Department who participate in a separate plan), the MHA and MRA are covered by the System. Participation in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

At December 31, 2018, membership in the System consisted of:

Retirees and beneficiaries currently receiving benefits	666
Active plan members	816
Inactive plan members	189
Total	<u>1,671</u>

Plan Benefits – Massachusetts contributory retirement system benefits are uniform from system to system. For employees with service dates beginning before April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three-year average annual rate of regular compensation. For those employees who began their service after April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive five-year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and group classification.

The retirement allowance consists of two parts – an annuity and a pension. Participants' accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and annuity is the pension.

Participants who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees may be entitled to receive interest, which has accrued on those contributions. A vested employee who has not reached their eligible retirement age and elects to leave their accumulation on deposit may apply for benefits upon reaching their eligible retirement age.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Malden Contributory Retirement System

Page 8 of 26

Retirement Requirements – In order to receive retirement benefits, participants must meet one of the following two categories:

Normal Retirement – Generally, normal retirement occurs between ages 65 and 67. However, most participants with a hire date before April 2, 2012, may retire after twenty years of service or at any time after attaining age 55. For most participants hired on or after April 2, 2012, they must attain the age of 60 before they can retire. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55 or 60, as applicable. Participants become vested after ten years of service. Benefits commencing before age 65 are generally provided at a reduced rate. However, members working in certain occupations may retire with full benefits earlier than age 65.

Participants who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 may request a refund of their accumulated total contributions. In addition, depending on the number of years of creditable service, these employees may be entitled to interest that has accrued on their contributions. A vested employee under the age of 55 who elects to leave their accumulated contributions on deposit may apply for pension benefits upon reaching their eligible retirement age.

<u>Disability Retirements</u> – The System provides for both an ordinary disability retirement, where a participant is permanently incapacitated from a cause unrelated to employment, and an accidental disability retirement, where the disability is the result of an injury or illness received or aggravated in the performance of one's duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status. In addition, certain provisions are in place relative to death benefits for beneficiaries of employees who die in active service.

Public Availability of Financial Statements – The Malden Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Malden Retirement Board, 17 Pleasant Street, Malden, Massachusetts 02148.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The financial statements of the System have been prepared on the accrual basis of accounting. 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 ("PERAC") and Massachusetts law.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits and short-term holdings with original maturities of three months or less from the date of acquisition.

Malden Contributory Retirement System

Page 9 of 26

Investments – The carrying amounts of the System's investments approximate their fair value. When actively quoted observable prices are not available, the System generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- Level 1 Inputs are quoted prices in active markets for identical investments at the measurement date.
- Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly
 observable for the investment through correlation with market data at the measurement date
 and for the duration of the instrument's anticipated life.
- Level 3 Inputs reflect the System's best estimate of what market participants would use in pricing the investment at the measurement date.

The following table presents the fair value of the System's investments by type as of December 31, 2018:

	December 31,			Fair V	r Value Measurements Using			
		2018		Level 1		Level 2		Level 3
Investments by fair value level								
Debt securities:								
U.S. Treasury notes	\$	76,122,989	\$	76,122,989	\$	-	\$	-
Corporate bond obligations		38,433,862		38,433,862		-		-
Asset-backed securities		26,799,755		-		26,799,755		-
Equity securities		112,373,454		112,373,454				
Total investments by fair value level	\$	253,730,060	\$	226,930,305	\$	26,799,755	\$	<u> </u>

Debt and equity securities classified in Level 1 are values using prices quoted in active markets for those securities. Debt securities classified in Level 2 were valued using observable inputs from similar securities, including basing value on yield currently available on comparable securities of issued with similar credit ratings.

Fair Value of Financial Instruments – The carrying amounts of cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued expenses approximate their fair value due to the relatively short-term maturities.

Revenue Recognition – Contributions are recognized as additions in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Contributions appropriated by the City, MHA and MRA are on a fiscal-year basis. Investment purchases and sales are recorded on their trade dates. Interest and dividends are recorded when earned. Investment income is allocated to the various funds on the basis of a rate determined annually by PERAC.

Derivatives – The System may invest in derivative products, mainly currency hedges, to minimize the currency risk on international investments. The System had no derivative securities at December 31, 2018.

Malden Contributory Retirement System

Page 10 of 26

3. SYSTEM ADMINISTRATION

The System is administered by a five-person Board consisting of the City Controller (ex-officio member), two members elected by the participants in or retired from the service of the System, one member appointed by the City's Mayor and one member appointed by the other members of the Board.

At the time of this report, the Board was comprised as follows:

		Term Expires
Ex-Officio Member:	Mr. Charles Ranaghan	No Specified Date
Appointed Member:	Mr. Gregory Lucey	June 11, 2022
Elected Member:	Mr. Warren Atkinson Jr. (Chair)	November 30, 2020
Elected Member:	Mr. Douglas Eisnor	November 30, 2020
Member Appointed by Other Members:	Mr. Domenic Fermano	No Specified Date

The Board is required to meet at least once a month and keep a record of its proceedings. The Board annually submits a financial statement of condition for the System with the Commissioner of PERAC. All retirement allowances are approved by the Board and submitted to a PERAC actuary for verification prior to payments being made. Expenses incurred by the System must be approved by at least two members of the Board.

4. DEPOSITS AND INVESTMENTS

Massachusetts General Laws Chapter 32 and PERAC regulations require the System to invest funds only in pre-approved investment instruments, which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, certain corporate bonds and equities and investment pools.

Investment Policy – The investment of the System's funds is the responsibility of the Board. The Board manages its investments using a January 2016 investment policy. The System's investment objective is to invest assets in a prudent and cost-effective manner seeking a total return greater than or equal to the actuarial investment rate of return adopted by the Board (currently 7.35%) while maintaining an appropriate level of risk for a pension fund.

The System's investment policy seeks to manage risk through diversification both across and within investment asset classes with a long-term bias towards equities. The Board, together with its external investment manager, determines the appropriate investment mix at its regular face-to-face meetings.

The System's investment policy seeks to invest no more than 75% of its investments in equities. No more than 60% of the System's investments can be invested in fixed income securities.

Rate of Return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The 2018 money-weighted rate of return was approximately 5.7%.

Custody of Investments – State Street Bank and Trust ("SSBT") is the custodian of the System's investment portfolio. SSBT held all System investment securities at December 31, 2018 and provided investment transaction and reporting services throughout all of 2018. SSBT is engaged to provide these services through December 31, 2023.

Malden Contributory Retirement System

Page 11 of 26

Basic Annual Financial Statements

Torm Evniros

Investment Management – The deBurlo Group provided investment advisory services to the System throughout all of 2018 under a service agreement that is set to expire on February 1, 2026. The System may terminate this service agreement for various reasons including, but not limited to, certain breaches of contract.

Custodial Credit Risk: Deposits – Deposits are subject to the risk of bank failure. The System may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The System's policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation ("FDIC") insurance coverage for the first \$250,000 of deposits held at each financial institution. At December 31, 2018, the System had bank deposits of \$1,888,134 exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk: Investments – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The System's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the System. At December 31, 2018, the System was not exposed to custodial credit risk on its investments.

Interest Rate Risk: Deposits – This is the risk that fair value losses may arise due to increasing interest rates; such risk is reduced by the fact that the System maintains such funds in highly liquid bank accounts; thereby, allowing for timely re-allocation of such holdings should the need arise.

Interest Rate Risk: Investments – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The System does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Foreign Currency Risk: Deposits and Investments – A risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit. The System did not have any securities denominated in foreign currencies at December 31, 2018.

Securities Credit Risk: Investments – In the case of investments, there is the risk that in the event of an invested party will be unable to fulfill its obligations, such as to provide required payments to investors, to meet current or future performance expectations, to abide by industry regulations and proper operational practices, ceasing to exist, or filing for bankruptcy. In those instances, the System may not be able to recover the full amount of its principal investment and/or investment earnings. As previously noted, PERAC and Massachusetts statutory regulations have been enacted to reduce this risk. In evaluating its credit risk, the System relies on credit ratings assigned by Moody's Investors Services and Standard and Poor's Financial Services LLC. The System does voluntarily self-impose certain investment restrictions; however, those can be changed at the Board's discretion. The System does maintain a significant portion (approximately 97%) of its monetary assets as investment holdings.

Malden Contributory Retirement System

Page 12 of 26

Credit quality ratings of investments at December 31, 2018 were as follows:

U.S. Quality Government Rating Asset-Backed Corporate Treasuries & (Moody's) Bonds Agencies Securities Total 4,106,204 Aaa 3,469,320 76,122,989 \$ 83,698,513 3,474,288 3,474,288 Aa1 Aa3 3,151,264 3,151,264 A1 5,176,530 5,176,530 A2 6,943,726 6,943,726 A3 10,778,999 10,778,999 Baa2 2,638,440 2,638,440 Baa3 2,801,295 2,801,295 Not Rated 22,693,551 22,693,551 38,433,862 76,122,989 26,799,755 \$ 141,356,606

At December 31, 2018, the System had the following investments and maturities:

			Investment Maturities					
		Fair		Less than		1 to 5		6 to 10
Investment Type	_	Value		1 year		years		years
U.S. Treasury notes	\$	76,122,989	\$	-	\$	13,548,384	\$	62,574,605
Corporate bond obligations		38,433,862		10,551,375		24,820,561		3,061,926
Asset-backed securities		26,799,755				19,608,508		7,191,247
Investments with maturities		141,356,606	\$	10,551,375	\$	57,977,453	\$	72,827,778
Equity securities		112,373,454						
Investments without maturities	_	112,373,454						
Total investments	\$	253,730,060						

Concentration of Credit Risk: Investments – The System does not maintain any single investment that represents more than 5% of the System's total investments at December 31, 2018. However, there are multiple, separate investments in U.S. Treasury notes that, in aggregate, represent approximately 54% of fixed income securities and 30% of total investments held at December 31, 2018.

5. FUNDING POLICY

GAAP requires that the annual minimum provision for pension costs should include normal cost, interest on unfunded past service cost liability, and amortization of unfunded vested benefits, based on an acceptable actuarial cost method.

Employee Contributions – Employees whose creditable service began prior to January 1, 1975, contribute 5% of their regular compensation; those whose service date is subsequent to January 1, 1975, and prior to January 1, 1984, contribute 7%; those whose service date is subsequent to January 1, 1984, and prior to July 1, 1996, contribute 8%, and those whose service date is subsequent to July 1, 1996, contribute 9%. In addition, employees hired on or after January 1, 1979 contribute an additional 2% on regular compensation in excess of \$30,000.

Employer Contributions (Funding) – Under the provisions of Chapter 32 of Massachusetts General Law, participating employers are assessed their share of the total retirement cost based on independent actuarial study.

Employer contributions of \$12,071,787 were made in 2018 in accordance with the funding policy. Employer contributions as a percentage of covered payroll was approximately 29% in 2018.

Cost of Living Adjustment (COLA) – Through 1998, the Massachusetts Legislature was able to grant cost-of-living increases to benefits being paid to retirees. These increases were expressed as a percentage of the retiree's allowance subject to a maximum dollar increase. All COLA's granted from 1982 through June 30, 1998, are reimbursed to the System by the Commonwealth of Massachusetts since the Commonwealth was financially responsible for COLA adjustments during this time frame; any COLA's granted thereafter by the Board are required to be funded by the System directly. A COLA may be approved in excess of the Consumer Price Index, or CPI, but for 2018 is not to exceed 3% annually on the first \$14,000 of a retirement allowance. The System has historically approved a COLA annually, usually at the maximum 3% rate.

The Commonwealth is expected to continue funding the cost-of-living amounts granted to retirees prior to 1998 for the duration of their selected retirement option.

6. ACTUARIAL VALUATION

The System is statutorily required to adopt the funding schedule that will fully amortize the unfunded actuarial accrued liability by June 30, 2040. As of the latest actuarial valuation, the System has selected a funding schedule that amortizes the unfunded actuarial accrued liability completely by June 30, 2030.

The components of the System's net pension liability at December 31, 2018 were as follows (dollar amounts in thousands):

Total pension liability Plan fiduciary net position	353,794 257,584
Net pension liability	\$ 96,210
Plan fiduciary net position as a percentage of total pension liability	72.8%

Malden Contributory Retirement System

Page 14 of 26

The total pension liability was determined by an actuarial valuation as of December 31, 2017. The significant actuarial assumptions used in the December 31, 2017 report were as follows:

Actuarial cost method: Entry age normal

Amortization method: 7.5% increasing appropriation through fiscal year 2029

with final amortization payment in 2030

Remaining amortization period: 12 years from July 1, 2018

Asset valuation method: Market value
Investment rate of return: 7.35% per annum

Projected salary increases: Service based table with ultimate ranges of 4.25% for

group 1 and 4.75% for group 4

Cost of living adjustments: 3% on the first \$14,000 of benefits

Mortality rates: Pre-retirement rates reflect the RP-2000 Employees table

projected generationally with Scale BB and a base year of 2009 (gender distinct). Post-retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).

Disabled life mortality: For disabled members, the table is assumed to be in

accordance with the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct). It is assumed that 55% of preretirement deaths are job-related for group 1 and 2 members and 90% are job-related for group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the

disability.

Discount Rate – The discount rate used to measure the total pension liability in the December 31, 2018 actuarial valuation report was 7.35%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Expected Rate of Return – The System's investment policy targets an investment return that meets or exceeds the actuarial investment rate of return (currently 7.35%). This long-term expected rate of return is presented neither as an arithmetic or geometric means.

Malden Contributory Retirement System

Page 15 of 26

Sensitivity Analysis – The following illustrates the net position liability at December 31, 2018 calculated using the current discount rate of 7.35%, as well as the projection of what the net position liability would be if it were calculated using a discount rate that is 1.0% lower (6.35%) and 1.0% higher (8.35%) than the current rate (dollar amounts in thousands):

			(Current			
	1%	Decrease	D	iscount	1%	Increase	
	((6.35%)		(7.35%)		(8.35%)	
Net pension liability	\$	135,100	\$	96,210	\$	63,185	

7. NET POSITION RESTRICTED FOR PENSIONS

Net position restricted for pensions, as of December 31, 2018, were comprised of the following legally required funds:

Description	Amount	Purpose
Annuity Savings Fund	\$ 46,207,897	Active members' contribution balance
Annuity Reserve Fund	14,840,760	Retired members' contribution balance
		Members' contributions account while on
Military Service Fund	9,841	military leave
Pension Fund	1,111,427	Amounts appropriated to fund future retirement
Pension Reserve Fund	<u>195,414,180</u>	Remaining net assets
Total	<u>\$ 257,584,105</u>	

8. COMMITMENTS AND CONTINGENCIES

The System is subject to a variety of claims that arise from time to time in the ordinary course of business. Although management of the System currently believes that resolving claims against the System, individually or in aggregate, will not have a material adverse impact on the System's financial position or its results of operations, these matters are subject to inherent uncertainties and management's views of these matters may change in the future.

