

PERAC AUDIT REPORT



Norfolk County
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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JOSEPH E. CONNARTON, *Executive Director*

MARY ANN BRADLEY | PAUL V. DOANE | JAMES M. MACHADO | DONALD R. MARQUIS | ROBERT B. McCARTHY

December 18, 2009

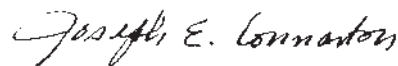
The Public Employee Retirement Administration Commission has completed an examination of the Norfolk County Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2006 to December 31, 2008. This audit was conducted in accordance with the accounting and management 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, with the exception of those noted in the findings presented in this report.

It should be noted that the findings in this audit report were based on the Laws and Regulations in effect during the time the audit was conducted for the period referenced in this report. These findings do not reflect the changes made to Chapter 32 after passage of Chapter 21 of the Acts of 2009.

In closing, I acknowledge the work of examiners Carol M. Niemira, Martin J. Feeney, John J. Shea, and Scott Henderson 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 FINDINGS AND RECOMMENDATIONS

I. Payroll Codes:

Payroll codes used by each unit were reviewed. This review revealed pay types that are not regular compensation but from which retirement deductions are taken (for example: details, various types of overtime) and pay types that are regular compensation but from which no retirement deductions are taken (for example: police holiday premiums, various stipends). Many units had payroll codes with descriptions that are unclear as to whether or not they should have contributions taken out for retirement.

Recommendation:

The Board should review the payroll codes with its units to verify that all payroll items are being coded correctly.

Board Response:

In September 2009 the Board held a meeting with treasurers, payroll clerks and other individuals from each unit responsible for payroll functions, particularly retirement deductions. All membership issues were reviewed, with special attention and emphasis on the matters relating to payroll codes and retirement deductions set forth above by PERAC's auditors. Each individual, and every unit, was provided with a handbook which defined regular compensation. It also detailed when and how the additional 2% calculation should be applied. The Board will continue with efforts to better inform its units, review payroll codes, and is investigating software upgrades to assist in the process.

2. Members Contributions:

Two units issued multiple checks to members in the examined pay period. For that pay period when more than one pay check was issued, the Norfolk County Retirement System received less than the required 2% additional deductions from the second check, because the payroll system did not combine total earnings when calculating the 2% deduction.

Several units are not deducting the additional 2% when an employee's annualized salary increases to greater than \$30,000. In other cases, employees receive pay increases but the 2% deduction remains at the same amount it was before the increase in salary.

Recommendation:

The Board must work with payroll officers to ensure deductions are withheld correctly when members receive more than one check per pay period. G.L. c. 32, § 22(1)(b) and PERAC Memo #43/1999 direct that additional 2% deductions be withheld on total regular income over \$30,000 annually on a per pay period basis. This requires combining income from multiple checks before calculating these 2% deductions.

Each pay period, member units should identify all pay checks with regular compensation greater than \$30,000 on an annualized basis. The method for calculating the 2% is found in PERAC Memo #43/1999.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:

In September 2009 the Board held a meeting with treasurers, payroll clerks and other individuals from each unit responsible for payroll functions, particularly retirement deductions. All membership issues were reviewed, with special attention and emphasis on the matters relating to payroll codes and retirement deductions set forth above by PERAC's auditors. Each individual, and every unit, was provided with a handbook which defined regular compensation. The information also detailed when and how the additional 2% calculation should be applied. Each person and each unit has also been supplied with a copy of PERAC Memo #43/1999. The Board will continue with efforts to better inform its units, and is investigating software upgrades to assist in the process.

3. Make-ups/Buy-backs:

The Norfolk County Retirement System uses its own spreadsheet to calculate the amount owed by a member who wishes to purchase service that had previously been refunded. The calculation does not take into account interest that should be charged for the portion of the year of refund after the date of the refund. This additional amount would then accrue interest to the date of payment, so any member paying back a refund has been undercharged for the time. The underpayment is reduced, but not entirely eliminated, because the member is charged interest through the end of the year in which the money is paid, regardless of when payment is actually made.

Members who were erroneously excluded from membership are allowed to purchase the time from when membership should have commenced, but interest is included in the amount charged.

Recommendation:

The spreadsheet should be adjusted to add the missing interest in the year of the refund. Alternatively, the System could utilize PERAC's worksheet, which is updated and sent to all Boards annually.

Members should only be charged interest through the end of the month in which the refund is paid back. Per G.L. c. 32 § 22(6)(c) the Retirement Board credits the member's Annuity Savings Fund with regular interest ". . . from the first day of the month immediately following such date of deposit."

