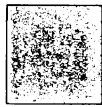


PERAC AUDIT REPORT



Cambridge Contributory Retirement System

JAN. 1, 1998 - DEC. 31, 2000 | PERAC 99: 08-025-07

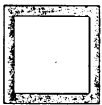
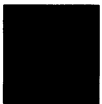
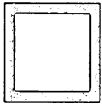
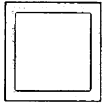
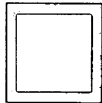


TABLE OF CONTENTS

Letter from the Executive Director.....	1
Explanation of Findings and Recommendations.....	2
Statement Of Ledger Assets And Liabilities.....	4
Statement Of Changes In Fund Balances.....	5
Statement Of Income.....	6
Statement Of Disbursements.....	7
Investment Income.....	8
Statement Of Allocation Of Investments Owned.....	9
Supplementary Investment Regulation.....	10
<u>Notes to Financial Statements:</u>	
Note 1 - The System.....	13
Note 2 - Significant Accounting Policies.....	14
Note 3 - Supplementary Membership Regulations.....	15
Note 4 - Administration Of The System.....	18
Note 5 - Actuarial Valuation And Assumptions.....	19
Note 6 - Membership Exhibit.....	20

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

ROBERT E. TIERNEY, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*

JOSEPH E. CONNARTON, *Executive Director*

C. CHRISTOPHER ALBERTI | STEPHEN P. CROSBY | KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS

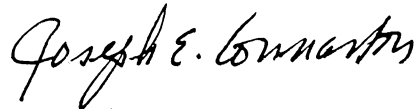
March 19, 2003

The Public Employee Retirement Administration Commission has completed an examination of the Cambridge Retirement System pursuant to G.L. c. 32, s. 21. The examination covered the period from January 1, 1998 to December 31, 2000. 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 and management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners David Pickering, James Ryan, Robert Madison, and Harry Chadwick 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



Cambridge Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

1. **Cash:**

PERAC auditors observed that the Cambridge Retirement System's Financial Analyst, rather than the City Treasurer, was performing the monthly reconciliation of the Retirement System's bank account. The Analyst also maintains the accounting records and ledgers, including performing wire transfers of funds to the operating account maintained at the custodial bank.

The Treasurer of the City of Cambridge, during the audit period, received a yearly stipend in the amount of \$1,500.00 for being the custodian of the funds as set forth in G.L. c.32, §20(4)(g).

PERAC regulation 840 CMR 25.13(6) requires that the Treasurer perform his/her statutory duty as custodian of the funds and perform the monthly reconciliation of the bank account(s).

Recommendation:

When the administrator, or other staff member, of a retirement board performs the monthly bank reconciliation, there is a lack of segregation of duties and inadequate internal control. The Treasurer of the City of Cambridge must begin reconciling the monthly bank account of the Retirement System as soon as possible pursuant to PERAC regulation 840 CMR 25.13(6) and G.L. c. 32, §23(2)(a).

Board Response:

The Board met with Louis Depasquale, Finance Director/Treasurer for the City of Cambridge, on March 3, 2003. It was agreed that the Finance Director/Treasurer's department would reconcile the monthly bank accounts beginning January 2003.

Cambridge Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

2. **Selection of Actuarial Consultant:**

In April 2002, the Cambridge Retirement System coordinated, for the City of Cambridge, the solicitation of competitive bids for actuarial consulting services. Four firms were participants in the proposal process. The lowest solicited bid was \$9,500 and the highest bid of \$18,000 was from Segal Advisors Inc. Segal was chosen and contracted with for 2002 actuarial services. The Cambridge Retirement Board paid \$49,000 and \$32,000 for the Actuarial Services of Watson Wyatt & Company in 1998 and 2000, respectively. The City of Cambridge Treasurer's office made the final decision on the selection of the actuarial consulting firm, although the Cambridge Retirement System is the legal entity utilizing and paying for a significant portion of the actuarial services.

Recommendation:

The Cambridge Retirement Board should be selecting the firm who will be providing actuarial consulting services to the Board instead of the City of Cambridge, in order to meet the fiduciary responsibility requirements of 840 CMR 16.08. PERAC provides actuarial services at no cost to the Retirement Systems of the Commonwealth of Massachusetts.

