PERAC AUDIT REPORT

Lexington
Contributory Retirement System

JAN. 1, 2007 - DEC. 31, 2009

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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January 13, 2011

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, 2007 to December 31, 2009. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission, in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission.

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

In closing, I acknowledge the work of examiner Carol M. Niemira 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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STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2009	2008	2007
Net Assets Available For Benefits:			
Cash	$123,333	$184,007	$0
Short Term Investments	861,248	3,953,494	1,062,159
Equities	0	4,309,279	7,393,532
Pooled Domestic Equity Funds	45,740,527	30,866,868	49,155,274
Pooled International Equity Funds	16,522,196	12,314,752	34,589,075
Pooled Domestic Fixed Income Funds	7,145,658	6,025,127	4,624,697
Pooled Real Estate Funds	1,412,838	4,601,049	3,386,318
Pooled Domestic Balanced Funds	26,610,451	18,906,025	21,225,105
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	123	3,854	4,754
Accounts Receivable	1,863,113	1,741,471	1,892,423
Accounts Payable	(67,877)	(77,158)	(124,005)
Total	$100,211,610	$82,828,770	$123,209,331
Fund Balances:			
Annuity Savings Fund	$24,531,048	$23,225,551	$21,627,298
Annuity Reserve Fund	7,129,053	6,740,961	6,922,737
Pension Fund	1,728,742	1,865,651	1,704,090
Military Service Fund	5,415	5,389	5,356
Expense Fund	0	0	0
Pension Reserve Fund	66,817,351	50,991,219	92,949,850
Total	$100,211,610	$82,828,770	$123,209,331

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2007)	$20,996,103	$6,443,296	$845,501	$5,324	$0	$82,531,966	$110,822,191
Receipts	2,518,616	197,708	3,852,579	32	724,721	13,495,245	20,788,901
Interfund Transfers	(1,271,580)	1,261,231	3,087,710	0	0	(3,077,361)	0
Disbursements	(615,842)	(979,498)	(6,081,700)	0	(724,721)	0	(8,401,761)
Ending Balance (2007)	21,627,298	6,922,737	1,704,090	5,356	0	92,949,850	123,209,331
Receipts	3,054,035	201,244	3,847,690	32	627,911	(39,445,930)	(31,715,018)
Interfund Transfers	(660,300)	661,770	2,511,230	0	0	(2,512,700)	0
Disbursements	(795,482)	(1,044,790)	(6,197,359)	0	(627,911)	0	(8,665,542)
Ending Balance (2008)	23,225,551	6,740,961	1,865,651	5,389	0	50,991,219	82,828,770
Receipts	2,923,184	200,610	4,030,806	27	473,035	18,128,546	25,756,207
Interfund Transfers	(1,293,746)	1,293,746	2,302,414	0	0	(2,302,414)	0
Disbursements	(323,941)	(1,106,263)	(6,470,128)	0	(473,035)	0	(8,373,367)
Ending Balance (2009)	$24,531,048	$7,129,053	$1,728,742	$5,415	$0	$66,817,351	$100,211,610

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Members Deductions	$2,566,316	$2,359,501	$2,137,855
Transfers from Other Systems	217,195	496,920	198,541
Member Make Up Payments and Re-deposits	20,827	65,374	29,929
Member Payments from Rollovers	6,162	4,619	31,218
Investment Income Credited to Member Accounts	112,684	127,622	121,072
Sub Total	2,923,184	3,054,035	2,518,616
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	200,610	201,244	197,708
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	132,401	120,596	195,863
Received from Commonwealth for COLA and Survivor Benefits	179,812	207,516	207,432
Pension Fund Appropriation	3,718,593	3,519,578	3,449,284
Settlement of Workers' Compensation Claims	0	0	0
Sub Total	4,030,806	3,847,690	3,852,579
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	27	32	32
Sub Total	27	32	32
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	473,035	627,911	724,721
Sub Total	473,035	627,911	724,721
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	1,969	4,114	5,301
Miscellaneous Income	1,898	377	0
Excess Investment Income (Net)	18,124,678	(39,450,421)	13,489,944
Sub Total (Net)	18,128,546	(39,445,930)	13,495,245
Total Receipts (Net)	$25,756,207	($31,715,018)	$20,788,901