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Malden, Massachusetts)

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

(dollar amounts are in thousands)

	2018		2017		2016		2015		2014	
Total pension liability: Service cost Interest Changes in benefit terms Differences between expected and actual experience Changes in assumptions Benefit payments, including refunds	\$	6,922 24,944 - - (21,040)	\$	6,581 24,188 - (990) 7,580 (20,645)	\$	6,298 22,212 1,600 1,636 14,620 (19,944)	\$	6,039 22,252 - - (19,095)	\$	5,779 21,545 - - (17,811)
Net change in total pension liability	_	10,826	_	16,714	_	26,422	_	9,196	_	9,513
Total pension liability - beginning of year	_	342,968	_	326,254	_	299,832	_	290,636	_	281,123
Total pension liability - end of year (a)	\$	353,794	\$	342,968	\$	326,254	\$	299,832	\$	290,636
Plan fiduciary net position: Contributions - employer Contributions - employee Contributions - nonemployer contributing entities Net investment income Benefit payments, including refunds Administrative expenses Other Net change in plan fiduciary net position	\$	12,072 4,251 577 10,902 (21,577) (346) 18 5,897	s	11,421 4,147 799 42,294 (21,256) (332) 1 37,074	\$	10,819 3,936 598 (1,965) (20,793) (355) 40 (7,720)	\$	10,304 3,774 686 (3,268) (19,669) (373) 16 (8,530)	\$	9,816 3,861 475 24,824 (18,393) (318) 37 20,302
Plan fiduciary net position - beginning of year	_	251,687	_	214,613	_	222,333	_	230,863	_	210,561
Plan fiduciary net position - end of year (b)	<u>s</u>	257,584	\$	251,687	\$	214,613	\$	222,333	\$	230,863
Net pension liability - end of year (a) - (b)	<u>s</u>	96,210	<u>s</u>	91,281	\$	111,641	\$	77,499	\$	59,773
Plan fiduciary net position as a percentage of the total pension liability		72.81%		73.38%		65.78%		74.15%		79.43%
Covered payroll	\$	42,288	\$	42,288	\$	39,868	\$	39,955	\$	39,955
Net pension liability as a percentage of covered payroll		227.51%		215.86%		280.03%		193.97%		149.60%

These schedules are presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

Malden Contributory Retirement System

Page 17 of 26

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Malden, Massachusetts)

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED

SCHEDULE OF CONTRIBUTIONS

(dollar amounts are in thousands)

	 2018	 2017	2016	 2015	 2014
Actuarially-determined contribution Contributions in relation to the actuarially-	\$ 12,072	\$ 11,421	\$ 10,819	\$ 10,304	\$ 9,816
determined contribution	 12,072	 11,421	10,819	 10,304	9,816
Contribution deficiency (excess)	\$ 	\$ 	\$ 	\$ 	\$
Covered payroll	\$ 42,288	\$ 42,288	\$ 39,868	\$ 39,955	\$ 39,955
Contribution as a percentage of covered payroll	28.55%	27.01%	27.14%	25.79%	24.57%

SCHEDULE OF INVESTMENT RETURNS

	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of					
investment expense	5.70%	20.26%	-0.61%	-1.75%	11.51%

These schedules are presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

Malden Contributory Retirement System

Page 18 of 26

MALDEN CONTRIBUTORY RETIREMENT SYSTEM (A Component Unit of the City of Malden, Massachusetts)

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

A. CHANGES OF BENEFIT TERMS

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the System's benefit terms in 2018.

B. SIGNIFICANT ACTUARIAL ASSUMPTIONS AND METHODS

The significant actuarial assumptions used in the December 31, 2017 report were as follows:

Actuarial cost method: Entry age normal

Amortization method: 7.5% increasing appropriation through fiscal year 2029

with final amortization payment in 2030

Remaining amortization period: 12 years from July 1, 2018

Asset valuation method: Market value
Investment rate of return: 7.35% per annum

Projected salary increases: Service based table with ultimate ranges of 4.25% for

group 1 and 4.75% for group 4

Cost of living adjustments: 3% on the first \$14,000 of benefits

Mortality rates: Pre-retirement rates reflect the RP-2000 Employees table

projected generationally with Scale BB and a base year of 2009 (gender distinct). Post-retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).

Disabled life mortality: For disabled members, the table is assumed to be in

accordance with the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct). It is assumed that 55% of preretirement deaths are job-related for group 1 and 2 members and 90% are job-related for group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the

disability.

Malden Contributory Retirement System

Page 19 of 26



ROSELLI, CLARK & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Malden Retirement Board Malden Contributory Retirement System Malden, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Malden Contributory Retirement System (the "System"), a component unit of the City of Malden, Massachusetts, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated June 14, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Malden Contributory Retirement System

Page 20 of 26

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roselli, Clark & Associates Certified Public Accountants

Woburn, Massachusetts

Roselli Clark & Associates

June 14, 2019



ROSELLI, CLARK & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

INDEPENDENT AUDITORS' REPORT ON AUDIT OF SPECIFIC ELEMENTS, ACCOUNTS AND ITEMS OF FINANCIAL STATEMENTS

To the Malden Retirement Board Malden Contributory Retirement System Malden, Massachusetts

We have audited the accompanying schedule of employer allocations of the Malden Contributory Retirement System (the "System"), a component unit of the City of Malden, Massachusetts, as of and for the year ended December 31, 2018. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources and total pension expense included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended December 31, 2018, and the related notes thereto.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer.

Malden Contributory Retirement System

Page 22 of 26

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities of the System as of and for the year ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the System as of and for the year ended December 31, 2018, and our report thereon, dated June 14, 2019, expressed an unmodified opinion on those financial statements.

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts

Roselli Clark & Associates

June 14, 2019

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Malden, Massachusetts)

SCHEDULE OF EMPLOYER ALLOCATIONS YEAR ENDED DECEMBER 31, 2018

Dollar amounts are in thousands

Employer	Ea Con	Employer Allocation Percentage		
City of Malden Malden Housing Authority Malden Redevelopment Authority	\$	10,653 1,216 203	88.2% 10.1% 1.7%	
Total	\$	12,072	100.0%	

See notes to schedule of employer allocation and schedule of pension amounts by employer.

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Malden, Massachusetts)

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER YEAR ENDED DECEMBER 31, 2018

	City of Malden	Malden Housing Authority	Malden Redevelopment Authority	Total
Net pension liability	<u>\$ 84,857,220</u>	\$ 9,717,210	\$ 1,635,570	\$ 96,210,000
Deferred outflows of resources:				
Differences between actual and expected experience	\$ 42,336	\$ 4,848	\$ 816	\$ 48,000
Net difference between projected and actual investment earnings on pension plan investments	1,459,710	167,155	28,135	1,655,000
Changes of assumptions	8,956,710	1,025,655	172,635	10,155,000
Changes in proportion and differences between employer	-,,	-,,	,	,,
contributions and proportionate share of contributions	914,000			914,000
Total deferred outflows of resources	\$ 11,372,756	\$ 1,197,658	\$ 201,586	\$ 12,772,000
Deferred inflows of resources:				
Differences between actual and expected experience	s -	\$ -	s -	\$ -
Changes of assumptions	-	-	-	-
Changes in proportion and differences between employer		106.000	419.000	014 000
contributions and proportionate share of contributions		496,000	418,000	914,000
Total deferred inflows of resources	<u>s -</u>	\$ 496,000	\$ 418,000	\$ 914,000
Pension expense (income):				
Proportionate share of plan pension expense	\$ 14,636,602	\$ 1,676,073	\$ 282,111	\$ 16,594,786
Net amortization of deferred amounts from changes in proportion and differences between employer contributions and				
proportionate share of contributions	476,678	(282,807	(193,871)	
Total employer pension expense (income)	\$ 15,113,280	\$ 1,393,266	\$ 88,240	\$ 16,594,786

See notes to schedule of employer allocation and schedule of pension amounts by employer.

MALDEN CONTRIBUTORY RETIREMENT SYSTEM (A Component Unit of the City of Malden, Massachusetts)

NOTES TO PENSION PLAN SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

A. INTRODUCTION

GASB Statement No, 68, Accounting and Financial Reporting for Pensions, establishes financial reporting requirements for governments that provide employees with pension benefits. GASB 68 requires employers to recognize a net pension liability or net pension asset as employees earn pension benefits. Employers participating in the Malden Contributory Retirement System (the "System") will recognize their proportionate share of the collective pension amounts for all benefits provided by the Retirement System.

B. METHOD OF PROPORTIONATE SHARE ALLOCATION

The basis for the proportionate share allocation by employer as found in the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer is consistent with the manner in which employer contributions to the Retirement System are determined. The net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense is based upon actual historical employer contributions to the System from the census data submitted to the Retirement System for pay periods ending December 31, 2018.

C. EXPECTED FUTURE AMORTIZATION OF DEFERRED BALANCES

The following table summarizes the expected amortization of the deferred outflows of resources and inflows of resources into pension expense (benefit):

Measurement Period Ended December 31:	_	City of Malden	Malden Housing Authority	Malden levelopment Authority	_	Total
2019	\$	8,161,444	\$ 615,942	\$ (35,386)	\$	8,742,000
2020		4,023,158	238,119	(42,277)		4,219,000
2021		(2,162,852)	(276, 186)	(146,962)		(2,586,000)
2022	_	1,351,006	 123,783	 8,211	_	1,483,000
	\$	11,372,756	\$ 701,658	\$ (216,414)	\$	11,858,000



MALDEN CONTRIBUTORY RETIREMENT SYSTEM (A Component Unit of the City of Malden, Massachusetts)

Report on Examination of Basic Financial Statements and Additional Information Year Ended December 31, 2017

Report on Internal Control and Compliance Year Ended December 31, 2017

MALDEN CONTRIBUTORY RETIREMENT SYSTEM (A Component Unit of the City of Malden, Massachusetts)

TABLE OF CONTENTS DECEMBER 31, 2017

	Page(s)
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 – 5
BASIC FINANCIAL STATEMENTS:	
Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position Notes to Basic Financial Statements	6 7 8 – 16
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED:	
Schedule of Changes in Net Pension Liability and Related Ratios Schedule of Contributions Schedule of Investment Returns Notes to Required Supplementary Information	17 18 18 19
OTHER REPORTS:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	20 – 21
Independent Auditors' Report on Audit of Specific Elements, Accounts and Items of Financial Statements	22 – 23
Pension Plan Schedules: Schedule of Employer Allocations Schedule of Pension Amounts by Employer Notes to Pension Plan Schedules	24 25 26
Notes to relision rian schedules	20



ROSELLI, CLARK & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073 www.roselliclark.com

INDEPENDENT AUDITORS' REPORT

To the Malden Retirement Board Malden Contributory Retirement System Malden, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Malden Contributory Retirement System (the "System"), a component unit of the City of Malden, Massachusetts, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Malden Contributory Retirement System

Page 1 of 26

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System as of December 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules of changes in net pension liability and related ratios, contributions and investment returns as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated June 27, 2018 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the System's internal control over financial reporting and compliance.

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts

Roselli Clark & Associates

June 27, 2018

Malden Contributory Retirement System

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Malden Contributory Retirement System's (the "System") financial performance provides an overview of the System's financial activities for the calendar year ended December 31, 2017. You should read it in conjunction with the basic financial statements, footnotes and required supplementary information that follows this discussion.

Financial Highlights

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The System's actuary estimates that the System is over 73% funded at December 31, 2017

The System's investment performance was very strong in 2017 and among the best performing municipal pension plans in the Commonwealth of Massachusetts. The System's investment portfolio returned over 20% in 2017, net of investment management fees. As a result, the System's fiduciary net position increased over \$37 million in 2017.

Overview of the Financial Statements

This discussion and analysis is intended as an introduction to the System's basic financial statements. The basic financial statements are comprised of a Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, Notes to Financial Statements and Required Supplementary Information.

Statement of Fiduciary Net Position – presents information on the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position restricted for pensions. This statement reflects the System's investments at fair value, as well as cash, receivables and other assets and liabilities. Over time, the increase or decrease in fiduciary net position serves as a useful indicator of the System's financial health and condition.

Statement of Changes in Fiduciary Net Position – presents information showing how the System's fiduciary net position changed during the year. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds, withdrawals and administrative expenses. Investment income, including realized and unrealized gains, during the year is also presented.

Notes to the Financial Statements – provide additional information that is essential for the reader to gain a full understanding of the data provided in the financial statements.

Required Supplementary Information – includes this management's discussion and analysis and various unaudited schedules.

Malden Contributory Retirement System

Page 3 of 26

Financial Analysis

Fiduciary Net Position

The System's total assets as of December 31, 2017 approximated \$251.8 million and principally consisted of investments recorded at fair value. Total asset increased by approximately \$37.1 million in 2017, due primarily to a very strong investment portfolio performance. Changes in the System's receivables and liabilities were not material to the System's overall net fiduciary position at December 31, 2017.

	Dece	December 31,					
	2017	2016					
Assets							
Cash and cash equivalents	\$ 1,980,267	\$ 949,077					
Investments	249,022,939	213,021,223					
Receivables and other current assets	756,460	716,282					
Total Assets	251,759,666	214,686,582					
Total Liabilities	72,677	73,952					
Fiduciary Net Position	\$ 251,686,989	\$ 214,612,630					

Change in Fiduciary Net Position

Fiduciary net position increased nearly \$37.1 million in 2017, primarily as a result of net investment earnings of nearly \$42.3 million for the year.

	Year Ending December 31,				
		2017		2016	
Additions					
Contributions	\$	16,367,612	\$	15,353,735	
Interest earnings, net of management fees		42,294,081		(1,965,195)	
Other income		1,101		39,620	
Total Additions		58,662,794		13,428,160	
Deductions					
Benefits and refunds to Plan members		21,256,259		20,793,736	
Administrative and other expenses		332,176		355,025	
Total Deductions		21,588,435		21,148,761	
Change in Fiduciary Net Position	\$	37,074,359	\$	(7,720,601)	

Additions – The amount needed to finance pension benefits is accumulated through the collection of employer and employees contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 Cost of Living Adjustments and through earnings on investments. Contributions increased over \$1.0 million year-over-year. Employer contributions represent over \$11.4 million, or

Malden Contributory Retirement System

Page 4 of 26

approximately 70%, of total contributions. Employer contributions are determined by actuarial valuation.

The System's investment portfolio produced a 2017 return of 20.26%, net of investment management fees. This return was among the highest for public pension plans in the Commonwealth of Massachusetts. The 2017 return is in stark contract to the modest loss experienced in 2016, which the System's management considers to be an anomaly.

Deductions – The primary deductions for the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions and the costs of administering the system. Benefit payments represented over 98% of total 2017 deductions and were approximately \$463,000, or 2%, higher than 2016 benefit payments.

The remaining 2017 administrative and other expenses approximated \$332,000, which was consistent with the prior year.

Overall Financial Position

The System's strong investment performance in 2017 propelled it to an approximate 73% funded ratio at December 31, 2017. The System's 30-year investment return as published by PERAC significantly exceeds the discount rate used by the System in its actuarial studies. Provided the System continues to garner strong investment performances, it is possible that the System will achieve fully funded status on or before the expected date included in latest actuarial valuation of 2030.

Although the System has been successful in garnering the yields necessary to achieve fully funded status in the required time frame, the System (like so many other institutional investors) has experienced a great deal of volatility in its investments. Management believes that the volatility in the worldwide markets may continue for the foreseeable future. Accordingly, management intends to actively monitor the System's investment positions to best maximize returns while mitigating risk as best as it can.

Contacting the System's Financial Management Personnel

Our discussion and analysis is designed to provide the Malden Retirement Board, our membership, taxpayers, investors and creditors with a general overview of the System's financial results and to demonstrate the System's accountability for the funding it receives. If you have any questions about this report or need additional financial information, contact the Retirement Board at 17 Pleasant Street, Malden, Massachusetts 02148.

Malden Contributory Retirement System

Page 5 of 26

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

STATEMENT OF FIDUCIARY NET POSITION DECEMBER 31, 2017

ASSETS	
Cash and cash equivalents	\$ 1,980,267
— 10	150 51 4 205
Equity securities Fixed income securities	158,514,305
Fixed income securities	90,508,634
Investments	249,022,939
Accounts receivable and other current assets:	
Employer and employee contributions	150,881
Interest receivable	605,579
Total accounts receivable and other current assets	756,460
Total assets	251,759,666
DEFERRED OUTFLOWS OF RESOURCES	
LIABILITIES	
Accounts payable and accrued expenses	72,677
Total liabilities	72,677
DEFERRED INFLOWS OF RESOURCES	
NET POSITION RESTRICTED FOR PENSIONS	\$ 251,686,989

See notes to financial statements.

