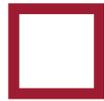


PERAC AUDIT REPORT



Needham

Contributory Retirement System



JAN. 1, 2009 - DEC. 31, 2011

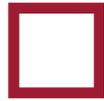


TABLE OF CONTENTS

Letter from the Executive Director	1
Explanation of Finding and Recommendation	2
Statement of Ledger Assets and Liabilities.....	3
Statement of Changes in Fund Balances	4
Statement of Receipts.....	5
Statement of Disbursements.....	6
Investment Income	7
Schedule of Allocation of Investments Owned.....	8
Supplementary Investment Regulations	9
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions	10
Note 2 - Significant Accounting Policies	17
Note 3 - Supplementary Membership Regulations.....	19
Note 4 - Administration of the System	23
Note 5 - Actuarial Valuation and Assumptions.....	24
Note 6 - Membership Exhibit.....	25

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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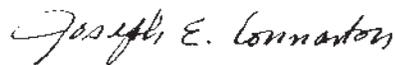
August 7, 2013

The Public Employee Retirement Administration Commission has completed an examination of the Needham 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 the one noted in the finding presented in this report.

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

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDING AND RECOMMENDATION

I. Cash/Bank Reconciliation

A review of the bank reconciliation for the Bank checking account used to disburse retirement benefits for the period ending 12/31/2011 revealed three checks outstanding for more than six months. These outstanding checks totaled \$2,869.13. A more recent reconciliation for activity posted through 1/31/13 revealed three checks outstanding for more than six months. These outstanding checks totaled \$2,747.13.

The most recent reconciliation also shows a check in the amount of \$1,286.58 as a reconciling item. This check was initially issued on 6/30/06.

When the check was presented to the bank for deposit the bank and routing numbers had been detached from the bottom of the check. The check was returned to the Retirement Board. A replacement check was issued but no entry was made to void the initial check.

Recommendation: Checks outstanding more than six months should be researched so that proper voiding and updating of these items can be completed. Journal entries should be made to the general ledger on a timely basis. A journal entry to adjust the general ledger balance to agree with the adjusted bank balance should be made as a function of every month's bank reconciliation. This will eliminate adjustments consisting of unexplained variances that carry over from month to month and year to year in consecutive reconciliations.

Board Response:

Regarding the timely reconciliation finding, we would like to respond that this issue has been addressed. The financial statements now being presented to the Board include the Operating Statement, Trial Balance and Account Reconciliations. Additionally, the staff has been instructed to send tailing letters on outstanding items after the reconciliations have been thoroughly reviewed at the Board meeting.

