PERAC AUDIT REPORT

Natick
Contributory Retirement System

JAN. 1, 2009 - DEC. 31, 2011

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

January 10, 2013

The Public Employee Retirement Administration Commission has completed an examination of the Natick Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2009 to December 31, 2011. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission, with the exception of those noted in the findings presented in this report.

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

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

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EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Cash/Bank Reconciliations:

The most recent reconciliation of the bank account provided to the auditor has an unidentified variance that the Retirement Board has been carrying for more than 9 months in arrears. As of May 2012, the bank reconciliation has identified a variance between the reconciled bank balance and the general ledger of $191.40. The variance has been constant since September 30, 2011.

The Town Treasurer's office did not provide a complete and formal reconciliation of the retiree payroll or expense account. The outstanding checks and miscellaneous adjustments had not been specifically identified and listed in detail. The current procedure is to reference the Retirement Allowance Paid, subtract the direct deposit amounts and the checks that clear on the current bank statement. The result is an adjusted bank balance that does not specifically identify what checks remain outstanding. Retirement Board staff prepare an independent reconciliation, but since they also handle deposits and prepare checks, the required separation of duties is not evident. Sound internal control procedures would dictate that all bank accounts are reconciled by someone other than the employee who receives and/or disburses funds.

Recommendation: The Town Treasurer shall be the custodian of the retirement system's funds according to G.L. c. 32, § 23(2)(a). As custodian of the retirement fund, the Treasurer is obligated to perform a monthly reconciliation of all retirement system cash accounts. This process is necessary to maintain proper internal control by segregating reconciliation duties. This process must be completed in a timely manner. A complete list of unpaid checks and similar reconciling items should be compiled and included with the monthly bank reconciliation. The check number, date issued, payee, and amount of the check should be included as part of the reconciliation provided to the Retirement Board. Any discrepancies with general ledger balances must be promptly identified and resolved. The Town Treasurer should formally approve the bank reconciliations on a monthly basis in accordance with the Reconciliation Policy of the Board. We recommend that the Board review these reconciliations at their monthly meetings.

Board Response:

This issue was resolved with the auditors prior to close of the audit by disclosing the following standard procedures in place for the Natick System which were deemed acceptable.

Natick Retirement Board – Reconciliation Procedures/Policies

The Natick Retirement Board utilizes generally accepted accounting procedures.

Warrants

The Natick Board Members sign all expense and monthly retirement payroll warrants.

Checks

Executive Assistant issues Contributory checks and replacement checks.
Part time Accounting Assistant issues expense checks.

Check Signatures

Natick Town Treasurer signs all expense checks, all Retirement allowance checks and any replacement checks.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS
(Continued)

Reconciliation
Part time Accounting Assistant receives all bank statements and prepares the reconciliation. Town Treasurer examines and approves the reconciliation on a monthly basis.

2. Annuity Reserve Fund:
The Annuity Reserve Interest for the year ending December 31, 2011 was understated by $38,439.87. As a result, the Annuity Reserve Fund balance for the year ending December 31, 2011 was understated by $38,439.87.

Recommendation: Based on the Natick Retirement System's recalculation of the Annuity Reserve Fund interest for the year noted above, the System must record an adjusting journal entry to increase the Annuity Reserve Fund by $38,439.87. The offsetting general ledger account is the Pension Reserve Fund.

Board Response:
This issue was addressed and resolved at the time of the audit to the satisfaction of the auditors. A corrected Annual Statement has been submitted to PERAC.

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

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31, 2011	2010	2009
Net Assets Available For Benefits:			
Cash	$573,298	$990,864	$707,158
Fixed Income Securities	13,119,535	13,042,159	12,478,902
Equities	1,655	1,655	0
Pooled Domestic Equity Funds	8,934,521	9,238,453	7,661,054
Pooled International Equity Funds	14,964,183	15,703,739	10,571,955
Pooled International Fixed Income Funds	1,941,747	1,841,989	1,460,824
Pooled Alternative Investment Funds	175,811	11,084	3,712,093
Pooled Real Estate Funds	9,369,671	7,825,555	4,243,963
Pooled Domestic Balanced Funds	23,185,318	23,525,832	27,139,209
Hedge Funds	3,836,338	3,945,526	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Accounts Receivable	2,913,260	2,787,809	2,667,760
Total	$79,015,336	$78,914,667	$70,642,919
Fund Balances:			
Annuity Savings Fund	$28,421,504	$27,374,510	$25,260,664
Annuity Reserve Fund	7,852,331	7,427,517	8,003,596
Pension Fund	3,211,492	4,622,326	6,132,226
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	39,530,009	39,490,314	31,246,433
Total	$79,015,336	$78,914,667	$70,642,919

