

PERAC AUDIT REPORT



Watertown

Contributory Retirement System



JAN. 1, 2008 - DEC. 31, 2009



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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February 23, 2011

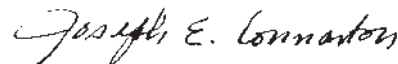
The Public Employee Retirement Administration Commission has completed an examination of the Watertown Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2008 to December 31, 2009. This audit was conducted in accordance with the accounting and management 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.

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

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



STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,	
	2009	2008
Net Assets Available For Benefits:		
Cash	\$405,178	\$948,633
Equities	15,803,464	11,057,090
Pooled Domestic Equity Funds	3,249,317	2,542,794
Pooled International Equity Funds	7,811,534	2,953,976
Pooled Domestic Fixed Income Funds	14,117,227	10,197,375
Pooled Alternative Investment Funds	3,173,974	3,143,638
Pooled Real Estate Funds	5,314,386	9,469,986
PRIT Core Fund	31,252,445	30,892,856
Interest Due and Accrued	8	90
Accounts Receivable	206,808	253,875
Accounts Payable	(59,685)	(83,318)
Total	<u>\$81,274,655</u>	<u>\$71,376,995</u>
Fund Balances:		
Annuity Savings Fund	\$25,390,295	\$24,169,936
Annuity Reserve Fund	8,033,615	7,652,102
Pension Fund	464,824	434,957
Military Service Fund	21,312	21,206
Expense Fund	0	0
Pension Reserve Fund	47,364,609	39,098,794
Total	<u>\$81,274,655</u>	<u>\$71,376,995</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 (2008)	\$22,868,681	\$7,324,223	\$24,632	\$21,080	\$0	\$65,606,602	\$95,845,218
Receipts	2,891,065	225,440	8,100,875	126	850,661	(25,730,241)	(13,662,075)
Interfund Transfers	(1,139,994)	1,104,339	813,221	0	0	(777,566)	0
Disbursements	(449,816)	(1,001,900)	(8,503,772)	0	(850,661)	0	(10,806,148)
Ending Balance (2008)	24,169,936	7,652,102	434,957	21,206	0	39,098,794	71,376,995
Receipts	2,727,148	240,019	8,198,208	106	772,838	8,933,322	20,871,642
Interfund Transfers	(1,257,479)	1,230,244	694,742	0	0	(667,507)	0
Disbursements	(249,310)	(1,088,750)	(8,863,083)	0	(772,838)	0	(10,973,981)
Ending Balance (2009)	<u>\$25,390,295</u>	<u>\$8,033,615</u>	<u>\$464,824</u>	<u>\$21,312</u>	<u>\$0</u>	<u>\$47,364,609</u>	<u>\$81,274,655</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2009	2008
Annuity Savings Fund:		
Members Deductions	\$2,514,392	\$2,470,885
Transfers from Other Systems	39,037	228,462
Member Make Up Payments and Re-deposits	47,315	27,036
Member Payments from Rollovers	10,968	32,843
Investment Income Credited to Member Accounts	<u>115,437</u>	<u>131,839</u>
Sub Total	<u>2,727,148</u>	<u>2,891,065</u>
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	<u>240,019</u>	<u>225,440</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	100,779	95,109
	406,059	582,891
Pension Fund Appropriation	7,682,371	7,422,874
Settlement of Workers' Compensation Claims	<u>9,000</u>	<u>0</u>
Sub Total	<u>8,198,208</u>	<u>8,100,875</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	0	0
Investment Income Credited to the Military Service Fund	<u>106</u>	<u>126</u>
Sub Total	<u>106</u>	<u>126</u>
Expense Fund:		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	772,838	850,661
Sub Total	<u>772,838</u>	<u>850,661</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	28,532	47,361
Pension Reserve Appropriation	0	0
Interest Not Refunded	1,574	1,410
Miscellaneous Income	0	0
Excess Investment Income (Loss)	<u>8,903,216</u>	<u>(25,779,013)</u>
