Annual Statement for the Year Ended December 31, 2002 of the Conditions and Affairs of

CAMBRIDGE
(Name of Retirement System)

Organized under the Laws of the Commonwealth of Massachusetts to the
PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

Date of Certificate July 5, 1938

Effective Date July 1, 1939

**Administration Office**

| | |
|---|---|
| 255 Bent Street, 3rd Floor | Cambridge, MA 02141 |
| Street & Number | City/Town, State and Zip Code |

Telephone Number 617-868-3401

We, the undersigned, members of the Board of Retirement of Cambridge certify under the penalties of perjury, that we are the official board members of said retirement system, and that on the thirty-first day of December last all of the herein-described assets were the absolute property of said retirement systems, free and clear from any liens or claims thereon, except as stated, and the following statements, with the schedules and explanations therein contained, annexed, or referred to, are a full and correct exhibit of all the assets, liabilities, income and disbursements, changes in fund balances and of the conditions and affairs of the said retirement system on the said thirty-first day of December last, and for the year ended on that date, according to the best of our information, knowledge and belief, respectively.

**BOARD OF RETIREMENT**

**Ex-Officio Member**
James H. Monagle
(Name Typed) — (Signature)

**Appointed Member** — **Term Expires** 01-01-2004

Michael P. Gardner
(Name Typed) — (Signature)

**Elected Member** — **Term Expires** 12-01-2005

* Bradford P. Tenney
(Name Typed) — (Signature)

**Elected Member** — **Term Expires** 10-01-2004

Sheila M. Tobin
(Name Typed) — (Signature)

**Member Appointed by Other Members** — **Term Expires**

(Vacant)
(Name Typed) — (Signature)

**Place an asterisk (*) next to the name of the Board Member who serves as Chairperson.**

**INVESTMENT MANAGERS**

| (Name) | (Address) |
|---|---|
| List enclosed | |
| | |
| | |

**INVESTMENT CONSULTANT**

| (Name) | (Address) |
|---|---|
| Segal Advisors, Inc. | 116 Huntington Avenue, Boston, MA 02116 |

**CUSTODIAN**

| (Name) | (Address) |
|---|---|
| State Street Custodial Bank | One Enterprise Drive, North Quincy, MA 02171 |

Ascent Venture Partners
255 State Street, 5th Floor
Boston, MA 02109

Bank of Ireland Asset Management
75 Holly Hill Lane
Greenwich, CT 06830

Charles River Ventures
1000 Winter Street, Suite 3300
Waltham, MA 02451

Constitution Research & Mgmt.
175 Federal Street
Boston, MA 02110

Fleet Investment Advisors
MA BO F07E
75 State Street
Boston, MA 02109

Freedom Capital Management
One Beacon Street, 5th Floor
Boston, MA 02108

Gabelli Asset Mgmt. Company
One Corporate Center
Rye, NY 10580

Hancock Timber Resource Group
99 High Street, 26th Floor
Boston, MA 02110

Income Research & Management
One Federal Street, 23rd Floor
Boston, MA 02110

Loomis Sayles
One Financial Center
Boston, MA 02111

MacKay Shields LLC
9 West 57th Street
New York, NY 10019

MFS
500 Boylston Street
Boston, MA 02116

Putnam Advisory Company
One Post Office Square
Boston, MA 02109

State Street Global Advisors
One International Place
Boston, MA 02110

State Street Research & Mgmt.
One Financial Center
Boston, MA 02111

UBS Realty Investors, LLC
242 Trumbull Street
Hartford, CT 06103

W.P. Carey & Company
50 Rockefeller Plaza
New York, NY 10020

## ANNUAL STATEMENT BALANCE TESTS

### 1. ASSET BALANCE

| | |
|---|---|
| Assets Previous Year | 478,757,373.71 |
| Income Current Year | 1,315,291.37 |
| Disbursements Current Year | (36,327,368.77) |
| Assets Current Year | 443,745,296.31 |

### 2. ASSET DIFFERENCE

| | |
|---|---|
| Assets Current Year | 443,745,296.31 |
| Assets Previous Year | (478,757,373.71) |
| Difference | (35,012,077.40) |

### 3. INCOME DIFFERENCE

| | |
|---|---|
| Income Current Year | 1,315,291.37 |
| Disbursements Current Year | (36,327,368.77) |
| Difference | (35,012,077.40) |

### 4. FUND CHANGE DIFFERENCE

| | |
|---|---|
| Total Fund Change Credits Current Year | 1,315,291.37 |
| Total Fund Change Debits Current Year | (36,327,368.77) |
| Difference | (35,012,077.40) |