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2009)	$24,848,624	$7,119,919	$7,557,515	$0	$0	$22,116,365	$61,642,424
Receipts	2,856,886	226,183	5,826,998	0	428,442	9,130,068	18,468,578
Interfund Transfers	(1,801,070)	1,801,070	0	0	0	0	0
Disbursements	(643,776)	(1,143,576)	(7,252,288)	0	(428,442)	0	(9,468,083)
Ending Balance (2009)	25,260,664	8,003,596	6,132,226	0	0	31,246,433	70,642,919
Receipts	2,760,782	229,751	6,011,783	0	477,010	8,243,948	17,723,275
Interfund Transfers	(389,011)	389,077	0	0	0	(66)	(0)
Disbursements	(257,926)	(1,194,908)	(7,521,683)	0	(477,010)	0	(9,451,526)
Ending Balance (2010)	27,374,510	7,427,517	4,622,326	0	0	39,490,314	78,914,667
Receipts	2,935,570	224,484	6,174,749	0	527,704	39,695	9,902,202
Interfund Transfers	(1,577,870)	1,577,870	0	0	0	0	0
Disbursements	(310,705)	(1,377,540)	(7,585,583)	0	(527,704)	0	(9,801,533)
Ending Balance (2011)	$28,421,504	$7,852,331	$3,211,492	$0	$0	$39,530,009	$79,015,336

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Annuity Savings Fund:			
Members Deductions	$2,515,182	$2,436,909	$2,411,067
Transfers from Other Systems	355,174	235,376	300,687
Member Make Up Payments and Re-deposits	6,499	2,372	22,530
Member Payments from Rollovers	0	5,908	5,231
Investment Income Credited to Member Accounts	58,714	80,216	117,370
Sub Total	2,935,570	2,760,782	2,856,886
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	224,484	229,751	226,183
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	162,314	131,690	115,199
Received from Commonwealth for COLA and Survivor Benefits	95,679	218,126	288,648
Pension Fund Appropriation	5,916,756	5,661,968	5,418,151
Settlement of Workers' Compensation Claims	0	0	5,000
Sub Total	6,174,749	6,011,783	5,826,998
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	0	0	0
Sub Total	0	0	0
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	527,704	477,010	428,442
Sub Total	527,704	477,010	428,442
Pension Reserve Fund:			
Federal Grant Reimbursement	83,824	60,392	69,838
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	0	2,180	2,341
Miscellaneous Income	507	216	196
Excess Investment Income (Loss)	(44,637)	8,181,160	9,057,693
Sub Total	39,695	8,243,948	9,130,068
Total Receipts, Net	$9,902,202	$17,723,275	$18,468,578

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Annuity Savings Fund:			
Refunds to Members	$92,518	$188,755	$166,901
Transfers to Other Systems	218,187	69,170	476,875
Sub Total	310,705	257,926	643,776
Annuity Reserve Fund:			
Annuities Paid	1,248,527	1,190,289	1,143,576
Option B Refunds	129,013	4,618	0
Sub Total	1,377,540	1,194,908	1,143,576
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	5,576,550	5,567,313	5,415,401
Survivorship Payments	447,208	396,130	364,573
Ordinary Disability Payments	37,697	26,397	26,037
Accidental Disability Payments	959,918	960,096	963,950
Accidental Death Payments	212,610	223,960	220,720
Section 101 Benefits	68,248	63,049	61,213
3 (8) (c) Reimbursements to Other Systems	283,353	284,739	200,394
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	7,585,583	7,521,683	7,252,288
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	0	0	0
Expense Fund:			
Board Member Stipend	1,500	1,500	750
Salaries	143,833	142,831	130,925
Legal Expenses	8,930	14,454	23,149
Medical Expenses	0	88	0
Travel Expenses	3,745	1,620	3,704
Administrative Expenses	8,547	8,144	9,537
Education and Training	400	2,540	0
Furniture and Equipment	13,600	0	0
Management Fees	234,048	223,690	167,127
Custodial Fees	34,387	30,706	38,721
Consultant Fees	53,650	27,500	31,148
Service Contracts	19,076	18,172	18,062
Fiduciary Insurance	5,990	5,763	5,321
Sub Total	527,704	477,010	428,442
Total Disbursements	$9,801,533	$9,451,526	$9,468,083

