PERAC AUDIT REPORT

Lexington
Contributory Retirement System

JAN. 1, 2010 - DEC. 31, 2012

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

TABLE OF CONTENTS

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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December 3, 2013

The Public Employee Retirement Administration Commission has completed an examination of the Lexington Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2010 to December 31, 2012. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

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

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

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EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. <u>Board Member Attendance</u>
A review of meeting attendance by Board members revealed absenteeism. One member missed 42% of the meetings in 2010. The result is an attendance rate for a Board member during that year that was well below the seventy-five percent minimum considered reasonable. Such a level of absenteeism is considered to be excessive. However, after a review of meeting attendance in 2011 and 2012, it would appear this issue has been addressed.

Recommendation: Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the schedule of Board meetings in order to better accommodate its members.

<u>Board Response:</u>
There are no current problems with Board member attendance. The Board members reviewed the PERAC memo regarding remote participation which was adopted by the Board in November 2011 and will utilize same in the future as necessitated.

2. <u>Membership</u>
The Town payroll was reviewed for the week ending June 21, 2013. In reviewing the payroll register it was determined that one Library Employee who works 54 hours in the biweekly payroll was erroneously excluded from Membership since the early 1990's. OBRA deductions have been taken since employment in Lexington.

Recommendation: Verifying the accuracy of retirement contributions and review of staff that are not having retirement deductions taken is essential. We recommend that Board staff set up a procedure to periodically review payroll registers from all their units to ensure members are contributing the correct amount and that no one who is eligible for membership is excluded. In addition a procedure should be implemented that requires that all new employees to have an orientation session with the Retirement Board.

<u>Board Response:</u>
Management concurs with the recommendation of the examiners' and will take the necessary steps to verify the accuracy of retirement contributions and to periodically review payroll registers from all units. Requests have been presented to the HR departments to have new hires contact the Retirement office for an orientation session.

<u>FINAL DETERMINATION</u>:
PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31, 2012	2011	2010
Net Assets Available For Benefits:			
Cash	$27	$63,085	$71,112
Short Term Investments	261,306	320,926	183,227
Pooled Domestic Equity Funds	51,988,782	41,831,078	48,989,808
Pooled International Equity Funds	10,510,291	15,258,399	18,754,431
Pooled Domestic Fixed Income Funds	8,226,578	7,433,212	8,210,885
Pooled Alternative Investment Funds	5,473,298	0	0
Pooled Real Estate Funds	2,424,576	2,840,405	2,263,590
Pooled Domestic Balanced Funds	36,541,103	34,358,196	32,043,911
Interest Due and Accrued	47	33	17
Accounts Receivable	3,221,549	2,167,166	1,879,206
Accounts Payable	(90,415)	(56,694)	(34,025)
Total	$118,557,142	$104,215,807	$112,362,164
Fund Balances:			
Annuity Savings Fund	$28,917,090	$26,824,998	$25,532,926
Annuity Reserve Fund	7,574,328	7,785,176	7,422,852
Pension Fund	2,173,721	1,294,000	1,500,251
Military Service Fund	5,448	5,443	5,432
Expense Fund	0	0	0
Pension Reserve Fund	79,886,554	68,306,190	77,900,703
Total	$118,557,142	$104,215,807	$112,362,164