**NOTE: THE SUMS OF TESTS 2, 3, AND 4 SHOULD BE THE SAME.**

## ASSETS & LIABILITIES

| | | 2002 | 2001 | 2000 |
|---|---|---|---|---|
| 1 | 1040-Cash | 21,645,799.33 | 21,383,593.14 | 31,896,817.77 |
| 2 | 1100-Short Term Investments | 0.00 | 0.00 | 0.00 |
| 3 | 1180-Fixed Income Securities* (at market value) | 170,525,484.67 | 174,093,837.61 | 138,883,761.27 |
| 4 | 1170-Equities | 112,528,171.50 | 142,211,290.84 | 134,081,689.99 |
| 5 | 1101-Pooled Short Term Funds | 0.00 | 0.00 | 0.00 |
| 6 | 1172-Pooled Domestic Equity Funds | 75,463,700.54 | 70,658,178.32 | 90,081,736.60 |
| 7 | 1173-Pooled International Equity Funds | 38,359,400.05 | 41,076,183.87 | 43,452,979.38 |
| 8 | 1174-Pooled Global Equity Funds | 0.00 | 0.00 | 0.00 |
| 9 | 1181-Pooled Domestic Fixed Income Funds | 4,873,473.13 | 4,357,770.83 | 18,215,259.39 |
| 10 | 1182-Pooled International Fixed Income Funds | 0.00 | 0.00 | 0.00 |
| 11 | 1183-Pooled Global Fixed Income Funds | 0.00 | 0.00 | 0.00 |
| 12 | 1193-Pooled Alternative Investments | 8,579,270.64 | 8,227,006.18 | 16,941,583.51 |
| 13 | 1194-Pooled Real Estate Funds | 15,355,181.34 | 13,922,695.26 | 13,654,995.55 |
| 14 | 1195-Pooled Domestic Balanced Funds | 0.00 | 0.00 | 0.00 |
| 15 | 1196-Pooled International Balanced Funds | 0.00 | 0.00 | 0.00 |
| 16 | 1198-PRIT Cash | 0.00 | 0.00 | 0.00 |
| 17 | 1199-PRIT Fund | 0.00 | 0.00 | 0.00 |
| 18 | 1891-Principal Adjustment Account | 0.00 | 0.00 | 0.00 |
| 19 | 1550-Interest Due and Accrued | 2,495,688.33 | 2,899,392.68 | 2,629,380.95 |
| 20 | 1398-Accounts Receivable ( A ) | 8,306,081.01 | 8,329,435.06 | 13,744,191.74 |
| 21 | 2020-Accounts Payable ( A ) | (14,386,954.23) | (8,402,010.08) | (11,702,269.97) |
| | **TOTAL** | 443,745,296.31 | 478,757,373.71 | 491,880,126.18 |

## FUNDS

| | | 2002 | 2001 | 2000 |
|---|---|---|---|---|
| 1 | 3293-Annuity Savings Fund | 128,924,418.35 | 121,838,835.71 | 113,658,610.11 |
| 2 | 3294-Annuity Reserve Fund | 34,906,373.65 | 30,490,188.20 | 29,325,261.67 |
| 3 | 3295-Military Service Fund | 1,810.93 | 4,247.28 | 4,168.09 |
| 4 | 3296-Pension Fund | 63,023,366.58 | 67,147,088.76 | 68,725,189.02 |
| 5 | 3298-Expense Fund | 0.00 | 0.00 | 0.00 |
| 6 | 3297-Pension Reserve Fund | 216,889,326.80 | 259,277,013.76 | 280,166,897.29 |
| | **TOTAL ASSETS AT MARKET VALUE** | 443,745,296.31 | 478,757,373.71 | 491,880,126.18 |

**(A) Detail for Accounts Receivable and Accounts Payable are to be placed on Schedule A**

Annaul Statement of the Cambridge Retirement System for the Year Ended December 31, 2002

| | Balance on 12/31 Prior Year | Receipts | Interfund Transfers | Disbursements | Balance on 12/31 Current Year |
|---|---|---|---|---|---|
| Annuity Savings Fund | 121,838,835.71 | 17,554,695.29 | -7,782,533.80 | 2,686,578.85 | 128,924,418.55 |
| Annuity Reserve Fund | 30,490,188.20 | 914,205.95 | 7,575,906.30 | 4,073,926.80 | 34,906,373.65 |
| Pension Fund | 67,147,088.76 | 22,472,162.25 | 0.00 | 26,595,884.43 | 63,023,366.58 |
| Military Service Fund | 4,247.28 | 1,752.58 | -4,188.93 | 0.00 | 1,810.93 |
| Expense Fund | 0.00 | 2,970,978.69 | 0.00 | 2,970,978.69 | 0.00 |
| Pension Reserve Fund | 259,277,013.76 | -42,598,503.39 | 210,816.43 | 0.00 | 216,889,326.80 |
| TOTAL ALL FUNDS | 478,757,373.71 | 1,315,291.37 | 0.00 | 36,327,368.77 | 443,745,296.51 |

Transfer from Annuity Savings Fund to the Annuity Reserve Fund in the amount of $7,571,717.37 on account of retirements.
Transfer from Annuity Savings Fund to the Pension Reserve Fund in the amount of $210,816.43 on account of interest not credited to members.
Transfer from Military Service Fund to the Annuity Reserve Fund in the amount of $4,188.93 on account of military members retirement.

Annual Statement of the Cambridge Retirement System for the Year Ended December 31, 2002