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2011	2010	2009
Investment Income Received From:			
Cash	$3,054,680	$1,486,091	$1,170,061
Pooled or Mutual Funds	293,156	229,248	514,978
Total Investment Income	3,347,837	1,715,339	1,685,039
Plus:			
Realized Gains	81,780	56,858	226,587
Unrealized Gains	18,402,641	30,522,925	20,576,195
Sub Total	18,484,421	30,579,783	20,802,783
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	(1,275)
Realized Loss	(7,164)	(281,825)	(409,726)
Unrealized Loss	(21,058,828)	(23,045,160)	(12,247,132)
Sub Total	(21,065,992)	(23,326,985)	(12,658,133)
Net Investment Income (Loss)	766,266	8,968,137	9,829,689
Income Required:			
Annuity Savings Fund	58,714	80,216	117,370
Annuity Reserve Fund	224,484	229,751	226,183
Military Service Fund	0	0	0
Expense Fund	527,704	477,010	428,442
Total Income Required	810,903	786,977	771,996
Net Investment Income (Loss)	766,266	8,968,137	9,829,689
Less: Total Income Required	810,903	786,977	771,996
Excess Income (Loss) To The Pension Reserve Fund	($44,637)	$8,181,160	$9,057,693

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2011	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$573,298	0.8%
Fixed Income	13,119,535	17.2%
Equities	1,655	0.0%
Pooled Domestic Equity Funds	8,934,521	11.7%
Pooled International Equity Funds	14,964,183	19.7%
Pooled International Fixed Income Funds	1,941,747	2.6%
Pooled Alternative Investment Funds	175,811	0.2%
Pooled Real Estate Funds	9,369,671	12.3%
Pooled Domestic Balanced Funds	23,185,318	30.5%
Hedge Funds	3,836,338	5.0%
Grand Total	$76,102,076	100.0%

For the year ending December 31, 2011, the rate of return for the investments of the Natick Retirement System was 0.27%. For the five-year period ending December 31, 2011, the rate of return for the investments of the Natick Retirement System averaged 0.20%. For the twenty-seven year period ending December 31, 2011, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Natick Retirement System was 7.69%.

The composite rate of return for all retirement systems for the year ending December 31, 2011 was 0.27%. For the five-year period ending December 31, 2011, the composite rate of return for the investments of all retirement systems averaged 1.38%. For the twenty-seven year period ending December 31, 2011, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.11%.

SUPPLEMENTARY INVESTMENT REGULATIONS

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

November 6, 2008
Notwithstanding the provisions of any statutory provision or regulation to the contrary, specifically including the provisions of 840 CMR 21.01, the Natick Retirement Board is hereby granted an exemption from restrictions on investments contained therein for the purposes of investing in the following SEI mutual funds, provided that the underlying investments conform to the terms of the fund prospectuses on file with the United States Securities and Exchange Commission:

SEI Institutional Investments Trust Large Cap Equity Fund
SEI Institutional Investments Trust Disciplined Equity Fund
SEI Institutional Investments Trust World Equity Ex-US Fund
SEI Institutional Investments Trust Small/Mid Cap Equity Fund
SEI Institutional Investments Trust Small Cap Equity Fund
SEI Institutional Investments Trust Core Fixed Income Fund
SEI Institutional Investments Trust High Yield Bond Fund
SEI Institutional Investments Trust Emerging Market Bond Fund

March 15, 2007
16.08
In accordance with Investment Guideline 99-2, the Natick Retirement Board is authorized to modify its small cap equity mandate with Independence Investments to include midcaps. This flexibility will give the Board greater diversification in its equity portfolio. The Board is aware that Independence's relative performance in both small cap and small-mid cap accounts has not been good over the past two years, but the Board is being patient with the manager in light of his consistent philosophy and favorable long-term record.

