

PERAC AUDIT REPORT



Newton
Contributory Retirement System



JAN. 1, 2008 - DEC. 31, 2010



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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June 22, 2011

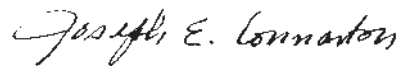
The Public Employee Retirement Administration Commission has completed an examination of the Newton Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2008 to December 31, 2010. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

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

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

In closing, I acknowledge the work of examiners James Sweeney, Martin Feeney, and Carol Niemira who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2010	2009	2008
Net Assets Available For Benefits:			
Cash	\$5,699,102	\$2,877,415	\$4,066,083
Pooled Real Estate Funds	10,547,663	11,275,898	13,074,523
PRIT Cash Fund	200,037	200,049	200,113
PRIT Core Fund	224,928,149	208,553,834	184,034,610
Interest Due and Accrued	0	0	0
Prepaid Expenses	0	0	0
Accounts Receivable	260,782	372,491	381,435
Premises and Equipment, Net	0	0	0
Accounts Payable	(7,603)	(11,723)	(63,227)
Total	<u>\$241,628,132</u>	<u>\$223,267,964</u>	<u>\$201,693,537</u>
Fund Balances:			
Annuity Savings Fund	\$76,724,534	\$74,328,046	\$71,319,007
Annuity Reserve Fund	28,839,701	28,158,083	27,056,427
Pension Fund	136,019,080	120,722,189	103,254,060
Military Service Fund	44,816	59,645	64,043
Expense Fund	0	0	0
Total	<u>\$241,628,132</u>	<u>\$223,267,964</u>	<u>\$201,693,537</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Total All Funds
Beginning Balance (2008)	\$66,746,163	\$27,200,113	\$193,602,053	\$68,337	\$0	\$287,616,666
Receipts	8,998,539	804,991	(66,210,328)	395	1,493,246	(54,913,157)
Interfund Transfers	(2,970,968)	2,957,956	17,701	(4,688)	0	(0)
Disbursements	(1,454,727)	(3,906,632)	(24,155,366)	0	(1,493,246)	(31,009,971)
Ending Balance (2008)	71,319,007	27,056,427	103,254,060	64,043	0	201,693,537
Receipts	8,625,885	819,955	42,998,172	364	1,407,274	53,851,650
Interfund Transfers	(4,452,814)	4,431,572	26,004	(4,762)	0	(0)
Disbursements	(1,164,032)	(4,149,872)	(25,556,046)	0	(1,407,274)	(32,277,223)
Ending Balance (2009)	74,328,046	28,158,083	120,722,189	59,645	0	223,267,964
Receipts	8,457,965	848,978	41,621,977	167	1,276,183	52,205,270
Interfund Transfers	(4,314,225)	4,273,981	55,241	(14,996)	0	0
Disbursements	(1,747,252)	(4,441,340)	(26,380,327)	0	(1,276,183)	(33,845,102)
Ending Balance (2010)	<u>\$76,724,534</u>	<u>\$28,839,701</u>	<u>\$136,019,080</u>	<u>\$44,816</u>	<u>\$0</u>	<u>\$241,628,132</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Annuity Savings Fund:			
Members Deductions	\$7,544,360	\$7,497,065	\$7,574,901
Transfers from Other Systems	563,675	579,136	835,312
Member Make Up Payments and Re-deposits	69,477	47,301	108,690
Member Payments from Rollovers	47,373	160,358	91,859
Investment Income Credited to Member Accounts	<u>233,080</u>	<u>342,024</u>	<u>387,778</u>
Sub Total	<u>8,457,965</u>	<u>8,625,885</u>	<u>8,998,539</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>848,978</u>	<u>819,955</u>	<u>804,991</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	429,391	419,585	366,555
Pension Fund Appropriation	792,152	840,710	892,410
Settlement of Workers' Compensation Claims	14,877,830	13,283,269	12,674,496
Federal Grant Reimbursement	0	850	0
Interest Not Refunded	278,119	370,674	336,091
Miscellaneous Income	2,179	6,976	10,366
Excess Investment Income (Loss)	0	0	0
Sub Total	<u>25,242,307</u>	<u>28,076,109</u>	<u>(80,490,247)</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>167</u>	<u>364</u>	<u>395</u>
Sub Total	<u>167</u>	<u>364</u>	<u>395</u>
Expense Fund:			
Expense Fund Appropriation	249,626	249,831	247,692
Investment Income Credited to the Expense Fund	<u>1,026,557</u>	<u>1,157,443</u>	<u>1,245,554</u>
