

PERAC AUDIT REPORT



Waltham
Contributory Retirement System



JAN. 1, 2007 - DEC. 31, 2009



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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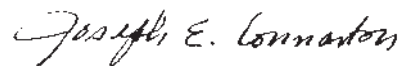
October 3, 2010

The Public Employee Retirement Administration Commission has completed an examination of the Waltham Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2007 to December 31, 2009. 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 finding presented in this report.

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

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDING AND RECOMMENDATION

Investment Approvals

The Waltham Retirement Board funded investments during 2007 in Precision Capital Advisors, LLC for investment in the Special Opportunities Fund III, LLC. and RCP Advisors, LLC for investment in the RCP Fund IV, LP. prior to receiving notice from PERAC's Investment Director that all required documents were submitted.

Recommendation: The Board must comply with PERAC's Investment Regulations, 840 CMR 16.08 which states in part: "The selection and hiring of investment managers, consultants, custodian banks and other investment related service providers by all retirement boards shall be subject to a competitive process which satisfies the boards' fiduciary duty and meets the requirements of M.G.L. c. 32 and 840 CMR. Prior to retention of the vendor, Boards shall notify the Commission that such a process, as well as the provisions of M.G.L. c. 32 and 840 CMR, was adhered to." Written acknowledgement from PERAC is required before an investment can be funded. PERAC memorandum #12/2005 dated March 7, 2005 entitled "Overview of Investment Regulation Issues" provides explicit guidance on this issue.

Board Response: At their September 23, 2010 board meeting, the Waltham Retirement Board reviewed PERAC's Audit draft for the three year period of January 1, 2007 - December 31, 2009. There was a finding pertaining to the investment during the period 2007 of RCP Advisors, LLC and Precision Capital Advisors, LCC that the required documents were submitted.