Sub Total	<u>8,933,322</u>	<u>(25,730,241)</u>
Total Receipts, Net	<u>\$20,871,642</u>	<u>(\$13,662,075)</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2009	2008
Annuity Savings Fund:		
Refunds to Members	\$100,319	\$231,652
Transfers to Other Systems	<u>148,992</u>	<u>218,164</u>
Sub Total	<u>249,310</u>	<u>449,816</u>
Annuity Reserve Fund:		
Annuities Paid	1,080,633	993,337
Option B Refunds	<u>8,118</u>	<u>8,562</u>
Sub Total	<u>1,088,750</u>	<u>1,001,900</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	5,435,018	5,211,441
Survivorship Payments	620,292	586,162
Ordinary Disability Payments	130,567	142,756
Accidental Disability Payments	1,646,178	1,538,409
Accidental Death Payments	702,146	701,664
Section 101 Benefits	137,987	144,585
3 (8) (c) Reimbursements to Other Systems	190,896	178,755
State Reimbursable COLA's Paid	0	0
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>8,863,083</u>	<u>8,503,772</u>
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
Expense Fund:		
Board Member Stipend	15,000	15,000
Salaries	108,065	100,790
Legal Expenses	20,195	18,299
Medical Expenses	0	0
Travel Expenses	6,463	19,539
Administrative Expenses	9,893	24,961
Professional Services	27,750	0
Education and Training	2,828	0
Furniture and Equipment	0	1,880
Management Fees	492,410	566,764
Custodial Fees	20,935	32,986
Consultant Fees	45,000	45,000
Service Contracts	18,514	19,664
Fiduciary Insurance	<u>5,785</u>	<u>5,778</u>
Sub Total	<u>772,838</u>	<u>850,661</u>
Total Disbursements	<u>\$10,973,981</u>	<u>\$10,806,148</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,	
	2009	2008
Investment Income Received From:		
Cash	\$5,645	\$66,977
Short Term Investments	0	0
Fixed Income	0	334,194
Equities	278,255	(7,632)
Pooled or Mutual Funds	1,211,545	961,918
Commission Recapture	0	0
Total Investment Income	<u>1,495,444</u>	<u>1,355,457</u>
Plus:		
Realized Gains	2,875,673	9,345,166
Unrealized Gains	17,114,222	8,728,814
Interest Due and Accrued - Current Year	8	90
Sub Total	<u>19,989,902</u>	<u>18,074,070</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	0	(8,507)
Realized Loss	(1,634,178)	(3,661,385)
Unrealized Loss	(9,819,463)	(40,188,304)
Interest Due and Accrued - Prior Year	(90)	(142,277)
Sub Total	<u>(11,453,731)</u>	<u>(44,000,473)</u>
Net Investment Income (Loss)	<u>10,031,615</u>	<u>(24,570,946)</u>
Income Required:		
Annuity Savings Fund	115,437	131,839
Annuity Reserve Fund	240,019	225,440
Military Service Fund	106	126
Expense Fund	<u>772,838</u>	<u>850,661</u>
Total Income Required	<u>1,128,399</u>	<u>1,208,066</u>
Net Investment Income (Loss)	<u>10,031,615</u>	<u>(24,570,946)</u>
Less: Total Income Required	<u>1,128,399</u>	<u>1,208,066</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$8,903,216</u>	<u>(\$25,779,013)</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2009		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$405,178	0.5%
Equities	15,803,464	19.5%
Pooled Domestic Equity Funds	3,249,317	4.0%
Pooled International Equity Funds	7,811,534	9.6%
Pooled Domestic Fixed Income Funds	14,117,227	17.4%
Pooled Alternative Investment Funds	3,173,974	3.9%
Pooled Real Estate Funds	5,314,386	6.6%
PRIT Core Fund	<u>31,252,445</u>	<u>38.5%</u>
Grand Total	<u>\$81,127,525</u>	<u>100.0%</u>

For the year ending December 31, 2009, the rate of return for the investments of the Watertown Retirement System was 17.03%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Watertown Retirement System averaged 2.62%. 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 Watertown Retirement System was 8.21%.

