

PERAC AUDIT REPORT



Natick
Contributory Retirement System



JAN. 1, 2006 - DEC. 31, 2008



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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February 2, 2010

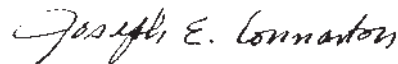
The Public Employee Retirement Administration Commission has completed an examination of the Natick Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2006 to December 31, 2008. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission.

We commend the Natick Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners John J. Shea 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
Executive Director



STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2008	2007	2006
Net Assets Available For Benefits:			
Cash and Equivalents	\$1,045,165	\$998,661	\$1,036,282
Fixed Income Securities	3,234,256	0	0
Equities	0	0	7,123,207
Pooled Domestic Equity Funds	6,224,575	8,303,544	513,555
Pooled International Equity Funds	8,598,301	13,525,456	12,056,117
Pooled Global Equity Funds	0	15,675,391	15,218,051
Pooled Domestic Fixed Income Funds	6,063,944	15,844,537	15,218,575
Pooled International Fixed Income Funds	712,790	0	0
Pooled Alternative Investment Funds	1	2,796,771	2,796,771
Pooled Real Estate Funds	7,983,858	8,789,092	6,640,732
Pooled Domestic Balanced Funds	21,847,259	15,991,059	14,907,533
PRIT Cash Fund	3,304,568	4,078,636	3,674,564
PRIT Core Fund	0	0	0
Accounts Receivable	2,627,707	2,730,483	2,511,128
Accounts Payable	0	0	(9,742)
Total	<u>\$61,642,424</u>	<u>\$88,733,629</u>	<u>\$81,686,772</u>
Fund Balances:			
Annuity Savings Fund	\$24,848,624	\$23,370,334	\$22,398,667
Annuity Reserve Fund	7,119,919	7,052,445	6,726,970
Pension Fund	7,557,515	8,585,902	9,144,784
Military Service Fund	0	0	0
Expense Fund	0	0	0
Pension Reserve Fund	22,116,365	49,724,947	43,416,351
Total	<u>\$61,642,424</u>	<u>\$88,733,629</u>	<u>\$81,686,772</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 (2006)	\$21,191,680	\$6,732,799	\$9,647,919	\$0	\$0	\$35,493,655	\$73,066,053
Receipts	2,574,888	198,938	5,556,911	0	621,693	7,917,242	16,869,672
Interfund Transfers	(795,173)	790,704	(986)	0	0	5,455	0
Disbursements	(572,729)	(995,471)	(6,059,060)	0	(621,693)	0	(8,248,953)
Ending Balance (2006)	22,398,667	6,726,970	9,144,784	0	0	43,416,351	81,686,772
Receipts	2,403,465	205,414	5,903,947	0	679,414	6,308,596	15,500,837
Interfund Transfers	(1,097,916)	1,097,916	0	0	0	0	0
Disbursements	(333,882)	(977,855)	(6,462,829)	0	(679,414)	0	(8,453,980)
Ending Balance (2007)	23,370,334	7,052,445	8,585,902	0	0	49,724,947	88,733,629
Receipts	2,718,433	211,318	5,687,561	0	695,075	(27,614,961)	(18,302,574)
Interfund Transfers	(928,593)	922,214	0	0	0	6,379	(0)
Disbursements	(311,550)	(1,066,058)	(6,715,948)	0	(695,075)	0	(8,788,631)
Ending Balance (2008)	<u>\$24,848,624</u>	<u>\$7,119,919</u>	<u>\$7,557,515</u>	<u>\$0</u>	<u>\$0</u>	<u>\$22,116,365</u>	<u>\$61,642,424</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
Annuity Savings Fund:			
Members Deductions	\$2,355,679	\$2,184,951	\$2,106,315
Transfers from Other Systems	225,462	67,531	293,860
Member Make Up Payments and Re-deposits	573	21,137	50,391
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	<u>136,720</u>	<u>129,846</u>	<u>124,322</u>
Sub Total	<u>2,718,433</u>	<u>2,403,465</u>	<u>2,574,888</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>211,318</u>	<u>205,414</u>	<u>198,938</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	112,574	114,381	115,740
Pension Fund Appropriation	<u>240,614</u>	<u>247,928</u>	<u>381,516</u>
Sub Total	<u>5,334,374</u>	<u>5,541,638</u>	<u>5,059,655</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>695,075</u>	<u>679,414</u>	<u>621,693</u>
Sub Total	<u>695,075</u>	<u>679,414</u>	<u>621,693</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	67,942	70,313	93,301
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	1,103	1,848	3,290
Miscellaneous Income (Loss)	279	14,249	(962)