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 (2010)	$24,531,048	$7,129,053	$1,728,742	$5,415	$0	$66,817,351	$100,211,610
Receipts	2,883,704	215,762	4,187,396	16	518,790	13,437,255	21,242,923
Interfund Transfers	(1,265,013)	1,265,013	2,353,903	0	0	(2,353,903)	0
Disbursements	(616,813)	(1,186,976)	(6,769,790)	0	(518,790)	0	(9,092,369)
Ending Balance (2010)	25,532,926	7,422,852	1,500,251	5,432	0	77,900,703	112,362,164
Receipts	3,241,035	236,518	4,526,910	11	585,433	(7,209,848)	1,380,059
Interfund Transfers	(1,615,944)	1,615,944	2,384,665	0	0	(2,384,665)	0
Disbursements	(333,019)	(1,490,138)	(7,117,826)	0	(585,433)	0	(9,526,416)
Ending Balance (2011)	26,824,998	7,785,176	1,294,000	5,443	0	68,306,190	104,215,807
Receipts	3,186,182	231,451	5,736,198	5	536,365	14,118,042	23,808,244
Interfund Transfers	(895,781)	895,781	2,537,678	0	0	(2,537,678)	0
Disbursements	(198,308)	(1,338,081)	(7,394,155)	0	(536,365)	0	(9,466,909)
Ending Balance (2012)	$28,917,090	$7,574,328	$2,173,721	$5,448	$0	$79,886,554	$118,557,142

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2012	2011	2010
Annuity Savings Fund:			
Members Deductions	$2,863,550	$2,704,813	$2,576,544
Transfers from Other Systems	218,023	413,310	202,899
Member Make Up Payments and Re-deposits	49,419	33,627	23,178
Member Payments from Rollovers	18,823	28,176	5,911
Investment Income Credited to Member Accounts	36,368	61,108	75,172
Sub Total	3,186,182	3,241,035	2,883,704
Annuity Reserve Fund:			
Recovery of Annuity from Reinstatement	0	0	0
Investment Income Credited to the Annuity Reserve Fund	231,451	236,518	215,762
Sub Total	231,451	236,518	215,762
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	334,047	251,389	206,915
Received from Commonwealth for COLA and Survivor Benefits	135,030	149,768	168,808
Pension Fund Appropriation	5,205,537	4,083,286	3,798,276
Settlement of Workers' Compensation Claims	18,948	5,000	5,500
Recovery of 91A Overearnings	42,637	37,467	7,897
Sub Total	5,736,198	4,526,910	4,187,396
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	5	11	16
Sub Total	5	11	16
Expense Fund:			
Investment Income Credited to the Expense Fund	536,365	585,433	518,790
Sub Total	536,365	585,433	518,790
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	6,053	7,708	9,986
Miscellaneous Income	421	3,617	0
Excess Investment Income(Loss)	14,111,568	(7,221,173)	13,427,269
Sub Total	14,118,042	(7,209,848)	13,437,255
Total Receipts, Net	$23,808,244	$1,380,059	$21,242,923

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	$127,663	$181,135	$337,696
Transfers to Other Systems	70,645	151,884	279,117
Sub Total	198,308	333,019	616,813
Annuity Reserve Fund:			
Annuities Paid	1,338,081	1,278,836	1,168,373
Option B Refunds	0	211,302	18,603
Sub Total	1,338,081	1,490,138	1,186,976
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	5,775,397	5,580,241	5,251,143
Survivorship Payments	287,407	278,346	272,437
Ordinary Disability Payments	42,365	26,159	35,943
Accidental Disability Payments	713,499	727,438	710,545
Accidental Death Payments	205,449	202,941	203,492
Section 101 Benefits	48,248	40,201	23,863
3 (8) (c) Reimbursements to Other Systems	321,791	262,499	272,367
Sub Total	7,394,155	7,117,826	6,769,790
Expense Fund:			
Salaries	113,243	162,661	87,904
Legal Expenses	8,606	3,947	17,663
Medical Expenses	0	39	116
Travel Expenses	758	976	897
Administrative Expenses	4,833	3,301	3,048
Professional Services	41,355	9,606	21,930
Education and Training	4,679	4,275	6,425
Management Fees	238,422	274,312	266,154
Custodial Fees	22,595	25,613	14,757
Consultant Fees	75,000	75,000	75,000
Service Contracts	20,260	19,300	18,735
Fiduciary Insurance	6,614	6,403	6,161
Sub Total	536,365	585,433	518,790
Total Disbursements	$9,466,909	$9,526,416	$9,092,369