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	\$1,641,469	\$2,260,998	\$2,306,805
PRIT Cash Fund	589,966	503,909	413,643
PRIT Core Fund	101,362,151	103,694,430	93,844,069
Prepaid Expenses	0	1,254	9,126
Accounts Receivable	73,610	67,468	68,736
Accounts Payable	<u>(34,425)</u>	<u>(56,185)</u>	<u>(69,627)</u>
Total	<u>\$103,632,771</u>	<u>\$106,471,875</u>	<u>\$96,572,752</u>
Fund Balances:			
Annuity Savings Fund	\$27,295,612	\$25,840,955	\$24,435,563
Annuity Reserve Fund	6,442,099	6,495,240	6,475,202
Pension Fund	3,846,057	4,037,318	4,233,294
Military Service Fund	16,376	4,898	4,883
Expense Fund	0	0	0
Pension Reserve Fund	<u>66,032,627</u>	<u>70,093,464</u>	<u>61,423,810</u>
Total	<u>\$103,632,771</u>	<u>\$106,471,875</u>	<u>\$96,572,752</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2009)	\$22,726,130	\$6,896,739	\$4,515,614	\$4,859	\$0	\$51,207,184	\$85,350,525
Receipts	2,837,033	198,668	4,675,660	24	668,328	13,262,944	21,642,657
Interfund Transfers	(673,558)	673,352	3,046,523	0	0	(3,046,317)	0
Disbursements	(454,042)	(1,293,557)	(8,004,503)	0	(668,328)	0	(10,420,430)
Ending Balance (2009)	24,435,563	6,475,202	4,233,294	4,883	0	61,423,810	96,572,752
Receipts	2,917,897	191,767	4,993,960	15	664,022	11,678,641	20,446,303
Interfund Transfers	(1,146,689)	1,153,826	3,001,852	0	0	(3,008,988)	0
Disbursements	(365,815)	(1,325,554)	(8,191,788)	0	(664,022)	0	(10,547,180)
Ending Balance (2010)	25,840,955	6,495,240	4,037,318	4,898	0	70,093,464	106,471,875
Receipts	2,986,382	190,556	5,138,253	11,478	712,043	(840,540)	8,198,172
Interfund Transfers	(1,158,870)	1,158,865	3,220,302	0	0	(3,220,297)	0
Disbursements	(372,854)	(1,402,563)	(8,549,816)	0	(712,043)	0	(11,037,276)
Ending Balance (2011)	<u>\$27,295,612</u>	<u>\$6,442,099</u>	<u>\$3,846,057</u>	<u>\$16,376</u>	<u>\$0</u>	<u>\$66,032,627</u>	<u>\$103,632,771</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Annuity Savings Fund:			
Members Deductions	\$2,651,687	\$2,664,271	\$2,521,739
Transfers from Other Systems	246,783	173,457	176,957
Member Make Up Payments and Re-deposits	26,447	908	27,963
Member Payments from Rollovers	8,073	6,416	0
Investment Income Credited to Member Accounts	<u>53,393</u>	<u>72,845</u>	<u>110,374</u>
Sub Total	<u>2,986,382</u>	<u>2,917,897</u>	<u>2,837,033</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>190,556</u>	<u>191,767</u>	<u>198,668</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	172,973	197,114	269,411
Pension Fund Appropriation	226,106	243,868	135,155
Settlement of Workers' Compensation Claims	4,722,775	4,552,978	4,271,094
	<u>16,400</u>	<u>0</u>	<u>0</u>
Sub Total	<u>5,138,253</u>	<u>4,993,960</u>	<u>4,675,660</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	11,468	0	0
Investment Income Credited to the Military Service Fund	<u>10</u>	<u>15</u>	<u>24</u>
Sub Total	<u>11,478</u>	<u>15</u>	<u>24</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>712,043</u>	<u>664,022</u>	<u>668,328</u>
Sub Total	<u>712,043</u>	<u>664,022</u>	<u>668,328</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	248	1,483	4,089
Miscellaneous Income	0	0	0
Excess Investment Income (Loss)	<u>(840,789)</u>	<u>11,677,159</u>	<u>13,258,855</u>
Sub Total	<u>(840,540)</u>	<u>11,678,641</u>	<u>13,262,944</u>
Total Receipts, Net	<u>\$8,198,172</u>	<u>\$20,446,303</u>	<u>\$21,642,657</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2011	2010	2009
Annuity Savings Fund:			
Refunds to Members	\$122,969	\$175,225	\$244,264
Transfers to Other Systems	<u>249,885</u>	<u>190,590</u>	<u>209,778</u>
Sub Total	<u>372,854</u>	<u>365,815</u>	<u>454,042</u>
Annuity Reserve Fund:			
Annuities Paid	1,395,166	1,325,233	1,273,109
Option B Refunds	<u>7,397</u>	<u>321</u>	<u>20,448</u>
Sub Total	<u>1,402,563</u>	<u>1,325,554</u>	<u>1,293,557</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	6,409,252	6,188,678	5,954,325
Survivorship Payments	354,773	325,139	319,257
Ordinary Disability Payments	19,946	19,586	19,226
Accidental Disability Payments	1,066,547	1,057,937	1,073,394
Accidental Death Payments	304,208	285,529	280,415
Section 101 Benefits	46,331	36,965	56,511
3 (8) (c) Reimbursements to Other Systems	348,759	277,955	301,375
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>8,549,816</u>	<u>8,191,788</u>	<u>8,004,503</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	3,000	3,052	1,494
Salaries	126,720	130,507	128,824
Legal Expenses	0	3,028	390
Travel Expenses	5,372	4,692	8,229
Administrative Expenses	6,011	5,332	4,441
Professional Services	23,525	24,000	11,500
Education and Training	4,000	3,820	1,000
Furniture and Equipment	0	0	315
Management Fees	515,080	449,120	496,063
Service Contracts	20,514	32,948	9,126
Fiduciary Insurance	<u>7,822</u>	<u>7,524</u>	<u>6,945</u>
Sub Total	<u>712,043</u>	<u>664,022</u>	<u>668,328</u>
Total Disbursements	<u>\$11,037,276</u>	<u>\$10,547,180</u>	<u>\$10,420,430</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Investment Income Received From:			
Cash	\$5,964	\$8,532	\$22,210
Pooled or Mutual Funds	<u>3,140,098</u>	<u>2,755,770</u>	<u>2,544,354</u>
Total Investment Income	<u>3,146,061</u>	<u>2,764,302</u>	<u>2,566,564</u>
Plus:			
Realized Gains	3,191,288	2,566,604	1,918,511
Unrealized Gains	<u>10,189,014</u>	<u>18,835,846</u>	<u>22,438,131</u>
Sub Total	<u>13,380,302</u>	<u>21,402,451</u>	<u>24,356,642</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(58,951)	(2,136,475)	(6,103,513)
Unrealized Loss	<u>(16,352,200)</u>	<u>(9,424,470)</u>	<u>(6,583,444)</u>
Sub Total	<u>(16,411,151)</u>	<u>(11,560,944)</u>	<u>(12,686,957)</u>
Net Investment Income (Loss)	<u>115,213</u>	<u>12,605,808</u>	<u>14,236,249</u>
Income Required:			
Annuity Savings Fund	53,393	72,845	110,374
Annuity Reserve Fund	190,556	191,767	198,668
Military Service Fund	10	15	24
Expense Fund	<u>712,043</u>	<u>664,022</u>	<u>668,328</u>
Total Income Required	<u>956,001</u>	<u>928,649</u>	<u>977,394</u>
Net Investment Income (Loss)	<u>115,213</u>	<u>12,605,808</u>	<u>14,236,249</u>
Less: Total Income Required	<u>956,001</u>	<u>928,649</u>	<u>977,394</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>(\$840,789)</u>	<u>\$11,677,159</u>	<u>\$13,258,855</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2011		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$1,641,469	1.6%
PRIT Cash Fund	589,966	0.6%
PRIT Core Fund	<u>101,362,151</u>	<u>97.8%</u>
Grand Total	<u>\$103,593,586</u>	<u>100.0%</u>