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Refunds to Members	$190,872	$304,429	$215,243
Transfers to Other Systems	133,068	491,053	400,599
Sub Total	323,941	795,482	615,842
Annuity Reserve Fund:			
Annuities Paid	1,080,115	1,014,521	972,255
Option B Refunds	26,148	30,269	7,243
Sub Total	1,106,263	1,044,790	979,498
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	4,948,644	4,707,798	4,583,162
Survivorship Payments	251,035	245,999	243,209
Ordinary Disability Payments	34,203	47,309	46,229
Accidental Disability Payments	747,890	757,620	742,860
Accidental Death Payments	185,294	178,736	176,628
Section 101 Benefits	18,824	13,546	13,507
3 (8) (c) Reimbursements to Other Systems	284,238	246,351	276,105
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	6,470,128	6,197,359	6,081,700
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	0	0	0
Expense Fund:			
Board Member Stipend	0	0	0
Salaries	87,002	42,060	46,779
Legal Expenses	4,743	3,093	4,107
Medical Expenses	50	0	0
Travel Expenses	903	3,810	1,639
Administrative Expenses	1,237	32,112	12,176
Professional Services	6,900	0	0
Education and Training	5,384	0	0
Furniture and Equipment	831	1,051	1,337
Management Fees	249,620	425,413	533,440
Custodial Fees	26,509	27,254	30,443
Consultant Fees	66,667	65,000	65,000
Rent Expenses	0	0	0
Service Contracts	17,500	22,730	24,578
Fiduciary Insurance	5,690	5,387	5,222
Depreciation	0	0	0
Sub Total	473,035	627,911	724,721
Total Disbursements	$8,373,367	$8,665,542	$8,401,761

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Investment Income Received From:			
Cash	$0	$0	$91,094
Short Term Investments	19,197	44,386	0
Fixed Income	0	0	0
Equities	72,782	124,379	163,037
Pooled or Mutual Funds	3,879,581	2,171,691	3,540,438
Commission Recapture	0	0	0
Total Investment Income	3,971,560	2,340,456	3,794,569
Plus:			
Realized Gains	1,100,021	99,660	163,352
Unrealized Gains	23,895,571	4,223,058	16,379,487
Interest Due and Accrued - Current Year	123	3,854	4,754
Sub Total	24,995,716	4,326,573	16,547,592
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(407,608)	(108,167)	(114,139)
Unrealized Loss	(9,644,780)	(45,047,720)	(5,689,659)
Interest Due and Accrued - Prior Year	(3,854)	(4,754)	(4,886)
Sub Total	(10,056,243)	(45,160,641)	(5,808,684)
Net Investment Income (Loss)	18,911,033	(38,493,613)	14,533,477
Income Required:			
Annuity Savings Fund	112,684	127,622	121,072
Annuity Reserve Fund	200,610	201,244	197,708
Military Service Fund	27	32	32
Expense Fund	473,035	627,911	724,721
Total Income Required	786,355	956,808	1,043,533
Net Investment Income (Loss)	18,911,033	(38,493,613)	14,533,477
Less: Total Income Required	786,355	956,808	1,043,533
Excess Income (Loss) To The Pension Reserve Fund	$18,124,678	($39,450,421)	$13,489,944

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2009	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$123,333	0.1%
Short Term	861,248	0.9%
Pooled Domestic Equity Funds	45,740,527	46.5%
Pooled International Equity Funds	16,522,196	16.8%
Pooled Domestic Fixed Income Funds	7,145,658	7.3%
Pooled Real Estate Funds	1,412,838	1.4%
Pooled Domestic Balanced Funds	26,610,451	27.0%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	0	0.0%
Grand Total	$98,416,251	100.0%

For the year ending December 31, 2009, the rate of return for the investments of the Lexington Retirement System was 25.26%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Lexington Retirement System averaged 3.80%. For the twenty-five-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Lexington Retirement System was 9.05%.