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2012	2011	2010
Investment Income Received From:			
Cash	$219	$235	$240
Short Term Investments	480	367	814
Fixed Income	0	0	0
Equities	44,355	25,947	36,399
Pooled or Mutual Funds	2,478,718	3,068,264	2,699,491
Total Investment Income	2,523,773	3,094,812	2,736,943
Plus:			
Realized Gains	43,969	0	0
Unrealized Gains	17,961,305	8,476,028	20,298,640
Interest Due and Accrued - Current Year	47	33	17
Sub Total	18,005,321	8,476,061	20,298,657
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(18,419)	0	0
Unrealized Loss	(5,594,885)	(17,908,959)	(8,798,468)
Interest Due and Accrued - Prior Year	(33)	(17)	(123)
Sub Total	(5,613,337)	(17,908,976)	(8,798,591)
Net Investment Income	14,915,757	(6,338,103)	14,237,009
Income Required:			
Annuity Savings Fund	36,368	61,108	75,172
Annuity Reserve Fund	231,451	236,518	215,762
Military Service Fund	5	11	16
Expense Fund	536,365	585,433	518,790
Total Income Required	804,189	883,070	809,740
Net Investment Income	14,915,757	(6,338,103)	14,237,009
Less: Total Income Required	804,189	883,070	809,740
Excess Income (Loss) To The Pension Reserve Fund	$14,111,568	($7,221,173)	$13,427,269

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2012	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$27	0.0%
Short Term Investments	261,306	0.2%
Pooled Domestic Equity Funds	51,988,782	45.0%
Pooled International Equity Funds	10,510,291	9.1%
Pooled Domestic Fixed Income Funds	8,226,578	7.1%
Pooled Alternative Investment Funds	5,473,298	4.7%
Pooled Real Estate Funds	2,424,576	2.1%
Pooled Domestic Balanced Funds	36,541,103	31.7%
Grand Total	$115,425,961	100.0%

For the year ending December 31, 2012, the rate of return for the investments of the Lexington Retirement System was 14.57%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Lexington Retirement System averaged .82%. For the twenty-eight year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Lexington Retirement System was 8.87%.

The composite rate of return for all retirement systems for the year ending December 31, 2012 was 13.84%. For the five-year period ending December 31, 2012, the composite rate of return for the investments of all retirement systems averaged 1.83%. For the twenty-eight year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.27%.

SUPPLEMENTARY INVESTMENT REGULATIONS

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

June 27, 2007

16.08

In accordance with Investment Guideline 99-2, the Lexington Retirement Board is authorized to modify its international equity management mandate with Wellington Management Company. Assets currently in Wellington's Pacific Basin portfolio (which is being closed) will be transferred to the Asia Pacific ex-Japan portfolio. The two funds are very similar in strategy and style except that the new fund does not invest in Japan. This difference is acceptable to the Board since it has exposure to Japan in two separate international equity portfolios.

October 26, 2004

21.01 (2) (3)

In order to expand the range of investment opportunities and to better manage risk, Wellington Management Company's Opportunistic Investment Approach is authorized to utilize long and short positions in certain derivative instruments. These positions would be used to implement pair-wise relative value trades involving various asset classes and subclasses, regions, currencies, and other market segments. The instruments used will be highly liquid, no net leverage will be employed, and there will be no individual stocks sold short. The notational value of such instruments will be limited to 15% of the total market value of the portfolio.

July 28, 2004

16.08

In accordance with PERAC Investment Guideline 99-2, the Lexington Retirement Board is authorized to modify its international equity mandate with Wellington Management Company. The Board wishes to increase its exposure to the Pacific Rim, and intends to do so by investing in a new commingled fund, the Wellington Pacific Basin Investment Approach Pacific Rim stocks already constitute about one quarter of the investment universe in which Wellington currently invests for the Board. Lexington has had a very satisfactory relationship with Wellington for international equity management for over ten years and, based on the depth of the firm's international equity portfolio management and research staff and the excellent performance record of the Pacific Basin product, it feels that this is the most effective and efficient way to achieve greater exposure to that area The investment team that manages the Pacific Basin product is part of the team that manages the EAFE product in which the Board currently invests, and the investment process and strategy are the same.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Lexington 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 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

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.