RECEIPTS

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| **1. Annuity Savings Fund:** | | | |
| (a) 4891-Members Deductions | 13,911,742.08 | 12,668,298.65 | 11,654,477.64 |
| (b) 4892-Transfers from other Systems | 701,685.33 | 612,883.19 | 405,196.68 |
| (c) 4893-Member Makeup/Redep Payments | 1,051,772.96 | 230,190.19 | 331,414.96 |
| (d) 4900-Member Pmnts from Rollovers | 236,094.04 | | |
| (e) Investment Income Credited to Members Accts | 1,653,400.88 | 2,084,056.86 | 2,163,772.53 |
| **Subtotal** | 17,554,695.29 | 15,595,428.89 | 14,554,861.81 |
| **2. Annuity Reserve Fund:** | | | |
| (a) Investment Income Credited to Ann Res Fund | 914,205.95 | 886,696.52 | 830,044.04 |
| **Subtotal** | 914,205.95 | 886,696.52 | 830,044.04 |
| **3. Pension Fund:** | | | |
| (a) 4898-3(8)C Reimb from other Systems | 665,311.57 | 387,161.36 | 384,573.09 |
| (b) 4899-Rec'd from Commonwlth for COLA | 408,099.68 | 1,921,800.18 | 1,899,116.39 |
| (c) 4889-Princ Adj Acct Amortization Gain | 0.00 | | |
| (d) 4894-Pension Fund Appropriation | 21,398,751.00 | 22,030,446.00 | 21,668,642.31 |
| **Subtotal** | 22,472,162.25 | 24,339,407.54 | 23,952,331.79 |
| **4. Military Service Fund:** | | | |
| (a) 4890-Contributions Rec'd from municipality | 1,751.76 | 0.00 | 0.00 |
| (b) Investment Income Credited | 0.82 | 79.19 | 85.73 |
| **Subtotal** | 1,752.58 | 79.19 | 85.73 |
| **5. Expense Fund:** | | | |
| (a) 4896-Expense Fund Appropriation | 0.00 | 0.00 | 0.00 |
| (b) Investment Income Credited to Expense Fund | 2,970,978.69 | 3,022,056.53 | 2,744,506.14 |
| **Subtotal** | 2,970,978.69 | 3,022,056.53 | 2,744,506.14 |
| **6. Pension Reserve Fund:** | | | |
| (a) 4897-Federal Grant Reimbursement | 0.00 | 0.00 | 0.00 |
| (b) 4895-Pension Reserve Appropriation | 0.00 | 0.00 | 0.00 |
| (c) 4822-Interest Not Refunded | 35,038.96 | 59,434.05 | 71,169.27 |
| (d) 4825-Miscellaneous Income | 4,387.57 | 0.00 | 0.00 |
| (e) Excess Invesment Income | -42,637,929.92 | -20,948,636.85 | 24,916,110.80 |
| **Subtotal** | -42,598,503.39 | -20,889,202.80 | 24,987,280.07 |
| TOTAL RECEIPTS | **1,315,291.37** | **22,954,465.87** | **67,069,109.58** |

Annual Statement of the Cambridge Retirement System for the Year Ended December 31, 2002

DISBURSEMENTS

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| **1. Annuity Savings Fund:** | | | |
| (a) 5757-Refunds to Members | 2,037,872.83 | 2,370,018.00 | 2,414,002.02 |
| (b) 5756-Transfers to Other Systems | 648,706.02 | 903,783.68 | 543,245.22 |
| **Subtotal** | **2,686,578.85** | **3,273,801.68** | **2,957,247.24** |
| **2. Annuity Reserve Fund:** | | | |
| (a) 5750-Annuities Paid | 3,841,492.45 | 3,689,744.49 | 3,536,173.68 |
| (b) 5759-Option B Refunds | 232,434.35 | 174,107.84 | 121,380.58 |
| **Subtotal** | **4,073,926.80** | **3,863,852.33** | **3,657,554.26** |
| **3. Pension Fund:** | | | |
| (a) 5751-Pensions Paid | | | |
| Regular Pension Payments | 15,864,485.61 | 15,360,948.36 | 14,615,169.76 |
| Survivorship Payments | 1,664,020.71 | 1,844,629.80 | 1,421,065.18 |
| Ordinary Disability Payments | 549,829.02 | 565,863.18 | 535,577.53 |
| Accidental Disability Payments | 5,663,248.97 | 5,562,350.20 | 5,667,506.03 |
| Accidental Death Payments | 2,048,717.35 | 1,834,012.41 | 1,799,643.01 |
| Section 101 Benefits | 299,161.77 | 273,910.20 | 263,571.38 |
| (b) 5755-3(8)© Reimbursements to Other Systems | 506,421.00 | 475,793.65 | 416,168.39 |
| (c) 5752-COLA's Paid | | | |
| (d) 5753-Chapter 389 Beneficiary Increase Paid | | | |
| (e) 4888-Princ Adj Acct-Amort Loss | | | |
| **Subtotal** | **26,595,884.43** | **25,917,507.80** | **24,718,701.28** |
| **4. Military Service Fund:** | | | |
| (a) 4890-Return to Munic Mbrs who withdrew funds | 0.00 | 0.00 | 0.00 |
| **Subtotal** | 0.00 | 0.00 | 0.00 |
| **5. Expense Fund:** | | | |
| (a) 5118 Board Member Stipend | 16,500.00 | 16,500.00 | 16,500.00 |
| (b) 5119 Salaries | 315,405.57 | 305,341.97 | 306,045.06 |
| (h) 5304 Management Fees | 2,107,962.24 | 2,140,311.61 | 1,872,045.30 |
| (i) 5305 Custodial Fees | 194,291.69 | 194,992.53 | 172,105.76 |
| (e) 5307 Investment Consultant Fees | 96,000.00 | 105,750.00 | 114,375.00 |
| (c) 5308 Legal Expenses | 34,699.48 | 38,554.97 | 33,161.65 |
| (d) 5309 Medical Expenses | 110.36 | 140.71 | 179.05 |
| (h) 5310 Fiduciary Insurance | 9,861.00 | 0.00 | 0.00 |
| (I) 5311 Service Contracts | 14,800.07 | 0.00 | 0.00 |
| (j) 5312 Rent Expense | 105,061.20 | 0.00 | 0.00 |
| (k) 5589 Administrative Expenses | 54,363.44 | 183,160.50 | 196,205.52 |
| (l) 5599 Furniture and Equipment | 12,114.74 | 19,850.20 | 15,917.11 |
| (m) 5719 Travel | 9,808.90 | 17,454.04 | 17,971.69 |
| **Subtotal** | **2,970,978.69** | **3,022,056.53** | **2,744,506.14** |
| **TOTAL DISBURSEMENTS** | **36,327,368.77** | **36,077,218.34** | **34,078,008.92** |

Annual Statement of the Cambridge Retirement System for the Year Ended December 31, 2002