Malden Contributory Retirement System

Page 6 of 26

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION YEAR ENDED DECEMBER 31, 2017

ADDITIONS Contributions:	
	\$ 11,421,882
Employer contributions – appropriations Employee contributions – member deductions and payments	4,147,161
Transfers from other systems	486,296
Reimbursements from other systems	222,615
Receipts from the Commonwealth of Massachusetts	89,658
Receips from the Commonwealth of Massachusetts	
Total contributions	16,367,612
Investment income:	
Interest and dividend income	3,942,409
Net appreciation in fair value of investments	39,017,388
Less management fees	(665,716)
Net investment income	42,294,081
Other income	1,101
Total additions	58,662,794
DEDUCTIONS	
Benefits, transfers of, and refunds to members:	
Benefit payments	20,163,909
Member refunds	204,340
Transfers to other systems	298,335
Reimbursements to other systems	589,675
Administrative expenses:	
System operations payroll	226,542
Other administrative expenses	105,634
Total deductions	21,588,435
NET DECREASE IN NET POSITION	37,074,359
NET POSITION RESTRICTED FOR PENSIONS	
Beginning of year	214,612,630
End of year	\$ 251,686,989

See notes to financial statements.

Malden Contributory Retirement System

Page 7 of 26

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

1. DESCRIPTION OF THE PLAN

General – The Malden Contributory Retirement System (the "System") is a multi-employer defined benefit pension plan established and administered by the Malden Retirement Board under the provisions of Chapter 32 of the Massachusetts General Laws to provide pension benefits for participants. The System is a component unit of the City of Malden (the "City"). The City, the Malden Housing Authority ("MHA") and Malden Redevelopment Authority ("MRA") contribute to the System.

Employees of the City (with the exception of teachers and certain administrative personnel employed by the School Department who participate in a separate plan), the MHA and MRA are covered by the System. Participation in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

At December 31, 2017, membership in the System consisted of:

Retirees and beneficiaries currently receiving benefits	672
Active plan members	783
Inactive plan members	_180
Total	<u>1,635</u>

Plan Benefits – Massachusetts contributory retirement system benefits are uniform from system to system. For employees with service dates beginning before April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three-year average annual rate of regular compensation. For those employees who began their service after April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive five-year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and group classification.

The retirement allowance consists of two parts – an annuity and a pension. Participants' accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and annuity is the pension.

Participants who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees may be entitled to receive interest, which has accrued on those contributions. A vested employee who has not reached their eligible retirement age and elects to leave their accumulation on deposit may apply for benefits upon reaching their eligible retirement age.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Malden Contributory Retirement System

Page 8 of 26

Retirement Requirements – In order to receive retirement benefits, participants must meet one of the following two categories:

Normal Retirement – Generally, normal retirement occurs between ages 65 and 67. However, most participants with a hire date before April 2, 2012, may retire after twenty years of service or at any time after attaining age 55. For most participants hired on or after April 2, 2012, they must attain the age of 60 before they can retire. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55 or 60, as applicable. Participants become vested after ten years of service. Benefits commencing before age 65 are generally provided at a reduced rate. However, members working in certain occupations may retire with full benefits earlier than age 65.

Participants who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 may request a refund of their accumulated total contributions. In addition, depending on the number of years of creditable service, these employees may be entitled to interest that has accrued on their contributions. A vested employee under the age of 55 who elects to leave their accumulated contributions on deposit may apply for pension benefits upon reaching their eligible retirement age.

<u>Disability Retirements</u> – The System provides for both an ordinary disability retirement, where a participant is permanently incapacitated from a cause unrelated to employment, and an accidental disability retirement, where the disability is the result of an injury or illness received or aggravated in the performance of one's duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status. In addition, certain provisions are in place relative to death benefits for beneficiaries of employees who die in active service.

Public Availability of Financial Statements – The Malden Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Malden Retirement Board, 17 Pleasant Street, Malden, Massachusetts 02148.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The financial statements of the System have been prepared on the accrual basis of accounting. 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 ("PERAC") and Massachusetts law.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits and short-term holdings with original maturities of three months or less from the date of acquisition.

Malden Contributory Retirement System

Page 9 of 26

Investments – The carrying amounts of the System's investments approximate their fair value. When actively quoted observable prices are not available, the System generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- Level 1 Inputs are quoted prices in active markets for identical investments at the measurement date.
- Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly
 observable for the investment through correlation with market data at the measurement date
 and for the duration of the instrument's anticipated life.
- Level 3 Inputs reflect the System's best estimate of what market participants would use in pricing the investment at the measurement date.

The following table presents the fair value of the System's investments by type as of December 31, 2017:

	December 31,			Fair Value Measurements Using							
2017			Level 1		Level 2		Level 3				
Investments by fair value level											
Debt securities:											
U.S. governments and agencies	\$	33,202,781	\$	33,202,781	\$	-	\$	-			
Corporate bonds		45,702,112		45,702,112		-		-			
Asset-based securities		11,603,741		-		11,603,741		-			
Equity securities		158,514,305		158,514,305							
Total investments by fair value level	\$	249,022,939	\$	237,419,198	\$	11,603,741	\$				

Debt and equity securities classified in Level 1 are values using prices quoted in active markets for those securities. Debt securities classified in Level 2 were valued using observable inputs from similar securities, including basing value on yield currently available on comparable securities of issued with similar credit ratings.

Fair Value of Financial Instruments – The carrying amounts of cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued expenses approximate their fair value due to the relatively short-term maturities.

Revenue Recognition – Contributions are recognized as additions in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Contributions appropriated by the City, MHA and MRA are on a fiscal-year basis. Investment purchases and sales are recorded on their trade dates. Interest and dividends are recorded when earned. Investment income is allocated to the various funds on the basis of a rate determined annually by PERAC.

Derivatives – The System may invest in derivative products, mainly currency hedges, to minimize the currency risk on international investments. The System had no derivative securities at December 31, 2017.

Malden Contributory Retirement System

Page 10 of 26

3. SYSTEM ADMINISTRATION

The System is administered by a five-person Board consisting of the City Controller (ex-officio member), two members elected by the participants in or retired from the service of the System, one member appointed by the City's Mayor and one member appointed by the other members of the Board

At the time of this report, the Board was comprised as follows:

Term Expires No Specified Date Ex-Officio Member: Mr. Charles Ranaghan Appointed Member: Mr. Gregory Lucey June 11, 2019 Mr. Warren Atkinson Jr. (Chair) November 30, 2020 Elected Member: Elected Member: Mr. Douglas Eisnor November 30, 2020 Member Appointed by Other Members: Mr. Domenic Fermano No Specified Date

The Board is required to meet at least once a month and keep a record of its proceedings. The Board annually submits a financial statement of condition for the System with the Commissioner of PERAC. All retirement allowances are approved by the Board and submitted to a PERAC actuary for verification prior to payments being made. Expenses incurred by the System must be approved by at least two members of the Board.

4. DEPOSITS AND INVESTMENTS

Massachusetts General Laws Chapter 32 and PERAC regulations require the System to invest funds only in pre-approved investment instruments, which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, certain corporate bonds and equities and investment pools.

Investment Policy – The investment of the System's funds is the responsibility of the Board. The Board manages its investments using a January 2016 investment policy. The System's investment objective is to invest assets in a prudent and cost-effective manner seeking a total return greater than or equal to the actuarial investment rate of return adopted by the Board (currently 7.5%) while maintaining an appropriate level of risk for a pension fund.

The System's investment policy seeks to manage risk through diversification both across and within investment asset classes with a long-term bias towards equities. The Board, together with its external investment manager, determines the appropriate investment mix at its regular face-to-face meetings.

The System's investment policy seeks to invest no more than 75% of its investments in equities. No more than 60% of the System's investments can be invested in fixed income securities.

Rate of Return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The 2017 money-weighted rate of return was approximately 20.3%.

Custody of Investments – State Street Bank and Trust ("SSBT") is the custodian of the System's investment portfolio. SSBT held all System investment securities at December 31, 2017 and provided investment transaction and reporting services throughout all of 2017. SSBT is engaged to provide these services through December 31, 2018.

Malden Contributory Retirement System

Page 11 of 26

Investment Management – The deBurlo Group provided investment advisory services to the System throughout all of 2017 under a service agreement that is set to expire on April 1, 2019. The System may terminate this service agreement for various reasons including, but not limited to, certain breaches of contract.

Custodial Credit Risk: Deposits – Deposits are subject to the risk of bank failure. The System may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The System's policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation ("FDIC") insurance coverage for the first \$250,000 of deposits held at each financial institution. At December 31, 2017, the System had bank deposits of \$1,140,924 exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk: Investments – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The System's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the System. At December 31, 2017, the System was not exposed to custodial credit risk on its investments.

Interest Rate Risk: Deposits – This is the risk that fair value losses may arise due to increasing interest rates; such risk is reduced by the fact that the System maintains such funds in highly liquid bank accounts; thereby, allowing for timely re-allocation of such holdings should the need arise.

Interest Rate Risk: Investments – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The System does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Foreign Currency Risk: Deposits and Investments – A risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit. The System did not have any securities denominated in foreign currencies at December 31, 2017.

Securities Credit Risk: Investments – In the case of investments, there is the risk that in the event of an invested party will be unable to fulfill its obligations, such as to provide required payments to investors, to meet current or future performance expectations, to abide by industry regulations and proper operational practices, ceasing to exist, or filing for bankruptcy. In those instances, the System may not be able to recover the full amount of its principal investment and/or investment earnings. As previously noted, PERAC and Massachusetts statutory regulations have been enacted to reduce this risk. In evaluating its credit risk, the System relies on credit ratings assigned by Moody's and Standard and Poor's. The System does voluntarily self-impose certain investment restrictions; however, those can be changed at the Board's discretion. The System does maintain a significant portion (approximately 99%) of its monetary assets as investment holdings.

Credit quality ratings of investments at December 31, 2017 were as follows:

		U.S.		
Quality		Government		
Rating	Corporate	Treasuries &	Asset-Backed	
(Moody's)	Bonds	Agencies	Securities	Total
Aaa	\$ 1,452,731	\$ 25,120,087	\$ 4,819,681	\$ 31,392,499
Aa1	455,715	1,122,701	-	1,578,416
Aa2	-	468,230	-	468,230
Aa3	475,893	3,182,950	-	3,658,843
A1	1,839,062	-	-	1,839,062
A2	1,870,775	-	-	1,870,775
A3	10,794,387	-	-	10,794,387
Baa1	10,652,883	-	-	10,652,883
Baa2	5,739,838	-	-	5,739,838
Baa3	5,467,618	-	-	5,467,618
Ba1	651,382	-	-	651,382
Not Rated	6,301,828	3,308,813	6,784,060	16,394,701
	\$ 45,702,112	\$ 33,202,781	\$ 11,603,741	\$ 90,508,634

At December 31, 2017, the System had the following investments and maturities:

		Investment Maturities							
	Fair	Less than	1 to 5	6 to 10	More than				
Investment Type	Value	1 year	years	years	10 years				
U.S. Government:									
U.S. Treasuries	\$ 25,120,086	\$ 10,999,312	\$ 490,955	\$ 7,416,786	\$ 6,213,033				
Agencies and municipalities	8,082,695	-	-	-	8,082,695				
Corporate obligations	45,702,112	-	12,715,882	25,186,460	7,799,770				
Asset-backed securities	11,603,741		3,042,150	2,435,731	6,125,860				
Investments with maturities	90,508,634	\$ 10,999,312	\$ 16,248,987	\$ 35,038,977	\$ 28,221,358				
Equity securities:									
Common stock	158,514,305								
Investments without maturities	158,514,305								
Total investments	\$ 249,022,939								

Concentration of Credit Risk: Investments – The System does not maintain any single investment that represents more than 5% of the System's total investments at December 31, 2017. However, there are multiple, separate investments in U.S. Treasury and other government obligations that, in aggregate, represent approximately 33% of fixed income securities and 12% of total investments held at December 31, 2017.

5. FUNDING POLICY

GAAP requires that the annual minimum provision for pension costs should include normal cost, interest on unfunded past service cost liability, and amortization of unfunded vested benefits, based on an acceptable actuarial cost method.

Employee Contributions – Employees whose creditable service began prior to January 1, 1975, contribute 5% of their regular compensation; those whose service date is subsequent to January 1, 1975, and prior to January 1, 1984, contribute 7%; those whose service date is subsequent to January 1, 1984, and prior to July 1, 1996, contribute 8%, and those whose service date is subsequent to July 1, 1996, contribute 9%. In addition, employees hired on or after January 1, 1979 contribute an additional 2% on regular compensation in excess of \$30,000.

Employer Contributions (Funding) – Under the provisions of Chapter 32 of Massachusetts General Law, participating employers are assessed their share of the total retirement cost based on independent actuarial study.

Employer contributions of \$11,421,882 were made in 2017 in accordance with the funding policy. Employer contributions as a percentage of covered payroll was approximately 27% in 2017.

Cost of Living Adjustment (COLA) – Through 1998, the Massachusetts Legislature was able to grant cost-of-living increases to benefits being paid to retirees. These increases were expressed as a percentage of the retiree's allowance subject to a maximum dollar increase. All COLA's granted from 1982 through June 30, 1998, are reimbursed to the System by the Commonwealth of Massachusetts since the Commonwealth was financially responsible for COLA adjustments during this time frame; any COLA's granted thereafter by the Board are required to be funded by the System directly. A COLA may be approved in excess of the Consumer Price Index, or CPI, but for 2017 is not to exceed 3% annually on the first \$14,000 of a retirement allowance. The System has historically approved a COLA annually, usually at the maximum 3% rate.

The Commonwealth is expected to continue funding the cost-of-living amounts granted to retirees prior to 1998 for the duration of their selected retirement option.

6. ACTUARIAL VALUATION

The System is statutorily required to adopt the funding schedule that will fully amortize the unfunded actuarial accrued liability by June 30, 2040. As of the latest actuarial valuation, the System has selected a funding schedule that amortizes the unfunded actuarial accrued liability completely by June 30, 2030.

The components of the System's net pension liability at December 31, 2017 were as follows (dollar amounts in thousands):

Total pension liability	\$ 342,968
Plan fiduciary net position	 251,687
Net pension liability	\$ 91,281
Plan fiduciary net position as a percentage of	

Malden Contributory Retirement System

total pension liability

Page 14 of 26

73.4%

The total pension liability was determined by an actuarial valuation as of December 31, 2017. The significant actuarial assumptions used in the December 31, 2017 report were as follows:

Actuarial cost method: Entry age normal

Amortization method: 7.5% increasing appropriation through fiscal year 2029

with final amortization payment in 2030

Remaining amortization period: 12 years from July 1, 2018

Asset valuation method: Market value
Investment rate of return: 7.35% per annum

Projected salary increases: Service based table with ultimate ranges of 4.25% for

group 1 and 4.75% for group 4

Cost of living adjustments: 3% on the first \$14,000 of benefits

Mortality rates: Pre-retirement rates reflect the RP-2000 Employees table

projected generationally with Scale BB and a base year of 2009 (gender distinct). Post-retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).

Disabled life mortality: For disabled members, the table is assumed to be in

accordance with the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct). It is assumed that 55% of preretirement deaths are job-related for group 1 and 2 members and 90% are job-related for group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the

disability.

Discount Rate – The discount rate used to measure the total pension liability in the December 31, 2017 actuarial valuation report was 7.35%, which was a reduction from the previous discount rate of 7.50%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Expected Rate of Return – The System's investment policy targets an investment return that meets or exceeds the actuarial investment rate of return (currently 7.35%). This long-term expected rate of return is presented neither as an arithmetic or geometric means.

Malden Contributory Retirement System

Page 15 of 26

Sensitivity Analysis – The following illustrates the net position liability at December 31, 2017 calculated using the current discount rate of 7.35%, as well as the projection of what the net position liability would be if it were calculated using a discount rate that is 1.0% lower (6.35%) and 1.0% higher (8.35%) than the current rate (dollar amounts in thousands):

			(Current			
	1%	Decrease	D	iscount	1% Increas		
	(6.35%)			7.35%)	(8.35%)		
Net pension liability	\$	128,981	\$	91,281	\$	59,267	

7. NET POSITION RESTRICTED FOR PENSIONS

Net position restricted for pensions, as of December 31, 2017, were comprised of the following legally required funds:

Description	Amount	Purpose
Annuity Savings Fund	\$ 44,360,154	Active members' contribution balance
Annuity Reserve Fund	15,542,227	Retired members' contribution balance
·		Members' contributions account while on
Military Service Fund	9,831	military leave
Pension Fund	76,443	Amounts appropriated to fund future retirement
Pension Reserve Fund	191,698,334	Remaining net assets
Total	\$ 251,686,989	

8. COMMITMENTS AND CONTINGENCIES

The System is subject to a variety of claims that arise from time to time in the ordinary course of business. Although management of the System currently believes that resolving claims against the System, individually or in aggregate, will not have a material adverse impact on the System's financial position or its results of operations, these matters are subject to inherent uncertainties and management's views of these matters may change in the future.