For the year ending December 31, 2011, the rate of return for the investments of the Needham Retirement System was 0.14%. For the five year period ending December 31, 2011, the rate of return for the investments of the Needham Retirement System averaged 1.13%. 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 Needham Retirement System was 9.64%.

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 Needham Retirement System is 100% invested in PRIT and therefore has no supplemental investment regulations.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

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

ADMINISTRATION

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

PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

- Salary is defined as gross regular compensation. For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17).
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

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

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

WITHDRAWAL OF CONTRIBUTIONS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$751.80 per year (or \$312 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. An additional \$15.00 per year of service, not to exceed \$300 annually may be added to the benefit in systems in which the local option contained in G.L. c. 32, § 7(2)(e) has been adopted.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

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

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$751.80 per year, per child (or \$312 per year in systems in which the local option contained in G.L. c. 32, § 9(2)(d)(ii) has not been adopted) payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

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

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

COST OF LIVING

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

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

METHODS OF PAYMENT

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

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

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

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is unmarried at the time of retirement for a member whose retirement becomes

NOTES TO FINANCIAL STATEMENTS (Continued)

effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or “pops up” to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable “pops up” to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

Membership

October 9, 2007

The Board unanimously approved the immediate establishment of a policy which would mandate membership in the Retirement System effective as of the first day of employment (for employees working an average of 20 hours or more per week).

October 9, 2007

The Needham Retirement Board held to the twenty hour per week minimum requirement for membership.

October 9, 2007

Crossing Guards: From the date of Wednesday, November 19, 2003 and forward, Crossing Guards, who do not meet the eligibility requirements of 20 hours or more per week on a regular basis, are not eligible for membership in the Needham Contributory Retirement System. Any Crossing Guard enrolled as of Wednesday, November 19, 2003 may elect to remain a member and seek a retirement benefit, if and when qualified, or request a refund of his/her accumulated deductions and earned interest.