Board Response:

The actuarial services contracted to perform the 1/1/02 study was chosen with the full knowledge and assistance of the Cambridge Retirement Board. The committee consisted of Board Member Michael Gardner, Executive Director Anne Leduc, and Finance Director/Treasurer James Maloney. The Cambridge Retirement Board will request proposals and vote for the next actuarial valuation study due for 1/1/04, or utilize the Actuarial Department of the Public Employee Retirement Administration Commission.

Final Determination:

PERAC auditors will follow-up in six (6) months to ensure appropriate action has been taken on all findings.

Cambridge Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2000**

ASSETS	FOR THE PERIOD ENDING DECEMBER 31,		
	2000	1999	1998
Cash	\$31,896,818	\$17,646,948	\$17,101,889
Short Term Investments	0	3,835,300	2,000,000
Fixed Income Securities (at book value)	138,883,761	117,107,764	113,025,332
Equities	134,081,690	174,980,304	182,020,286
Pooled Domestic Equity Funds	90,081,737	43,178,206	8,698,524
Pooled International Equity Funds	43,452,979	47,464,290	36,079,429
Pooled Domestic Fixed Income Funds	18,215,259	17,286,033	7,090,020
Pooled Alternative Investment Funds	16,941,584	20,714,712	6,320,219
Pooled Real Estate Funds	13,654,996	12,261,323	11,015,464
Interest Due and Accrued	2,629,381	2,385,927	1,950,439
Accounts Receivable	13,744,192	7,563,210	8,251,137
Accounts Payable	(11,702,270)	(5,534,992)	(2,605,965)
TOTAL	<u>\$491,880,126</u>	<u>\$458,889,026</u>	<u>\$390,946,774</u>
FUND BALANCES			
Annuity Savings Fund	\$113,658,610	\$106,872,325	\$99,808,990
Annuity Reserve Fund	29,325,262	27,343,909	26,365,397
Pension Fund	68,725,189	69,491,559	68,872,971
Military Service Fund	4,168	9,413	4,040
Expense Fund	0	0	0
Pension Reserve Fund	280,166,897	255,171,820	195,895,376
TOTAL	<u>\$491,880,126</u>	<u>\$458,889,026</u>	<u>\$390,946,774</u>

Cambridge Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2000

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (1998)	\$93,665,117	\$25,039,226	\$68,794,973	\$618	\$0	\$156,806,156	\$344,306,091
Receipts	12,542,708	744,100	21,880,443	3,422	2,479,366	38,914,256	76,564,295
Interfund Transfers	(3,904,856)	3,729,892	0	0	0	174,964	0
Disbursements	<u>(2,493,979)</u>	<u>(3,147,821)</u>	<u>(21,802,445)</u>	<u>0</u>	<u>(2,479,366)</u>	<u>0</u>	<u>(29,923,612)</u>
Ending Balance (1998)	99,808,990	26,365,397	68,872,972	4,040	0	195,895,376	390,946,774
Receipts	13,264,298	787,844	23,574,188	5,373	2,679,781	59,274,862	99,586,345
Interfund Transfers	(3,460,827)	3,459,245	0	0	0	1,582	0
Disbursements	<u>(2,740,136)</u>	<u>(3,268,577)</u>	<u>(22,955,600)</u>	<u>0</u>	<u>(2,679,781)</u>	<u>0</u>	<u>(31,644,094)</u>
Ending Balance (1999)	106,872,325	27,343,909	69,491,559	9,413	0	255,171,820	458,889,026
Receipts	14,554,862	830,044	23,952,332	86	2,744,506	24,987,280	67,069,110
Interfund Transfers	(4,811,330)	4,808,863	0	(5,330)	0	7,797	0
Disbursements	<u>(2,957,247)</u>	<u>(3,657,554)</u>	<u>(24,718,701)</u>	<u>0</u>	<u>(2,744,506)</u>	<u>0</u>	<u>(34,078,009)</u>
Ending Balance (2000)	<u>\$113,658,610</u>	<u>\$29,325,262</u>	<u>\$68,725,189</u>	<u>\$4,168</u>	<u>\$0</u>	<u>\$280,166,897</u>	<u>\$491,880,127</u>