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

November 5, 2010

17.04(3), 21.01(1)-(6)

The Watertown Retirement Board is authorized to invest in the MFS Institutional International Equity Fund. Since the Fund is an institutional mutual fund, the portfolio manager's investment recommendations and actions are made on behalf of the fund in its entirety and not on the behalf of any specific shareholder. Therefore, with reference to recommendations made or actions taken on behalf of a retirement board, the provisions of 17.04(3) do not apply. Since the Fund's prospectus permits the use of futures contracts and options in the implementation of its basic investment strategy and also permits purchases on margin and purchases of restricted stock, the Fund is exempt from the provisions of 21.01(1) (2) (3) (4) (5) and (6).

September 16, 2010

21.01(2)-(5)

The Watertown Retirement Board is authorized to invest in the BlackRock Global Allocation Fund. This fund may employ shorting strategies up to 20% of its total portfolio market value and may also use futures, options, and other derivatives in the execution of its basic portfolio strategy.

April 1, 2002

16.08

In accordance with Investment Guideline 99-2, the Watertown Retirement Board is authorized to modify its domestic fixed income mandate with Income Research & Management from a separate account structure to a commingled fund, the IRM Commingled Bond Fund. This change is intended to achieve operational efficiencies and involves no change in investment strategy.

July 26, 2000

16.08

In accordance with PERAC Investment Guideline 99-2, the Watertown Retirement Board may modify its investment contract with Hutchens Management Company to allow investment in mid cap equities. The board has had a satisfactory relationship with Hutchens as its domestic large cap manager. In recognition of Hutchens' strong performance results for mid cap equities, the Board believes that expanding its mandate to include mid caps is an appropriate way to achieve their asset allocation goals.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Watertown 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 \$729.84 per year 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 \$729.84 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 is 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 retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the 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 Watertown Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Membership:

October 2, 2002

Part-Time and Temporary Full-Time employees of the Watertown School Department shall be eligible for membership in the Watertown Retirement System after fifteen (15) months of consecutive school year employment in a position which requires him/her to work a minimum of 20 hours per week.

Creditable Service:

February 11, 2004

Leave Taken in Conjunction with Unpaid Leave

1. Creditable service shall include any periods of continuous absence during which a member receives partial regular compensation. During such periods, the member shall receive creditable service in proportion to the percentage of partial regular compensation received. If the percentage of partial regular compensation received during such periods equals or exceeds fifty percent (50%) the member shall be credited with full creditable service.

Example: A member on continuance absence under the Family and Medical Leave Act who receives one day of regular compensation per five-day week shall be credited with one day of creditable service for that week. A member who utilizes two and one-half days of regular compensation, or greater, shall receive full creditable service.

2. Creditable service may be allowed by the board for any period of continuous absence without regular compensation which is not in excess of one month. Any portion of any leave or period of continuous absence of any member without regular compensation which is in excess of one month shall not be counted as creditable service.

Example: A member who on unpaid leave under the Family and Medical Leave Act may, upon petition to the Board, receive up to one month of creditable service during such period without payment of retirement contributions.

Miscellaneous:

April 9, 2001

The Board will not accept liability for service for non-contributing employment service requested by members of other retirement systems, unless the former employees were wrongfully excluded or omitted from membership in the Watertown Retirement System.

NOTES TO FINANCIAL STATEMENTS (Continued)

Employment Service Rendered Under Federal Grants:

August 18, 2000

After further review of the relevant provisions of G.L. c. 32, further review of recent administrative and judicial decisions rendered regarding membership and creditable service, and further review of prior determinations and promulgations of the Public Employee Retirement Administration Commission relative to recovery of pension costs from federal grants, the Watertown Retirement Board hereby adopts the following supplemental regulations.