October 9, 2007

Election Registrars: From the date of Wednesday, December 18, 2002 forward, appointees to the Board of Registrars are not eligible for the membership in the Needham Contributory Retirement Board based solely on this appointment. Any Registrar enrolled as of Wednesday, December 18, 2002 may elect to remain a member and seek a retirement benefit, if and when qualified, or request a refund of his/her accumulated deductions and earned interest.

October 9, 2007

Kase Employees: The Board voted unanimously to grant membership to those school department employees (KASE workers) serving on a full time basis.

Creditable Service

October 9, 2007

Former members who resign but leave their money in the System and subsequently are re-hired at less than 20 hours per week are eligible to continue their creditable membership service.

October 9, 2007

UNUSED VACATION AT RETIREMENT

The retiree may extend creditable service through the vacation period, or take vacation pay in a lump sum, ending creditable service as of the last day worked.

NOTES TO FINANCIAL STATEMENTS (Continued)

October 9, 2007

WAIVER OF INTEREST

When a person buys back time for which he was eligible but no deductions were taken, the member must also pay back the interest which would have been earned on the account.

Regular Compensation

October 9, 2007

PAYMENTS FOR UNUSED VACATION AND SICK DAYS

The board voted to continue the practice of excluding pay in lieu of vacation from regular compensation.

October 9, 2007

VETERANS

The Board approved that the buyback of military creditable service limit be increased from one to five years. The five year period begins on the date of the letter informing the vet of the cost. If payments are stopped, the person may resume payments up to the five year time limitation. The board voted to keep the five year limitation for military service buybacks.

October 9, 2007

MILITARY

The board agreed that the Military Buyback provision of Chapter 116 of the Acts of 2002 should apply to eligible members who only purchased a portion of their service allowed at the first opportunity in 1997 or 1998 as well as to those eligible members who have never previously applied for a buyback. The eligible member must elect to do so within 180 days of the notification and complete the buyback within 5 years of the date of notification.

September 12, 2008

MAILINGS TO MEMBERSHIP

Requests for mailings of information to the membership must be reasonable, made in writing, directly related to retirement board issues, and approved by the Chair of the Needham Retirement Board. The processing and mailing of notices to the membership for any reason shall be done by Needham Retirement Board staff. Upon receipt of approval the requestor must provide:

- The envelopes containing only the approved notice(s) with applicable postage affixed, and
 - Payment for the cost of both the labels and the staff time for processing.
- The Needham Retirement Board shall establish the cost of staff time in compliance with applicable regulation.

October 9, 2007

RESEARCH REQUESTS

Requests for research assistance for payroll record information for buybacks from teachers and non-members must be in writing to the payroll coordinator of the specific unit, since this is not a retirement board function.

NOTES TO FINANCIAL STATEMENTS (Continued)

October 9, 2007

ADDRESS VERIFICATIONS

Re: acceptable proof from retirees who live overseas. The statement will be amended to read under the “pains and penalties of perjury” and will be acceptable if accompanied with current photo identification.

October 9, 2007

SPECIAL CONSTABLES

The Board reviewed their role in the appointment of special constables to the Needham Police Department. It was unanimously decided that it was the Board’s obligation to inform the Police Chief and Board of Selectmen if any of the candidates had retired for Accidental Disability. Although the final decision would rest with the Board of Selectmen, the Retirement Board would strongly suggest denial of appointment to special constable if the medical condition of a retiree would put the Town in an uncertain position.

October 9, 2007

EARNING RESTRICTIONS

If a disabled member of the Needham Retirement System whose earnings exceed the limitations set forth in M.G.L. c. 32, sec 91A can demonstrate that a lump-sum payment of said over earnings to the System would result in financial hardship, the Board shall, in its sole discretion, develop a monthly payment schedule to address the disabled member’s financial needs, not to exceed 6 months. If the disabled member elects to utilize said monthly payment schedule, the method of payment shall be by automatically withholding the predetermined amount from the disabled member’s monthly retirement allowance.