## INVESTMENT INCOME

| | 2002 | 2001 | 2000 |
|---|---|---|---|
| Investment Income received from: | | | |
| (a) Cash (from schedule 1) | 520,294.22 | 1,382,012.04 | 1,372,708.16 |
| (b) Short Term Investments (from schedule 2) | 0.00 | 48,195.99 | 123,667.08 |
| (c) Fixed Income Securities (from schedules 3A & 3C) | 12,863,270.94 | 12,905,884.45 | 10,558,288.79 |
| (d) Equities (from schedules 4A & 4C) | 1,846,158.51 | 1,191,278.23 | 1,686,196.44 |
| (e) Pooled Funds (from schedule 5) | 2,781,503.32 | 2,745,056.62 | 2,241,113.21 |
| (f) Commission Recapture | 19,467.10 | 10,093.23 | 35,357.95 |
| **4821-TOTAL INVESTMENT INCOME** | **18,030,694.09** | **18,282,520.56** | **16,017,331.63** |
| **Plus:** | | | |
| 4884-Realized Gains (Profits) | 7,428,898.44 | 18,944,059.88 | 55,476,809.09 |
| 4886-Unrealized Gains (Inccome in Market Value) | 17,881,954.57 | 24,959,388.59 | 42,050,718.73 |
| 1550-Interest Due and Accrued on FI Sec-Cur Yr | 2,495,688.33 | 2,899,392.68 | 2,629,380.95 |
| **Less:** | | | |
| 4823-Paid Accrued Int on Fixed Income Securities | (1,777,733.77) | (2,098,963.05) | (2,124,978.74) |
| 4885-Realized Losses | (27,304,622.55) | (27,840,651.80) | (24,822,775.52) |
| 4887-Unrealized Losses (Decrease in Market Value) | (50,954,830.01) | (47,472,113.66) | (56,186,040.39) |
| 1550-Interest Due and Accrued on FI Sec-Prior Yr | (2,899,392.68) | (2,629,380.95) | (2,385,926.51) |
| **NET INVESTMENT INCOME** | **(37,099,343.58)** | **(14,955,747.75)** | **30,654,519.24** |
| Income Required: | | | |
| Annuity Savings Fund (from Supplemental Schedule) | 1,653,400.88 | 2,084,056.86 | 2,163,772.53 |
| Annuity Reserve Fund | 914,205.95 | 886,696.52 | 830,044.04 |
| Expense Fund | 2,970,978.69 | 3,022,056.53 | 2,744,506.14 |
| Military Service Fund | 0.82 | 79.19 | 85.73 |
| **TOTAL INCOME REQUIRED** | **5,538,586.34** | **5,992,889.10** | **5,738,408.44** |
| Net Investment Income | (37,099,343.58) | (14,955,747.75) | 30,654,519.24 |
| Less: Income Required: | (5,538,586.34) | (5,992,889.10) | (5,738,408.44) |
| **EXCESS INCOME TO PENSION RESERVE FUND** | **(42,637,929.92)** | **(20,948,636.85)** | **24,916,110.80** |

Annual Statement of the Cambridge Retirement System for the year ended December 31, 2002

## MEMBERSHIP FOR CURRENT YEAR

| | Group 1 | Group 2 & 4 | Total |
|---|---|---|---|
| **ACTIVE MEMBERS** | | | |
| Active Membership, Dec 31, previous year | 4,977 | 558 | 5,535 |
| Inactive Membership, Dec 31, previous year | 472 | 4 | 476 |
| Enrolled during current year | 537 | 21 | 558 |
| Transfers between groups | 0 | 0 | 0 |
| Reinstatements of disabled members | 0 | 0 | 0 |
| **SUBTOTAL** | 5,986 | 583 | 6,569 |
| Deduct: | | | |
| Deaths | 6 | 2 | 8 |
| Withdrawals | 222 | 0 | 222 |
| Retirements | 94 | 30 | 124 |
| **SUBTOTAL** | 5,664 | 551 | 6,215 |
| Active Membership, Dec 31, current year | 5,167 | 545 | 5,712 |
| Inactive Membership, Dec 31, current year | 497 | 6 | 503 |

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| | Group 1 | Group 2 & 4 | Total |
|---|---|---|---|
| **RETIRED MEMBERS, BENEFICIARIES & SURVIVORS** | | | |
| **Retired, Beneficiary and Survivor Membership, Dec 31, previous year** | 1,151 | 509 | 1,660 |
| Retirements during the year: | | | |
| Superannuation | 89 | 25 | 114 |
| Ordinary disability | | 1 | 1 |
| Accidental disability | 7 | | 7 |
| Termination Retirement Allowance | | | |
| Beneficiary of Deceased Retiree | 22 | 8 | 30 |
| Survivor benefits from active membership | | 1 | 1 |
| **SUBTOTAL** | 1,269 | 544 | 1,813 |
| Deduct: | | | |
| Death of retired members | 50 | 17 | 67 |
| Termination of Survivor Benefits | 21 | 11 | 32 |
| Reinstatments of disabled pensions | | | |
| **SUBTOTAL** | 1,198 | 516 | 1,714 |
| **Retired Membership, Dec 31, current year** | | | |
| Superannuation | 848 | 226 | 1,074 |
| Ordinary disability | 21 | 15 | 36 |
| Accidental disability | 131 | 105 | 236 |
| Termination | 2 | | 2 |
| Beneficiaries from Accidental Deaths | 13 | 75 | 88 |
| Beneficiaries from Section 100 | | 1 | 1 |
| Beneficiaries from Section 101 | 20 | 21 | 41 |
| Beneficiaries under Option (c) | 84 | 24 | 108 |
| Option (d) Survivor Allowance | 118 | 13 | 131 |
| Section 12b Survivor Allowance | | | |
| **Total Retired, Beneficiary and Survivor Membership, Dec 31, current year** | 1,237 | 480 | 1,717 |