Cambridge Retirement System

STATEMENT OF INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2000**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2000	1999	1998
Annuity Savings Fund:			
Members Deductions	\$11,654,478	\$10,558,284	\$9,723,765
Transfers from other Systems	405,197	341,933	359,377
Member Make Up Payments and Redeposits	331,415	235,756	290,130
Investment Income Credited to Member Accounts	<u>2,163,773</u>	<u>2,128,326</u>	<u>2,169,436</u>
Sub Total	<u>14,554,862</u>	<u>13,264,298</u>	<u>12,542,708</u>
Annuity Reserve Fund:			
Investment Income Credited Annuity Reserve Fund	<u>830,044</u>	<u>787,844</u>	<u>744,100</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	384,573	341,306	277,243
Received from Commonwealth for COLA and Survivor Benefits	1,899,116	1,948,873	907,513
Pension Fund Appropriation	<u>21,668,642</u>	<u>21,284,009</u>	<u>20,695,687</u>
Sub Total	<u>23,952,332</u>	<u>23,574,188</u>	<u>21,880,443</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	5,284	3,407
Investment Income Credited Military Service Fund	<u>86</u>	<u>89</u>	<u>15</u>
Sub Total	<u>86</u>	<u>5,373</u>	<u>3,422</u>
Expense Fund:			
Expense Fund Appropriation	0	(281)	0
Investment Income Credited to Expense Fund	<u>2,744,506</u>	<u>2,680,062</u>	<u>2,479,366</u>
Sub Total	<u>2,744,506</u>	<u>2,679,781</u>	<u>2,479,366</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	(131,319)	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	71,169	71,433	72,834
Excess Investment Income	<u>24,916,111</u>	<u>59,334,748</u>	<u>38,841,422</u>
Sub Total	<u>24,987,280</u>	<u>59,274,862</u>	<u>38,914,256</u>
TOTAL RECEIPTS	<u>\$67,069,110</u>	<u>\$99,586,345</u>	<u>\$76,564,295</u>

Cambridge Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2000**

FOR THE PERIOD ENDING DECEMBER 31,			
	2000	1999	1998
Annuity Savings Fund:			
Refunds to Members	\$2,414,002	\$2,221,327	\$2,243,722
Transfers to other Systems	<u>543,245</u>	<u>518,809</u>	<u>250,257</u>
Sub Total	<u>2,957,247</u>	<u>2,740,136</u>	<u>2,493,979</u>
Annuity Reserve Fund:			
Annuities Paid	3,536,174	3,180,056	2,954,191
Option B Refunds	<u>121,381</u>	<u>88,521</u>	<u>193,630</u>
Sub Total	<u>3,657,554</u>	<u>3,268,577</u>	<u>3,147,821</u>
Pension Fund:			
Pensions Paid			
Regular Pension Payments	14,615,170	13,574,794	12,659,803
Survivorship Payments	1,421,065	1,351,381	1,292,494
Ordinary Disability Payments	535,578	489,800	453,128
Accidental Disability Payments	5,667,506	5,139,571	5,087,777
Accidental Death Payments	1,799,643	1,722,811	1,663,161
Section 101 Benefits	263,571	259,159	243,275
3 (8) (c) Reimbursements to Other Systems	416,168	418,084	402,807
Sub Total	<u>24,718,701</u>	<u>22,955,600</u>	<u>21,802,445</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	16,500	16,500	16,500
Salaries	306,045	299,378	295,269
Legal Expenses	33,162	28,627	40,158
Medical Expenses	179	711	1,590
Travel Expenses	17,972	12,602	9,498
Administrative Expenses	196,206	181,092	207,060
Furniture and Equipment	15,917	21,600	18,537
Management Fees	1,872,045	1,853,504	1,629,685
Custodial Fees	172,106	171,766	149,953
Consultant Fees	<u>114,375</u>	<u>94,000</u>	<u>111,116</u>
Sub Total	<u>2,744,506</u>	<u>2,679,781</u>	<u>2,479,366</u>
TOTAL DISBURSEMENTS	<u>\$34,078,009</u>	<u>\$31,644,094</u>	<u>\$29,923,612</u>