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

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 at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 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

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

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 (or five year as discussed below) average salary. For veterans as defined in G.L. c. 32, s. 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

For employees who become members after January 1, 2011, regular compensation is limited to 64% of the federal limit found in 26 U.S.C. 401(a)(17). In addition, regular compensation will be limited to prohibit "spiking" of a member's salary to increase the retirement benefit.

- For persons who became members prior to April 2, 2012, 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 3 years (whether or not consecutive) preceding retirement.

- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 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.

- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.

- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

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, s.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". "Maximum age" applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is 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.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. 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 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is 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 would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

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 $774.36 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

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 $774.36 per year, per child (or $312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), 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 while in the performance of his duties that results 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 $100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

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. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is $9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is $12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. 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 unless the retirement system has accepted the local option increasing this minimum annual allowance to $6,000, 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.

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 (COLA) 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%. Only a certain portion of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of $1,000. For many years the COLA base was calculated based upon the first $12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

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 is has not remarried, 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" to Option A) 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" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

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. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

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 accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board 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.

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

Creditable Service

Members of the Lexington Retirement System shall receive creditable service, in whole month increments, consistent with this regulation in the following manner:

- For a member in service who is employed in a full-time capacity, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Lexington Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.

- For a member in service who is employed in a part-time capacity throughout his/her entire career, he/she will receive one (1) month of creditable service for each full month for which the employee receives regular compensation and remits the appropriate contributions to the Lexington Retirement System, with said service not to exceed one (1) year of creditable service in any calendar year.

- For a member who has rendered membership service in the Lexington Retirement System in both a full-time and part-time capacity, the member shall receive full credit for all full-time service and prorated credit for part-time service based on the full-time equivalency of 35hours per week.

- For a member who is employed in a part-time capacity throughout his/her career but who either purchases past refunded service, or has transferred into the Lexington Retirement System previous service rendered in a full-time capacity, the member's part-time service shall be prorated based on the full-time equivalency of 35 hours per week.

- In the case of School Department employees whose full-time employment requires them to work from on or about September 1st to on or about June including but not limited to cafeteria workers, clerical and secretarial staff, teacher's assistant and teaching professionals, such as therapists, said employees shall receive one month of creditable service for each full month the employee is receiving regular compensation, with ten (10) months being the equivalent of twelve (12) months of creditable service. School Department employees who are employed in a part-time capacity shall have their creditable service prorated in the same manner as all members of the Lexington Retirement System as set forth in this regulation.

- The Board recognizes that certain School Department employees, including but not limited to custodians and secretaries, are required to work the entire calendar year, and in such a situation, said employee's creditable service will be calculated based on a twelve (12) month year.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

- Any member purchasing past service rendered shall have said service prorated based on 35 hours per week being considered a full month of service. Members who previously rendered non-membership service will be eligible to purchase such past service rendered, in monthly increments, consistent with the provisions of M.G.L. c. 32, § 4(2)(b) and the Board's regulation regarding the calculation of creditable service, i.e. that 35hours will be considered a full week of creditable service

February 13, 1991
Permanent part-time employees working at least 18 hours per week are granted full time creditable service.

June 6, 1990
For school employees, nine (9) months served shall be equal to 12 months creditable service.

Membership
February 19, 1992
A minimum workweek of eighteen (18) hours shall be required for membership in the System.