*******************************************************************

| | Group 1 | Group 2 & 4 | Total |
|---|---|---|---|
| **Total Membership:** | | | |
| **Active, Inactive, Retired, Benefcisary and Survivor, Dec 31, current year** | 6,901 | 1,031 | 7,932 |

Annual Statement of the Cambridge Retirement System for the Year Ended December 31, 2002

Schedule A

Detail of Accounts Receivable and Accounts Payable

**Accounts Receivable**

| | | |
|---|---|---|
| 4891 | Members Deductions | 211,053.77 |
| 4892 | Transfers from Other Systems | 0.00 |
| 4893 | Member Make Up Payments and Redeposits | 752,137.78 |
| 4898 | 3(8)(c) Reimbursements from Other Systems | 0.00 |
| 4899 | Rec'd from Commonwealth for COLA + Survivor Benefits | 408,099.68 |
| 4884 | Realized Gain on Sale of Investments | 0.00 |
| 4894 | Pension Fund Appropriation (Current FY) | 5,340,002.75 |
| 4894 | Pension Fund Appropriation (Previous FY) | 0.00 |
| 4890 | Contributions Received from Municipality on a/c of Military service | 1,751.76 |
| 4897 | Federal Grant Reimbursement | 0.00 |
| 4895 | Pension Reserve Appropriation | 0.00 |
| | Investments Sold but funds not received | |
| | 1046-State Street Research - Fixed | 1,068,440.69 |
| | 1052-Putnam-Equity | 64,951.63 |
| | 1053-Mackay Shields - Fixed | 169,944.57 |
| | 1054-Gabelli - Equity | 21,222.97 |
| | 1055-Constitution - Equity | 18,850.42 |
| | 1056-MFS - Equity | 245,762.99 |
| 4821 | Investment Income - Commission Recapture-St St Global Mkts | 3,862.00 |
| **TOTAL RECEIVABLES** | | **8,306,081.01** |

**Accounts Payable**

| | | |
|---|---|---|
| 5757 | Refunds to Members | |
| 5756 | Transfers to Other Systems | |
| 5750 | Annuities Paid | |
| 5759 | Option B Refunds | |
| 5751 | Pensions Paid | |
| 5755 | 3(8)(c) Reimbursements to Other Systems | |
| 5752 | COLA's Paid | |
| 5753 | Chapter 389 Beneficiary Increase Paid | |
| 4885 | Realized Loss on Sale of Investments | |
| 4890 | Return to Municipality | |
| 5119 | Salaries | 14,242.87 |
| 5308 | Legal Expenses | 0.00 |
| 5309 | Medical Expenses | 0.00 |
| 5719 | Travel | 0.00 |
| 5589 | Administrative Expenses | 1,037.40 |
| 5599 | Furniture and Equipment | 499.00 |
| 5304 | Management Fees | 395,725.00 |
| 5305 | Custodial Fees | 18,554.08 |
| 5307 | Consultant Fees | 24,000.00 |
| 5118 | Board Members Stipend | 1,250.00 |
| | Investments Purchased but not paid for | |
| | 1046-State Street Research - Fixed | 13,361,825.10 |
| | 1048-Columbia (Fleet) Investment Adv - Equity | 18,389.74 |
| | 1052-Putnam Investments - Equity | 342,022.26 |
| | 1055-Constitutiuons Research - Equity | 73,584.18 |
| | 1056-MFS - Equity | 135,824.60 |
| **TOTAL PAYABLES** | | **14,386,954.23** |

**Schedule No. 1**
**Annual Statement of the Cambridge Retirement System for the Year Ended December 31, 2002**

**Cash Account Activity During Year**

| Description: type of account, account number interest rate list alpha | (A) Book Value at End of Previous Year | (B) Total Deposits This Year | (C) Income Reinvested/ Redeposited Into Account | (D) Withdrawals During Year | (E) =A+B+C-D Total Book Value December 31st This Year | (F) Cash Income Paid to System Not Reinvested or Redeposited | (G) Interest Due and Accrued December 31st |
|---|---|---|---|---|---|---|---|
| Summary by Manager | | | | | | | |
| E 302-Internal | 6,265,489.92 | | (4,196,910.75) | | 2,068,579.17 | 233,637.21 | 8,226.84 |
| E 304-Freedom Capital Mgmt-Fixed | 293,023.17 | | 426,515.71 | | 719,538.88 | 12,459.62 | 812.84 |
| E 306-State Street Research & Mgmt | 8,743,883.64 | | 4,449,265.17 | | 13,193,148.81 | 173,607.48 | 14,415.84 |
| E 308-Income Research & Mgmt | 113,495.66 | | (98,569.01) | | 14,926.65 | 14,424.96 | 1,782.03 |
| E 309-Fleet Investment Advisors | 1,418,443.66 | | (909,617.42) | | 508,826.24 | 21,093.97 | 433.86 |
| E 312-Putnam Advisors, Inc. | 909,654.71 | | (395,347.98) | | 514,306.73 | 12,267.59 | 974.01 |
| E 313-MacKay Shields | 1,460,173.16 | | 848,337.01 | | 2,308,510.17 | 26,102.10 | 2,851.68 |
| E314-Gabelli Asset Mgmt | 1,299,252.11 | | (437,315.00) | | 861,937.11 | 22,509.43 | 979.45 |
| E315-Constitution Research & Mgmt | 87,947.06 | | (29,504.18) | | 58,442.88 | 2,409.45 | 16.96 |
| E316-MFS | 792,230.05 | | 605,352.64 | | 1,397,582.69 | 21,249.51 | 1,648.62 |
| Summary Totals | 21,383,593.14 | | 262,206.19 | | 21,645,799.33 | 539,761.32 | 32,142.13 |

Schedule No. 2

Annual Statement of the Cambridge Retirement System for the Year Ended December 31, 2002