Sub Total	<u>1,276,183</u>	<u>1,407,274</u>	<u>1,493,246</u>
Total Receipts, Net	<u>\$52,205,270</u>	<u>\$53,851,650</u>	<u>(\$54,913,157)</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Annuity Savings Fund:			
Refunds to Members	\$1,147,051	\$547,999	\$603,648
Transfers to Other Systems	<u>600,201</u>	<u>616,033</u>	<u>851,079</u>
Sub Total	<u>1,747,252</u>	<u>1,164,032</u>	<u>1,454,727</u>
Annuity Reserve Fund:			
Annuities Paid	4,416,492	4,118,005	3,862,833
Option B Refunds	<u>24,848</u>	<u>31,867</u>	<u>43,798</u>
Sub Total	<u>4,441,340</u>	<u>4,149,872</u>	<u>3,906,632</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	17,751,800	17,073,353	15,788,140
Survivorship Payments	1,715,970	1,654,061	1,609,926
Ordinary Disability Payments	223,879	187,209	187,439
Accidental Disability Payments	4,471,566	4,412,077	4,375,510
Accidental Death Payments	1,506,731	1,522,214	1,537,978
Section 101 Benefits	161,295	159,720	159,396
3 (8) (c) Reimbursements to Other Systems	549,087	547,412	496,977
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>26,380,327</u>	<u>25,556,046</u>	<u>24,155,366</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	15,000	15,000	14,780
Salaries	179,101	179,101	175,602
Legal Expenses	0	0	0
Medical Expenses	0	0	0
Travel Expenses	3,850	5,964	7,894
Administrative Expenses	15,662	14,096	31,636
Professional Services	11,500	14,025	0
Education and Training	3,810	3,800	0
Furniture and Equipment	692	0	4,442
Management Fees	1,011,407	1,141,650	1,226,250
Service Contracts	15,490	15,490	15,435
Fiduciary Insurance	<u>19,671</u>	<u>18,148</u>	<u>17,207</u>
Sub Total	<u>1,276,183</u>	<u>1,407,274</u>	<u>1,493,246</u>
Total Disbursements	<u>\$33,845,102</u>	<u>\$32,277,223</u>	<u>\$31,009,971</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Investment Income Received From:			
Cash	\$16,335	\$23,827	\$82,315
Pooled or Mutual Funds	6,720,689	6,277,269	8,575,403
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>
Total Investment Income	<u>6,737,024</u>	<u>6,301,097</u>	<u>8,657,718</u>
Plus:			
Realized Gains	5,601,835	4,214,350	3,008,424
Unrealized Gains	41,706,170	50,122,605	13,894,354
Interest Due and Accrued - Current Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>47,308,005</u>	<u>54,336,955</u>	<u>16,902,779</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(804,078)	(14,309,469)	(16,565,767)
Unrealized Loss	(25,889,862)	(15,932,688)	(87,046,259)
Interest Due and Accrued - Prior Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>(26,693,940)</u>	<u>(30,242,157)</u>	<u>(103,612,026)</u>
Net Investment Income (Loss)	<u>27,351,089</u>	<u>30,395,895</u>	<u>(78,051,529)</u>
Income Required:			
Annuity Savings Fund	233,080	342,024	387,778
Annuity Reserve Fund	848,978	819,955	804,991
Military Service Fund	167	364	395
Expense Fund	<u>1,026,557</u>	<u>1,157,443</u>	<u>1,245,554</u>
Total Income Required	<u>2,108,782</u>	<u>2,319,786</u>	<u>2,438,717</u>
Net Investment Income (Loss)	<u>27,351,089</u>	<u>30,395,895</u>	<u>(78,051,529)</u>
Less: Total Income Required	<u>2,108,782</u>	<u>2,319,786</u>	<u>2,438,717</u>
Excess Income (Loss) To The Pension Fund	<u>\$25,242,307</u>	<u>\$28,076,109</u>	<u>(\$80,490,247)</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2010		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$5,699,102	2.4%
Pooled Real Estate Funds	10,547,663	4.4%
PRIT Cash Fund	200,037	0.1%
PRIT Core Fund	<u>224,928,149</u>	<u>93.2%</u>
Grand Total	<u>\$241,374,952</u>	<u>100.0%</u>

For the year ending December 31, 2009, the rate of return for the investments of the Newton Retirement System was 16.03%. For the five-year period ending December 31, 2009 the rate of return for the investments of the Newton Retirement System averaged 2.23%. For the 26-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Newton Retirement System was 8.58%.