When this issue first came to light, the necessary paper work was submitted to PERAC. As you know this error occurred during the Board's transition to a new investment consultant and the paperwork was not processed by either consultant as instructed. The Waltham Retirement Board has taken the necessary steps to address and correct this finding and all future investments.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate action has been taken regarding this finding.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2009	2008	2007
Net Assets Available For Benefits:			
Cash	\$993,605	\$6,957,586	\$10,831,039
Equities	0	0	30,705,226
Pooled Domestic Equity Funds	0	0	25,342,769
Pooled International Equity Funds	0	0	31,066,130
Pooled Domestic Fixed Income Funds	0	0	32,040,110
Pooled Alternative Investment Funds	9,486,321	10,683,177	22,741,883
Pooled Real Estate Funds	6,273,446	10,526,433	15,450,867
PRIT Core Fund	117,029,821	95,058,616	0
Interest Due and Accrued	23	3,779	43,689
Accounts Receivable	26,939	88,296	97,307
Accounts Payable	(6,245)	(44,508)	(278,016)
Total	<u>\$133,803,910</u>	<u>\$123,273,379</u>	<u>\$168,041,004</u>
Fund Balances:			
Annuity Savings Fund	\$50,652,781	\$47,810,768	\$45,557,876
Annuity Reserve Fund	14,519,667	14,299,451	13,697,604
Pension Fund	22,536,070	22,666,278	21,751,527
Military Service Fund	2,212	2,201	2,188
Expense Fund	0	0	0
Pension Reserve Fund	46,093,180	38,494,680	87,031,809
Total	<u>\$133,803,910</u>	<u>\$123,273,379</u>	<u>\$168,041,004</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 (2007)	\$43,328,378	\$13,285,685	(\$6,955,611)	\$2,175	\$0	\$105,885,301	\$155,545,927
Receipts	4,583,791	402,756	13,671,406	13	1,683,740	12,811,131	33,152,837
Interfund Transfers	(1,984,927)	1,997,998	31,651,552	0	0	(31,664,623)	0
Disbursements	(369,366)	(1,988,835)	(16,615,820)	0	(1,683,740)	0	(20,657,760)
Ending Balance (2007)	45,557,876	13,697,604	21,751,527	2,188	0	87,031,809	168,041,004
Receipts	5,053,065	421,621	14,577,927	13	1,273,399	(45,377,506)	(24,051,480)
Interfund Transfers	(2,348,902)	2,348,902	3,159,623	0	0	(3,159,623)	0
Disbursements	(451,271)	(2,168,675)	(16,822,800)	0	(1,273,399)	0	(20,716,145)
Ending Balance (2008)	47,810,768	14,299,451	22,666,278	2,201	0	38,494,680	123,273,379
Receipts	5,079,965	431,230	14,555,230	11	1,354,618	10,127,479	31,548,533
Interfund Transfers	(2,010,811)	2,010,811	2,528,979	0	0	(2,528,979)	0
Disbursements	(227,142)	(2,221,825)	(17,214,416)	0	(1,354,618)	0	(21,018,002)
Ending Balance (2009)	<u>\$50,652,781</u>	<u>\$14,519,667</u>	<u>\$22,536,070</u>	<u>\$2,212</u>	<u>\$0</u>	<u>\$46,093,180</u>	<u>\$133,803,910</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Members Deductions	\$4,636,180	\$4,582,327	\$4,216,460
Transfers from Other Systems	104,725	101,172	24,508
Member Make Up Payments and Re-deposits	101,746	106,646	92,289
Member Payments from Rollovers	4,028	0	0
Investment Income Credited to Member Accounts	<u>233,287</u>	<u>262,920</u>	<u>250,534</u>
Sub Total	<u>5,079,965</u>	<u>5,053,065</u>	<u>4,583,791</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>431,230</u>	<u>421,621</u>	<u>402,756</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	129,150	93,230	277,638
Pension Fund Appropriation	670,613	1,242,533	698,538
Settlement of Workers' Compensation Claims	13,752,867	13,242,164	12,695,230
	<u>2,600</u>	<u>0</u>	<u>0</u>
Sub Total	<u>14,555,230</u>	<u>14,577,927</u>	<u>13,671,406</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>11</u>	<u>13</u>	<u>13</u>
Sub Total	<u>11</u>	<u>13</u>	<u>13</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>1,354,618</u>	<u>1,273,399</u>	<u>1,683,740</u>
Sub Total	<u>1,354,618</u>	<u>1,273,399</u>	<u>1,683,740</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	50,796	105,316	52,247
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	3,363	2,606	913
Miscellaneous Income	2,777	0	2,236
Excess Investment Income (Loss)	<u>10,070,543</u>	<u>(45,485,427)</u>	<u>12,755,735</u>
Sub Total	<u>10,127,479</u>	<u>(45,377,506)</u>	<u>12,811,131</u>
Total Receipts, Net	<u>\$31,548,533</u>	<u>(\$24,051,480)</u>	<u>\$33,152,837</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Refunds to Members	\$102,032	\$141,566	\$82,358
Transfers to Other Systems	<u>125,110</u>	<u>309,705</u>	<u>287,007</u>
Sub Total	<u>227,142</u>	<u>451,271</u>	<u>369,366</u>
Annuity Reserve Fund:			
Annuities Paid	2,213,788	2,109,604	1,966,294
Option B Refunds	<u>8,037</u>	<u>59,072</u>	<u>22,541</u>
Sub Total	<u>2,221,825</u>	<u>2,168,675</u>	<u>1,988,835</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	11,541,997	11,198,220	10,778,155
Survivorship Payments	661,936	624,635	615,346
Ordinary Disability Payments	180,650	192,254	193,539
Accidental Disability Payments	2,900,816	2,843,213	2,897,231
Accidental Death Payments	981,777	990,815	990,324
Section 101 Benefits	89,707	88,131	108,516
3 (8) (c) Reimbursements to Other Systems	205,220	180,428	349,647
State Reimbursable COLA's Paid	652,314	705,104	683,061
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>17,214,416</u>	<u>16,822,800</u>	<u>16,615,820</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	14,710
Salaries	261,156	252,066	235,227
Legal Expenses	13,074	28,838	44,801
Travel Expenses	2,299	3,765	5,114
Administrative Expenses	69,908	62,068	55,282
Professional Services	32,400	0	0
Education and Training	1,000	0	0
Furniture and Equipment	0	4,659	800
Management Fees	901,201	820,920	1,135,755
Custodial Fees	27,258	44,013	87,904
Consultant Fees	0	5,833	70,000
Service Contracts	21,650	27,072	25,264
Fiduciary Insurance	<u>9,672</u>	<u>9,166</u>	<u>8,883</u>
Sub Total	<u>1,354,618</u>	<u>1,273,399</u>	<u>1,683,740</u>
Total Disbursements	<u>\$21,018,002</u>	<u>\$20,716,145</u>	<u>\$20,657,760</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Investment Income Received From:			
Cash	\$15,029	\$202,309	\$287,221
Short Term Investments	0	0	0
Fixed Income	294	0	0
Equities	47,120	175,433	383,004
Pooled or Mutual Funds	3,609,298	4,291,204	1,840,852
Commission Recapture	0	0	9,705
Total Investment Income	<u>3,671,741</u>	<u>4,668,945</u>	<u>2,520,783</u>
Plus:			
Realized Gains	2,640,402	2,997,273	7,599,037
Unrealized Gains	26,838,718	8,547,248	20,986,431
Interest Due and Accrued - Current Year	23	3,779	43,689
Sub Total	<u>29,479,143</u>	<u>11,548,300</u>	<u>28,629,157</u>
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(8,272,315)	(12,569,487)	(1,094,597)
Unrealized Loss	(12,785,101)	(47,131,545)	(14,954,073)
Interest Due and Accrued - Prior Year	(3,779)	(43,689)	(8,492)
Sub Total	<u>(21,061,195)</u>	<u>(59,744,720)</u>	<u>(16,057,162)</u>
Net Investment Income (Loss)	<u>12,089,688</u>	<u>(43,527,475)</u>	<u>15,092,778</u>
Income Required:			
Annuity Savings Fund	233,287	262,920	250,534
Annuity Reserve Fund	431,230	421,621	402,756
Military Service Fund	11	13	13
Expense Fund	1,354,618	1,273,399	1,683,740
Total Income Required	<u>2,019,145</u>	<u>1,957,953</u>	<u>2,337,043</u>
Net Investment Income (Loss)	<u>12,089,688</u>	<u>(43,527,475)</u>	<u>15,092,778</u>
Less: Total Income Required	<u>2,019,145</u>	<u>1,957,953</u>	<u>2,337,043</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$10,070,543</u>	<u>(\$45,485,427)</u>	<u>\$12,755,735</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2009		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$993,605	0.7%
Pooled Alternative Investment Funds	9,486,321	7.1%
Pooled Real Estate Funds	6,273,446	4.7%
PRIT Core Fund	<u>117,029,821</u>	<u>87.5%</u>
Grand Total	<u>\$133,783,193</u>	<u>100.0%</u>