Travel Regulations:
The Lexington Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website http://www.mass.gov/perac/Lexington.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Assistant Town Manager of Finance 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:	Robert Addelson		
Appointed Member:	Michael McNabb	Term Expires:	10/18/14
Elected Member:	Robert Cunha,Chairperson	Term Expires:	6/30/14
Elected Member:	Joseph Foley	Term Expires:	12/29/14
Appointed Member:	Alan Fields	Term Expires:	1/20/15

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. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

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

Treasurer - Custodian:	)	$50,000,000 Fiduciary Liability
Ex-officio Member:	)	$1,000,000 Fidelity (ERISA) Bond
Elected Members:	)	MACRS Master Policy
Appointed Members:	)	Travelers Casualty and Surety
Staff Employees:	)	Company

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, 2012.

The actuarial liability for active members was	$77,559,598
The actuarial liability for retired and inactive members was	77,347,536
The total actuarial liability was	$154,907,134
System assets as of that date were	121,339,690
The unfunded actuarial liability was	$33,567,444
The ratio of system's assets to total actuarial liability was	78.3%
As of that date the total covered employee payroll was	$31,186,555

The normal cost for employees on that date was	8.60% of payroll
The normal cost for the employer was	6.25% of payroll

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

Investment Return:	7.75% per annum
Rate of Salary Increase:	Varies by group and service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2012

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)
1/1/2012	$121,339,690	$154,907,134	$33,567,444	78.3%	$31,186,555	107.6%
1/1/2010	$118,558,908	$133,456,116	$14,897,208	88.8%	$28,238,874	52.8%
1/1/2008	$123,209,331	$122,547,812	($661,519)	100.5%	$25,714,392	-2.6%
1/1/2006	$98,759,260	$111,723,974	$12,964,714	88.4%	$22,159,964	58.5%

NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retirement in Past Years										
Superannuation	42	8	12	9	17	8	20	16	21	13
Ordinary Disability	0	0	0	0	2	0	1	0	1	0
Accidental Disability	1	0	4	0	0	0	1	1	1	2
Total Retirements	43	8	16	9	19	8	22	17	23	15
Total Retirees, Beneficiaries and Survivors	389	385	403	381	386	386	386	385	384	382
Total Active Members	652	584	614	619	596	606	598	613	635	643
Pension Payments										
Superannuation	$3,336,345	$4,281,068	$4,396,424	$4,443,071	$4,583,162	$4,707,798	$4,948,644	$5,251,143	$5,580,241	$5,775,397
Survivor/Beneficiary Payments	226,138	222,283	219,574	233,954	243,209	245,999	251,035	272,437	278,346	287,407
Ordinary Disability	45,071	42,989	44,069	45,149	46,229	47,309	34,203	35,943	26,159	42,365
Accidental Disability	602,568	627,593	678,947	767,849	742,860	757,620	747,890	710,545	727,438	713,499
Other	300,137	369,004	503,916	530,161	466,240	438,634	488,356	227,355	243,143	253,697
Total Payments for Year	$4,510,259	$5,542,937	$5,842,930	$6,020,184	$6,081,700	$6,197,360	$6,470,128	$6,497,423	$6,855,326	$7,072,364

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS

Chapter 317 of the Acts of 2002 allowed the Town Of Lexington to establish a Post Retirement Insurance Liability Fund which it first funded in 2008.

The most recent actuarial valuation of the Town of Lexington's OPEB Trust Fund was prepared by Financial Risk Analysts,LLC as of June 30,2009.

The actuarial accrued liability for active employees was	$105,107,639
The actuarial accrued liability for retirees was	161,831,191
The total actuarial accrued liability was	$266,938,830
System assets as of that date were	840,000
The unfunded actuarial accrued liability was	$266,098,830
The ratio of system's assets to total actuarial liability was	0.3%

GASB DISCLOSURE INFORMATION
AS OF JUNE 30, 2009

Schedule of Funding Progress
Using a Partially Funded Discount Rate of 2.50%

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)
6/30/2009	$840,000	$266,938,830	$266,098,830	0.3%	N/A	N/A

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