October 9, 2007

GROUP CLASSIFICATION

The Needham Retirement Board unanimously approved the reclassification of the position of School Craftsman-Electrician to a group 2 classification because this position requires an electrician license.

October 9, 2007

INACTIVE MEMBERS

The Board voted to notify members inactive for over two years, that no more interest accrues, and they can take a refund.

October 9, 2007

INVOLUNTARY RETIREMENT

The board established a policy that anyone entitled to Section 16B benefits be invited to have a hearing with the Board.

October 9, 2007

LEGAL

The Board approved a motion that all requests for legal opinions be approved by the Board.

NOTES TO FINANCIAL STATEMENTS (Continued)

TRAVEL REGULATIONS

The Needham 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/Needham>.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Treasurer 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:	Evelyn M. Pones	Chairman	Until successor is appointed
Appointed Member:	Kate Fitzpatrick		Term Expires: 11/6/2014
Elected Member:	Thomas A. Welch		Term Expires: 7/24/2013
Elected Member:	John P. Krawiecki		Term Expires: 12/17/2014
Appointed Member:	Robert P. Mearls		Term Expires: 4/15/2015

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

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

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

Treasurer - Custodian:	)	\$50,000,000	Fiduciary
Ex-officio Member:	)	\$1,000,000	Fidelity ERISA Bond
Elected Members:	)	MACRS	Master Policy
Appointed Members:	)	Travelers	Casualty & Surety
Staff Employees:	)	National Union	Fire and Arch Insurance Companies

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	\$72,403,383
The actuarial liability for retired and inactive members was	<u>84,511,483</u>
The total actuarial liability was	\$156,914,866
System assets as of that date were	<u>114,445,376</u>
The unfunded actuarial liability was	<u>\$42,469,490</u>
The ratio of system's assets to total actuarial liability was	72.9%
As of that date the total covered employee payroll was	\$28,963,004

The normal cost for employees on that date was	8.5% of payroll
The normal cost for the employer was (including expenses)	6.7% of payroll

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

Investment Return:	8.00% per annum
Rate of Salary Increase:	Group I- 4.75%, Group 4- 5.25%

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2012	\$114,445,376	\$156,914,866	\$42,469,490	72.9%	\$28,963,004	146.6%
1/1/2011	\$116,465,717	\$149,577,973	\$33,112,256	77.9%	\$28,057,204	118.0%
1/1/2010	\$115,771,921	\$148,011,244	\$32,239,323	78.2%	\$30,285,518	106.5%
1/1/2009	\$102,420,630	\$139,054,020	\$36,633,390	73.7%	\$28,012,825	130.8%
1/1/2007	\$102,235,876	\$128,668,586	\$26,432,710	79.5%	\$26,120,560	101.2%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Retirement in Past Years										
Superannuation	9	13	15	14	12	12	9	11	15	12
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	0	2	1	2	0	1	4	1
Total Retirements	9	13	15	16	13	14	9	12	19	13
Total Retirees, Beneficiaries and Survivors	541	527	529	524	513	507	498	489	475	475
Total Active Members	612	636	652	671	654	665	636	674	680	644
Pension Payments										
Superannuation	\$4,295,624	\$4,720,625	\$5,029,788	\$5,404,644	\$5,501,476	\$5,656,536	\$5,817,970	\$5,954,325	\$6,188,678	\$6,409,252
Survivor/Beneficiary Payments	264,497	313,008	276,938	328,452	329,303	344,383	336,107	319,257	325,139	354,773
Ordinary Disability	55,141	64,753	66,454	30,546	18,146	18,506	18,866	19,226	19,586	19,946
Accidental Disability	827,090	848,983	889,922	902,142	1,028,683	950,030	978,467	1,073,394	1,057,937	1,066,547
Other	453,335	460,268	487,368	499,419	608,959	558,240	551,113	638,302	600,448	699,298
Total Payments for Year	<u>\$5,895,687</u>	<u>\$6,407,637</u>	<u>\$6,750,470</u>	<u>\$7,165,203</u>	<u>\$7,486,567</u>	<u>\$7,527,695</u>	<u>\$7,702,523</u>	<u>\$8,004,503</u>	<u>\$8,191,788</u>	<u>\$8,549,816</u>

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