1. Employees of a member unit of the Watertown Retirement System whose compensation is paid through a federal grant (e.g., CETA, EAP, Title I, LEAA,) and whose employment terms and conditions would otherwise qualify them for membership, are eligible for membership in the Watertown Retirement System.

2. Active members of the Watertown Retirement System who previously rendered service in a member unit but were excluded or omitted from membership in The Watertown Retirement System due solely to the federal source of payment of the employees' compensation, and whose employment terms and conditions would otherwise qualify them for membership in the Watertown Retirement System, are entitled to membership in the system retroactive to the date of such exclusion or omission, upon full and complete payment into the retirement system of the appropriate retirement contribution. Such members are entitled to the benefits of membership which were in effect at the time of such exclusion or omission.

3. Active members of the Watertown Retirement System who have rendered prior employment service in a non-member unit and whose compensation for such service was paid through a federal grant, are eligible to purchase creditable service for such prior employment service, if such prior employment service, if rendered in a member unit, would have been eligible to be purchased.

December 8, 2003

The Watertown 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	\$69,135,665
The actuarial liability for Retirees, Beneficiaries, and Inactive members was	<u>86,827,470</u>
The total actuarial liability was	155,963,135
System assets as of that date were	<u>89,432,797</u>
The unfunded actuarial liability was	<u>\$66,530,338</u>
The ratio of system's assets to total actuarial liability was	57.3%
As of that date the total covered employee payroll was	\$25,403,413

The normal cost for employees on that date was 8.6% of payroll
 The normal cost for the employer was 5.79% of payroll

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

Investment Return: 8.00% per annum
 Rate of Salary Increase: 5.00% per annum

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2010	\$89,432,797	\$155,963,135	\$66,530,338	57.3%	\$25,403,413	261.9%
1/1/2009	\$78,514,694	\$144,633,508	\$66,118,814	54.3%	\$25,266,728	261.7%
1/1/2008	\$97,038,107	\$140,549,411	\$43,511,304	69.0%	\$24,654,987	176.5%
1/1/2006	\$77,395,170	\$130,484,841	\$53,089,671	59.3%	\$22,327,190	237.8%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Retirement in Past Years										
Superannuation	15	15	5	21	8	1	6	13	16	14
Ordinary Disability	1	0	0	0	0	2	0	0	1	0
Accidental Disability	1	3	1	0	1	4	0	1	0	0
Total Retirements	17	18	6	21	9	7	6	14	17	14
Total Retirees, Beneficiaries and Survivors	463	454	452	443	438	420	409	407	408	408
Total Active Members	534	533	539	519	515	512	518	515	511	490
Pension Payments										
Superannuation	\$3,986,891	\$4,183,782	\$4,271,879	\$4,680,344	\$4,844,697	\$5,049,259	\$4,928,956	\$5,026,548	\$5,211,441	\$5,435,018
Survivor/Beneficiary Payments	441,610	494,743	497,874	550,002	550,467	571,757	573,273	580,244	586,162	620,292
Ordinary Disability	148,229	147,881	148,043	147,850	142,978	135,712	127,692	129,985	142,756	130,567
Accidental Disability	464,085	1,284,801	1,483,845	1,517,265	1,601,719	1,752,742	1,830,148	1,525,393	1,538,409	1,646,178
Other	249,790	791,630	790,212	792,244	814,974	718,020	737,926	834,443	1,025,004	1,031,028
Total Payments for Year	<u>\$5,290,605</u>	<u>\$6,902,837</u>	<u>\$7,191,852</u>	<u>\$7,687,705</u>	<u>\$7,954,835</u>	<u>\$8,227,489</u>	<u>\$8,197,996</u>	<u>\$8,096,613</u>	<u>\$8,503,772</u>	<u>\$8,863,083</u>

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

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