Cambridge Retirement System

INVESTMENT INCOME

**FOR THE THREE YEAR PERIOD BEGINNING JANUARY 1, 1998
AND ENDING DECEMBER 31, 2000**

	FOR THE PERIOD ENDING DECEMBER 31,		
	2000	1999	1998
Investment Income Received From:			
Cash	\$1,372,708	\$787,347	\$1,207,120
Short Term Investments	123,667	190,856	208,902
Fixed Income	10,558,289	9,040,603	7,444,546
Equities	1,686,196	2,270,988	2,188,617
Pooled or Mutual Funds	2,241,113	1,805,553	1,141,524
Commission Recapture	<u>35,358</u>	<u>56,734</u>	<u>38,829</u>
TOTAL INVESTMENT INCOME	<u>16,017,332</u>	<u>14,152,080</u>	<u>12,229,538</u>
Plus:			
Increase in Amortization of Fixed Income Securities	0	134,257	223,836
Realized Gains	55,476,809	32,478,347	13,469,958
Unrealized Gains	42,050,719	47,857,223	45,924,016
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>2,629,381</u>	<u>2,385,927</u>	<u>1,950,439</u>
Sub Total	<u>100,156,909</u>	<u>82,855,753</u>	<u>61,568,249</u>
Less:			
Decrease in Amortization of Fixed Income Securities	0	(13,190)	(425,051)
Paid Accrued Interest on Fixed Income Securities	(2,124,979)	(1,440,152)	(1,398,128)
Realized Loss	(24,822,776)	(22,930,076)	(5,509,787)
Unrealized Loss	(56,186,040)	(5,810,372)	(20,724,709)
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>(2,385,927)</u>	<u>(1,950,439)</u>	<u>(1,505,772)</u>
Sub Total	<u>(85,519,721)</u>	<u>(32,144,230)</u>	<u>(29,563,447)</u>
NET INVESTMENT INCOME	<u>30,654,519</u>	<u>64,863,603</u>	<u>44,234,340</u>
Income Required:			
Annuity Savings Fund	2,163,773	2,128,326	2,169,436
Annuity Reserve Fund	830,044	787,844	744,100
Military Service Fund	86	89	15
Expense Fund	<u>2,744,506</u>	<u>2,680,062</u>	<u>2,479,366</u>
TOTAL INCOME REQUIRED	<u>5,738,408</u>	<u>5,596,320</u>	<u>5,392,918</u>
Net Investment Income	<u>30,654,519</u>	<u>64,863,603</u>	<u>44,234,340</u>
Less: Total Income Required	<u>5,738,408</u>	<u>5,596,320</u>	<u>5,392,918</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$24,916,111</u>	<u>\$59,267,283</u>	<u>\$38,841,422</u>

Cambridge Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

	BOOK VALUE*	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$31,896,818	\$31,896,818	6.55%	100
Fixed Income	138,883,761	138,883,761	28.51%	35 - 80
Equities	134,081,690	134,081,690	27.52%	60
Pooled Domestic Equity Funds	90,081,737	90,081,737	18.49%	60
Pooled International Equity Funds	43,452,979	43,452,979	8.92%	10
Pooled Domestic Fixed Income Funds	18,215,259	18,215,259	3.74%	35 - 80
Pooled Alternative Investment Funds	16,941,584	16,941,584	3.48%	60
Pooled Real Estate Funds	13,654,996	13,654,996	2.80%	5
GRAND TOTALS	<u>\$487,208,823</u>	<u>\$487,208,823</u>	<u>100.00%</u>	

* The book value differs from the market value for individually owned Fixed Income Securities which are valued at amortized cost which is the original cost of the investment plus or minus any bond discount or bond premium calculated ratably to maturity. All other investments are reflected at their quoted market value.

For the year ending December 31, 2000, the rate of return for the investments of the Cambridge Retirement System was 6.70%. For the five year period ending December 31, 2000, the rate of return for the investments of the Cambridge Retirement System averaged 15.22%. For the 16-year period ending December 31, 2000, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Cambridge Retirement System was 12.44%.

Cambridge Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

The Cambridge Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on :

April 18, 1996

20.03(2) At least 35% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 10% of the fixed income portfolio valued at market and including Yankee Bonds which shall be limited to 10% of the total fixed income portfolio valued at market.

January 30, 1995

20.09(1) Venture capital investments shall not exceed 3% of the total market value of the portfolio at the time of the investment provided that in any system with assets in excess of nineteen million dollars, venture capital investments may be made up to an amount equal to 5% of the total market value of the portfolio at the time of the investment, shall be considered a separate asset class, and provided further that:

(a) the board does not participate in the selection of the personnel responsible for making venture capital investments or otherwise exercise discretion in business affairs and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action;

(b) such personnel retain authority in the decision making process, and

(c) should an investment in venture capital result in the direct ownership of securities, such shall be permitted only until such time as divestiture is prudent.

20.09(2) Venture capital investments shall only be made in venture capital funds operated by venture capital firms having their principal places of business in the United States.