August 14, 2003
16.08
In accordance with PERAC Investment Guideline 99-2, the Natick Retirement Board may make a modest modification to its fixed income investment mandate with Met Life/State Street Research. Through a commingled fund, the State Street Research Institutional Core Plus Fixed Income Fund, the board is transferring from a core to a core plus mandate, under which the manager may make opportunistic allocations to high yield, international, and emerging markets debt.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

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

ADMINISTRATION

There are 105 contributory retirement systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

RATE OF INTEREST

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

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

- Salary is defined as gross regular compensation. For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17).

- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit.

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

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age". "Maximum age" applies only to employees classified in Group 4 who are subject to mandatory retirement.

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

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $774.36 per year (or $312 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. An additional $15.00 per year of service, not to exceed $300 annually may be added to the benefit in systems in which the local option contained in G.L. c. 32, § 7(2)(e) has been adopted.

ACCIDENTAL DEATH

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

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $774.36 per year, per child (or $312 per year in systems in which the local option contained in G.L. c. 32, § 9(2)(d)(ii) has not been adopted) payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

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

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is $9,000.

DEATH IN ACTIVE SERVICE

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

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

COST OF LIVING

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

Under the provisions of Chapter 32, § 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of $1,000. Presently that amount is $12,000. Each increase must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

METHODS OF PAYMENT

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

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

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

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

ALLOCATION OF PENSION COSTS

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

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

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

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

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

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

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

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

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

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

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

Creditable Service
August 29, 1990
No credit shall be allowed for a fraction of a month less than one-half month, but if the fraction is one-half month or more, a full month's credit shall be allowed.
Service credit determination for the following classifications:

1. For employees of the FIRE DEPARTMENT, one year's credit for every 12 months of service
2. For employees of the POLICE DEPARTMENT, one year's credit for every 12 months of service
3. Creditable service for reserve patrolmen governed by G.L. c. 32, § 4(2)(b).
4. **For school crossing guards, one year's credit for the school year of service.
5. **For school cafeteria employees, upon the completion of the six-month wait for membership, one year's credit for the school year of service.

**(This applies only to current members of the system.)

1. For Teacher Aides, one year's credit for the school year of service.
2. For school year secretaries, one year's credit for the school year of service.
3. Creditable service for call fire fighters governed by G.L. c. 32, § 4(2)(b).

December 19, 1984
No credit shall be allowed for a fraction of a month, but if the fraction is one-half month or more, a full month's credit shall be allowed.

The following formulas were arrived at on the basis of 48 weeks per year, four weeks allowance having been made for vacation and sick time:

1. For clerical employees, one month's service shall be allowed for every 150 hours of employment.
2. For employees of the fire department, one year's credit for every 12 months of service
3. For school lunch employees, one month's service shall be allowed for every 140 hours of employment.
4. For all other employees, one month's service credit shall be allowed for every 160 hours of employment.
5. For school crossing guards, four month's service credit shall be allowed for every year of employment. (Amended by supplementary rule approved 8/29/90).

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Membership

August 29, 1990

The Board considers a part-time, provisional, temporary provisional, seasonal or intermittent employee, eligible for membership in the retirement system IF he/she has been regularly employed for an average of at least 20 hours per week, minimum of 520 hours per year and has completed six calendar months of service.

A part-time, provisional, temporary provisional, seasonal or intermittent employee receiving weekly or monthly salaries or wages for prescribed periods of employment will be given creditable service as described below.

In the case of any employee whose work is found to be seasonal in its nature, the Board shall credit as the equivalent of one year of service actual full-time service of not less than seven months during any one calendar year.

Definitions

For school cafeteria personnel, a day is to be based on a seven-hour period of employment in a 35 hour week

For clerical personnel, a day is to be based on a seven and one-half hour period of employment in a thirty-seven and one-half hour week. .

For all other employees a day is to be based upon an eight-hour period of employment in a 40-hour week.

Any school lunch or cafeteria personnel who works 7 hours or more per day will be considered by the board a full-time employee and eligible for membership in the retirement system.