For the year ending December 31, 2009, the rate of return for the investments of the Waltham Retirement System was 8.60%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Waltham Retirement System averaged 1.71%. For the 25-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 Waltham Retirement System was 8.49%.

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

February 6, 2008

About 20% of the assets of Precision Capital Advisors' Special Opportunities Fund III will be invested in hedge funds managed by Bain Capital. Because its portfolio assets are less than \$250 million, the Waltham Retirement Board would ordinarily not be permitted to invest in hedge funds on its own. The exception provided by this supplementary regulation pertains only to this investment. Strategies employed by these hedge funds may include shorting, modest leverage, and use of derivatives.

April 18, 2007

16.08

In accordance with Investment Guideline 99-2, the Waltham Retirement Board is authorized to make a modest modification to its domestic equity mandate with State Street Global Advisors. Under its previous consultant, the Board had been advised to establish positions in both the SSgA Russell 1000 Value Index Fund and the SSgA Russell 1000 Growth Index Fund. By now consolidating the two funds into a single investment in the SSgA Russell 1000 Index Fund, the Board achieves the same investment strategy but with economies of scale.

April 9, 2001

16.08

Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c) – This Regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, that sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to operate. Consequently, the Waltham Retirement Board request as it applies to 840 CMR 17.04(1)(c) is approved.

Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for in the Partnership Agreement and/or as disclosed in INVESCO's Form ADV – This Regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Waltham request as it applies to 840 CMR 17.04(6).

Exemption of the Board and INVESCO from 840 CMR 17.04(7)(a), provided that INVESCO shall disclose to PERAC and the Board in writing, at the time of any investment by a Partnership, any beneficial ownership of the securities involved and/or any related conflict of interest INVESCO expects will impair its ability to render unbiased and objective advice to such Partnership concerning such investment – PERAC is unable to approve the Waltham request as it applies to

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

840 CMR 17.04(7)(a) at this time. In the event the request is further refined, we would be pleased to once again review its provisions.

Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Waltham Retirement Board request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.

Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), 21.01(5), 21.01(6), and 21.01(9) to the extent as otherwise permitted under the applicable agreement – These Regulations prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (short sales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01(5) prohibits the purchase of options other than as required to close out option positions; 21.01(6) prohibits investment in lettered or restricted stock (with the exception of those investments that are venture capital investments, and; 21.01(9) prohibits loans to employees or individuals. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows:

“Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for non speculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of the funds.”