* * * * *

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED DECEMBER 31, 2017

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

(Dollar Amounts in Thousands)

	 2017	2016	2015	2014
Total pension liability: Service cost Interest Changes in benefit terms Differences between expected and actual experience Changes in assumptions Benefit payments, including refunds of member contributions Net change in total pension liability	\$ 6,581 24,188 - (990) 7,580 (20,645) 16,714	\$ 6,298 22,212 1,600 1,636 14,620 (19,944) 26,422	\$ 6,039 22,252 - - (19,095) 9,196	\$ 5,779 21,545 - - (17,811) 9,513
Total pension liability - beginning of year Total pension liability - end of year (a)	\$ 326,254 342,968	\$ 299,832 326,254	\$ 290,636 299,832	\$ 281,123 290,636
Plan fiduciary net position: Contributions - employer Contributions - members Contributions - nonemployer contributing entities Net investment income Benefit payments, including refunds of member contributions Administrative expenses Other Net change in plan fiduciary net position	\$ 11,421 4,147 799 42,294 (21,256) (332) 1 37,074	\$ 10,819 3,936 598 (1,965) (20,793) (355) 40 (7,720)	\$ 10,304 3,774 686 (3,268) (19,669) (373) 16 (8,530)	\$ 9,816 3,861 475 24,824 (18,393) (318) 37 20,302
Plan fiduciary net position - beginning of year Plan fiduciary net position - end of year (b)	\$ 214,613 251,687	\$ 222,333 214,613	\$ 230,863 222,333	\$ 210,561 230,863
Net pension liability - end of year (a) - (b)	\$ 91,281	\$ 111,641	\$ 77,499	\$ 59,773
Plan fiduciary net position as a percentage of the total pension liability	73.4%	65.8%	74.2%	79.4%
Covered-employee payroll	\$ 42,288	\$ 39,868	\$ 39,955	\$ 39,955
Net pension liability as a percentage of covered- employee payroll	215.9%	280.0%	194.0%	149.6%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See independent auditors' report.

Malden Contributory Retirement System

Page 17 of 26

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED DECEMBER 31, 2017

SCHEDULE OF CONTRIBUTIONS

 $(Dollar\,Amounts\ in\ Thousands)$

	_	2017	 2016	 2015	2014	
Actuarially-determined contribution Contributions in relation to the actuarially-	\$	11,421	\$ 10,819	\$ 10,304	\$	9,816
determined contribution		11,421	 10,819	 10,304	_	9,816
Contribution deficiency (excess)	<u>\$</u>		\$ 	\$ 	\$	<u>-</u>
Covered-employee payroll	\$	42,288	\$ 39,868	\$ 39,955	\$	39,955
Contribution as a percentage of covered- employee payroll		27.0%	27.1%	25.8%		24.6%

SCHEDULE OF INVESTMENT RETURNS

	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	20.26%	-0.61%	-1 75%	11 51%

Note: These schedules are presented to illustrate the requirement to show information for 10 years. Howver, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See independent auditors' report.

Malden Contributory Retirement System

Page 18 of 26

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

A. CHANGES OF BENEFIT TERMS

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the System's benefit terms in 2017.

B. SIGNIFICANT ACTUARIAL ASSUMPTIONS AND METHODS

The significant actuarial assumptions used in the December 31, 2017 report were as follows:

Actuarial cost method: Entry age normal

Amortization method: 7.5% increasing appropriation through fiscal year 2029

with final amortization payment in 2030

Remaining amortization period: 12 years from July 1, 2018

Asset valuation method: Market value
Investment rate of return: 7.35% per annum

Projected salary increases: Service based table with ultimate ranges of 4.25% for

group 1 and 4.75% for group 4

Cost of living adjustments: 3% on the first \$14,000 of benefits

Mortality rates: Pre-retirement rates reflect the RP-2000 Employees table

projected generationally with Scale BB and a base year of 2009 (gender distinct). Post-retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).

Disabled life mortality: For disabled members, the table is assumed to be in

accordance with the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct). It is assumed that 55% of preretirement deaths are job-related for group 1 and 2 members and 90% are job-related for group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the

disability.

C. CHANGES TO ACTUARIAL ASSUMPTIONS AND METHODS

The System adopted a number of changes to its actuarial assumptions and methods in its December 31, 2017 valuation. The most significant of these changes included (1) a decrease in the assumed investment rate of return, or discount rate, from 7.5% to 7.35% and (2) increases in amortization payments from 5.69% per year to 7.5% per year to fiscal year 2029.

Malden Contributory Retirement System Page 19 of 26 Basic Annual Financial Statements



ROSELLI, CLARK & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Malden Retirement Board Malden Contributory Retirement System Malden, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Malden Contributory Retirement System (the "System"), a component unit of the City of Malden, Massachusetts, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated June 27, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Malden Contributory Retirement System

Page 20 of 26

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts

Roselli Clark & Associates

June 27, 2018



ROSELLI, CLARK & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

INDEPENDENT AUDITORS' REPORT ON AUDIT OF SPECIFIC ELEMENTS, ACCOUNTS AND ITEMS OF FINANCIAL STATEMENTS

To the Malden Retirement Board Malden Contributory Retirement System Malden, Massachusetts

We have audited the accompanying schedule of employer allocations of the Malden Contributory Retirement System (the "System"), a component unit of the City of Malden, Massachusetts, as of and for the year ended December 31, 2017. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources and total pension expense included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended December 31, 2017, and the related notes thereto.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer.

Malden Contributory Retirement System

Page 22 of 26

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities of the System as of and for the year ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the System as of and for the year ended December 31, 2017, and our report thereon, dated June 27, 2018, expressed an unmodified opinion on those financial statements.

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts

Roselli Clark & Associates

June 27, 2018

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

SCHEDULE OF EMPLOYER ALLOCATIONS FOR THE YEAR ENDED DECEMBER 31, 2017

(Dollar Amounts in Thousands)

Employer	Eı	Actual nployer atributions	Employer Allocation Percentage		
City of Malden	\$	10,044	87.9%		
Malden Housing Authority		1,176	10.3%		
Malden Redevelopment Authority		201	1.8%		
Total	\$	11,421	100.0%		

See notes to schedule of employer allocations and schedule of pension amounts by employer.

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER FOR THE YEAR ENDED DECEMBER 31, 2017

		0.8790 City of		0.1030	Re				
		Malden		Authority		Authority	_	Total	
Net pension liability	<u>\$</u>	80,235,999	\$	9,401,943	\$	1,643,058	\$	91,281,000	
Deferred outflows of resources:									
Differences between expected and actual experience Difference between projected and actual investment	\$	158,220	\$	18,540	\$	3,240	\$	180,000	
earnings on pension plan investments		-		-		-		-	
Changes of assumptions Changes in proportion and differences between employer		12,908,994		1,512,658		264,348		14,686,000	
contributions and proportionate share of contributions	_	1,146,000			_		_	1,146,000	
Total deferred outflows of resources	\$	14,213,214	\$	1,531,198	\$	267,588	\$	16,012,000	
Deferred inflows of resources:									
Differences between expected and actual experience	\$	_	\$	-	\$	-	\$	-	
Difference between projected and actual investment									
earnings on pension plan investments		3,000,906		351,642		61,452		3,414,000	
Changes of assumptions Changes in proportion and differences between employer		-		-		-		-	
contributions and proportionate share of contributions				616,000		530,000		1,146,000	
Total deferred inflows of resources	_	2000000	_		_		_		
Total deterred lilliows of resources	2	3,000,906	\$	967,642	\$	591,452	\$	4,560,000	
Pension expense (income):									
Proportionate share of plan pension expense	\$	14,410,698	Ф	1,687,775	\$	290,409	\$	16,388,882	
Net amortization of deferred amounts from changes in	Ф	14,410,098	Ф	1,007,773	J	290,409	J	10,300,002	
proportion and differences between employer contributions									
and proportionate share of contributions		407,000		(236,000)		(171,000)		-	
Total employer pension expense	\$	14,817,698	\$	1,451,775	\$	119,409	\$	16,388,882	
· · · · · · · · · · · · · · · · · · ·	_		_						

See notes to schedule of employer allocations and schedule of pension amounts by employer.

NOTES TO PENSION PLAN SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

A. INTRODUCTION

GASB Statement No, 68, Accounting and Financial Reporting for Pensions, establishes financial reporting requirements for governments that provide employees with pension benefits. GASB 68 requires employers to recognize a net pension liability or net pension asset as employees earn pension benefits. Employers participating in the Malden Contributory Retirement System (the "System") will recognize their proportionate share of the collective pension amounts for all benefits provided by the Retirement System.

B. METHOD OF PROPORTIONATE SHARE ALLOCATION

The basis for the proportionate share allocation by employer as found in the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer is consistent with the manner in which employer contributions to the Retirement System are determined. The net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense is based upon actual historical employer contributions to the System from the census data submitted to the Retirement System for pay periods ending December 31, 2017.

C. EXPECTED FUTURE AMORTIZATION OF DEFERRED BALANCES

The following table summarizes the expected amortization of the deferred outflows of resources and inflows of resources into pension expense (benefit):

Measurement Period Ended December 31:	_	City of Malden		Malden Housing Authority		Malden development Authority		Total
2018	\$	5,262,596	\$	332,972	\$	(71,568)	\$	5,524,000
2019		6,788,540		511,780		(40,320)		7,260,000
2020		2,663,823		123,911		(50,734)		2,737,000
2021	_	(3,502,651)	_	(405,107)	_	(161,242)	_	(4,069,000)
	\$	11,212,308	\$	563,556	\$	(323,864)	\$	11,452,000

Malden Contributory Retirement System

Page 26 of 26

Report on Examination of Basic Financial Statements And Additional Information Year Ended December 31, 2016

Report on Compliance and Internal Control Year Ended December 31, 2016

TABLE OF CONTENTS DECEMBER 31, 2016

	Page(s)
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 – 5
BASIC FINANCIAL STATEMENTS:	
Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position Notes to Basic Financial Statements	6 7 8 – 16
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED:	
Schedule of Changes in Net Pension Liability and Related Ratios Schedule of Contributions Schedule of Investment Returns Notes to Required Supplementary Information	17 18 18 19
OTHER REPORTS:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	20 – 21
Independent Auditors' Report on Audit of Specific Elements, Accounts and Items of Financial Statements	22 – 23
Pension Plan Schedules: Schedule of Employer Allocations Schedule of Pension Amounts by Employer Notes to Pension Plan Schedules	24 25 26



ROSELLI, CLARK & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073 www.roselliclark.com

INDEPENDENT AUDITORS' REPORT

To the Malden Retirement Board Malden Contributory Retirement System Malden, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Malden Contributory Retirement System (the "System"), a component unit of the City of Malden, Massachusetts, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Malden Contributory Retirement System

Page 1 of 26

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System as of December 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules of changes in net pension liability and related ratios, contributions and investment returns as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated June 26, 2017 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the System's internal control over financial reporting and compliance.

Roselli, Clark & Associates Certified Public Accountants

Roulli Clark & Associates

Woburn, Massachusetts June 26, 2017

Malden Contributory Retirement System

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Malden Contributory Retirement System's (the "System") financial performance provides an overview of the System's financial activities for the calendar year ended December 31, 2016. You should read it in conjunction with the basic financial statements, footnotes and required supplementary information that follows this discussion.

Financial Highlights

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of January 1, 2016 (the date of the latest available actuarial study), the funded ratio was approximately 71% based on the actuarial value of assets at that date.

In 2016, the System's investment portfolio produced a negative return of 0.61%, net of investment management fees. This negative return is in sharp contrast to the positive 2016 returns posted by the S&P 500 (8.7%) and the Dow Jones Industrial Average (11.8%). The System's fixed income investments performed well versus its benchmark. However, the System's investments in equities underperformed. The System's investment performance in equities was negatively impacted due to an over-weighted concentration in healthcare stocks, which were one of the weakest performing sectors in 2016, and underweighted concentration in financial and energy sectors, which were among the best performing sectors in 2016. The System rebalanced its portfolio in 2017 and the System's outside investment advisor reported that the System's investments returned over 9.0% through June 30, 2017.

Overview of the Financial Statements

This discussion and analysis is intended as an introduction to the System's basic financial statements. The basic financial statements are comprised of a Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, Notes to Financial Statements and Required Supplementary Information.

Statement of Fiduciary Net Position – presents information on the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position restricted for pensions. This statement reflects the System's investments at fair value, as well as eash, receivables and other assets and liabilities. Over time, the increase or decrease in fiduciary net position serves as a useful indicator of the System's financial health and condition.

Statement of Changes in Fiduciary Net Position – presents information showing how the System's fiduciary net position changed during the year. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds, withdrawals and administrative expenses. Investment income, including realized and unrealized gains, during the year is also presented.

Notes to the Financial Statements – provide additional information that is essential for the reader to gain a full understanding of the data provided in the financial statements.

Required Supplementary Information – includes this management's discussion and analysis and various unaudited schedules.

Malden Contributory Retirement System

Page 3 of 26

Financial Analysis

Fiduciary Net Position

The System's total assets as of December 31, 2016 approximated \$214.6 million and principally consisted of investments recorded at fair value. Total asset decreased by over \$7.7 million in 2016, due primarily to a negative return in the System's investment portfolio. Changes in the System's receivables and liabilities were not material to the System's overall net fiduciary position at December 31, 2016.

	December 31,					
	2016	2015				
Assets						
Cash and cash equivalents	\$ 949,077	\$ 6,829,292				
Investments	213,021,223	214,796,620				
Receivables and other current assets	716,282	840,310				
Total Assets	214,686,582	222,466,222				
Total Liabilities	73,952	132,991				
Fiduciary Net Position	\$ 214,612,630	\$ 222,333,231				

Change in Fiduciary Net Position

Fiduciary net position decreased over \$7.7 million in 2016, primarily as a result of negative investment returns for the year.

		Year Ending December 31,					
	_	2016		2015			
Additions							
Contributions	\$	15,353,735	\$	14,764,679			
Interest earnings, net of management fees		(1,965,195)		(3,268,380)			
Other income		39,620		16,000			
Total Additions	_	13,428,160	_	11,512,299			
Deductions							
Benefits and refunds to Plan members		20,793,736		19,669,583			
Administrative and other expenses		355,025		372,820			
Total Deductions		21,148,761	_	20,042,403			
Change in Fiduciary Net Position	<u>\$</u>	(7,720,601)	\$	(8,530,104)			

Additions – The amount needed to finance pension benefits is accumulated through the collection of employer and employees contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 Cost of Living Adjustments and through earnings on investments. Contributions increased over \$0.6 million year-over-year. Employer contributions represent over \$10.8 million, or approximately 70%, of total contributions. Employer contributions are determined by actuarial valuation.

Malden Contributory Retirement System

Page 4 of 26

The System reported a negative \$2.0 million in net investment income in 2016. This loss is in sharp contrast to the positive returns in all major U.S. equity and bond indices. The System's investment mix was over-weighted towards healthcare stocks, which were among the poorest performing sectors in 2016 and was underweighted towards financials and energy, which were among the best performing sectors in 2016. The System rebalanced its portfolio in 2017 and the System's outside investment advisor reported that the System's investments returned over 9.0% through June 30, 2017.

Deductions – The primary deductions for the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions and the costs of administering the system. Benefit payments represented over 98% of total 2016 deductions and were over \$1.1 million, or 6%, higher than 2016 benefit payments. This increase was due primarily to increases in retirement benefits, which was primarily attributable to an increase in retirements of highly compensated members.