Excess Investment Income (Loss)	<u>(27,684,285)</u>	<u>6,222,187</u>	<u>7,821,613</u>
Sub Total	<u>(27,614,961)</u>	<u>6,308,596</u>	<u>7,917,242</u>
Total Receipts	<u>(\$18,302,574)</u>	<u>\$15,500,837</u>	<u>\$16,869,672</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
Annuity Savings Fund:			
Refunds to Members	\$92,352	\$100,417	\$188,136
Transfers to Other Systems	<u>219,199</u>	<u>233,465</u>	<u>384,593</u>
Sub Total	<u>311,550</u>	<u>333,882</u>	<u>572,729</u>
Annuity Reserve Fund:			
Annuities Paid	1,028,650	973,522	989,342
Option B Refunds	<u>37,408</u>	<u>4,333</u>	<u>6,129</u>
Sub Total	<u>1,066,058</u>	<u>977,855</u>	<u>995,471</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	4,985,455	4,669,454	4,468,775
Survivorship Payments	331,323	316,117	294,509
Ordinary Disability Payments	26,419	33,804	33,190
Accidental Disability Payments	918,240	998,022	867,618
Accidental Death Payments	217,480	225,307	228,396
Section 101 Benefits	57,764	51,787	50,278
3 (8) (c) Reimbursements to Other Systems	179,268	168,338	116,294
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>6,715,948</u>	<u>6,462,829</u>	<u>6,059,060</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	1,500	1,500	1,500
Salaries	130,400	124,919	122,025
Legal Expenses	35,570	29,470	25,992
Medical Expenses	150	0	0
Travel Expenses	5,910	7,009	21,079
Administrative Expenses	12,418	14,143	9,728
Furniture and Equipment	0	0	1,250
Management Fees	360,697	379,751	321,244
Custodial Fees	45,018	52,335	54,706
Consultant Fees	81,166	48,910	58,000
Rent Expense	0	0	0
Service Contracts	17,208	16,491	1,711
Fiduciary Insurance	<u>5,039</u>	<u>4,886</u>	<u>4,459</u>
Sub Total	<u>695,075</u>	<u>679,414</u>	<u>621,693</u>
Total Disbursements	<u>\$8,788,631</u>	<u>\$8,453,980</u>	<u>\$8,248,953</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
Investment Income Received From:			
Cash and Equivalents	\$232,464	\$106,831	\$102,661
Short Term Investments	0	0	0
Fixed Income Securities	0	0	0
Equities	0	7,048	21,696
Pooled or Mutual Funds	2,124,695	1,895,698	1,505,622
Commission Recapture	0	0	0
Total Investment Income	<u>2,357,159</u>	<u>2,009,577</u>	<u>1,629,979</u>
Plus:			
Realized Gains	124,736	2,426,566	1,175,038
Unrealized Gains	6,365,907	11,255,615	9,447,327
Interest Due and Accrued on Fixed Income Securities - Current Year	0	0	0
Sub Total	<u>6,490,642</u>	<u>13,682,181</u>	<u>10,622,364</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(106,837)	0	0
Realized Loss	(3,242,882)	(661,196)	(851,737)
Unrealized Loss	(32,139,254)	(7,793,701)	(2,634,041)
Interest Due and Accrued – Prior Year	0	0	0
Sub Total	<u>(35,488,973)</u>	<u>(8,454,897)</u>	<u>(3,485,779)</u>
Net Investment Income (Loss)	<u>(26,641,172)</u>	<u>7,236,861</u>	<u>8,766,565</u>
Income Required:			
Annuity Savings Fund	136,720	129,846	124,322
Annuity Reserve Fund	211,318	205,414	198,938
Military Service Fund	0	0	0
Expense Fund	695,075	679,414	621,693
Total Income Required	<u>1,043,113</u>	<u>1,014,674</u>	<u>944,952</u>
Net Investment Income (Loss)	<u>(26,641,172)</u>	<u>7,236,861</u>	<u>8,766,565</u>
Less: Total Income Required	<u>1,043,113</u>	<u>1,014,674</u>	<u>944,952</u>
Excess Income(Loss) to the Pension Reserve Fund	<u>(\$27,684,285)</u>	<u>\$6,222,187</u>	<u>\$7,821,613</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2008			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED *
Cash and Equivalents	\$1,045,165	1.77%	100%
Fixed Income Securities	3,234,256	5.5%	35-80%
Pooled Domestic Equity Funds	6,224,575	10.5%	65%
Pooled International Equity Funds	8,598,301	14.6%	10%
Pooled Domestic Fixed Income Funds	6,063,944	10.3%	35-80%
Pooled International Fixed Income Funds	712,790	1.2%	35-80%
Pooled Alternative Investment Funds	1	0.0%	5%
Pooled Real Estate Funds	7,983,858	13.5%	10%
Pooled Domestic Balanced Funds	21,847,259	37.0%	45%
PRIT Cash Fund	3,304,568	5.6%	100%
PRIT Core Fund	0	0.0%	100%
Grand Total	<u>\$59,014,717</u>	<u>100.0%</u>	