PERAC approves the exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4), and 21.01(5) for the limited purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in a non US currency.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

January 18, 2001

16.08

In accordance with PERAC Investment Guideline 99-2, the Waltham Retirement Board may modify its existing small-cap value mandate with Earnest Partners to include mid-cap value. Following the termination of its existing mid-cap value manager, the Board has decided not to hire a new manager for that mandate but to consolidate its small-cap value and mid-cap value mandates under the management of Earnest Partners. The Board has had a positive relationship with Earnest Partners, with favorable investment results, and is comfortable with the firm's capabilities in mid-cap value. As a result of this modification, Earnest Partners will have greater flexibility in its investment process and the Board will achieve consolidation in its investment structure as well as reduced management expenses.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Waltham 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. 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 of \$312 per year, per child, 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.

Cash 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

December 2, 2005

“The Waltham 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.)”

August 22, 2003

Buy-back

REGULATION ON THE CALCULATION OF CREDITABLE SERVICE FOR MEMBERS WHO PURCHASE PAST SERVICE RENDERED

Any individual who is an active member of the Waltham Retirement System as of 8/22/03 may purchase any past service rendered as a part-time, provisional, temporary, temporary provisional, seasonal or intermittent employee in the City of Waltham, Waltham School Department and/or Waltham Housing Authority, provided that the member remits to the Waltham Retirement Board the appropriate amount of contributions that would have been withheld, together with regular interest, had he or she been a member of the System at the time the service was rendered. It shall be the sole responsibility of the member to obtain, and provide to the Board, verification of this past service rendered, including but not limited to payroll records indicating the amount of compensation received and amount of hours worked. In the event that any or all of such original documentation is unavailable, the Board may exercise its discretion pursuant to M.G.L. c. 32, § 20(5)(c)(1), on a case by case basis, to accept alternative documentation to verify said service and compensation.

Buy-back

For members who purchase such past service rendered as a part-time, provisional, temporary, temporary provision, seasonal or intermittent employee creditable service shall be calculated based on 1040 hours of compensated employment in the aggregate being the equivalent of one (1) year of creditable service. Members shall be credited with full months and full years of past service rendered and purchased.

Creditable Service

Members of the Waltham Retirement System shall receive creditable service in the following manner:

For a member in service who is employed in a full-time capacity while an employee in the City of Waltham, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

For a member in service who is employed in a part-time capacity throughout his/her entire career while an employee in the City of Waltham, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.

For a member in service who has been employed in both a full-time and part-time capacity while an employee in the City of Waltham, the member will receive full-time credit for full-time service, and prorated credit for part-time service based on the full-time equivalency for the position.

For a member who is employed in a part-time capacity throughout his/her entire career while an employee in the City of Waltham, but who either purchases past refunded service, or has transferred into the Waltham Retirement System service, rendered in a full-time capacity, the member's part-time service shall be prorated based on the full-time equivalency of the position.

In the case of School Department or City employees whose full-time employment requires them to work from on or about September 1 to on or about June 30, said employees shall receive creditable service for each full month the employee is receiving regular compensation, with 10 months being the equivalent of one year of creditable service.

Membership

Any individual who is permanently employed twenty (20) hours or more for the City of Waltham, the Waltham School Department or the Waltham Housing Authority shall become a member of the Waltham Retirement System.

March 10, 1997

Buy backs

A member may not purchase periods of prior non-membership service in the City of Waltham pursuant to G.L. c. 32, s 4(2)(c), if the member had social security deductions for the period in question. This rule is effective December 18, 1996.

May 17, 1996

Forms

Approval for continued use of the Waltham Retirement Board's Beneficiary Blank or Change of Beneficiary Blank.

March 27, 1995

Membership

Acceptation into the Retirement System the job title of "Substitute Service Clerk", which is a full time ten-month position in the School Department.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

April 27, 1989

Membership

Individuals employed as School Traffic Supervisors, School Physicians and School Dentists of the City of Waltham shall not be eligible for membership in the Waltham Retirement System. This regulation shall take effect March 29, 1989, and shall not apply to those individuals whose membership was accepted prior to March 29, 1989.