**Short Term Securities* Bought and Sold or Matured During the Year as well as Still Held on December 31st**

| | (A) | (B) | (C) | (D) | (E) | (F) | (G) |
|---|---|---|---|---|---|---|---|
| Description: inc'ld cusip or acct. no., interest rate, maturity date, list alpha | Date Acquired | Par Value | Cost Including Commissions | Amt Received at Maturity Less Commissions and Excluding Interest | Book Value Dec. 31st Current Year | Interest Received During Year | Interest Due and Accrued Dec 31st |

Summary by Manager

NONE

Schedule No. 3A
Annual Statement of the Cambridge Retirement System for the Year Ended December 31, 2002

**Domestic Fixed income Securities Owned at End of Year**

| | (A) | (B) | (C) | (D) | (E) | (F) | (G) |
|---|---|---|---|---|---|---|---|
| Description: including maturity date and interest rate, list alpha | Cusip Number | Par Value | Unrealized Gain/Loss | Book Value* | Market Value | Interest Rec'd During Year | Interest Due and Accrued Dec 31st |
| Summary by Manager | | | | | | | |
| E 304-Freedom Capital Management | | | 1,311,433.79 | | 35,808,687.27 | 1,462,595.68 | 357,098.92 |
| E 306-State Street Research | | | 1,781,638.57 | | 51,645,603.43 | 1,915,799.51 | 480,482.15 |
| E 308-Income Research & Management | | | 1,106,067.08 | | 59,896,950.56 | 3,368,516.31 | 919,322.65 |
| E 313-MacKay Shields | | | (1,527,180.16) | | 23,174,243.41 | 1,810,768.91 | 706,642.48 |
| Summary Totals | | | 2,671,959.28 | | 170,525,484.67 | 8,557,680.41 | 2,463,546.20 |

Schedule No. 3B
Annual Statement of the Cambridge Retirement System for the Year Ended December 31, 2002

## Domestic Fixed income Securities Purchased During Year

| Description: including date of maturity and interest rate, list alpha | (A) Cusip Number | (B) Par Value | (C) Date Acquired (Trade Date) | (D) Name of Broker | (E) Commissions Paid | (F) Paid Accrued Interest | (G) Cost excluding Accrued Interest But Includidng Commissions |
|---|---|---|---|---|---|---|---|
| Summary by Manager | | | | | | | |
| E 304-Freedom Capital Management | | | | | | 301,870.74 | 39,276,186.62 |
| E 306-State Street Research | | | | | | 722,915.56 | 162,636,629.01 |
| E 308-Income Research & Mgmt | | | | | | 409,615.30 | 41,067,736.42 |
| E 313-MacKay Shields | | | | | | 343,332.17 | 17,747,691.50 |
| Summary Totals | | | | | | 1,777,733.77 | 260,728,243.55 |

Schedule No. 3C
Annual Statement of the Cambridge Retirement System for the Year Ended December 31, 2002

## Domestic Fixed income Securities Sold During the Year

| | (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | (I) |
|---|---|---|---|---|---|---|---|---|---|
| Description: including date of maturity and interest rate, list alpha | Cusip Number | Par Value | Date Sold or Matured (Trade Date) | Name of Broker | Commissions | Book Value Previous Dec 31st or cost if purchased Current Year | Amount Received on Sale Less Commissions Excluding Accrued Interest | =G-F Profit/(Loss) on Sale | Interest Rec'd During Yr Including Interest Sold |
| Summary by Manager | | | | | | | | | |
| E 304-Freedom Capital Mgmt | | | | | | 41,751,858.83 | 40,249,887.18 | (1,501,971.65) | 1,279,630.59 |
| E 306-State Street Research | | | | | | 165,371,046.75 | 165,943,371.20 | 572,324.45 | 1,084,143.05 |
| E 308-Income Research & Mgmt | | | | | | 43,465,470.30 | 43,017,091.13 | (448,379.17) | 978,750.31 |
| E 313-MacKay Shields | | | | | | 16,380,179.89 | 16,270,810.11 | (109,369.78) | 963,066.58 |
| Summary Totals | | | | | | 266,968,555.77 | 265,481,159.62 | (1,487,396.15) | 4,305,590.53 |

Schedule No. 4A
Annual Statement of the Cambridge Retirement System for the Year Ended December 31, 2002

**Equities Owned at End of Year**

| | (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | =F-D-E | =F-D-E | |
| Description: Give complete description list alpha | Cusip Number | # of Sales | Rate per share used to obtain Cur Mkt Val | Market Value at end of Previous Year | Net Purch & Sales at B V Cur Yr | Market Value at end of Current Year | Unrealized Gain | Unrealized Loss | Dividends Received During Year |
| Summary by Manager | | | | | | | | | |
| E 302-Cambridge Bancorp | | | | 9,135,672.00 | | 9,554,568.00 | 1,338,562.67 | 0.00 | 251,852.96 |
| E 302-Ocean West Holdg. Corp. | | | | 0.00 | | 22.00 | 22.00 | 0.00 | 0.00 |
| E 309-Fleet Investment Advisors | | | | 27,092,810.01 | | 21,254,034.65 | 0.00 | (3,534,051.69) | 249,329.69 |
| E 312-Putnam Advisors | | | | 29,758,387.84 | | 21,266,215.19 | 0.00 | (3,708,774.27) | 140,842.79 |
| E 313-MacKay Shields | | | | 422,556.97 | | 767,579.61 | 32,946.51 | 0.00 | 27,450.23 |
| E314-Gabelli Asset Mgmt | | | | 11,807,045.22 | | 10,196,907.18 | 0.00 | (1,549,851.55) | 106,502.20 |
| E315-Constitution Research & Mgmt | | | | 19,018,664.00 | | 11,147,208.84 | 0.00 | (5,223,828.95) | 0.00 |
| E316-MFS | | | | 44,976,154.80 | | 38,341,636.03 | 0.00 | (3,950,684.86) | 830,776.99 |
| Summary Totals | | | | 142,211,290.84 | | 112,528,171.50 | 1,371,531.18 | (17,967,191.32) | 1,606,754.86 |