The remaining 2016 administrative and other expenses approximated \$0.4 million, which was consistent with the prior year.

Overall Financial Position

Although the System experienced a negative investment return in 2016, the System has historically been a top-tier retirement system within the Commonwealth of Massachusetts in terms of investment returns. The System's 30-year investment return as published by PERAC significantly exceeds the discount rate used by the System in its actuarial studies. Provided the System continues to garner strong investment performances, it is possible that the System will achieve fully funded status on or before the expected date included in latest actuarial valuation.

Although the System has been successful in garnering the yields necessary to achieve fully funded status in the required time frame, the System (like so many other institutional investors) has experienced a great deal of volatility in its investments. Management believes that the volatility in the worldwide markets may continue for the foreseeable future. Accordingly, management intends to actively monitor the System's investment positions to best maximize returns while mitigating risk as best as it can.

Contacting the System's Financial Management Personnel

Our discussion and analysis is designed to provide the Malden Retirement Board, our membership, taxpayers, investors and creditors with a general overview of the System's financial results and to demonstrate the System's accountability for the funding it receives. If you have any questions about this report or need additional financial information, contact the Retirement Board at 200 Pleasant Street, Malden, Massachusetts 02148.

Malden Contributory Retirement System

Page 5 of 26

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

STATEMENT OF FIDUCIARY NET POSITION DECEMBER 31, 2016

ASSETS	
Cash and cash equivalents	\$ 949,077
Equity securities	73,508,678
Fixed income securities	139,512,545
Investments (Note 4)	213,021,223
Accounts receivable and other current assets:	
Employer and employee contributions	132,670
Interest receivable	583,612
Total accounts receivable and other current assets	716,282
Total assets	214,686,582
DEFERRED OUTFLOWS OF RESOURCES	
LIABILITIES	
Accounts payable and accrued expenses	73,952
Total liabilities	73,952
DEFERRED INFLOWS OF RESOURCES	
NET POSITION RESTRICTED FOR PENSIONS	\$ 214,612,630

See notes to financial statements.

Malden Contributory Retirement System

Page 6 of 26

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION YEAR ENDED DECEMBER 31, 2016

ADDITIONS	
Contributions:	n 10.010.005
Employer contributions – appropriations Employee contributions – member deductions and payments	\$ 10,819,225 3,936,493
	225,633
Transfers from other systems	,
Reimbursements from other systems	180,069
Receipts from the Commonwealth of Massachusetts	192,315
Total contributions	15,353,735
Investment income:	
Interest and dividend income	3,885,474
Net depreciation in fair value of investments	(5,214,060)
Less management fees	(636,609)
Net investment income	(1,965,195)
Other income	39,620
Total additions	13,428,160
DEDUCTIONS	
Benefits, transfers of, and refunds to members:	
Benefit payments	19,398,795
Member refunds	353,526
Transfers to other systems	477,185
Reimbursements to other systems	564,230
Administrative expenses:	
System operations payroll	226,299
Other administrative expenses	128,726
Total deductions	21,148,761
NET DECREASE IN NET POSITION	(7,720,601)
NET POSITION RESTRICTED FOR PENSIONS	
Beginning of year	222,333,231
End of year	\$ 214,612,630

See notes to financial statements.

Malden Contributory Retirement System

Page 7 of 26

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

1. DESCRIPTION OF THE PLAN

General – The Malden Contributory Retirement System (the "System") is a multi-employer defined benefit pension plan established and administered by the Malden Retirement Board under the provisions of Chapter 32 of the Massachusetts General Laws to provide pension benefits for participants. The System is a component unit of the City of Malden (the "City"). The City, the Malden Housing Authority ("MHA") and Malden Redevelopment Authority ("MRA") contribute to the System.

Employees of the City (with the exception of teachers and certain administrative personnel employed by the School Department who participate in a separate plan), the MHA and MRA are covered by the System. Participation in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

At December 31, 2016, membership in the System consisted of:

Retirees and beneficiaries currently receiving benefits	675
Active plan members	746
Inactive plan members	<u> 187</u>
Total	<u>1,608</u>

Plan Benefits – Massachusetts contributory retirement system benefits are uniform from system to system. For employees with service dates beginning before April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three-year average annual rate of regular compensation. For those employees who began their service after April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive five-year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and group classification.

The retirement allowance consists of two parts – an annuity and a pension. Participants' accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and annuity is the pension.

Participants who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees may be entitled to receive interest, which has accrued on those contributions. A vested employee who has not reached their eligible retirement age and elects to leave his accumulation on deposit may apply for benefits upon reaching his eligible retirement age.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Malden Contributory Retirement System

Page 8 of 26

Retirement Requirements – In order to receive retirement benefits, participants must meet one of the following two categories:

Normal Retirement – Generally, normal retirement occurs between ages 65 and 67. However, most participants with a hire date before April 2, 2012, may retire after twenty years of service or at any time after attaining age 55. For most participants hired on or after April 2, 2012, they must attain the age of 60 before they can retire. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55 or 60, as applicable. Participants become vested after ten years of service. Benefits commencing before age 65 are generally provided at a reduced rate. However, members working in certain occupations may retire with full benefits earlier than age 65.

Participants who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 may request a refund of their accumulated total contributions. In addition, depending on the number of years of creditable service, these employees may be entitled to interest that has accrued on their contributions. A vested employee under the age of 55 who elects to leave his accumulated contributions on deposit may apply for pension benefits upon reaching his eligible retirement age.

<u>Disability Retirements</u> – The System provides for both an ordinary disability retirement, where a participant is permanently incapacitated from a cause unrelated to employment, and an accidental disability retirement, where the disability is the result of an injury or illness received or aggravated in the performance of one's duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status. In addition, certain provisions are in place relative to death benefits for beneficiaries of employees who die in active service.

Public Availability of Financial Statements – The Malden Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Malden Retirement Board, 200 Pleasant Street, Malden, Massachusetts 02148.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The financial statements of the System have been prepared on the accrual basis of accounting. The accounting records of the System are maintained on a calendar-year basis in accordance with the standards and procedures established by Public Employee Retirement Administration Commission ("PERAC") and Massachusetts law.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits and short-term holdings with original maturities of three months or less from the date of acquisition.

Malden Contributory Retirement System

Page 9 of 26

Investments – The carrying amounts of the System's investments approximate their fair value. When actively quoted observable prices are not available, the System generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- Level 1 Inputs are quoted prices in active markets for identical investments at the measurement date.
- Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly
 observable for the investment through correlation with market data at the measurement date
 and for the duration of the instrument's anticipated life.
- Level 3 Inputs reflect the System's best estimate of what market participants would use in pricing the investment at the measurement date.

The following table presents the fair value of the System's investments by type as of December 31, 2016:

	December 31, F				Value Measurements Using			
		2016		Level 1		Level 2		Level 3
Investments by fair value level								
Debt securities:								
U.S. governments and agencies	\$	23,908,288	\$	9,126,236	\$	14,782,052	\$	-
Corporate bonds		36,672,252		36,672,252		-		_
Asset-based securities		12,928,138		-		12,928,138		-
Equity securities		139,512,545	_	139,512,545	_	_	_	
Total investments by fair value level	\$	213,021,223	\$	185,311,033	\$	27,710,190	\$	

Debt and equity securities classified in Level 1 are values using prices quoted in active markets for those securities. Debt securities classified in Level 2 were valued using observable inputs from similar securities, including basing value on yield currently available on comparable securities of issued with similar credit ratings.

Fair Value of Financial Instruments – The carrying amounts of cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued expenses approximate their fair value due to the relatively short-term maturities.

Revenue Recognition – Contributions are recognized as additions in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Contributions appropriated by the City, MHA and MRA are on a fiscal-year basis. Investment purchases and sales are recorded on their trade dates. Interest and dividends are recorded when earned. Investment income is allocated to the various funds on the basis of a rate determined annually by PERAC.

Derivatives – The System may invest in derivative products, mainly currency hedges, to minimize the currency risk on international investments. The System had no derivative securities at December 31, 2016.

Malden Contributory Retirement System

Page 10 of 26

3. SYSTEM ADMINISTRATION

The System is administered by a five-person Board consisting of the City Controller (ex-officio member), two members elected by the participants in or retired from the service of the System, one member appointed by the City's Mayor and one member appointed by the other members of the Board

At the time of this report, the Board was comprised as follows:

Term Expires

Ex-Officio Member: Mr. Charles Ranaghan No Specified Date
Appointed Member: Mr. Gregory Lucey June 11, 2019
Elected Member: Mr. Warren Atkinson Jr. (Chair) November 30, 2017
Elected Member: Mr. Douglas Eisnor November 30, 2017
Member Appointed by Other Members: Mr. Domenic Fermano No Specified Date

The Board is required to meet at least once a month and keep a record of its proceedings. The Board annually submits a financial statement of condition for the System with the Commissioner of PERAC. All retirement allowances are approved by the Board and submitted to a PERAC actuary for verification prior to payments being made. Expenses incurred by the System must be approved by at least two members of the Board.

4. DEPOSITS AND INVESTMENTS

Massachusetts General Laws Chapter 32 and PERAC regulations require the System to invest funds only in pre-approved investment instruments, which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, certain corporate bonds and equities and investment pools.

Investment Policy – The investment of the System's funds is the responsibility of the Board. The Board adopted an investment policy statement in July 2012, which was updated in January 2016. The System's investment objective is to invest assets in a prudent and cost-effective manner seeking a total return greater than or equal to the actuarial investment rate of return adopted by the Board (currently 7.5%) while maintaining an appropriate level of risk for a pension fund.

The System's investment policy seeks to manage risk through diversification both across and within investment asset classes with a long-term bias towards equities. The Board, together with its external investment manager, determines the appropriate investment mix at its regular face-to-face meetings.

The System's investment policy seeks to invest no more than 75% of its investments in equities. No more than 60% of the System's investments can be invested in fixed income securities.

Rate of Return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The 2016 money-weighted rate of return was approximately (0.61)%.

Custody of Investments – State Street Bank and Trust ("SSBT") is the custodian of the System's investment portfolio. SSBT held all System investment securities at December 31, 2016 and provided investment transaction and reporting services throughout all of 2016. SSBT is engaged to provide these services through December 31, 2018.

Malden Contributory Retirement System

Page 11 of 26

Investment Management – The deBurlo Group provided investment advisory services to the System throughout all of 2016 under a service agreement that is set to expire on April 1, 2019. The System may terminate this service agreement for various reasons including, but not limited to, certain breaches of contract.

Custodial Credit Risk: Deposits – Deposits are subject to the risk of bank failure. The System may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The System's policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation ("FDIC") insurance coverage for the first \$250,000 of deposits held at each financial institution. At December 31, 2016, the System had bank deposits of \$1,765,433 exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial Credit Risk: Investments – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The System's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the System. At December 31, 2016, the System was not exposed to custodial credit risk on its investments.

Interest Rate Risk: Deposits – This is the risk that fair value losses may arise due to increasing interest rates; such risk is reduced by the fact that the System maintains such funds in highly liquid bank accounts; thereby, allowing for timely re-allocation of such holdings should the need arise.

Interest Rate Risk: Investments – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The System does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Foreign Currency Risk: Deposits and Investments – A risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit. The System did not have any securities denominated in foreign currencies at December 31, 2016.

Securities Credit Risk: Investments – In the case of investments, there is the risk that in the event of an invested party will be unable to fulfill its obligations, such as to provide required payments to investors, to meet current or future performance expectations, to abide by industry regulations and proper operational practices, ceasing to exist, or filing for bankruptcy. In those instances, the System may not be able to recover the full amount of its principal investment and/or investment earnings. As previously noted, PERAC and Massachusetts statutory regulations have been enacted to reduce this risk. In evaluating its credit risk, the System relies on credit ratings assigned by Moody's and Standard and Poor's. The System does voluntarily self-impose certain investment restrictions; however, those can be changed at the Board's discretion. The System does maintain a significant portion (approximately 99%) of its monetary assets as investment holdings.

Malden Contributory Retirement System

Page 12 of 26

Credit quality ratings of investments at December 31, 2016 were as follows:

Quality Rating (S&P)		Corporate Bonds		U.S. Government reasuries & Agencies		sset-Backed Securities		Total
AAA	\$	1,424,826	\$	416,091	\$	5,759,795	\$	7,600,712
AA+		431,163		1,502,423		-		1,933,586
AA		-		429,371		400,382		829,753
AA-		692,229		5,361,682		-		6,053,911
A		3,253,908		-		-		3,253,908
A-		6,473,048		-		543,040		7,016,088
$\mathrm{BBB}+$		6,758,179		-		-		6,758,179
BBB		8,481,578		-		-		8,481,578
BBB-		8,171,821		-		-		8,171,821
BB-		985,500		-		-		985,500
Not Rated	_	<u> </u>	_	16,198,721	_	6,224,921	_	22,423,642
	\$	36,672,252	\$	23,908,288	\$	12,928,138	\$	73,508,678

At December 31, 2016, the System had the following investments and maturities:

		_		Investmen	t Ma	turities		
	Fair		Less than	1 to 5		6 to 10		More than
Investment Type	Value		1 year	 years	_	years	_	10 years
U.S. Government:								
U.S. Treasuries	\$ 9,126,2	36 \$	-	\$ -	\$	6,034,967	\$	3,091,269
Agencies and municipalities	14,782,0	52	-	-		-		14,782,052
Corporate obligations	36,672,2	52	2,402,400	7,114,150		23,139,709		4,015,993
Asset-backed securities	12,928,1	88 _		 3,850,824	_	2,110,272	_	6,967,042
Investments with maturities	73,508,6	<u>8</u>	2,402,400	\$ 10,964,974	\$	31,284,948	\$	28,856,356
Equity securities:								
Common stock	139,512,5	<u>15</u>						
Investments without maturities	139,512,5	<u>15</u>						
Total investments	\$ 213,021,2	23						
Cash deposits	\$ 949,0	77						

Concentration of Credit Risk: Investments – The System does not maintain any single investment that represents more than 5% of the System's total investments at December 31, 2016. However, there are multiple, separate investments in U.S. Treasury and other government obligations that, in aggregate, represent approximately 33% of fixed income securities and 11% of total investments held at December 31, 2016.

Malden Contributory Retirement System

Page 13 of 26

5. FUNDING POLICY

GAAP requires that the annual minimum provision for pension costs should include normal cost, interest on unfunded past service cost liability, and amortization of unfunded vested benefits, based on an acceptable actuarial cost method.

Employee Contributions – Employees whose creditable service began prior to January 1, 1975, contribute 5% of their base salary or wage; those whose service date is subsequent to January 1, 1975, and prior to January 1, 1984, contribute 7%; those whose service date is subsequent to January 1, 1984, and prior to July 1, 1996, contribute 8%, and those whose service date is subsequent to July 1, 1996, contribute 9%. In addition, employees hired on or after January 1, 1979 contribute an additional 2% on regular compensation in excess of \$30,000.

Employer Contributions (Funding) – Under the provisions of Chapter 32 of Massachusetts General Law, participating employers are assessed their share of the total retirement cost based on independent actuarial study.

Employer contributions of \$10,819,225 were made in 2016 in accordance with the funding policy. Employer contributions as a percentage of covered payroll was approximately 27% in 2016.

Cost of Living Adjustment (COLA) – Through 1998, the Massachusetts Legislature was able to grant cost-of-living increases to benefits being paid to retirees. These increases were expressed as a percentage of the retiree's allowance subject to a maximum dollar increase. All COLA's granted from 1982 through June 30, 1998, are reimbursed to the System by the Commonwealth of Massachusetts since the Commonwealth was financially responsible for COLA adjustments during this time frame; any COLA's granted thereafter by the Board are required to be funded by the System directly. A COLA may be approved in excess of the Consumer Price Index, or CPI, but for 2016 is not to exceed 3% annually on the first \$14,000 of a retirement allowance. The System has historically approved a COLA annually, usually at the maximum 3% rate.

The Commonwealth is expected to continue funding the cost-of-living amounts granted to retirees prior to 1998 for the duration of their selected retirement option.