20.09(3) All venture capital investment shall be made in companies which have their principal places of business in the United States.

March 31, 1994

20.03(2) At least 35% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year, including international fixed income investments which shall not exceed 10% of the fixed income portfolio valued at market.

20.04(6) The board may invest in obligations issued by foreign corporations and in obligations issued and guaranteed by foreign governments.

20.06(2) Bonds shall have a minimum quality rating of Baa or equivalent as rated by one or more recognized bond rating services, however, 10% of the market value of fixed income investments may be invested in bonds with a minimum quality rating of B or equivalent as rated by one or more recognized bond rating services.

20.06(4) Fixed income holdings which are downgraded by one or more recognized rating services to below a Baa or equivalent rating must be sold within a reasonable period of time not to exceed the one year, however, 10% of the market value of fixed

Cambridge Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

income investments may be invested in bonds with a minimum quality rating of B or equivalent.

July 28, 1992

- 16.02(4) For the calendar year ending December 31, 1991, the amount that may be charged against the earnings of the fund may exceed the amount authorized pursuant to Regulation 840 CMR 16.02(3) by \$104,764.36.
- 16.02(3) The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. As of January 1, 1991, such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:
- (a) 1% of the value of the fund for the first \$5 million; and
 - (b) 0.5% of the value of the fund in excess of \$5 million.
- 16.02(5) The board may employ a custodian bank and as of January 1, 1991, may charge such expenses against earned income from investments provided that such expenses shall not exceed in any one-year .08% of the value of the fund.

February 25, 1992

- 18.02(4) *Rate of Return.* A statement of the rate of return objective for the entire portfolio which shall be at least one percent (100 basis points) greater than a composite performance index consisting of fifty percent of the Standard and Poor's "500" Stock Index and fifty percent of the Shearson Lehman Government/Corporate Bond Index, cumulated quarterly.

November 9, 1990

- 20.03(1) Equity investments shall not exceed 60% of the total book value of the portfolio at the time of purchase and provided further that domestic equities shall not exceed 50% of the total book value of the portfolio at the time of purchase and international equities shall not exceed 10% of the total book value of the portfolio at the time of purchase.
- 20.03(2) At least 35% but no more than 80% of the total portfolio valued at market shall consist of fixed income investments with a maturity of more than one year.
- 20.04(1) United States based corporations and equities of foreign corporations
- 20.06(8) Purchases and sales of fixed income investments with maturities exceeding one year shall not exceed 200% of the market value of all fixed income obligations in any twelve month period, excluding cash and short term obligations.
- 20.07(5) Equity investments shall be made only in securities listed on a United States stock exchange, traded over the counter in the United States, or listed and traded on a foreign exchange.

Cambridge Retirement System

SUPPLEMENTARY INVESTMENT REGULATIONS (CONTINUED)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

- 20.07(6) Purchases and sales of equity investments shall not exceed 100% of the average market value of all equity holdings in any twelve-month period.
- 20.07(10) A separate account may be used for real estate provided that: -
- (a) contract holders do not participate in the selection of personnel responsible for making real estate investments and should this be required, prior to any participation by the board, the board shall consult with PERA to determine the appropriate course of action, and
 - (b) such personnel retain authority in the decision making process, and
 - (c) should an investment in a separate account result in the direct ownership of real estate, such shall be permitted only until such time as divestiture is prudent.

May 19, 1988

Real estate investments shall not exceed 5% of the total book value of the portfolio at the time of purchase and at this time shall be limited to the amount specified in your application, and shall consist of real estate trusts and real estate limited partnerships, provided that:

trust participants or limited partners do not participate in the selection of trustees or general partners, and, should a limited partner be required to participate in the selection of a general partner, prior to any participation by the board as limited partner, the board shall consult with PERA to determine the appropriate course of action, and such trustees or general partners retain authority in the decision making process, and should an investment in a trust or limited partnership result in the direct ownership of real estate or mortgage indebtedness, such shall be permitted only until such time as divestiture of said trust or limited partnership is prudent.

Cambridge Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

NOTE 1 - THE SYSTEM

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 Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, 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 75 - 85% pension and 15 - 25% 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. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period 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 indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement

Cambridge Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

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 eliminated such liability.

Administrative expenses are funded through investment income of the system.

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.

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 Executive Director of Public Employee Retirement Administration Commission.

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, 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.