* At time of purchase.

For the year ending December 31, 2008, the rate of return for the investments of the Natick Retirement System was -31.94%. For the five-year period ending December 31, 2008, the rate of return for the investments of the Natick Retirement System averaged -1.27%. For the twenty-four year period ending December 31, 2008, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Natick Retirement System was 7.31%.

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.

September 3, 1997

20.03(2)

At least 35% but not more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

August 13, 1997

20.03(1)

Equity investments shall not exceed 65% of the portfolio valued at market, including international equities which shall not exceed 10% of the portfolio valued at market.

June 6, 1996

18.02(4)

Rate of Return

To out perform by 100 basis points a composite index comprised of sixty percent (60%) Russell 1000 Index and forty percent (40%) Lehman Intermediate Government Corporate Index.

October 26, 1995

20.04(1)

United States based corporations and equities of foreign corporations.

20.07(5)

Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

October 12, 1995

16.02(3)

The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

(a) 1.0% of the value of the fund for the first \$5 million,

(b) 0.5% of the value of the fund in excess of \$5 million.

June 19, 1991

16.02(4)

The board may employ a custodian bank and may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year 0.08% of the value of the fund.

July 14, 1988

20.07(4)

No more than 5% of the market value of the total portfolio shall be invested in the equity securities of any one company.

NOTES TO FINANCIAL STATEMENTS

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

PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

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

DEFERRED VESTED BENEFIT

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

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

WITHDRAWAL OF CONTRIBUTIONS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

ACCIDENTAL DISABILITY

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

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

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

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

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

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

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

METHODS OF PAYMENT

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

August 29, 1990

Membership

A. 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 twenty (20) hours per week, minimum of 520 hours per year, and has completed six (6) calendar months of service.

B. 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 such employee whose work is found by the Board to be seasonal in nature, the Board shall credit as the equivalent of one year of service actual full-time service of not less than seven (7) months during any one calendar year.