6. ACTUARIAL VALUATION

The System is statutorily required to adopt the funding schedule that will fully amortize the unfunded actuarial accrued liability by June 30, 2040. As of the latest actuarial valuation, the System has selected a funding schedule that amortizes the unfunded actuarial accrued liability to \$0 by June 30, 2030.

The components of the System's net pension liability at December 31, 2016 were as follows (dollar amounts in thousands):

Total pension liability Plan fiduciary net position	\$ 326,254 214,613
Net pension liability	\$ 111,641
Plan fiduciary net position as a percentage of total pension liability	65.8%

Malden Contributory Retirement System

Page 14 of 26

The total pension liability was determined by an actuarial valuation as of January 1, 2016 and updated to roll forward to December 31, 2016. The significant actuarial assumptions used in the January 1, 2016 report were as follows:

Actuarial cost method: Entry age normal

Amortization method: 5.0% increasing appropriation through fiscal year 2019;

2.3% increasing of unfunded actuarial liability

Remaining amortization period: 14 years

Asset valuation method: Actuarial value, 5-year smoothing

Investment rate of return: 7.5% per annum

Projected salary increases: Service based table with ultimate ranges of 4.25%,

4.50% and 4.75% for groups 1, 2 and 4, respectively

Cost of living adjustments: 3% on the first \$14,000 of benefits

Mortality rates: Pre-retirement rates reflect the RP-2000 Employees table

projected generationally with Scale BB and a base year of 2009 (gender distinct). Post-retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).

Disabled life mortality: For disabled members, the table is assumed to be in

accordance with the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct). It is assumed that 55% of preretirement deaths are job-related for group 1 and 2 members and 90% are job-related for group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the

disability.

Discount Rate – The discount rate used to measure the total pension liability in the January 1, 2016 actuarial valuation report was 7.5%, which was a reduction from the previous discount rate of 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Expected Rate of Return – The System's investment policy targets an investment return that meets or exceeds the actuarial investment rate of return (currently 7.5%). This long-term expected rate of return is presented neither as an arithmetic or geometric means.

Malden Contributory Retirement System

Page 15 of 26

Sensitivity Analysis – The following illustrates the net position liability at December 31, 2016 calculated using the current discount rate of 7.5%, as well as the projection of what the net position liability would be if it were calculated using a discount rate that is 1.0% lower (6.5%) and 1.0% higher (8.5%) than the current rate (dollar amounts in thousands):

	1% Decrease			Discount	1%	Increase		
		(6.5%)		(7.5%)	(8.5%)			
Net pension liability	\$	147,998	\$	111,641	\$	80,847		

7. NET POSITION RESTRICTED FOR PENSIONS

Net position restricted for pensions, as of December 31, 2016, were comprised of the following legally required funds:

Description	Amount	Purpose
Annuity Savings Fund	\$ 43,128,152	Active members' contribution balance
Annuity Reserve Fund	15,407,069	Retired members' contribution balance
•		Members' contributions account while on
Military Service Fund	9,822	military leave
Pension Fund	186,983	Amounts appropriated to fund future retirement
Pension Reserve Fund	155,880,604	Remaining net assets
Total	\$ 214,612,630	

8. COMMITMENTS AND CONTINGENCIES

The System is subject to a variety of claims that arise from time to time in the ordinary course of business. Although management of the System currently believes that resolving claims against the System, individually or in aggregate, will not have a material adverse impact on the System's financial position or its results of operations, these matters are subject to inherent uncertainties and management's views of these matters may change in the future.

* * * * * *

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED DECEMBER 31, 2016 $\,$

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATI

(Dollar Amounts in Thousands)

		2016		2015
Total pension liability:				
Service cost	\$	6,298	\$	6,039
Interest		22,212		22,252
Changes in benefit terms		1,600		-
Differences between expected and actual experience		1,636		-
Changes in assumptions		14,620		-
Benefit payments, including refunds of member contributions		(19,944)		(19,095)
Net change in total pension liability		26,422		9,196
Total pension liability - beginning of year		299,832		290,636
Total pension liability - end of year (a)	\$	326,254	\$	299,832
Plan fiduciary net position:				
Contributions - employer	\$	10,819	\$	10,304
Contributions - members		3,936		3,774
Contributions - nonemployer contributing entities		598		686
Net investment income		(1,965)		(3,268)
Benefit payments, including refunds of member contributions		(20,793)		(19,669)
Administrative expenses		(355)		(373)
Other		40	_	16
Net change in plan fiduciary net position		(7,720)		(8,530)
Plan fiduciary net position - beginning of year	_	222,333		230,863
Plan fiduciary net position - end of year (b)	\$	214,613	\$	222,333
Net pension liability - end of year (a) - (b)	\$	111,641	\$	77,499
Plan fiduciary net position as a percentage of the total				
pension liability		65.8%		74.2%
Covered-employee payroll	\$	39,868	\$	39,955
Net pension liability as a percentage of covered- employee payroll		280.0%		194.0%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

Malden Contributory Retirement System

Page 17 of 26

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED DECEMBER 31, 2016

SCHEDULE OF CONTRIBUTIONS

(Dollar Amounts in Thousands)

	2016		2015		_	2014	
Actuarially-determined contribution Contributions in relation to the actuarially-	\$	10,819	\$	10,304	\$	9,816	
determined contribution		10,819		10,304		9,816	
Contribution deficiency (excess)	\$		\$		\$	<u> </u>	
Covered-employee payroll	\$	39,868	\$	39,955	\$	39,955	
Contribution as a percentage of covered- employee payroll		27.1%	25.8%			24.6%	

SCHEDULE OF INVESTMENT RETURNS

	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	-0.61%	-1 75%	11 51%

Note: These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See independent auditors' report.

Malden Contributory Retirement System

Page 18 of 26

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

A. CHANGES OF BENEFIT TERMS

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the System's benefit terms in 2016.

B. SIGNIFICANT ACTUARIAL ASSUMPTIONS AND METHODS

The significant actuarial assumptions used in the January 1, 2016 report were as follows:

Actuarial cost method: Entry age normal

Amortization method: 5.0% increasing appropriation through fiscal year 2019;

2.3% increasing of unfunded actuarial liability

Remaining amortization period: 14 years

Asset valuation method: Actuarial value, 5-year smoothing

Investment rate of return: 7.5% per annum

Projected salary increases: Service based table with ultimate ranges of 4.25%,

4.50% and 4.75% for groups 1, 2 and 4, respectively

Cost of living adjustments: 3% on the first \$14,000 of benefits

Mortality rates: Pre-retirement rates reflect the RP-2000 Employees table

projected generationally with Scale BB and a base year of 2009 (gender distinct). Post-retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).

Disabled life mortality: For disabled members, the table is assumed to be in

accordance with the RP-2000 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct). It is assumed that 55% of preretirement deaths are job-related for group 1 and 2 members and 90% are job-related for group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the

disability.

C. CHANGES TO ACTUARIAL ASSUMPTIONS AND METHODS

In 2016, the System adopted a number of changes to its actuarial assumptions and methods. The most significant of these changes included (1) a decrease in the assumed investment rate of return, or discount rate, from 7.75% to 7.50% and (2) changes in mortality rate for pre-retirement, post-retirement and disabilities.

Malden Contributory Retirement System Page 19 of 26 Basic Annual Financial Statements



ROSELLI, CLARK & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Malden Retirement Board Malden Contributory Retirement System Malden. Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Malden Contributory Retirement System (the "System"), a component unit of the City of Malden, Massachusetts, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated June 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Malden Contributory Retirement System

Page 20 of 26

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roselli, Clark & Associates Certified Public Accountants

Roselli, Clark & Associates

Woburn, Massachusetts June 26, 2017



ROSELLI, CLARK & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073 www.roselliclark.com

INDEPENDENT AUDITORS' REPORT ON AUDIT OF SPECIFIC ELEMENTS, ACCOUNTS AND ITEMS OF FINANCIAL STATEMENTS

To the Malden Retirement Board Malden Contributory Retirement System Malden, Massachusetts

We have audited the accompanying schedule of employer allocations of the Malden Contributory Retirement System (the "System"), a component unit of the City of Malden, Massachusetts, as of and for the year ended December 31, 2016. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources and total pension expense included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended December 31, 2016, and the related notes thereto.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer.

Malden Contributory Retirement System

Page 22 of 26

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities of the System as of and for the year ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the System as of and for the year ended December 31, 2016, and our report thereon, dated June 26, 2017, expressed an unmodified opinion on those financial statements.

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts

Roselli, Clark & Associates

June 26, 2017

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

SCHEDULE OF EMPLOYER ALLOCATIONS FOR THE YEAR ENDED DECEMBER 31, 2016

(Dollar Amounts in Thousands)

Employer	Er	Actual mployer tributions	Employer Allocation Percentage		
City of Malden	\$	9,452	87.4%		
Malden Housing Authority		1,102	10.2%		
Malden Redevelopment Authority		265	2.4%		
Total	\$	10,819	100.0%		

See notes to schedule of employer allocations and schedule of pension amounts by employer.

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER FOR THE YEAR ENDED DECEMBER 31, 2016

		City of Malden	Malden Housing Authority		,		Malden Malden Housing Redevelopmen Authority Authority			development	Total		
Net pension liability	\$	97,574,234	\$	11,387,382	\$	2,679,384	\$	111,641,000					
Deferred outflows of resources:													
Differences between expected and actual experience Difference between projected and actual investment	\$	1,137,948	\$	132,804	\$	31,248	\$	1,302,000					
earnings on pension plan investments		20,837,034		2,431,782		572,184		23,841,000					
Changes of assumptions Changes in proportion and differences between employer contributions and proportionate share of contributions		10,169,864		1,186,872		279,264		11,636,000					
• •	_	1,179,000	_		_		_	1,179,000					
Total deferred outflows of resources	\$	33,323,846	\$	3,751,458	\$	882,696	\$	37,958,000					
Deferred inflows of resources:													
Differences between expected and actual experience Difference between projected and actual investment	\$	-	\$	-	\$	-	\$	-					
earnings on pension plan investments		-		-		-		-					
Changes of assumptions Changes in proportion and differences between employer contributions and proportionate share of contributions		-		-		-		-					
Total deferred inflows of resources	_		_	927,000	_	252,000	_	1,179,000					
Total deferred inflows of resources	\$		\$	927,000	\$	252,000	\$	1,179,000					
Pension expense (income):													
Proportionate share of plan pension expense Net amortization of deferred amounts from changes in proportion and differences between employer contributions	\$	17,251,012	\$	2,013,273	\$	473,712	\$	19,737,997					
and proportionate share of contributions		327,724		(252,564)		(75,160)		_					
Total employer pension expense	\$	17,578,736	\$	1,760,709	\$	398,552	\$	19,737,997					
	_		_		_								

See notes to schedule of employer allocations and schedule of pension amounts by employer.

NOTES TO PENSION PLAN SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

A. INTRODUCTION

GASB Statement No, 68, Accounting and Financial Reporting for Pensions, establishes financial reporting requirements for governments that provide employees with pension benefits. GASB 68 requires employers to recognize a net pension liability or net pension asset as employees earn pension benefits. Employers participating in the Malden Contributory Retirement System (the "System") will recognize their proportionate share of the collective pension amounts for all benefits provided by the Retirement System.

B. METHOD OF PROPORTIONATE SHARE ALLOCATION

The basis for the proportionate share allocation by employer as found in the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer is consistent with the manner in which employer contributions to the Retirement System are determined. The net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense is based upon actual historical employer contributions to the System from the census data submitted to the Retirement System for pay periods ending December 31, 2016.

C. EXPECTED FUTURE AMORTIZATION OF DEFERRED BALANCES

The following table summarizes the expected amortization of the deferred outflows of resources and inflows of resources into pension expense.

	2017	2018	2019	2020	Total
City of Malden					
Differences between actual and expected experience	\$ 291,916	\$ 291,916	\$ 291,916	\$ 262,200	\$ 1,137,948
Difference between projected and actual investment					
earnings on pension plan investments, net	5,366,360	5,366,360	6,833,624	3,270,690	20,837,034
Changes of assumptions	2,608,016	2,608,016	2,608,016	2,345,816	10,169,864
Net effect of change in proportion of beginning reported balances	332,000	332,000	332,000	183,000	1,179,000
Malden Housing Authority					
Differences between actual and expected experience	34,068	34,068	34,068	30,600	132,804
Difference between projected and actual investment					
earnings on pension plan investments, net	626,280	626,280	803,352	375,870	2,431,782
Changes of assumptions	304,368	304,368	304,368	274,768	1,187,872
Net effect of change in proportion of beginning reported balances	(251,000)	(251,000)	(251,000)	(174,000)	(927,000)
Malden Redevelopment Authority					
Differences between actual and expected experience	8,016	8,016	8,016	7,200	31,248
Difference between projected and actual investment					
earnings on pension plan investments, net	147,360	147,360	189,024	88,440	572,184
Changes of assumptions	71,616	71,616	71,616	64,416	279,264
Net effect of change in proportion of beginning reported balances	(81,000)	(81,000)	(81,000)	(9,000)	(252,000)
<u>Total</u>					
Differences between actual and expected experience	334,000	334,000	334,000	300,000	1,302,000
Difference between projected and actual investment					
earnings on pension plan investments, net	6,140,000	6,140,000	7,826,000	3,735,000	23,841,000
Changes of assumptions	2,984,000	2,984,000	2,984,000	2,685,000	11,637,000
Net effect of change in proportion of beginning reported balances	-	-	-	-	-

Malden Contributory Retirement System

Page 26 of 26

Report on Examination of Basic Financial Statements And Additional Information Year Ended December 31, 2015

Report on Compliance and Internal Control Year Ended December 31, 2015

TABLE OF CONTENTS DECEMBER 31, 2015

	Page(s)
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 – 5
BASIC FINANCIAL STATEMENTS:	
Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position Notes to Basic Financial Statements	6 7 8 – 16
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED:	
Schedule of Changes in Net Pension Liability and Related Ratios Schedule of Contributions Schedule of Investment Returns Notes to Required Supplementary Information	17 18 18 19
OTHER REPORTS:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	20 – 21
Independent Auditors' Report on Audit of Specific Elements, Accounts and Items of Financial Statements	22 – 23
Pension Plan Schedules: Schedule of Employer Allocations Schedule of Pension Amounts by Employer	24 25
Notes to Pension Plan Schedules	26



ROSELLI, CLARK & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073 www.roselliclark.com

INDEPENDENT AUDITORS' REPORT

To the Malden Retirement Board Malden Contributory Retirement System Malden, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Malden Contributory Retirement System (the "System"), a component unit of the City of Malden, Massachusetts, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Malden Contributory Retirement System Page 1 of 26

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System as of December 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules of changes in net pension liability and related ratios, contributions and investment returns as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated August 4, 2016 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the System's internal control over financial reporting and compliance.

Roselli, Clark & Associates

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts August 4, 2016

Malden Contributory Retirement System

Page 2 of 26

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Malden Contributory Retirement System's (the "System") financial performance provides an overview of the System's financial activities for the calendar year ended December 31, 2015. You should read it in conjunction with the basic financial statements, footnotes and required supplementary information that follows this discussion.

Financial Highlights

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of January 1, 2014 (the latest available actuarial information date), the funded ratio was approximately 70% based on the actuarial value of assets at that date.

After six consecutive years of growth in the System's net position, the System reported an approximate \$8.5 million decrease in net position restricted for pensions to \$222.3 million in 2015. This decline was due primarily to the performance of the System's investment portfolio, which returned (1.75) % in 2015, net of investment management fees. While the System's performance was negative, it was relatively consistent with the returns posted by the S&P 500 and Dow Jones Industrial Average, each of which was negative in 2015.

As a result of significant volatility in the worldwide equity markets in 2015, the System shifted a significant portion of its investments from equity securities to fixed income securities throughout 2015. At December 31, 2015, approximately 38% of the System's investable funds were invested in fixed income securities; fixed income securities represented 28% of investments at December 31, 2014.

Overview of the Financial Statements

This discussion and analysis is intended as an introduction to the System's basic financial statements. The basic financial statements are comprised of a Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, Notes to Financial Statements and Required Supplementary Information.