Schedule No. 4B
Annual Statement of the Cambridge Retiement System for the Year Ended December 31, 2002

**Equities purchased During Year**

| | (A) | (B) | (C) | (D) | (E) | (F) |
|---|---|---|---|---|---|---|
| Description: Give complete description list alphabetically | Cusip Number | Number of Shares | Date Acquired (Trade Date) | Name of Broker | Commissions and Fees Paid | Cost to System Including Commissions and Fees |
| Summary by Manager | | | | | | |
| E 302-Cambridge Bancorp | | | | | 0.00 | 0.00 |
| E 302-Ocean West | | | | | 0.00 | 0.00 |
| E309-Columbia (Fleet) | | | | | 17,666.00 | 6,825,709.80 |
| E 312-Putnam Advisors | | | | | 23,607.00 | 19,486,773.50 |
| E 313-MacKay Shields | | | | | 277.50 | 729,942.83 |
| E314-Gabelli Asset Mgmt | | | | | 8,635.00 | 2,612,758.80 |
| E315-Constitution Research & Mgmt | | | | | 8,957.00 | 5,606,707.39 |
| E316-MFS | | | | | 30,847.04 | 23,295,404.72 |
| Summary Totals | | | | | 89,989.54 | 58,557,297.04 |

**Schedule No. 4C**
**Annual Statement of the Cambridge Retirement System for the Year Ended December 31, 2002**

**Equities Sold During Year**

| | (A) | (B) | (C) | (D) | (E) | (F) | (G) | (H) | (I) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | =F-G | =F-G | |
| Description: Give complete description list alphabetically | Cus # | # of Shar | Brkr | Date Sold | Commissions Paid | Proceeds From Sale | Book Value on Date of Sale | Realized Gain | Realized Loss | Dividends Rec'd During Year |
| Summary by Manager | | | | | | | | | | |
| E302-Cambridge Bancorp | | | | | 0.00 | 1,007,500.00 | 919,666.67 | 87,833.33 | 0.00 | 0.00 |
| E309-Columbia (Fleet) Invest Adv | | | | | 10,373.97 | 10,615,934.23 | 9,130,433.47 | 1,694,433.51 | (208,932.75) | 21,760.71 |
| E312-Putnam Advisors | | | | | 31,057.18 | 18,736,622.81 | 24,270,171.88 | 386,771.98 | (5,920,321.05) | 44,594.72 |
| E313-MacKay Shields | | | | | 261.95 | 717,663.43 | 417,866.70 | 309,933.65 | (10,136.92) | 5,709.71 |
| E314-Gabelli Asset Mgmt | | | | | 4,642.77 | 2,135,678.69 | 2,673,045.29 | 94,402.89 | (631,769.49) | 14,709.12 |
| E315-Constitution Research & Mgmt | | | | | 14,019.00 | 5,486,262.50 | 8,254,333.60 | 435,527.04 | (3,203,598.14) | 228.00 |
| E316-MFS | | | | | 34,496.60 | 23,005,510.56 | 25,979,238.63 | 732,044.06 | (3,705,772.13) | 152,401.39 |
| Summary Totals | | | | | 94,851.47 | 61,705,172.22 | 71,644,756.24 | 3,740,946.46 | (13,680,530.48) | 239,403.65 |

Schedule No. 5

Annual Statement of the Cambridge Retirement System for the Year Ended December 31, 2002