Boards must correct their errors per G.L. c. 32 § 20(5)(c)(1). Case law has established that interest is not to be charged in cases of erroneous exclusion.

Board Response:

The Retirement System has been using its own spreadsheets for many years, updating them annually to reflect changes in interest to be charged. The sheets have been changed as recommended by PERAC.

The Norfolk County Retirement System has referred the matter of whether interest is to be charged in matters of erroneous exclusion to Board counsel for further review.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

4. Active Members Over Seventy Years Old:

A sample of active members who were age seventy or older revealed that none had made an election whether or not to continue contributing to the retirement system as required under G.L. c. 32, § 90(G)(3/4). There was no indication in the files that these members had been notified or counseled relative to the implications of this irrevocable election. There did not appear to be a reliable process for notifying qualifying members in the future.

Recommendation: The System must comply with G.L. c. 32, § 90(G)(3/4). At least 180 days before the last day of the month in which a member attains age seventy, the retirement office should contact the member about continuing retirement contributions beyond age seventy. These members should be counseled on the benefits, options and procedures relative to this decision. The PERAC Form "Application by Member Requesting to Continue Retirement Contributions Beyond the Age of 70 Pursuant to G.L. c. 32, § 90(G)(3/4)" is the evidentiary document that supports this election. The form must be completed and maintained in the member's permanent file.

Board Response:

The Board has sent to each member subject to the provisions of M.G.L. c. 32, §90(G)(3/4) a copy of the PERAC Application by Member Requesting to Continue Retirement Contributions Beyond the Age of 70 Pursuant to G.L. c. 32, §90(G)(3/4). Each such member was also provided with a detailed explanation of the member's options relating to the statute, with the explanation specific to their circumstances, for instance, based on each member's number of years of creditable service. Each member was urged to contact the Retirement System with any questions, and two informational meetings were scheduled and held to accommodate the members.

Further to the above, a process has been put in place to ensure future notifications consistent with the statute.

5. Cash/Stale Dated Checks:

An inspection of the outstanding checks at 12/31/08 for two bank accounts revealed that six checks with a total value of \$19,732.95 remained outstanding for more than six months, including one item dating back to November 2007. An inspection of the outstanding checks at 7/31/09 (last period reconciled) revealed that four of the original six had been resolved. As of 7/31/09, five checks totaling \$3,918.17 have been outstanding for six months or more, with the oldest check dated 05/30/08 for \$1,687.49.

Recommendation: Checks outstanding more than six months should be researched so that proper voiding and updating of these items can be completed on a regular and timely basis. The Executive Director should review the list of outstanding checks and contact the payees to determine the status of the checks. Any outstanding check older than six months should be voided and where applicable a new check issued. The Retirement System should consider notifying all retirees of the advantages of direct deposit as an alternative to checks.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:

The checks referenced above have been addressed. Outstanding checks are regularly reviewed. Further, some retirees do not immediately cash checks, but hold several checks, resulting in some being older than six months. They may then cash them all at the same time. These patterns are observed by Retirement System staff and factored into the timing of when outstanding checks are voided.

All members, during the retirement process, are counseled relative to the benefits of direct deposit and are encouraged to avail themselves of the service. Additionally, the Board's newsletter regularly encourages direct deposit. At its November 18, 2009 meeting, the Retirement Board voted to send notice to all retirees receiving checks to encourage direct deposit. Presently, approximately 75% of the System's 2,872 retirees utilize direct deposit, with the number increasing monthly.

6. Pooled Funds:

Norfolk County Retirement System invests in approximately 50 pooled funds. The System does not make use of the detailed statements issued by the investment managers as its primary data source. This is a necessary test to confirm the accuracy of the financial results reported by the custodian. Also, pooled fund statements contain additional information not available from custodial reports which must be used when accounting for this type of investment.

For example, the System posted management fees for only nine pooled funds to its general ledger in 2008. For the remaining pooled funds, fees were netted out of unrealized gains or losses. Since these fees are a direct expense to each fund, neglecting to properly account for them understates gains and overstates losses attributable to these investments. Similarly, pooled fund income is reported for seven funds (all received as cash dividends). A review of managers' statements reveals reinvested investment income that has been incorporated into unrealized gains or losses when posting to the general ledger.

Recommendation: At least quarterly, data from pooled fund managers' statements should be used to post to the general ledger and reconciled to the custodian for accuracy, taking any timing differences into consideration. The PERAC Guide "How to Complete a Pooled Fund Worksheet" explains the appropriate accounting entries. The System's future Annual Statements must be modified to list pooled fund fees and investment income on Schedules 5 and 6.