Definitions:

a: For school cafeteria personnel, a day is to be based on a seven (7) hour period of employment in a thirty-five (35) hour week.

b: For clerical personnel, a day is to be based on a seven and one-half (7 1/2) period of employment in a thirty-seven and one-half (37 1/2) hour week.

c: For all other employees, a day is to be based on an eight (8) hour period of employment in a forty (40) hour week.

C. Any school lunch or cafeteria personnel who work seven (7) hours or more per day, will be considered by the Board a full-time employee and eligible for membership in the Retirement System.

CREDITABLE SERVICE

A. 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.

B. 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 patrolman governed by MGL 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.)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

6. For Teacher Aides, one year's credit for the School Year of Service.
7. For School Year Secretaries, one year's credit for the School Year of Service.
8. Creditable service for call firefighters governed by MGL c.32, s.4 s. (2)(b).

August 28, 2003

The Board has adopted Supplemental Travel Regulations under the provisions of G.L. c.7, § 50 and G.L. c.32, § 21(4). These regulations are available upon written request and are also available on the PERAC website (<http://www.mass.gov/perac>).

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 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:	Charles Panagopoulos	Term Expires:	
Appointed Member:	David A. Given	Term Expires:	06/30/2012
Elected Member:	Robert J. Drew, Chairman	Term Expires:	06/30/2011
Elected Member:	Michael J. Melchiorri	Term Expires:	12/31/2011
Appointed Member:	B. Michael Reardon	Term Expires:	02/01/2012

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 and are then submitted to the PERAC Actuary for verification prior to payment. 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:

Ex-officio Member:)	MACRS Policy
Elected Members:)	\$50,000,000 Fiduciary Liability
Appointed Members:)	\$1,000,000 Fidelity Bond
Staff Employees:)	St. Paul Travelers, National Union Fire and Arch

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Group as of January 1, 2008.

The actuarial liability for active members was	\$ 67,444,114
The actuarial liability for inactive members was	939,824
The actuarial liability for retired members and beneficiaries was	<u>62,884,376</u>
The total actuarial liability was	\$131,268,314
System assets as of that date were	<u>90,885,080</u>
The unfunded actuarial liability were	<u>\$ 40,383,234</u>
The ratio of system's assets to total actuarial liability was	69.2%
As of that date the total covered employee payroll was	\$ 25,775,476

The normal cost for employees on that date was 8.74% of payroll
 The normal cost for the employer including administrative expenseses was 7.80% 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

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2008	\$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%	\$22,170,379	174.9%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Retirement in Past Years										
Superannuation	7	7	6	9	19	17	15	14	15	12
Ordinary Disability	0	1	0	0	0	0	0	0	0	0
Accidental Disability	1	0	3	1	2	0	0	0	0	0
Total Retirements	8	8	9	10	21	17	15	14	15	12
Total Retirees, Beneficiaries and Survivors	372	385	384	359	364	367	369	369	384	371
Total Active Members	526	531	553	549	549	558	594	569	585	585
Pension Payments										
Superannuation	\$3,212,751	\$3,415,754	\$3,459,871	\$3,585,267	\$3,764,107	\$4,029,816	\$4,258,068	\$4,468,775	\$4,669,454	\$4,985,455
Survivor/Beneficiary Payments	217,994	238,039	240,118	280,327	244,055	277,075	275,585	294,509	316,117	331,323
Ordinary Disability	54,087	46,417	39,633	40,499	41,379	26,008	29,926	33,190	33,804	26,419
Accidental Disability	730,550	739,281	845,948	914,766	920,902	901,995	844,356	867,618	998,022	918,240
Other	258,267	271,841	270,847	267,572	292,019	375,334	372,924	394,968	445,431	454,511
Total Payments for Year	<u>\$4,473,649</u>	<u>\$4,711,332</u>	<u>\$4,856,417</u>	<u>\$5,088,431</u>	<u>\$5,262,462</u>	<u>\$5,610,228</u>	<u>\$5,780,859</u>	<u>\$6,059,060</u>	<u>\$6,462,829</u>	<u>\$6,715,948</u>

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