The composite rate of return for all retirement systems for the year ending December 31, 2009 was 18.22%. For the five-year period ending December 31, 2009, the composite rate of return for the investments of all retirement systems averaged 3.97%. For the 25-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.30%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The assets of the Newton Retirement Board are 95% invested in the PRIT fund managed by the PRIM Board. Certain residual investment agreements related to holdings of Pooled Real Estate Funds remain under the care and custody of the Newton Retirement Board. Such residual investments generally consist of limited partnership subscriptions for a specific term. These terms are fixed for a period usually not to exceed ten years. As a result, the supplemental investment regulations that were previously approved by the Public Employee Retirement Administration Commission and remain on file at PERAC have been effectively rescinded, except as they pertain to the residual holdings referenced above. A complete list of these regulations is available upon written request and can be accessed via the internet as follows:

<http://www.mass.gov/perac/investsup/newtonintsup.html>

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

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

ADMINISTRATION

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

PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

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

DEFERRED VESTED BENEFIT

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

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

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Through June 30, 2010, those who left service with less than 5 years received no interest; those who left service with greater than 5 but less than 10 years received 50% of the interest credited. As of July 1, 2010, those who leave service voluntarily with less than 10 years receive 3% 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”.

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

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$729.84 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. An additional \$15.00 per year of service, not to exceed \$300 annually may be added to the benefit in systems in which the local option contained in G.L. 32, §. 7(2)(e) has been adopted.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

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

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$729.84 per year, per child (or \$312.00 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.

DEATH IN ACTIVE SERVICE

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

COST OF LIVING

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

METHODS OF PAYMENT

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board 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.

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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. As a result of Section 15 of Chapter 355 of the Acts of 1928 and subsequent amendments (the Newton Retirement Act as amended), the System funds both its present and future retirement benefits from a single fund shown on this report as the Pension Fund. 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 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 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 Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

April 8, 2010

Employees of any member unit of the Newton Retirement System who are regularly employed a minimum of 20 hours per week and earn a minimum of \$5,000 per year must become members of the system.

Employees who are provisional, seasonal, temporary or intermittent and are regularly employed a minimum of 20 hours per week for a period of six consecutive months and earn a minimum of \$5,000 per year must become members of the system at the conclusion of the six-month period.

Employees working fewer than 20 hours per week are not eligible for membership.

Employees earning less than \$5,000 per year are not eligible for membership.

April 4, 2001

CETA employment: Only City of Newton employees and members of the Newton Retirement System are eligible to buy back creditable service for Newton CETA employment.

December 14, 1984

Regularly employed part-time employees with 20 hours or more must join the retirement system.
Buy-Backs: Back payments must be paid in \$200 installments or more.

April 8, 2010

A member whose entire membership service is in a full-time position shall receive one year of creditable service for each year worked provided the member works the number of hours required by the position held.

A member shall be considered part-time if he regularly works fewer than the number of hours required by the position held and regularly works at least 20 hours per week.

A member whose entire membership service is part-time shall receive one year of creditable service for each year worked provided that the hours of part-time service have not fluctuated during his membership service.

A member whose membership service fluctuates between part-time and full-time shall be granted creditable service equal to 12 months for each year of full-time employment and a pro-rated period of years or fractions thereof equal to the percentage that his part-time hours worked bears to his full-time hours worked, multiplied by the number of part-time years of membership.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

A member whose membership service consists of fluctuating part-time hours shall have his creditable service pro-rated as it bears to the average hours worked during the three highest consecutive years with the greatest number of hours worked.

A member whose membership service has fluctuated between part-time and full-time and whose full-time service is 15 months or less shall have his creditable service computed as though his entire membership was part-time.

APPLICABILITY: This regulation shall apply to creditable service calculated for member buybacks, membership transfers to other Massachusetts public sector retirement systems and retirement benefit calculations for members of the Newton Retirement System who retire on or after the effective date of this regulation.