Board Response:

As the auditors noted, the Board has investments with approximately 50-pooled funds in various asset classes. Due to the large number of funds, we are working with the Board's investment counsel and custodian bank to formulate the most efficient procedure to address this finding.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

7. Reappointment of Fifth Member of the Norfolk County Retirement Board:

The three-year term of the member appointed by the Norfolk County Retirement Board Advisory Council expired on December 31, 2008. Since that time, no meeting to re-appoint him or appoint his successor has been held. G.L. c. 32, § 20(3)(g) stipulates that the Council “shall elect one of its members as a member of the county retirement board at the expiration of the current appointed member’s term...” The incumbent continues to serve as a valid Board Member past the expiration date of his term until his successor is appointed.

Recommendation: A meeting of the Advisory Council should be convened as soon as practicable to appoint the fifth member of the Board to serve until December 31, 2011 (the remainder of the current term). In 2011, a meeting should be called sufficiently in advance of the December 31 expiration date so that the Board member is re-appointed or a new person selected in a timely manner.

Board Response:

Historically, the election has been held in a timely manner, usually scheduled to coincide with meetings of the Council relating to the election of the “elected member”. This year, despite proper posted and mailed notice, only one person attended the Council’s meeting, so the election was not held.

Notwithstanding the above, a meeting of the Advisory Council has since been held and the Board member has been re-appointed.

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,		
	2008	2007	2006
Net Assets Available For Benefits:			
Cash	\$6,975,256	\$5,971,067	\$6,492,669
Fixed Income Securities	34,339,467	44,042,731	58,357,758
Equities	142,735,622	265,224,418	246,059,143
Pooled Domestic Equity Funds	58,866,004	61,120,855	58,940,622
Pooled International Equity Funds	15,196,570	36,746,421	25,452,584
Pooled Domestic Fixed Income Funds	45,384,343	56,813,838	40,994,918
Pooled International Fixed Income Funds	15,022,277	16,041,284	22,703,391
Pooled Alternative Investment Funds	71,500,678	80,275,623	63,251,100
Pooled Real Estate Funds	35,501,421	41,929,668	37,744,339
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	745,859	697,359	858,238
Accounts Receivable	6,374,296	6,117,324	4,029,364
Accounts Payable	(1,586,026)	(1,898,856)	(2,688,370)
Total	<u>\$431,055,767</u>	<u>\$613,081,732</u>	<u>\$562,195,758</u>
Fund Balances:			
Annuity Savings Fund	\$201,701,384	\$187,884,704	\$175,380,943
Annuity Reserve Fund	52,028,889	51,890,191	51,788,772
Pension Fund	9,004,059	8,596,206	4,562,762
Military Service Fund	27,083	26,922	26,761
Expense Fund	0	0	0
Pension Reserve Fund	168,294,352	364,683,709	330,436,521
Total	<u>\$431,055,767</u>	<u>\$613,081,732</u>	<u>\$562,195,758</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)	\$162,970,574	\$51,475,458	\$7,963,027	\$26,602	\$0	\$273,255,265	\$495,690,925
Receipts	21,498,819	1,550,327	34,095,644	160	3,572,353	63,512,880	124,230,183
Interfund Transfers	(5,890,496)	5,835,976	6,386,145	0	0	(6,331,624)	0
Disbursements	(3,197,955)	(7,072,988)	(43,882,054)	0	(3,572,353)	0	(57,725,350)
Ending Balance (2006)	175,380,943	51,788,772	4,562,762	26,761	0	330,436,521	562,195,758
Receipts	22,076,817	1,556,879	35,231,596	161	4,007,004	48,282,746	111,155,202
Interfund Transfers	(6,097,774)	6,064,274	14,069,057	0	0	(14,035,557)	0
Disbursements	(3,475,282)	(7,519,733)	(45,267,209)	0	(4,007,004)	0	(60,269,228)
Ending Balance (2007)	187,884,704	51,890,191	8,596,206	26,922	0	364,683,709	613,081,732
Receipts	24,506,427	1,547,897	40,543,136	162	3,462,197	(189,658,410)	(119,598,590)
Interfund Transfers	(6,494,019)	6,371,974	6,852,992	0	0	(6,730,948)	0
Disbursements	(4,195,728)	(7,781,174)	(46,988,276)	0	(3,462,197)	0	(62,427,375)
Ending Balance (2008)	<u>\$201,701,384</u>	<u>\$52,028,889</u>	<u>\$9,004,059</u>	<u>\$27,083</u>	<u>\$0</u>	<u>\$168,294,352</u>	<u>\$431,055,767</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
Annuity Savings Fund:			
Members Deductions	\$20,955,551	\$19,709,811	\$19,097,774
Transfers from Other Systems	2,137,985	1,095,540	1,116,408
Member Make Up Payments and Re-deposits	198,046	172,479	224,859
Member Payments from Rollovers	113,957	76,415	112,090
Investment Income Credited to Member Accounts	<u>1,100,888</u>	<u>1,022,572</u>	<u>947,689</u>
Sub Total	<u>24,506,427</u>	<u>22,076,817</u>	<u>21,498,819</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>1,547,897</u>	<u>1,556,879</u>	<u>1,550,327</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	984,937	1,042,884	913,050
Pension Fund Appropriation	<u>1,203,716</u>	<u>1,310,822</u>	<u>1,426,883</u>
Sub Total	<u>38,354,483</u>	<u>32,877,890</u>	<u>31,755,711</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>162</u>	<u>161</u>	<u>160</u>
Sub Total	<u>162</u>	<u>161</u>	<u>160</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>3,462,197</u>	<u>4,007,004</u>	<u>3,572,353</u>
Sub Total	<u>3,462,197</u>	<u>4,007,004</u>	<u>3,572,353</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	18,300	13,174	17,213
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	25,059	33,216	19,557
Miscellaneous Income	145	82	8,045
Excess Investment Income (Loss)	<u>(189,701,913)</u>	<u>48,236,274</u>	<u>63,468,065</u>
Sub Total	<u>(189,658,410)</u>	<u>48,282,746</u>	<u>63,512,880</u>
Total Receipts	<u>(\$119,598,590)</u>	<u>\$111,155,202</u>	<u>\$124,230,183</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
Annuity Savings Fund:			
Refunds to Members	\$1,638,421	\$1,775,308	\$1,498,477
Transfers to Other Systems	<u>2,557,307</u>	<u>1,699,974</u>	<u>1,699,478</u>
Sub Total	<u>4,195,728</u>	<u>3,475,282</u>	<u>3,197,955</u>
Annuity Reserve Fund:			
Annuities Paid	7,579,999	7,360,067	6,882,303
Option B Refunds	<u>201,176</u>	<u>159,666</u>	<u>190,685</u>
Sub Total	<u>7,781,174</u>	<u>7,519,733</u>	<u>7,072,988</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	32,435,249	31,120,710	29,698,280
Survivorship Payments	2,236,592	2,195,866	2,152,294
Ordinary Disability Payments	522,202	538,049	575,207
Accidental Disability Payments	7,171,820	6,729,068	6,818,530
Accidental Death Payments	1,120,215	1,097,365	995,428
Section 101 Benefits	244,094	244,740	192,420
3 (8) (c) Reimbursements to Other Systems	2,003,274	1,966,004	1,965,842
State Reimbursable COLA's Paid	1,254,830	1,375,408	1,484,054
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>46,988,276</u>	<u>45,267,209</u>	<u>43,882,054</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	15,000
Salaries	422,791	408,933	384,938
Legal Expenses	86,316	114,735	86,638
Medical Expenses	0	0	0
Travel Expenses	23,047	14,614	20,578
Administrative Expenses	133,989	118,055	98,513
Furniture and Equipment	1,363	11,966	7,780
Management Fees	1,987,161	2,580,010	2,306,255
Custodial Fees	518,210	477,937	422,756
Consultant Fees	120,000	120,000	120,000
Rent Expenses	47,675	50,788	50,743
Service Contracts	68,084	57,592	25,091
Fiduciary Insurance	<u>38,561</u>	<u>37,373</u>	<u>34,062</u>
Sub Total	<u>3,462,197</u>	<u>4,007,004</u>	<u>3,572,353</u>
Total Disbursements	<u>\$62,427,375</u>	<u>\$60,269,228</u>	<u>\$57,725,350</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2008	2007	2006
Investment Income Received From:			
Cash	\$211,353	\$730,277	\$453,861
Short Term Investments	0	8,604	0
Fixed Income	3,067,150	2,930,845	4,575,873
Equities	6,189,274	4,447,807	4,120,480
Pooled or Mutual Funds	1,016,916	2,337,556	2,120,008
Commission Recapture	<u>18,782</u>	<u>19,468</u>	<u>68,114</u>
Total Investment Income	<u>10,503,475</u>	<u>10,474,557</u>	<u>11,338,336</u>
Plus:			
Realized Gains	10,102,914	17,704,141	17,444,634
Unrealized Gains	3,405,866	61,768,206	58,147,308
Interest Due and Accrued - Current Year	<u>745,859</u>	<u>697,359</u>	<u>858,238</u>
Total	<u>14,254,639</u>	<u>80,169,706</u>	<u>76,450,181</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	(283,078)	(450,021)	(286,779)
Realized Loss	(45,219,982)	(10,624,203)	(9,088,501)
Unrealized Loss	(162,148,465)	(23,888,911)	(7,761,712)
Interest Due and Accrued - Prior Year	<u>(697,359)</u>	<u>(858,238)</u>	<u>(1,112,931)</u>
Sub Total	<u>(208,348,884)</u>	<u>(35,821,373)</u>	<u>(18,249,922)</u>
Net Investment Income (Loss)	<u>(183,590,770)</u>	<u>54,822,890</u>	<u>69,538,594</u>
Income Required:			
Annuity Savings Fund	1,100,888	1,022,572	947,689
Annuity Reserve Fund	1,547,897	1,556,879	1,550,327
Military Service Fund	162	161	160
Expense Fund	<u>3,462,197</u>	<u>4,007,004</u>	<u>3,572,353</u>
Total Income Required	<u>6,111,143</u>	<u>6,586,615</u>	<u>6,070,529</u>
Net Investment Income (Loss)	<u>(183,590,770)</u>	<u>54,822,890</u>	<u>69,538,594</u>
Less: Total Income Required	<u>6,111,143</u>	<u>6,586,615</u>	<u>6,070,529</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>(\$189,701,913)</u>	<u>\$48,236,274</u>	<u>\$63,468,065</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2008			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$6,975,256	1.6%	100.0%
Fixed Income	34,339,467	8.1%	20.0%
Equities	142,735,622	33.5%	38.0%
Pooled Domestic Equity Funds	58,866,004	13.8%	38.0%
Pooled International Equity Funds	15,196,570	3.6%	20.0%
Pooled Domestic Fixed Income Funds	45,384,343	10.7%	20.0%
Pooled International Fixed Income Funds	15,022,277	3.5%	20.0%
Pooled Alternative Investment Funds	71,500,678	16.8%	10.0%
Pooled Real Estate Funds	35,501,421	8.3%	10.0%
PRIT Cash Fund	0	0.0%	100.0%
PRIT Core Fund	0	0.0%	100.0%
Grand Total	<u>\$425,521,639</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 Norfolk County Retirement System was -28.70%. For the five-year period ending December 31, 2008, the rate of return for the investments of the Norfolk County Retirement System averaged 1.11%. 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 Norfolk County Retirement System was 8.13%.

SUPPLEMENTARY INVESTMENT REGULATIONS

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

April 29, 2009

16.08

In accordance with Investment Guideline 99-2, the Norfolk County Retirement System is authorized to make a modification to its existing fixed income management account with Income Research & Management. As part of a revised asset allocation plan, the System is allocating more money to fixed income and is accomplishing this by adding to the assets under management by IR&M, with whom the System has had a successful relationship for seven years. The new money will be managed with the same investment universe and benchmark as the existing Core Bond Fund but it will be in a separately managed account in which IR&M has greater flexibility to overweight or underweight particular sectors of the investment grade fixed income market.

June 2, 2008

21.01(1)

The Norfolk County Retirement Board's investment in D.E. Shaw Investment Management Company's Domestic Equity 130/30 strategy permits purchases on margin.

21.01(8)

In connection with any margin financing permitted by Supplementary Regulation 21.01(1) or short selling permitted by Supplementary Regulation 21.01(2), the Norfolk County Retirement Board may grant to a lender or broker-dealer providing such margin financing or securities loans a security interest in the assets maintained with such lender or broker-dealer in order to secure the obligations relating to such margin financing or securities lending.

March 4, 2008

21.01(2)

The Norfolk County Retirement Board's investment in D.E. Shaw Investment Management Company's Domestic Equity 130/30 strategy permits the portfolio manager to execute short sales in an amount of approximately 30% of the account's net market value and to purchase additional stocks with the proceeds of these short sales. Total market exposure will be approximately 1.0.

November 1, 2007

Notwithstanding the provisions of the Public Employee Retirement Administration Commission's regulations and M.G.L. c. 32, et seq., the Norfolk County Retirement Board may invest funds of the Norfolk County Retirement System (the "System") in the fund known as Hamilton Lane Co-Investment Fund II, L.P. (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund –

I. while the System holds interest in the Fund, the General Partner may not be subject to the rules as established in 840 CMR 16.00 et seq. and 17.00 et seq. for so long as the Fund does not qualify as a "plan asset" as contemplated by the Employee Retirement Income Security Act of 1974 ("ERISA") and as recently amended by the Pension Protection Act of 2006. The Fund will not be considered a plan asset so long as less than 25% of the equity interest in the Fund is held by "benefit plan investors" as contemplated by ERISA and related amendments.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

September 28, 2007

16.08

In accordance with Investment Guideline 99-2, the Norfolk County Retirement Board is authorized to modify its real estate securities mandate with INVESCO by transforming it from a domestic REIT account to a global REIT account. The investment universe is expanding and the account's benchmark is changing, but the portfolio management team remains the same, as does the basic strategy and investment process. The Board and its consultant are comfortable with INVESCO's capability to run the expanded mandate.

Notwithstanding the provisions of any statute or regulation to the contrary, specifically including the provisions of 840 CMR 21.01, the Norfolk County Retirement System is hereby granted an exemption from restrictions on investment for the purpose of investing \$15 million of the Norfolk County Retirement System's assets in the Eaton Vance Loan Opportunities Fund, Ltd., a private placement investment.

June 9, 2005

16.08

In accordance with PERAC Investment Guideline 99-3, the Norfolk County Retirement Board is authorized to invest in Prism Venture Partners V, L.P. although meaningful returns are not yet available. The Board has been a satisfied investor in Prism Venture Partners IV, the predecessor fund, and the management team and basic strategy remains the same.

March 11, 2005

16.08

In accordance with Investment Guideline 99-3, the Norfolk County Retirement System is authorized to invest in Ascend Ventures II. The System has invested in Ascend Ventures I, with satisfactory results to date, and has submitted the necessary regulatory documents

February 1, 2005

16.08

In accordance with Investment Guideline 99-2, the Norfolk County Retirement System is authorized to modify its small cap value equity mandate with The Boston Company. The system has had an existing investment in the TBC Small Cap Opportunities strategy and intends to transfer the assets to the TBC Small Cap Value strategy. The two strategies invest in the same market universe, have the same benchmark (Russell 2000 Value), and utilize the same research team, but the performance of the Small Cap Value strategy has been less momentum-driven and less volatile than that of the Small Cap Opportunities strategy. The transfer also affords the Board the benefits of better diversification in portfolio managers, as the manager of the existing account also manages a mid-cap value account for the System.

December 30, 2003

21.01

For the sole purpose of the Norfolk County Retirement System's investment in the Mesirov Absolute Return Fund the provisions of 840 CMR 21.01(1), 21.01(2), 21.01(3), 21.01(4), 21.01(5) and 21.01 (6) shall not apply.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

April 8, 2002

16.08

In accordance with Investment Guideline 99-2, the Norfolk County Retirement Board is authorized to modify its fixed income mandate with Income Research & Management. First, in order to achieve operational efficiencies and lower fees, the account is changing from a separately managed account to a commingled fund, the IR&M Core Bond Fund. The management team and process remain the same. Second, the investment universe is being modified to focus on intermediate rather than long maturities, consistent with the Board's asset allocation objectives. The Board has had a successful relationship with IR&M since 1998 and has great confidence in their fixed income capabilities.

April 18, 2001

16.08

The Norfolk County Retirement Board ("the Board") may maintain its current investment on behalf of the Norfolk County Retirement System with a real estate investment fund, as contemplated by 840 CMR 19.01(4)-(6), known as Sentinel Realty Partners Fund IV. Said investment arising after other prospective real estate managers identified through the competitive bidding process would not agree to the Board's contract consistent with PERAC requirements, and since the Board already maintained an ongoing relationship with Sentinel.

January 25, 2000

16.08

In accordance with PERAC Investment Guideline 99-3, the Norfolk County Retirement Board may invest in the Halpern Denny Fund III, L.P. The board is an investor in Halpern Denny Fund II, L.P. and has submitted the required supporting documents. This investment is contingent on the Fund's continuing compliance with ERISA and its accompanying regulations, including, but not limited to, those setting forth exemptions for plan assets such as a venture capital operating company ("VCOC").

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Norfolk County 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 Norfolk County Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

September 12, 2008

Creditable Service Regulation

Seasonal, Temporary, Provisional, or Intermittent Employees

Any member who worked as a seasonal, temporary, provisional or intermittent employee receiving weekly or monthly salaries or wages for prescribed periods of employment prior to becoming a member shall be allowed to buyback the time worked during such status based on actual service rendered pro-rated against 1,950 hours per year (i.e. day = 7 ½ hours, week = 37 ½ hours), except in the case of school departments or school districts, who shall be granted creditable service based on actual service rendered pro-rated against 1,080 hours per year (i.e. day = 6 hours, school year = 180 days).

Part-time Employees

Permanent part-time employees working a minimum of twenty (20) hours per week must become members of the Norfolk County Retirement System and shall be granted creditable service as follows:

- i. A permanent part-time employee who is employed as such with a member unit for a period of ten years, shall receive ten years full-time creditable service and a full year creditable service each year thereafter while continuing employment on a permanent part-time basis, subject to section iii below.
- ii. A permanent part-time employee who is employed as such with a member unit and ends his/her employment prior to working ten years shall receive creditable service based on actual service rendered.
- iii. A permanent part-time employee who is employed as such with a member unit and ends his/her employment after working ten years, but prior to retirement, shall receive full-time creditable service for each year of service as a permanent part-time employee up to ten years, and shall receive creditable service based on actual service rendered in each year in excess of ten years.
- iv. A permanent part-time employee who is employed as such with a member unit and then becomes a full-time employee of a member unit prior to working ten years shall receive full-time creditable service for each year of service as a permanent part-time employee and as a full-time employee.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

- v. A permanent part-time employee who is employed as such with a member unit and then after working ten years becomes a full-time employee of a member unit shall receive full-time creditable service for the ten years of service as a permanent part-time employee, and shall receive creditable service based on actual service rendered in each year in excess of ten years.

Any permanent part-time employee or permanent full-time employee who is a member of the Norfolk County Retirement System and who has his or her hours of employment reduced to less than twenty hours per week, regularly scheduled, shall become an inactive member of the Norfolk County Retirement System. The employer of such member shall notify the Norfolk County Retirement System on the appropriate form of the effective date that the member's hours of employment are so reduced, shall report the number of hours the member will be scheduled to work and the rate of pay, and as of the reported effective date shall discontinue the withholding of retirement deductions. As of the reported effective date, the member shall cease earning creditable service. When a member is returned to a permanent position that is regularly scheduled twenty (20) or more hours per week, the employer shall file a New Member Enrollment Form, or such other document as may be prescribed by the Norfolk County Retirement System, reporting the effective date that the member is regularly scheduled twenty (20) or more hours per week, the title of the position, and the rate of pay; and, as of the reported effective date the employer shall begin again the withholding of retirement deductions, whereupon the member shall become an active member of the Norfolk County Retirement System. If the member wishes to buyback creditable service for the period when the member was inactive due to working less than twenty hours per week, regularly scheduled, then such creditable service shall be based on actual service rendered pro-rated against 1,950 hours per year (i.e. day = 7 ½ hours, week = 37 ½ hours), except in the case of employees of school departments or school districts, who shall be granted creditable service based on actual service rendered pro-rated against 1,080 hours per year (i.e. day = 6 hours, school year = 180 days).

August 23, 2005

The Norfolk County Retirement Board has determined that it is necessary and in the best interests of its active and retired members, beneficiaries and survivors to grant access to the name, address, telephone numbers and/or social security numbers of these individuals for the sole and limited purpose of assisting in the proper administration of M.G.L. c. 32 and M.G.L. c. 32B and the issuance of monthly benefits allowance. The Board recognizes the need to protect the privacy of its active and retired members, beneficiaries and survivors and to that end will only allow access to personal information to the treasurers, directors, human resources departments, data processing/information technology departments, and benefit coordinators of the member units of the Norfolk County Retirement System.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

All other requests for the addresses or other personal information on the active and retired members, beneficiaries and survivors will be evaluated on a case-by-case basis and this supplemental regulation may be amended, from time to time, subject to PERAC's approval, to address the needs of members, beneficiaries and survivors of the Norfolk County Retirement System.

October 28, 2003

The Board 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.)

February 26, 2003

Temporary, Provisional or Intermittent Employees

Any temporary, provisional or intermittent employee receiving weekly or monthly salaries or wages for prescribed periods of employment shall be granted creditable service based on actual service rendered.

Example: Day = 7 ½ hours; Week = 37 ½ hours

Seasonal Employees

Anyone receiving salaries or wages whose work is found by the Board to be seasonal in its nature shall be credited with one year of actual full-time service for full-time service of not less than seven (7) months during any one calendar year.

August 5, 1991

All members of the Norfolk County Retirement System who are employed in a position which is a "scheduled" twenty hour or more per week position are entitled to full-time creditable service.

November 25, 1985

Membership/Creditable Service

Call fire fighters and special police shall be excluded from membership as of May 29, 1957. Reserve or special police officers, employed prior to May 27, 1957 shall be granted in proportion to the minimum salary paid for a regular permanent fire fighter or a regular permanent police officer in the town affected (\$4,000 earnings for 1 year service to be used as basis).

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Creditable Service

One year credit is to be granted for every five years of creditable service for call fire fighters up to a maximum of 5 years of creditable service PROVIDED, that such service as call fire fighters shall only be credited if such call fire fighters were later appointed as a permanent member of the fire department.

Membership

Employees compensated on a per diem basis shall not be eligible for membership or creditable service.

Buy-Backs

The purchase or buy-back of prior creditable service must be paid in one lump sum.

Buy-Backs/Service Credit

A member shall be allowed to buy back time which they earned during their status as a less than half time employee and ineligible for membership, provided that creditable service shall be granted based on actual service rendered.

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 County Treasurer who shall be a member ex-officio, a second member appointed by the County Commissioners, 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 Norfolk County Retirement Board Advisory Council.

Ex-officio Member: Joseph Connolly, Chairman

Advisory Council

Member: Thomas A. Rorrie Term Expired: 12/31/08
Serving until reappointment
or qualification of his successor

Elected Member: Josephine Shea Term Expires: 12/31/10

Elected Member: Edwin S. Little Term Expires: 12/31/11

County Commissioners'

Member: Paul Connors Term Expires: 12/31/09

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 – Ex-officio Member:)	MACRS Policy
Elected Member:)	\$1,000,000 Fidelity Bond
Appointed Member:)	\$50,000,000 Fiduciary Liability
Staff Employee:)	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 Buck Consultants as of January 1, 2008.

The actuarial liability for active members was	\$449,424,988
The actuarial liability for retired and inactive members was	<u>458,294,136</u>
The total actuarial liability was	907,719,124
System assets as of that date were	<u>596,157,147</u>
The unfunded actuarial liability was	<u>\$311,561,977</u>
The ratio of system's assets to total actuarial liability was	65.7%
As of that date the total covered employee payroll was	\$223,814,977

The normal cost for employees on that date was	8.28% of payroll
The normal cost for the employer was	3.67% of payroll

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

Investment Return:	8.50% per annum
Rate of Salary Increase:	4.00% per annum

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	\$596,157,147	\$907,719,124	\$311,561,977	65.7%	\$223,814,977	139.2%
1/1/2007	\$533,077,948	\$855,677,413	\$322,599,465	62.3%	\$219,620,865	146.9%
1/1/2005	\$467,186,566	\$762,900,650	\$295,714,084	61.2%	\$196,639,163	150.4%
1/1/2003	\$415,150,776	\$675,275,257	\$260,124,481	61.5%	\$185,281,985	140.4%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Retirement in Past Years										
Superannuation	71	N/A	86	21	86	164	69	100	88	98
Ordinary Disability	3	N/A	7	0	0	4	3	2	0	1
Accidental Disability	9	N/A	16	0	0	13	8	10	13	7
Total Retirements	83	N/A	109	21	86	181	80	112	101	106
Total Retirees, Beneficiaries and Survivors	2,642	N/A	2,704	2,668	2,662	2,818	2,798	2,818	2,815	2,821
Total Active Members	6,334	N/A	6,844	7,103	5,697	5,672	5,831	5,822	5,862	5,938
Pension Payments										
Superannuation	\$17,310,985	\$18,915,381	\$28,094,431	\$21,754,856	\$24,489,035	\$27,390,252	\$28,805,033	\$29,698,280	\$31,120,710	\$32,435,249
Survivor/Beneficiary Payments	1,431,997	1,514,934	*	1,854,494	1,805,685	1,950,130	2,035,267	2,152,294	2,195,866	2,236,592
Ordinary Disability	463,516	538,941	*	567,918	559,979	588,192	600,294	575,207	538,049	522,202
Accidental Disability	4,261,388	4,329,707	*	5,394,757	5,579,296	5,722,738	6,263,463	6,818,530	6,729,068	7,171,820
Other	2,006,341	1,259,862	1,258,313	1,428,075	5,457,886	3,447,279	5,536,253	4,637,744	4,683,516	4,622,413
Total Payments for Year	<u>\$25,474,227</u>	<u>\$26,558,825</u>	<u>\$29,352,744</u>	<u>\$31,000,100</u>	<u>\$37,891,881</u>	<u>\$39,098,592</u>	<u>\$43,240,311</u>	<u>\$43,882,054</u>	<u>\$45,267,209</u>	<u>\$46,988,276</u>

*2001 breakouts not available. Survivor/beneficiary and disability figures are included in "superannuation" total.

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