Statement of Fiduciary Net Position – presents information on the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position restricted for pensions. This statement reflects the System's investments at fair value, as well as eash, receivables and other assets and liabilities. Over time, the increase or decrease in fiduciary net position serves as a useful indicator of the System's financial health and condition.

Statement of Changes in Fiduciary Net Position – presents information showing how the System's fiduciary net position changed during the year. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds, withdrawals and administrative expenses. Investment income, including realized and unrealized gains, during the year is also presented.

Notes to the Financial Statements – provide additional information that is essential for the reader to gain a full understanding of the data provided in the financial statements.

Required Supplementary Information – includes this management's discussion and analysis and various unaudited schedules.

Malden Contributory Retirement System Page 3 of 26 Basic Annual Financial Statements

Financial Analysis

Fiduciary Net Position

The System's total assets as of December 31, 2015 approximated \$222.5 million and principally consisted of investments recorded at fair value. Total asset decreased by nearly \$8.5 million. Changes in the System's receivables and liabilities were not material to the System's overall net fiduciary position at either December 31, 2015 or 2014.

	December 31,						
		2015	2014				
Assets							
Cash and cash equivalents	\$	6,829,292	\$	8,880,969			
Investments		214,796,620		221,512,428			
Receivables and other current assets		840,310		539,674			
Total Assets		222,466,222	_	230,933,071			
Total Liabilities		132,991	_	69,736			
Fiduciary Net Position	<u>s</u>	222,333,231	<u>\$</u>	230,863,335			

Change in Fiduciary Net Position

Fiduciary net position decreased over \$8.5 million in 2015, primarily as a result of negative investment returns for the year.

	Year Ending December 31,				
		2015		2014	
Additions					
Contributions	\$	14,764,679	\$	14,152,040	
Interest earnings, net of management fees		(3,268,380)		24,824,028	
Other income		16,000		37,000	
Total Additions		11,512,299	_	39,013,068	
Deductions					
Benefits and refunds to Plan members		19,669,583		18,393,076	
Administrative and other expenses		372,820		318,244	
Total Deductions		20,042,403		18,711,320	
Change in Fiduciary Net Position	<u>\$</u>	(8,530,104)	<u>s</u>	20,301,748	

Additions – The amount needed to finance pension benefits is accumulated through the collection of employer and employees contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 Cost of Living Adjustments and through earnings on investments. Contributions increased over \$0.6 million year-over-year. Employer contributions represent over \$10.3 million, or approximately 70%, of total contributions. Employer contributions are determined by actuarial valuation.

Malden Contributory Retirement System Page 4 of 26 Basic Annual Financial Statements

The System's 2015 net investment income was a loss of nearly \$3.3 million in 2015. Worldwide equity markets experienced significant volatility in 2015, particularly in the second half of 2015. The System increased its investments in fixed income securities to hedge itself against this volatility throughout 2015.

Deductions – The primary deductions for the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions and the costs of administering the system. Benefit payments represented over 98% of total 2015 deductions and were nearly \$1.3 million, or 7%, higher than 2014 benefit payments. This increase was due primarily to increases in retirement benefits, which was primarily attributable to an increase in retirements of highly compensated members.

The remaining 2015 administrative and other expenses approximated \$0.4 million, which was consistent with the prior year.

Overall Financial Position

Although the System experienced a negative investment return in 2015, the System has historically been a top-tier retirement system within the Commonwealth of Massachusetts in terms of investment returns. Including the negative return in 2015, over the past three years, the average of the System's investment returns outperformed the actuarial assumptions used to determine the funded status of the System, which is currently estimated to be 7.75% per annum. Provided the System continues to garner strong investment performances, it is possible that the System will achieve fully funded status on or before the expected date included in latest actuarial valuation.

Although the System has been successful in garnering the yields necessary to achieve fully funded status in the required time frame, the System (like so many other institutional investors) has experienced a great deal of volatility in its investments. Management believes that the volatility in the worldwide markets may continue for the foreseeable future. Accordingly, management intends to actively monitor the System's investment positions to best maximize returns while mitigating risk as best as it can.

Contacting the System's Financial Management Personnel

Our discussion and analysis is designed to provide the Malden Retirement Board, our membership, taxpayers, investors and creditors with a general overview of the System's financial results and to demonstrate the System's accountability for the funding it receives. If you have any questions about this report or need additional financial information, contact the Retirement Board at 200 Pleasant Street, Malden, Massachusetts 02148.

Malden Contributory Retirement System Page 5 of 26 Basic Annual Financial Statements

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

STATEMENT OF FIDUCIARY NET POSITION DECEMBER 31, 2015

ASSETS	ф. созо зоз
Cash and cash equivalents	\$ 6,829,292
Investments, at fair value:	
Equity securities	133,414,693
Fixed income securities	81,381,927
Total investments	214,796,620
Accounts receivable and other current assets:	
Employer and employee contributions	128,346
Due from the Commonwealth	106,614
Interest receivable	605,350
Total accounts receivable and other current assets	840,310
Total assets	222,466,222
DEFERRED OUTFLOWS OF RESOURCES	- _
LIABILITIES	
Accounts payable and accrued expenses	132,991
Total liabilities	132,991
DEFERRED INFLOWS OF RESOURCES	
NET POSITION RESTRICTED FOR PENSIONS	\$ 222,333,231

See notes to financial statements.

Malden Contributory Retirement System

Page 6 of 26

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION YEAR ENDED DECEMBER 31, 2015

ADDITIONS	
Contributions:	# 10.204.020
Employer contributions – appropriations	\$ 10,304,028
Employee contributions – member deductions and payments	3,774,377
Transfers from other systems	290,256
Reimbursements from other systems	177,340
Receipts from the Commonwealth of Massachusetts	218,678
Total contributions	14,764,679
Investment income:	
Interest and dividend income	3,483,378
Net depreciation in fair value of investments	(6,089,971)
Less management fees	(661,787)
Net investment income	(3,268,380)
Other income	16,000
Total additions	11,512,299
DEDUCTIONS	
Benefits, transfers of, and refunds to members:	
Benefit payments	18,732,402
Member refunds	238,944
Transfers to other systems	178,969
Reimbursements to other systems	519,268
Administrative expenses:	·
System operations payroll	262,159
Other administrative expenses	110,661
Total deductions	20,042,403
NET DECREASE IN NET POSITION	(8,530,104)
NET POSITION RESTRICTED FOR PENSIONS	
Beginning of year	230,863,335
End of year	\$ 222,333,231

See notes to financial statements.

Malden Contributory Retirement System Page 7 of 26 Basic Annual Financial Statements

NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

1. DESCRIPTION OF THE PLAN

General – The Malden Contributory Retirement System (the "System") is a multi-employer defined benefit pension plan established and administered by the Malden Retirement Board under the provisions of Chapter 32 of the Massachusetts General Laws to provide pension benefits for participants. The System is a component unit of the City of Malden (the "City"). The City, the Malden Housing Authority ("MHA") and Malden Redevelopment Authority ("MRA") contribute to the System.

Employees of the City (with the exception of teachers and certain administrative personnel employed by the School Department who participate in a separate plan), the MHA and MRA are covered by the System. Participation in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

At December 31, 2015, membership in the System consisted of:

Retirees and beneficiaries currently receiving benefits	717
Active plan members	798
Inactive plan members	127
Total	<u>1,642</u>

Plan Benefits – Massachusetts contributory retirement system benefits are uniform from system to system. For employees with service dates beginning before April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three-year average annual rate of regular compensation. For those employees who began their service after April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive five-year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and group classification.

The retirement allowance consists of two parts – an annuity and a pension. Participants' accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and annuity is the pension.

Participants who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees may be entitled to receive interest, which has accrued on those contributions. A vested employee who has not reached their eligible retirement age and elects to leave his accumulation on deposit may apply for benefits upon reaching his eligible retirement age.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Malden Contributory Retirement System Page 8 of 26 Basic Annual Financial Statements

Retirement Requirements – In order to receive retirement benefits, participants must meet one of the following two categories:

Normal Retirement – Generally, normal retirement occurs between ages 65 and 67. However, most participants with a hire date before April 2, 2012, may retire after twenty years of service or at any time after attaining age 55. For most participants hired on or after April 2, 2012, they must attain the age of 60 before they can retire. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55 or 60, as applicable. Participants become vested after ten years of service. Benefits commencing before age 65 are generally provided at a reduced rate. However, members working in certain occupations may retire with full benefits earlier than age 65.

Participants who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 may request a refund of their accumulated total contributions. In addition, depending on the number of years of creditable service, these employees may be entitled to interest that has accrued on their contributions. A vested employee under the age of 55 who elects to leave his accumulated contributions on deposit may apply for pension benefits upon reaching his eligible retirement age.

<u>Disability Retirements</u> – The System provides for both an ordinary disability retirement, where a participant is permanently incapacitated from a cause unrelated to employment, and an accidental disability retirement, where the disability is the result of an injury or illness received or aggravated in the performance of one's duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status. In addition, certain provisions are in place relative to death benefits for beneficiaries of employees who die in active service.

Public Availability of Financial Statements – The Malden Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Malden Retirement Board, 200 Pleasant Street, Malden, Massachusetts 02148.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The financial statements of the System have been prepared on the accrual basis of accounting. The accounting records of the System are maintained on a calendar-year basis in accordance with the standards and procedures established by Public Employee Retirement Administration Commission ("PERAC") and Massachusetts law.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits and short-term holdings with original maturities of three months or less from the date of acquisition.

Malden Contributory Retirement System Page 9 of 26 Basic Annual Financial Statements

Investments – Investments are carried at fair value. U.S. Government agency bonds, including those issued by the Government National Mortgage Association, or GNMA, and the Federal National Mortgage Association, or FNMA, are amortized in full in the year of purchase. This is done to comply with PERAC rules and regulations.

Fair Value of Financial Instruments – The carrying amounts of cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued expenses approximate their fair value due to the relatively short-term maturities.

Revenue Recognition – Contributions are recognized as additions in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Contributions appropriated by the City, MHA and MRA are on a fiscal-year basis. Investment purchases and sales are recorded on their trade dates. Interest and dividends are recorded when earned. Investment income is allocated to the various funds on the basis of a rate determined annually by PERAC.

Derivatives – The System may invest in derivative products, mainly currency hedges, to minimize the currency risk on international investments. The System's investments are managed by independent, professional money managers whose investment performance is subject to periodic review.

3. SYSTEM ADMINISTRATION

The System is administered by a five-person Board consisting of the City Controller, two members elected by the participants in or retired from the service of the System, one member appointed by the City's Mayor and one member appointed by the other members of the Board.

At the time of this report, the Board was comprised as follows:

	Term Expires
Mr. Charles Ranaghan (Controller)	No Specified Date
Mr. Gregory Lucey	July 18, 2019
Mr. Warren Atkinson Jr.	November 30, 2017
Mr. Douglas Eisnor	November 30, 2017
Mr. Domenic Fermano	No Specified Date
	Mr. Gregory Lucey Mr. Warren Atkinson Jr. Mr. Douglas Eisnor

Torm Evniros

The Board is required to meet at least once a month and keep a record of its proceedings. The Board annually submits a financial statement of condition for the System with the Commissioner of PERAC. All retirement allowances are approved by the Board and submitted to a PERAC actuary for verification prior to payments being made. Expenses incurred by the System must be approved by at least two members of the Board.

Malden Contributory Retirement System Page 10 of 26 Basic Annual Financial Statements

4. DEPOSITS AND INVESTMENTS

Massachusetts General Laws Chapter 32 and PERAC regulations require the System to invest funds only in pre-approved investment instruments, which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, certain corporate bonds and equities and investment pools.

Investment Policy – The investment of the System's funds is the responsibility of the Board. The Board adopted an investment policy statement in July 2012, which was updated in January 2016. The System's investment objective is to invest assets in a prudent and cost-effective manner seeking a total return greater than or equal to the actuarial investment rate of return adopted by the Board (currently 7.75%) while maintaining an appropriate level of risk for a pension fund.

The System's investment policy seeks to manage risk through diversification both across and within investment asset classes with a long-term bias towards equities. The Board, together with its external investment manager, determines the appropriate investment mix at its regular face-to-face meetings.

The System's investment policy seeks to invest no more than 75% of its investments in equities. No more than 60% of the System's investments can be invested in fixed income securities.

Rate of Return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The 2015 money-weighted rate of return was approximately (1.75)%.

Custody of Investments – State Street Bank and Trust ("SSBT") is the custodian of the System's investment portfolio. SSBT held all System investment securities at December 31, 2015 and provided investment transaction and reporting services throughout all of 2015. SSBT is engaged to provide these services through December 31, 2016.

Investment Management – The deBurlo Group provided investment advisory services to the System throughout all of 2015 under a service agreement that is set to expire on January 31, 2017. The System may terminate this service agreement for various reasons including, but not limited to, certain breaches of contract.

Custodial Credit Risk: Deposits – Deposits are subject to the risk of bank failure. The System may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The System's policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation ("FDIC") insurance coverage for the first \$250,000 of deposits held at each financial institution. At December 31, 2015, the System had bank deposits of \$732,222 exposed to custodial credit risk because it was uninsured and uncollateralized. Short-term investments of \$5,979,889 are classified for financial reporting purposes as eash equivalents are not insured by the FDIC or other form of depository insurance.

Custodial Credit Risk: Investments – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The System's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the System. At December 31, 2015, the System was not exposed to custodial credit risk on its investments.

Malden Contributory Retirement System Page 11 of 26 Basic Annual Financial Statements

Interest Rate Risk: Deposits — This is the risk that fair value losses may arise due to increasing interest rates; such risk is reduced by the fact that the System maintains such funds in highly liquid bank accounts; thereby, allowing for timely re-allocation of such holdings should the need arise.

Interest Rate Risk: Investments – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The System does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Foreign Currency Risk: Deposits and Investments – A risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit. The System did not have any securities denominated in foreign currencies at December 31, 2015.

Securities Credit Risk: Investments – In the case of investments, there is the risk that in the event of an invested party will be unable to fulfill its obligations, such as to provide required payments to investors, to meet current or future performance expectations, to abide by industry regulations and proper operational practices, ceasing to exist, or filing for bankruptcy. In those instances, the System may not be able to recover the full amount of its principal investment and/or investment earnings. As previously noted, PERAC and Massachusetts statutory regulations have been enacted to reduce this risk. In evaluating its credit risk, the System relies on credit ratings assigned by Moody's and Standard and Poor's. The System does voluntarily self-impose certain investment restrictions; however, those can be changed at the Board's discretion. The System does maintain a significant portion (approximately 97%) of its monetary assets as investment holdings.

Credit quality ratings of investments at December 31, 2015 were as follows:

				U.S.				
Quality								
Rating	(Corporate	Tı	reasuries &	Asset-Backed			
(S&P)	_	Bonds	Agencies			Securities	_	Total
AAA	\$	-	\$	4,645,557	\$	2,397,669	\$	7,043,226
AA^+		-		698,233		-		698,233
AA		-		430,022		394,241		824,263
AA-		-		5,267,616		1,000,744		6,268,360
A+		-		-		452,002		452,002
A		922,370		-		447,250		1,369,620
A-		378,529		-		549,401		927,930
${ m BBB}+$		3,374,991		-		-		3,374,991
BBB		3,199,324		-		-		3,199,324
BBB-		3,036,085		-		-		3,036,085
Not Rated				49,333,586		4,854,307		54,187,893
	\$	10,911,299	\$	60,375,014	\$	10,095,614	\$	81,381,927

Malden Contributory Retirement System Page 12 of 26 Basic Annual Financial Statements

At December 31, 2015, the System had the following investments and maturities:

			Investment Maturities							
		Fair		Less than		1 to 5		6 to 10		More than
Investment Type		Value		1 year		years		years		10 years
U.S. Government:										
U.S. Treasuries	\$	40,869,065	\$	12,998,994	\$	4,456,204	\$	19,952,522	\$	3,461,345
Agencies and municipalities		19,505,949		-		-		-		19,505,949
Corporate obligations		10,911,299		-		2,677,512		4,364,435		3,869,352
Asset-backed securities		10,095,614		-		2,290,635		2,507,197		5,297,782
Short-term investments *		5,979,889		5,979,889						-
Investments with maturities		87,361,816	\$	18,978,883	<u>\$</u>	9,424,351	\$	26,824,154	\$	32,134,428
Equity securities:										
Common stock		133,414,693		944	Fund	ls held in the sh	ort-te	rm investment f	und a	re temporary
Investments without maturities	_	133,414,693				U		esources. It is t is in less than or	-	
Total investments	\$	220,776,509			ultim	ately recognize	these	e funds as cash	equiv	alents.
Cash deposits	\$	849,403								

In reconciling investments and cash and cash equivalents (as summarized above) to the balances reported on the Statement of Fiduciary Net Position, \$5,979,889 of short-term investments are classified as cash equivalents. When combined with deposit account balances of \$849,403, the amount of cash and cash equivalents as reported totals \$6,829,292.