Cambridge Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

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.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Cambridge Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

March 22, 2000

A member who is provided a motor vehicle for personal use by the employer as a necessary and usual requirement of the member's employment shall be credited annually as regular compensation an amount which shall be determined by adopting the taxable value of same as set by the member's employer, and as appearing on the member's W-2 form. Said regular compensation shall be approved upon payment of appropriate retirement contribution by the member.

Cambridge Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

A member who receives a standard and regularly paid allowance from the employer for use of the member's personal motor vehicle in the course of performing the member's duties, as appearing on the member's W-2 form, shall be credited annually with the additional regular compensation in the amount of said allowance upon payment of appropriate retirement contribution by the member.

Varying, sporadic or irregular reimbursement by the employer to a member for use of the member's motor vehicle shall not be considered regular compensation.

May 18, 1998

That any employee of the Emergency Telecommunications Department holding the title with job description of the following: "Emergency Telecommunications Dispatcher" and "Fire Alarm Operator" replace the positions of "fire or police signal operators or signal maintenance repairman", as stated in Chapter 32, section 3(2)(g) Group 2.

October 29, 1996

1. Any permanent employee of the Cambridge School Department who is not a certified teacher and therefore eligible to apply for membership in the Cambridge Retirement System will be given credit for a full year of creditable service if they are employed full time for the job they perform if the job only occurs during the school year.

2. Permanent full-time employment in the Cambridge School System would be the maximum number of hours that are assigned to the job function so long as the number equals 20 hours per week. The creditable service will accrue as full-time so long as the member continues in that category (position) to retirement.

3. Permanent part-time employment will be any employee who is employed at least twenty (20) hours per week in a position or in more than one position so that when hours of employment are added together those hours equal at least twenty (20) hours per week.

4. CETA employees and Grant funded employees shall become members of the retirement system. If these employees later become employed by the City, they will be allowed to make payment toward creditable service for the time they worked under such programs.

5. Not approved.

6. All non-compensated appointed officials, whether members of board or commissions and the like who do not receive regular compensation as set forth under MGL Chapter 32 are not eligible for membership in the Cambridge Retirement System.

Cambridge Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

7. All non-elected appointed officials, board members and commissioners who receive compensation and work less than twenty (20) hours per week may join the Cambridge Retirement System. They shall only be credited with one (1) year of creditable service for every three (3) years of service rendered in such capacity, so long as the member does not receive in excess of one (1) year of combined service for dual functions in any calendar year.

8. Creditable service for all part-time, provisional, temporary, temporary provisional, per diem, seasonal or intermittent employment and/or service shall be computed to credit the member for that proportion of a normal year which the number of days actually worked during that year bears to the normal working year from the department under which the employee works.

9. Creditable service for all part-time salaried employees will be pro-rated on the basis of the proportion which the actual salary received bears to what the salary would be for the same position if it were full-time.

March 17, 1989:

Regular compensation for the City of Cambridge Firefighters shall include:

1. Regular base pay
2. Working out of grade
3. Holiday pay only as authorized by law
4. Hazardous duty pay or educational incentive
5. Longevity
6. Weekend differential
7. Night differential
8. Compensation
9. 1st Responder Compensation

Cambridge Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five person Board of Retirement consisting of the City Manager who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex officio Member: James H. Monagle

Appointed Member: Michael P. Gardner Term Expires: 01/01/2004

Elected Member: Sheila M. Tobin Term Expires: 10/01/2004

Elected Member: Bradford P. Tenney Term Expires: 12/01/2002

Appointed Member: Janet E. Boyle Term Expires: 01/19/2003

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	\$10,000,000
Elected Member:)	The Travelers Indemnity Company
Appointed Member:)	
Staff Employee:)	

Cambridge Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	\$321,008,159
Total actuarial liability for inactive members	<u>257,041,486</u>
The total actuarial liability was	578,049,645
System assets as of that date were	<u>516,947,036</u>
The unfunded actuarial liability was	<u>\$61,102,609</u>
The ratio of system's assets to total actuarial liability was	89.4%
As of that date the total covered employee payroll was	\$167,302,844

The normal cost for employees on that date was 8.35% of payroll
 The normal cost for the employer was 5.03% of payroll

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

Investment Return: 8.50% per annum
Rate of Salary Increase: 5.50% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2002