December 19, 1984

Part-time, provisional, temporary provisional, seasonal or intermittent employees who are regularly employed for an average of at least 20 hours per week, minimum of 520 hours and have completed six calendar months of service must become members of the system.

A part-time, provisional, temporary provisional, seasonal or intermittent employee receiving weekly or monthly salaries or wages for prescribed periods of employment will be given creditable service based on actual service rendered. In the case of any employee whose work is found to be seasonal in its nature, the Board shall credit as the equivalent of one year of service actual full-time service of not less than seven months during any one calendar year.

Definitions:

For school cafeteria personnel, a day is to be based on a seven hour period of employment in a 35 hour week

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

For clerical personnel, a day is to be based on a seven and one-half hour period of employment in a thirty-seven and one-half hour week.

For all other employees a day is to be based upon an 8-hour period of employment in a 40-hour week.

Any school lunch or cafeteria personnel who works 7 hours or more per day will be considered by the board a full-time employee and must become members of the system. (Amended by supplementary rule approved 8/29/90)

Travel Regulations
August 28, 2003
(The Natick Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website http://www.mass.gov/perac/Natick).

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Comptroller 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:	Vacant		
Appointed Member:	David Given	Term Expires:	6/30/15
Elected Member:	Robert J . Drew, Chairman	Term Expires:	6/30/14
Elected Member:	Michael J. Melchiorri	Term Expires:	12/31/14
Appointed Member:	B. Michael Reardon	Term Expires:	2/2/15

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:	)	$50,000,000 Fiduciary Liability
Ex-officio Member:	)	St.Paul Travelers National Union Fire
Elected Members:	)	Arch Insurance Company
Appointed Members:	)	$1,000,000 Fidelity Bond ERISA
Staff Employees:	)	

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	$75,809,728
The actuarial liability for inactive members was	1,170,051
The actuarial liability for retired members was	70,924,654
The total actuarial liability was	$147,904,433
System assets as of that date were	94,697,600
The unfunded actuarial liability was	$53,206,833
The ratio of system's assets to total actuarial liability was	64.0%
As of that date the total covered employee payroll was	$27,627,175

The normal cost for employees on that date was	9.0% of payroll
The normal cost for the employer including expenses was	7.7% of payroll

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

Investment Return:	8.00% per annum
Rate of Salary Increase:	Based on years of service and job group

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2011	$94,697,600	$147,904,433	$53,206,833	64.0%	$27,627,175	192.6%
1/1/2008	$90,885,080	$131,268,314	$40,383,234	69.2%	$25,775,476	156.7%
1/1/2006	$79,234,306	$118,903,286	$39,668,980	66.6%	$24,814,583	159.9%
1/1/2004	$70,246,877	$109,024,236	$38,777,359	64.4%	$22,056,144	175.8%

NOTE 6 - MEMBERSHIP EXHIBIT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Retirement in Past Years										
Superannuation	9	19	17	15	14	15	12	1	8	0
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	1	2	0	0	0	0	0	0	0	0
Total Retirements	10	21	17	15	14	15	12	1	8	0
Total Retirees, Beneficiaries and Survivors	359	364	367	369	369	384	371	380	392	372
Total Active Members	549	549	558	594	569	585	585	588	585	570
Pension Payments										
Superannuation	$3,585,267	$3,764,107	$4,029,816	$4,258,068	$4,468,775	$4,669,454	$4,985,455	$5,415,401	$5,567,313	$5,576,550
Survivor/Beneficiary Payments	280,327	244,055	277,075	275,585	294,509	316,117	331,323	364,573	396,130	447,208
Ordinary Disability	40,499	41,379	26,008	29,926	33,190	33,804	26,419	26,037	26,397	37,697
Accidental Disability	914,766	920,902	901,995	844,356	867,618	998,022	918,240	963,950	960,096	959,918
Other	267,572	292,019	375,334	372,924	394,968	445,431	454,511	482,327	571,748	564,210
Total Payments for Year	$5,088,431	$5,262,462	$5,610,228	$5,780,859	$6,059,060	$6,462,828	$6,715,948	$7,252,288	$7,521,683	$7,585,583

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