The composite rate of return for all retirement systems for the year ending December 31, 2009 was 18.22%. For the five-year period ending December 31, 2009, the composite rate of return for the investments of all retirement systems averaged 3.97%. For the twenty-five-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.30%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The 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.

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 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of $30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

- Salary is defined as gross regular compensation.

- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.

- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age".

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $729.84 per year (or $312 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. An additional $15.00 per year of service, not to exceed $300 annually may be added to the benefit in systems in which the local option contained in G.L. 32, §. 7(2)(e) has been adopted.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $729.84 per year, per child (or $312 per year in systems in which the local option contained in G.L. c. 32, §. 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 resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of $100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of $1,440 per year for the first child, and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first $12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

Option A: Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.

Option B: A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up") based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

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.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash is considered to be funds on deposit with banks and is available upon demand.

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

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

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

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

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:

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

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

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

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:	10/18/11
Elected Member:	Robert Cunha, Chairperson	Term Expires:	6/30/11
Elected Member:	Joseph Foley	Term Expires:	12/29/11
Appointed Member:	Alan Fields	Term Expires:	1/20/12

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 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 coverage provided
Ex-officio Member:	)	under a master MACRS-sponsored policy issued
Elected Members:	)	through a layered program with Travelers,
Appointed Members:	)	National Union Fire, and Arch. Separate fidelity
Staff Employees:	)	coverage pertaining to ERISA/Crime to a limit of
	)	$1,000,000 issued through Travelers Casualty
	)	and Surety Company, deductible $10,000.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants, LLC as of January 1, 2008.

The actuarial liability for active members was	$60,154,765
The actuarial liability for retired members and beneficiaries was	62,388,047
The total actuarial liability was	122,542,812
System assets as of that date were	123,209,331
The actuarial funded position was	($666,519)
The ratio of system's assets to total actuarial liability was	100.5%
As of that date the total covered employee payroll was	$25,714,392

The normal cost for employees on that date was	8.22% of payroll
The normal cost for the employer was	5.68% of payroll

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

Investment Return:	8.00% per annum
Rate of Salary Increase:	Varies by group and service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2008
($000's) are omitted

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded (Funded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2008	$123,209	$122,543	($666)	100.5%	$25,714	-2.6%
1/1/2006	$98,759	$111,724	$12,965	88.4%	$22,150	58.5%
1/1/2004	$83,050	$98,031	$14,981	84.7%	$20,464	73.2%
1/1/2002	$77,015	$86,500	$9,485	89.0%	$20,803	45.6%

NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Retirement in Past Years										
Superannuation	14	21	7	42	8	12	9	17	8	20
Ordinary Disability	0	0	0	0	0	0	0	2	0	1
Accidental Disability	0	0	0	1	0	4	0	0	0	1
Total Retirements	14	21	7	43	8	16	9	19	8	22
Total Retirees, Beneficiaries and Survivors	351	360	361	389	385	403	381	386	383	386
Total Active Members	670	690	692	652	584	614	619	596	606	598
Pension Payments										
Superannuation	$2,685,347	$2,981,963	$3,238,169	$3,336,345	$4,281,068	$4,396,424	$4,443,071	$4,583,162	$4,707,798	$4,948,644
Survivor/Beneficiary Payments	193,365	216,132	235,102	226,138	222,283	219,574	233,954	243,209	245,999	251,035
Ordinary Disability	47,523	49,250	50,618	45,071	42,989	44,069	45,149	46,229	47,309	34,203
Accidental Disability	578,716	577,167	573,842	602,568	627,593	678,947	767,849	742,860	757,620	747,890
Other	256,869	288,754	270,532	300,137	369,004	503,916	530,161	466,240	438,634	488,356
Total Payments for Year	$3,761,820	$4,113,266	$4,368,263	$4,510,259	$5,542,937	$5,842,930	$6,020,184	$6,081,700	$6,197,359	$6,470,128

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 plan 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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