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)
1/1/2002	\$ 516,947,036	\$ 578,049,645	\$ 61,102,609	89.4%	\$ 167,302,844	36.52%
1/1/2000	\$ 424,606,169	\$ 510,972,656	\$ 86,366,487	83.1%	\$ 140,488,609	61.48%
1/1/1998	\$ 342,787,664	\$ 436,216,298	\$ 93,428,634	78.6%	\$ 132,439,810	70.54%
1/1/1996	\$ 233,883,060	\$ 361,884,553	\$ 128,001,493	64.6%	\$ 114,484,265	111.81%
1/1/1994	\$ 182,631,507	\$ 323,643,787	\$ 141,012,280	56.4%	\$ 109,774,937	128.46%

Cambridge Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE THREE YEAR PERIOD ENDING DECEMBER 31, 2000

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Superannuation	47	29	154	58	39	45	71	54	58	69
Ordinary Disability	2	2	2	1	0	1	4	3	2	3
Accidental Disability	7	9	11	9	9	8	8	2	6	9
Total Retirements	56	40	167	68	48	54	83	59	66	81
 Total Retirees, Beneficiaries and Survivors	1,457	1,459	1,578	1,594	1,579	1,578	1,607	1,590	1,621	1,723
 Total Active Members	3,242	3,486	3,359	3,364	3,411	3,387	3,471	4,265	4,623	5,300
 Pension Payments										
Superannuation	\$7,839,999	\$8,735,038	\$10,313,198	\$10,705,723	\$10,950,025	\$11,372,920	\$12,045,343	\$12,659,803	\$13,574,197	\$14,615,170
Survivor/Beneficiary Payments	914,007	958,335	1,080,254	1,154,980	1,229,109	1,240,054	1,249,233	1,292,494	1,351,381	1,421,065
Ordinary Disability	423,198	458,331	462,622	453,016	414,502	406,248	430,734	453,128	489,800	535,578
Accidental Disability	4,064,508	4,390,174	4,446,133	4,581,085	4,712,570	4,869,999	4,963,223	1,663,161	5,139,571	5,667,506
Other	<u>1,517,651</u>	<u>2,200,044</u>	<u>2,095,542</u>	<u>1,884,474</u>	<u>1,884,813</u>	<u>2,139,862</u>	<u>2,192,003</u>	<u>5,733,858</u>	<u>2,400,650</u>	<u>2,479,382</u>
Total Payments for Year	<u>\$14,759,363</u>	<u>\$16,741,922</u>	<u>\$18,397,749</u>	<u>\$18,779,278</u>	<u>\$19,191,019</u>	<u>\$20,029,083</u>	<u>\$20,880,536</u>	<u>\$21,802,445</u>	<u>\$22,955,600</u>	<u>\$24,718,701</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

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

ROBERT E. TIERNEY, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*

JOSEPH E. CONNARTON, *Executive Director*

C. CHRISTOPHER ALBERTI | STEPHEN P. CROSBY | KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS

March 19, 2003

Michael A. Sullivan, Mayor
City of Cambridge
City Hall
795 Mass. Ave.
Cambridge, MA 02139-3201

Dear Mayor Sullivan:

Mr. Mayor!

Enclosed please find a copy of the Public Employee Retirement Administration Commission's Report on the Examination of the Retirement System as of January 1, 1998 to December 31, 2000.

This examination of the system's financial condition was conducted by the Public Employee Retirement Administration Commission in accordance with the requirements of section 21 of Chapter 32.

If you have any questions or comments on the report, please feel free to contact the Public Employee Retirement Administration Commission.

Sincerely,



Joseph E. Connarton
Executive Director

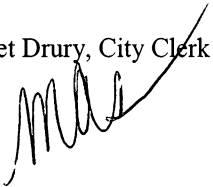
JEC/lmb
Enclosure

p.audits/letters/reps-final.audit.com



Office of the Mayor

From the desk of Michael A. Sullivan
Mayor

To: D. Margaret Drury, City Clerk
From: Michael 
Date: 3/21/2003
Re: PERAC Report on Examination of the Retirement System

Please place this report on the Communications and Reports from Other City Officers for the City Council of March 31, 2003.

Thank you.

S-124

**Communications and Reports from
City Officers #1**

A communication was received
from Mayor Michael A. Sullivan,
regarding the Public Employee
Retirement Administration
Commission's Report on the
Examination of the Retirement
System as of January 1, 1998 to
December 31, 2000.

In City Council March 31, 2003

PLACED ON FILE.