January 3, 1989

Creditable Service

School Traffic Supervisors: Individuals employed as School Traffic Supervisors in the Police Department of the City of Waltham, shall be granted creditable service equal to twelve (12) months for each year of employment if and only if their employment equals that of the total number of hours prescribed by the City of Waltham for that job title or position. Such individual, if at any time, accepts employment in another department of any political subdivision of the Commonwealth of Massachusetts shall be granted a maximum of six (6) months for each year of employment as a School Traffic Supervisor.

December 21, 1984

Rules & Regulations

Any member who desires to establish credit for part-time employment before becoming a member must petition the Board for such credit. All credit must be equivalent to one half of the full-time permanent job classification regular hours or days for which the member was employed part-time;

Any member who desires to retire under section 56-60 of c. 32 of the M.G.L., must have payroll data evidence to support and verify that such member and public employment prior to July 1, 1939;

Purchases of unused sick leave; Excess over 200 days while still employed - Buy-back is not subject to retirement deductions or treatment as regular compensation

Part-time employees excluded from membership by Board vote: Library pages, recreation department seasonal employees (become eligible after six (6) months); summer playground personnel; winter skating personnel; cemetery department - temporary, seasonal help. Most summer workers become eligible after six (6) months. School transportation, nurses, school cafeteria employees who do not work at least 3 1/2 hours per school day regularly. Library department employees classified as library associates, library department part-time custodians. Members of Boards and commissions paid on a per meeting basis.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Exceptions: Women School Traffic Supervisors

Part-time positions which can pay an annual rate of compensation, clerk recreation department, Board of Assessors (2 Part Time Employees), Cafeteria workers who work regularly at least 3 1/2 hours per school day.

The Retirement Board will allow the following types of employed persons to buy back their time: Said employees shall include but not be limited to part-time permanent with least twenty (20) hours per week, full-time temporary laborers-full-time intermittent. (AMENDED MARCH 10, 1997).

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, 2008.

The actuarial liability for active members was	\$102,694,689
The actuarial liability for retired and inactive members was	<u>148,659,199</u>
The total actuarial liability was	251,353,888
System assets as of that date were (actuarial value)	<u>161,934,253</u>
The unfunded actuarial liability was	<u>\$89,419,635</u>
The ratio of system's assets to total actuarial liability was	64.4%
As of that date the total covered employee payroll was	\$45,141,147

The normal cost for employees on that date was 8.3% of payroll
 The normal cost for the employer was 4.7% 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 2008-2011; thereafter 5%

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	\$161,934,253	\$251,353,888	\$89,419,635	64.4%	\$45,141,147	198.1%
1/1/2006	\$136,645,912	\$267,164,850	\$130,518,938	51.1%	\$43,804,722	298.0%
1/1/2005	\$132,657,305	\$252,142,463	\$119,485,158	52.6%	\$42,282,485	282.6%
1/1/2004	\$132,381,882	\$241,741,616	\$109,359,734	54.8%	\$40,324,076	271.2%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Retirement in Past Years										
Superannuation	19	53	88	14	12	11	15	22	24	22
Ordinary Disability	3	0	1	1	0	2	0	0	0	0
Accidental Disability	1	1	2	5	3	1	0	3	3	1
Total Retirements	23	54	91	20	15	14	15	25	27	23
Total Retirees, Beneficiaries and Survivors	763	796	867	836	810	793	782	779	778	792
Total Active Members	897	957	897	916	917	892	936	920	909	895
Pension Payments										
Superannuation	\$6,849,797	\$7,127,378	\$7,915,345	\$10,124,685	\$10,164,494	\$10,227,121	\$10,502,503	\$10,778,155	\$11,198,220	\$11,541,997
Survivor/Beneficiary Payments	418,882	455,714	490,082	511,169	557,892	588,851	650,526	615,346	624,635	661,936
Ordinary Disability	151,251	112,449	159,335	167,411	173,744	181,659	188,945	193,539	192,254	180,650
Accidental Disability	2,312,606	2,353,571	2,631,974	2,684,642	2,827,591	2,716,157	2,815,981	2,897,231	2,843,213	2,900,816
Other	1,876,369	2,028,084	2,006,235	1,941,046	2,132,392	2,042,865	2,035,874	2,131,548	1,964,478	1,929,018
Total Payments for Year	<u>\$11,608,905</u>	<u>\$12,077,197</u>	<u>\$13,202,971</u>	<u>\$15,428,953</u>	<u>\$15,856,112</u>	<u>\$15,756,652</u>	<u>\$16,193,829</u>	<u>\$16,615,820</u>	<u>\$16,822,800</u>	<u>\$17,214,416</u>

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