## Schedule of Pooled Funds

| | | (A) | (B) | (C) | (D) | | (E) | | (F) | (G) | (H) | (I) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | | | | | =A+B+C+D+E-F-G-H |
| PERAC Ledger # | Description: list alpha by category | Market Value at end of Previous Year | Total Purchases this year at Cost | Reinvested Investment Income | Realized Gains | Realized Losses | Unrealized Gain | Unrealized Loss | Total Sales Redemp this year amt Rec'd | Cash Div/Dist to System this Year | Fees Paid | Market Value at End of Year |
| 1172 | Freedom-Equity Style Fund | 40,515,596.28 | 0.00 | 723,619.24 | 0.00 | (3,302,163.84) | 4,434,735.95 | (10,324,833.09) | 0.00 | 0.00 | 0.00 | 32,046,954.54 |
| 1172 | Loomis Sayles | 9,212,500.00 | 0.00 | (10,804.00) | 0.00 | 0.00 | 0.00 | (3,297,674.00) | 0.00 | 0.00 | (54,022.00) | 5,850,000.00 |
| 1172 | SSGA-Russell 1000 | 0.00 | 15,000,000.00 | 0.00 | 0.00 | 0.00 | 930,745.70 | (2,051,305.09) | 0.00 | 0.00 | 0.00 | 13,879,440.61 |
| 1172 | SSGA-S & P 500 Flagship | 20,930,082.04 | 7,500,000.00 | 0.00 | 0.00 | 0.00 | 1,200,409.86 | (5,943,186.51) | 0.00 | 0.00 | 0.00 | 23,687,305.39 |
| 1173 | Bank of Ireland Mgmt | 41,076,183.87 | 5,000,000.00 | 864,511.36 | 0.00 | (4,257,577.78) | 3,764,139.56 | (8,087,856.96) | 0.00 | 0.00 | 0.00 | 38,359,400.05 |
| 1181 | State St Research-Oppor Hi Yld | 4,357,770.83 | 722,646.54 | 0.00 | 0.01 | 0.00 | 216,182.56 | (103,126.81) | (320,000.00) | 0.00 | 0.00 | 4,873,473.13 |
| 1193 | Ascent Venture-Fund II | 2,436,858.00 | 0.00 | 4,495.00 | 27,662.80 | (688,453.65) | 528,975.00 | (805,208.00) | 0.00 | (281,948.15) | (61,462.00) | 1,160,919.00 |
| 1193 | Ascent Venture-Fund III | 1,655,822.00 | 550,000.00 | 2,269.00 | 0.00 | (313,500.00) | 484,571.00 | (173,918.00) | 0.00 | 0.00 | (112,500.00) | 2,092,744.00 |
| 1193 | Charles River Partnership-Fund VII | 737,717.00 | 0.00 | (47,722.00) | 0.00 | (18,189.46) | 56,428.08 | (226,961.00) | (172,227.62) | 0.00 | 0.00 | 329,045.00 |
| 1193 | Charles River Partnership-Fund VIII | 778,087.00 | 0.00 | (35,985.00) | 0.00 | 0.00 | 2,580.00 | (205,005.00) | 0.00 | 0.00 | 0.00 | 539,677.00 |
| 1193 | Hancock Timber-Forestree V | 2,618,522.18 | 1,898,182.00 | (7,675.05) | 141,161.67 | 0.00 | 136,571.67 | (43,713.50) | 0.00 | (258,173.00) | (27,990.33) | 4,456,885.64 |
| 1194 | Aetna LT (Allegis) RESA | 8,295,657.26 | 0.00 | 691,387.74 | 17,299.08 | (34,609.77) | 147,437.05 | (84,716.05) | 0.00 | 0.00 | (61,303.00) | 8,971,152.31 |
| 1194 | Carey Institutional Properties | 5,627,038.00 | 0.00 | 597,407.03 | 13,767.00 | (34,140.00) | 341,700.00 | (46,147.00) | 0.00 | 0.00 | (115,596.00) | 6,384,029.03 |
| | TOTAL | 138,241,834.46 | 30,670,828.54 | 2,781,503.32 | 199,890.56 | (8,648,634.50) | 12,244,476.43 | (31,393,651.01) | (492,227.62) | (540,121.15) | (432,873.33) | 142,631,025.70 |

RECAP

| | |
|---|---|
| 1172 | 72,463,700.54 |
| 1173 | 38,359,400.05 |
| 1181 | 4,873,473.13 |
| 1193 | 8,579,270.64 |
| 1194 | 15,355,181.34 |
| | 139,631,025.70 |

## APPENDIX PAGE 3

## ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Company as of January 1, 2002.

| | | |
|---|---|---|
| The Normal cost for Employees on that date was | $13,976,518 | 83.54% of Payroll |
| The Normal Cost for the Employer was | $8,417,895 | 5.0315% of Payroll |

| | |
|---|---|
| The Actuarial Liability for Active Members was | $326,503,997 |
| The Actuarial Liability for Retired Members was | $251,545,648 |
| Total Actuarial Accrued Liability was | $578,049,645 |
| System Assets as of that Date was | $478,757,374 |
| Unfunded Actuarial Accrued Liability | $ 61,102,609 |

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

Investment Return: 8.5% per annum
Rate of Salary Increase: 5.5% per annum

### SCHEDULE OF FUNDING PROGRESS

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) (b) | Unfunded AAL (UALL) (b-a) | Funded Ration (a/b) | Covered Payroll (c) | UALL as a % of covered payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 01/01/2002 | 516,947,036 | 578,049,645 | 61,102,609 | 89.43% | 167,302,844 | 36.52% |

## PLAN DESCRIPTION

The plan is a contributory defined benefit plan covering all Cambridge 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 pensions of such school employees are administered by the Teachers' Retirement Board.

Instituted in 1939, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80 - 85% pension and 15 - 20% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of $30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Cost-of-living adjustments and any other increase in benefits imposed by state law granted between 1981 and 1996 are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as determined by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually reduced such liability.

Administrative expenses are funded through excess investment income.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

## 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 Executive Director of Public Employee Retirement Administration Commission. All investments are stated at market value at the end of the year.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8 or 9% of their gross regular compensation. Voluntary contributions, redeposits, 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, a 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 or appropriated by the governmental units 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, Expense Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited all income derived from invested funds. At the end of the year the income 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.

3

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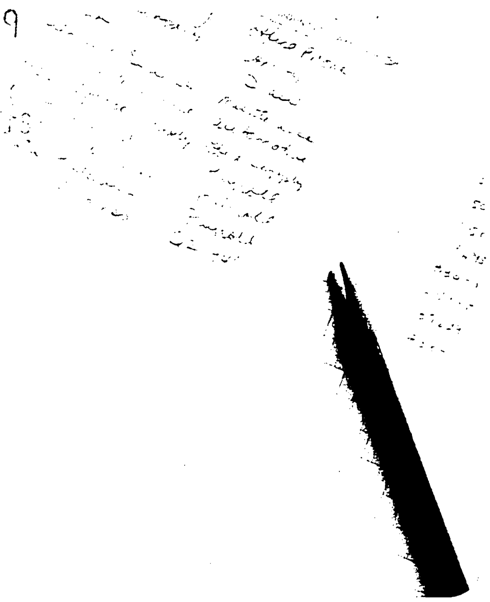

Annual Statement

of the Financial Condition of the

CAMBRIDGE

Retirement System to the

Public Employee Retirement

Administration Commission

for the year ended 12/31/2002

S-158

**Communications and Reports from City Officers #3**

A communication was received from Cambridge Retirement Office, regarding the Annual Statement of the Financial Condition of the Cambridge Retirement System to the Public Employee Retirement Administration Commission for the year ended December 31, 2002.

**In City Council April 28, 2003**

**PLACED ON FILE.**