Concentration of Credit Risk: Investments – The System does not maintain any single investment that represents more than 5% of the System's total investments at December 31, 2015. However, there are multiple, separate investments in U.S. Treasury obligations that, in aggregate, represent approximately 50% of fixed income securities and 19% of total investments held at December 31, 2015.

5. FUNDING POLICY

GAAP requires that the annual minimum provision for pension costs should include normal cost, interest on unfunded past service cost liability, and amortization of unfunded vested benefits, based on an acceptable actuarial cost method.

Employee Contributions – Employees whose creditable service began prior to January 1, 1975, contribute 5% of their base salary or wage; those whose service date is subsequent to January 1, 1975, and prior to January 1, 1984, contribute 7%; those whose service date is subsequent to January 1, 1984, and prior to July 1, 1996, contribute 8%, and those whose service date is subsequent to July 1, 1996, contribute 9%. In addition, employees hired on or after January 1, 1979 contribute an additional 2% on regular compensation in excess of \$30,000.

Employer Contributions (Funding) – Under the provisions of Chapter 32 of Massachusetts General Law, participating employers are assessed their share of the total retirement cost based on independent actuarial study.

Employer contributions of \$10,304,028 were made in 2015 in accordance with the funding policy. Employer contributions as a percentage of covered payroll was approximately 26% in 2015.

Malden Contributory Retirement System Page 13 of 26 Basic Annual Financial Statements

Cost of Living Adjustment (COLA) – Through 1998, the Massachusetts Legislature was able to grant cost-of-living increases to benefits being paid to retirees. These increases were expressed as a percentage of the retiree's allowance subject to a maximum dollar increase. All COLA's granted from 1982 through June 30, 1998, are reimbursed to the System by the Commonwealth of Massachusetts since the Commonwealth was financially responsible for COLA adjustments during this time frame; any COLA's granted thereafter by the Board are required to be funded by the System directly. A COLA may be approved in excess of the Consumer Price Index, or CPI, but for 2015 is not to exceed 3% annually on the first \$13,000 of a retirement allowance. The System has historically approved a COLA annually, usually at the maximum 3% rate.

The Commonwealth is expected to continue funding the cost-of-living amounts granted to retirees prior to 1998 for the duration of their selected retirement option.

6. ACTUARIAL VALUATION

The System is statutorily required to adopt the funding schedule that will fully amortize the unfunded actuarial accrued liability by June 30, 2040. As of the latest actuarial valuation, the System has selected a funding schedule that amortizes the unfunded actuarial accrued liability to \$0 by June 30, 2030.

The components of the System's net pension liability at December 31, 2015 were as follows (dollar amounts in thousands):

Total pension liability	\$ 299,832
Plan fiduciary net position	 222,333
Net pension liability	\$ 77,499
Plan fiduciary net position as a percentage of	

The total pension liability was determined by an actuarial valuation as of January 1, 2014 and updated to roll forward to December 31, 2015. The significant actuarial assumptions used in the January 1, 2014 report were as follows:

Actuarial cost method: Individual entry age normal

Amortization method: 5.0% increasing appropriation through fiscal year 2019;

2.3% increasing of unfunded actuarial liability

74.2%

Remaining amortization period: 16 years

total pension liability

Asset valuation method: Actuarial value, 5-year smoothing

Investment rate of return: 7.75% per annum

Projected salary increases: Service based table with ultimate ranges of 4.25%,

4.50% and 4.75% for groups 1, 2 and 4, respectively

Cost of living adjustments: 3% on the first \$13,000 of benefits through June 30, 2014;

3% on the first \$14,000 of benefits effective July 1, 2015

Malden Contributory Retirement System Page 14 of 26 Basic Annual Financial Statements

Mortality rates: Pre-retirement rates reflect the RP-2000 Employees table

projected 22 years with Scale AA (gender distinct). Post-retirement rates reflect the RP-2000 Healthy Annuitant table projected 17 years with Scale AA (gender distinct).

Disabled life mortality: For disabled retirees, the table is set forward 3 years for males. It is assumed that 55% of pre-retirement deaths

males. It is assumed that 55% of pre-retirement deaths are job-related for group 1 and 2 members and 90% are job-related for group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the disability.

Discount Rate – The discount rate used to measure the total pension liability in the January 1, 2014 actuarial valuation report was 7.75%, which was a reduction from the previous discount rate of 8.00%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Expected Rate of Return – The System's investment policy targets an investment return that meets or exceeds the actuarial investment rate of return (currently 7.75%). This long-term expected rate of return is presented neither as an arithmetic or geometric means.

Sensitivity Analysis – The following illustrates the net position liability at December 31, 2015 calculated using the current discount rate of 7.75%, as well as the projection of what the net position liability would be if it were calculated using a discount rate that is 1.0% lower (6.75%) and 1.0% higher (8.75%) than the current rate (dollar amounts in thousands):

		Current		
	1% Decrease	Discount	1% Increase	
	(6.75%)	(7.75%)	(8.75%)	
Net pension liability	\$ 109,561	\$ 77,499	\$ 49,803	

7. NET POSITION RESTRICTED FOR PENSIONS

Net position restricted for pensions, as of December 31, 2015, were comprised of the following legally required funds:

Description	Amount	Purpose
Annuity Savings Fund	\$ 42,137,961	Active members' contribution balance
Annuity Reserve Fund	15,555,094	Retired members' contribution balance
•		Members' contributions account while on
Military Service Fund	9,812	military leave
Pension Fund	5,921,064	Amounts appropriated to fund future retirement
Pension Reserve Fund	_158,709,300	Remaining net assets
Total	<u>\$ 222,333,231</u>	

Malden Contributory Retirement System Page 15 of 26 Basic Annual Financial Statements

8. COMMITMENTS AND CONTINGENCIES

The System is subject to a variety of claims that arise from time to time in the ordinary course of business. Although management of the System currently believes that resolving claims against the System, individually or in aggregate, will not have a material adverse impact on the System's financial position or its results of operations, these matters are subject to inherent uncertainties and management's views of these matters may change in the future.

* * * * * *

Malden Contributory Retirement System Page 16 of 26 Basic Annual Financial Statements

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED DECEMBER 31, 2015

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

(Dollar Amounts in Thousands)

		2015	2014		
Total pension liability:		<u>.</u>			
Service cost	\$	6,039	\$	5,779	
Interest		22,252		21,545	
Benefit payments, including refunds of member contributions		(19,095)		(17,811)	
Net change in total pension liability		9,196		9,513	
Total pension liability - beginning of year		290,636		281,123	
Total pension liability - end of year (a)	\$	299,832	\$	290,636	
Plan fiduciary net position:					
Contributions - employer	\$	10,304	\$	9,816	
Contributions - members		3,774		3,861	
Contributions - nonemployer contributing entities		686		475	
Net investment income		(3,268)		24,824	
Benefit payments, including refunds of member contributions		(19,669)		(18,393)	
Administrative expenses		(373)		(318)	
Other		16		37	
Net change in plan fiduciary net position		(8,530)		20,302	
Plan fiduciary net position - beginning of year		230,863		210,561	
Plan fiduciary net position - end of year (b)	<u>\$</u>	222,333	\$	230,863	
Net pension liability - end of year (a) - (b)	\$	77,499	\$	59,773	
Plan fiduciary net position as a percentage of the total pension liability		74.2%		79.4%	
Covered-employee payroll	\$	39,955	\$	39,955	
Net pension liability as a percentage of covered- employee payroll		194.0%		149.6%	

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

Malden Contributory Retirement System Page 17 of 26 Basic Annual Financial Statements

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED DECEMBER 31, 2015

SCHEDULE OF CONTRIBUTIONS

(Dollar Amounts in Thousands)

		2015		2014
Actuarially-determined contribution Contributions in relation to the actuarially-	\$	10,304	\$	9,816
determined contribution		10,304		9,816
Contribution deficiency (excess)	<u>\$</u>		<u>\$</u>	
Covered-employee payroll	\$	39,955	\$	39,955
Contribution as a percentage of covered- employee payroll		25.8%		24.6%

SCHEDULE OF INVESTMENT RETURNS

	2015	2014
Annual money-weighted rate of return, net of		
investment expense	-1.75%	11.51%

Note: These schedules are presented to illustrate the requirement to show information for 10 years However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See independent auditors' report.

Malden Contributory Retirement System

Page 18 of 26

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

A. CHANGES OF BENEFIT TERMS

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the System's benefit terms in 2015.

B. SIGNIFICANT ACTUARIAL ASSUMPTIONS AND METHODS

The significant actuarial assumptions used in the January 1, 2014 report were as follows:

Actuarial cost method: Individual entry age normal

Amortization method: 5.0% increasing appropriation through fiscal year 2019;

2.3% increasing of unfunded actuarial liability

Remaining amortization period: 16 years

Asset valuation method: Actuarial value, 5-year smoothing

Investment rate of return: 7.75% per annum

Projected salary increases: Service based table with ultimate ranges of 4.25%,

4.50% and 4.75% for groups 1, 2 and 4, respectively

Cost of living adjustments: 3% on the first \$13,000 of benefits through June 30, 2014;

3% on the first \$14,000 of benefits effective July 1, 2015

Mortality rates: Pre-retirement rates reflect the RP-2000 Employees table

projected 22 years with Scale AA (gender distinct). Postretirement rates reflect the RP-2000 Healthy Annuitant table projected 17 years with Scale AA (gender distinct).

Disabled life mortality: For disabled retirees, the table is set forward 3 years for

males. It is assumed that 55% of pre-retirement deaths are job-related for group 1 and 2 members and 90% are job-related for group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the disability.

Malden Contributory Retirement System Page 19 of 26 Basic Annual Financial Statements



ROSELLI, CLARK & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Malden Retirement Board Malden Contributory Retirement System Malden, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Malden Contributory Retirement System (the "System"), a component unit of the City of Malden, Massachusetts, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated August 4, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Malden Contributory Retirement System

Page 20 of 26

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roselli, Clark & Associates

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts August 4, 2016

Malden Contributory Retirement System Page 21 of 26 Basic Annual Financial Statements



ROSELLI, CLARK & ASSOCIATES CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

INDEPENDENT AUDITORS' REPORT ON AUDIT OF SPECIFIC ELEMENTS, ACCOUNTS AND ITEMS OF FINANCIAL STATEMENTS

To the Malden Retirement Board Malden Contributory Retirement System Malden, Massachusetts

We have audited the accompanying schedule of employer allocations of the Malden Contributory Retirement System (the "System"), a component unit of the City of Malden, Massachusetts, as of and for the year ended December 31, 2015. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources and total pension expense included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended December 31, 2015, and the related notes thereto.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Malden Contributory Retirement System Page 22 of 26 Basic Annual Financial Statements

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities of the System as of and for the year ended December 31, 2015, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the System as of and for the year ended December 31, 2015, and our report thereon, dated August 4, 2016, expressed an unmodified opinion on those financial statements.

Roselli, Clark & Associates

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts August 4, 2016

Malden Contributory Retirement System Page 23 of 26 Basic Annual Financial Statements

MALDEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the City of Malden, Massachusetts)

SCHEDULE OF EMPLOYER ALLOCATIONS FOR THE YEAR ENDED DECEMBER 31, 2015

(Dollar Amounts in Thousands)

Employer	Er	Actual Employer Contributions		
City of Malden	\$	8,866	86.0%	
Malden Housing Authority		1,185	11.5%	
Malden Redevelopment Authority		253	<u>2.5</u> %	
Total	\$	10,304	100.0%	

See notes to schedule of employer allocations and schedule of pension amounts by employer.

Malden Contributory Retirement System

Page 24 of 26

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER FOR THE YEAR ENDED DECEMBER 31, 2015

(Dollar Amounts in Thousands)				1	Aalden		
	City of Malden Housing Malden Authority				Total		
					-		
Net pension liability	\$ 66,649	\$	8,912	\$	1,938	\$	77,499
Deferred outflows of resources:							
Differences between expected and actual experience Difference between projected and actual investment	\$ -	\$	-	\$	-	\$	-
earnings on pension plan investments	9,939		1,329		289		11,557
Changes of assumptions Changes in proportion and differences between employer	-		-		-		-
contributions and proportionate share of contributions	 588				_		588
Total deferred outflows of resources	\$ 10,527	\$	1,329	\$	289	\$	12,145
Deferred inflows of resources:							
Differences between expected and actual experience	\$ -	\$	-	\$	-	\$	-
Difference between projected and actual investment earnings on pension plan investments	-		_		_		-
Changes of assumptions Changes in proportion and differences between employer	-		-		-		-
contributions and proportionate share of contributions	 		(321)		(267)		(588)
Total deferred inflows of resources	\$ 	\$	(321)	\$	(267)	\$	(588)
Pension expense (income):							
Proportionate share of plan pension expense Net amortization of deferred amounts from changes in	\$ 8,152	\$	1,090	\$	237	\$	9,479
proportion and differences between employer contributions							
and proportionate share of contributions	 147		(80)		(67)		_
Total employer pension expense	\$ 8,299	\$	1,010	\$	170	\$	9,479

See notes to schedule of employer allocations and schedule of pension amounts by employer.

Malden Contributory Retirement System

Page 25 of 26

NOTES TO PENSION PLAN SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2015

A. INTRODUCTION

GASB Statement No, 68, Accounting and Financial Reporting for Pensions, establishes financial reporting requirements for governments that provide employees with pension benefits. GASB 68 requires employers to recognize a net pension liability or net pension asset as employees earn pension benefits. Employers participating in the Malden Contributory Retirement System (the "Retirement System") will recognize their proportionate share of the collective pension amounts for all benefits provided by the Retirement System.

B. METHOD OF PROPORTIONATE SHARE ALLOCATION

The basis for the proportionate share allocation by employer as found in the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer is consistent with the manner in which employer contributions to the Retirement System are determined. The net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense is based upon actual historical employer contributions to the Retirement System from the census data submitted to the Retirement System for pay periods ending December 31, 2015.

C. EXPECTED FUTURE AMORTIZATION OF DEFERRED BALANCES

The following table summarizes the expected amortization of the deferred outflows of resources and inflows of resources into pension expense.

	 2016		2017		2018		2019	Total
	 	(Do	llar Am	ount	s are in	\overline{Tho}	usands)	
City of Malden								
Difference between projected and actual investment								
earnings on pension plan investments, net	\$ 2,111	\$	2,111	\$	2,111	\$	3,606	9,939
Net effect of change in proportion of beginning reported balances	147		147		147		147	588
Malden Housing Authority								
Difference between projected and actual investment	282		282		282		483	1,329
Net effect of change in proportion of beginning reported balances	(80)		(80)		(80)		(81)	(321)
Malden Redevelopment Authority								
Difference between projected and actual investment	61		61		61		106	289
Net effect of change in proportion of beginning reported balances	(67)		(67)		(67)		(66)	(267)
<u>Total</u>								
Difference between projected and actual investment	2,454		2,454		2,454		4,195	11,557
Net effect of change in proportion of beginning reported balances	· -				· -		-	´ -

Malden Contributory Retirement System Page 26 of 26 Basic Annual Financial Statements