MISCELLANEOUS:

December 14, 1984

Accidental Disability Applications: Accidental disability applicants must be present when their application is presented to the board, unless a medical reason exists that prevents.

January 22, 2009

The Newton Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request or from the PERAC website: 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 City 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: David C. Wilkinson

Appointed Member: Nunzio J. Piselli, Chairman Term Expires: 1/1/2012

Elected Member: Francis P. Capello Term Expires: 12/13/2011

Elected Member: Paul Bianchi Term Expires: 9/9/2013

Appointed Member: Kimberly A. Fletcher Term Expires: 1/1/2012

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:

Treasurer - Custodian:)	MACRS Blanket Policy:
Ex-officio Member:)	\$50,00,000 Fiduciary Liability
Elected Members:)	\$1,000,000 Fidelity (ERISA) Bond
Appointed Members:)	St. Paul Travelers Insurance Company
Staff Employees:)	National Union Fire
)	Arch Insurance Company
)	MACRS Blanket Policy

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants, LLC as of January 1, 2010.

The actuarial liability for active members was	\$204,215,255
The actuarial liability for retired and inactive members was	<u>257,888,433</u>
The total actuarial liability was	462,103,688
System assets as of that date were	<u>254,035,335</u>
The unfunded actuarial liability was	<u>\$208,068,353</u>
The ratio of system's assets to total actuarial liability was	55.0%
As of that date the total covered employee payroll was	\$83,843,673

The normal cost for employees on that date was 8.30% of payroll
 The normal cost for the employer was 3.80% of payroll

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

Investment Return: 8.00% per annum
 Ultimate Rate of Salary Increase: Group 1 4.75% and Group 4 5.25% per annum

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2010	\$254,035,335	\$462,103,688	\$208,068,353	55.0%	\$83,843,673	248.2%
1/1/2009	\$252,116,922	\$443,009,607	\$190,892,685	56.9%	\$82,013,624	232.8%
1/1/2008	\$281,114,591	\$419,000,697	\$137,886,106	67.1%	\$79,205,738	174.1%
1/1/2007	\$265,700,539	\$402,257,645	\$136,557,106	66.1%	\$74,197,265	184.0%
1/1/2006	\$253,420,995	\$382,732,277	\$129,311,282	66.2%	\$71,278,135	181.4%
1/1/2005	\$244,266,000	\$361,080,000	\$116,814,000	67.6%	\$69,702,000	167.6%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Retirement in Past Years										
Superannuation	48	46	49	42	70	30	32	37	45	47
Ordinary Disability	0	2	0	0	1	0	0	0	0	0
Accidental Disability	7	4	8	4	5	4	3	1	6	2
Total Retirements	55	52	57	46	76	34	35	38	51	49
Total Retirees, Beneficiaries and Survivors	1,272	1,272	1,292	1,304	1,346	1,329	1,327	1,315	1,325	1,329
Total Active Members	1,641	1,706	1,743	1,763	1,782	1,681	1,778	1,751	1,771	1,662
Pension Payments										
Superannuation	\$10,300,223	\$11,230,865	\$11,950,713	\$12,970,799	\$14,129,222	\$14,927,904	\$15,403,671	\$15,788,140	\$17,073,353	\$17,751,800
Survivor/Beneficiary Payments	1,327,240	1,517,092	1,490,474	1,545,440	1,594,376	1,601,629	1,587,232	1,609,926	1,654,061	1,715,970
Ordinary Disability	135,706	165,716	170,776	174,913	183,593	183,984	185,129	187,439	187,209	223,879
Accidental Disability	2,955,226	3,003,708	3,211,393	3,435,068	3,768,145	4,211,838	3,976,038	4,375,510	4,412,077	4,471,566
Other	1,605,290	1,723,405	1,751,056	1,757,156	1,762,447	1,834,874	1,910,222	2,194,350	2,229,346	2,217,112
Total Payments for Year	<u>\$16,323,685</u>	<u>\$17,640,786</u>	<u>\$18,574,412</u>	<u>\$19,883,376</u>	<u>\$21,437,783</u>	<u>\$22,760,229</u>	<u>\$23,062,292</u>	<u>\$24,155,366</u>	<u>\$25,556,046</u>	<u>\$26,380,327</u>

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac