

PERAC AUDIT REPORT



Taunton

Contributory Retirement System



JAN. 1, 2008 - DEC. 31, 2009



TABLE OF CONTENTS

Letter from the Executive Director	1
Statement of Ledger Assets and Liabilities.....	2
Statement of Changes in Fund Balances	3
Statement of Receipts.....	4
Statement of Disbursements.....	5
Investment Income	6
Schedule of Allocation of Investments Owned.....	7
Supplementary Investment Regulations	8
Notes to Financial Statements:	
Note 1 - Summary of Plan Provisions	12
Note 2 - Significant Accounting Policies	19
Note 3 - Supplementary Membership Regulations.....	21
Note 4 - Administration of the System	24
Note 5 - Actuarial Valuation and Assumptions.....	25
Note 6 - Membership Exhibit.....	26
Note 7 – Leased Premises	27

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

June 15, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Taunton Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2008 to December 31, 2009. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

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

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

In closing, I acknowledge the work of examiners Martin J. Feeney and John J. Shea who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesies and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,	
	2009	2008
Net Assets Available For Benefits:		
Cash and Cash Equivalents	\$2,561,285	\$1,254,004
Fixed Income Securities	43,990,589	0
Equities	63,405,446	50,152,786
Pooled Domestic Equity Funds	13,466,767	10,755,865
Pooled International Equity Funds	24,583,265	17,571,189
Pooled Global Fixed Income Funds	0	41,596,800
Pooled Alternative Investment Funds	5,127,290	4,329,749
Pooled Real Estate Funds	10,198,322	12,076,950
PRIT Cash Fund	0	0
PRIT Core Fund	0	0
Interest Due and Accrued	324,811	941
Accounts Receivable	10,527,038	8,411,787
Accounts Payable	<u>(1,376,033)</u>	<u>(697,653)</u>
Total	<u>\$172,808,779</u>	<u>\$145,452,417</u>
Fund Balances:		
Annuity Savings Fund	\$53,991,052	\$51,445,159
Annuity Reserve Fund	16,281,423	15,400,336
Pension Fund	9,584,874	10,910,216
Military Service Fund	19,577	18,930
Expense Fund	0	0
Pension Reserve Fund	<u>92,931,853</u>	<u>67,677,777</u>
Total	<u>\$172,808,779</u>	<u>\$145,452,417</u>

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2008)	\$49,066,054	\$14,249,740	\$12,796,036	\$11,691	\$0	\$115,894,614	\$192,018,135
Receipts	5,692,107	440,183	11,804,450	7,927	1,404,383	(48,253,117)	(28,904,066)
Interfund Transfers	(2,780,526)	2,771,866	(26,932)	(688)	0	36,280	0
Disbursements	(532,476)	(2,061,453)	(13,663,339)	0	(1,404,383)	0	(17,661,652)
Ending Balance (2008)	51,445,159	15,400,336	10,910,216	18,930	0	67,677,777	145,452,417
Receipts	5,673,832	476,296	13,454,351	4,974	1,420,382	25,235,682	46,265,516
Interfund Transfers	(2,633,704)	2,639,520	(19,884)	(4,326)	0	18,395	0
Disbursements	(494,235)	(2,234,729)	(14,759,809)	0	(1,420,382)	0	(18,909,154)
Ending Balance (2009)	<u>\$53,991,052</u>	<u>\$16,281,423</u>	<u>\$9,584,874</u>	<u>\$19,577</u>	<u>\$0</u>	<u>\$92,931,853</u>	<u>\$172,808,779</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2009	2008
Annuity Savings Fund:		
Members Deductions	\$4,946,377	\$4,927,078
Transfers from Other Systems	72,151	306,680
Member Make Up Payments and Re-deposits	385,247	135,712
Member Payments from Rollovers	22,686	37,953
Investment Income Credited to Member Accounts	<u>247,372</u>	<u>284,684</u>
Sub Total	<u>5,673,832</u>	<u>5,692,107</u>
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	<u>476,296</u>	<u>440,183</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	300,807	299,943
	474,792	498,700
Pension Fund Appropriation	12,678,752	11,005,807
Settlement of Workers' Compensation Claims	<u>0</u>	<u>0</u>
Sub Total	<u>13,454,351</u>	<u>11,804,450</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	4,920	7,857
Investment Income Credited to the Military Service Fund	<u>54</u>	<u>70</u>
Sub Total	<u>4,974</u>	<u>7,927</u>
Expense Fund:		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>1,420,382</u>	<u>1,404,383</u>
Sub Total	<u>1,420,382</u>	<u>1,404,383</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	40,645	41,022
Pension Reserve Appropriation	0	0
Interest Not Refunded	2,608	4,009
Miscellaneous Income	2,506	0
Excess Investment Income (Loss)	<u>25,189,921</u>	<u>(48,298,148)</u>
Sub Total	<u>25,235,682</u>	<u>(48,253,117)</u>
Total Receipts (Net)	<u>\$46,265,516</u>	<u>(\$28,904,066)</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2009	2008
Annuity Savings Fund:		
Refunds to Members	\$320,512	\$394,612
Transfers to Other Systems	<u>173,724</u>	<u>137,864</u>
Sub Total	<u>494,235</u>	<u>532,476</u>
Annuity Reserve Fund:		
Annuities Paid	2,230,281	2,011,020
Option B Refunds	<u>4,448</u>	<u>50,433</u>
Sub Total	<u>2,234,729</u>	<u>2,061,453</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	10,236,727	9,206,232
Survivorship Payments	736,882	701,358
Ordinary Disability Payments	230,187	223,535
Accidental Disability Payments	2,346,114	2,308,496
Accidental Death Payments	411,954	398,865
Section 101 Benefits	95,139	98,299
3 (8) (c) Reimbursements to Other Systems	268,475	260,090
State Reimbursable COLA's Paid	396,735	429,771
Chapter 389 Beneficiary Increase Paid	<u>37,595</u>	<u>36,694</u>
Sub Total	<u>14,759,809</u>	<u>13,663,339</u>
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
Expense Fund:		
Board Member Stipend	15,000	15,000
Salaries	124,067	154,336
Legal Expenses	51,226	59,781
Medical Expenses	0	0
Travel Expenses	6,169	20,509
Administrative Expenses	16,081	28,184
Professional Services	0	0
Education and Training	0	0
Furniture and Equipment	873	244
Management Fees	1,034,335	983,879
Custodial Fees	64,637	39,870
Consultant Fees	60,000	56,250
Rent Expenses	26,820	26,820
Service Contracts	10,850	9,726
Fiduciary Insurance	<u>10,325</u>	<u>9,785</u>
Sub Total	<u>1,420,382</u>	<u>1,404,383</u>
Total Disbursements	<u>\$18,909,154</u>	<u>\$17,661,652</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,	
	2009	2008
Investment Income Received From:		
Cash and Cash Equivalents	\$5,612	\$79,410
Short Term Investments	0	0
Fixed Income	1,112,756	0
Equities	1,055,713	1,055,988
Pooled or Mutual Funds	1,392,428	4,577,740
Commission Recapture	<u>34,357</u>	<u>37,434</u>
Total Investment Income	<u>3,600,867</u>	<u>5,750,572</u>
Plus:		
Realized Gains	5,788,536	1,238,582
Unrealized Gains	33,910,267	5,948,461
Interest Due and Accrued - Current Year	<u>324,811</u>	<u>941</u>
Sub Total	<u>40,023,614</u>	<u>7,187,985</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	(624,777)	0
Realized Loss	(3,511,072)	(6,360,162)
Unrealized Loss	(12,153,665)	(52,737,823)
Interest Due and Accrued - Prior Year	<u>(941)</u>	<u>(9,398)</u>
Sub Total	<u>(16,290,455)</u>	<u>(59,107,384)</u>
Net Investment Income (Loss)	<u>27,334,025</u>	<u>(46,168,827)</u>
Income Required:		
Annuity Savings Fund	247,372	284,684
Annuity Reserve Fund	476,296	440,183
Military Service Fund	54	70
Expense Fund	<u>1,420,382</u>	<u>1,404,383</u>
Total Income Required	<u>2,144,104</u>	<u>2,129,321</u>
Net Investment Income (Loss)	<u>27,334,025</u>	<u>(46,168,827)</u>
Less: Total Income Required	<u>2,144,104</u>	<u>2,129,321</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$25,189,921</u>	<u>(\$48,298,148)</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2009		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash and Cash Equivalents	\$2,561,285	1.6%
Fixed Income Securities	43,990,589	26.9%
Equities	63,405,446	38.8%
Pooled Domestic Equity Funds	13,466,767	8.2%
Pooled International Equity Funds	24,583,265	15.1%
Pooled Alternative Investment Funds	5,127,290	3.1%
Pooled Real Estate Funds	10,198,322	6.2%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	0	0.0%
Grand Total	<u>\$163,332,963</u>	<u>100.0%</u>

For the year ending December 31, 2009, the rate of return for the investments of the Taunton Retirement System was 20.12%. For the five year period ending December 31, 2009, the rate of return for the investments of the Taunton Retirement System averaged 3.29%. 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 Taunton Retirement System was 9.69%.

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

November 17, 2010

16.08

In accordance with Investment Guideline 99-2, the Taunton Retirement Board is making a modest modification to its large cap equity index mandate with State Street Global Advisors. The Board is transferring assets from the SSgA Equity Index Plus Securities Lending Fund to the SSgA S&P 500 Flagship (non-lending) Fund. The funds have the same investment universe and the same benchmark. Unlike the previous fund, the new fund is a pure index fund (not actively managed) and does not engage in securities lending

October 18, 2007

16.00

17.00

Notwithstanding the provisions of the Public Employee Retirement Administration Commission's regulations and M.G.L. c. 32, et seq., the Taunton Retirement Board may invest funds of the City of Taunton Retirement System (the "System") in the fund known as Hamilton Lane Private Equity Fund VI, L.P. (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund –

- I. while the System holds interest in the Fund, the General Partner may not be subject to the rules as established in 840 CMR 16.00 et seq. and 17.00 et seq. for so long as the Fund does not qualify as a "plan asset" as contemplated by the Employee Retirement Income Security Act of 1974 ("ERISA") and as recently amended by the Pension Protection Act of 2006. The Fund will not be considered a plan asset so long as less than 25% of the equity interest in the Fund is held by "benefit plan investors" as contemplated by ERISA and related amendments.

June 14, 2007

19.01(6)

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Taunton Retirement Board may invest funds of the Taunton Contributory Retirement System (the "System") in the fund known as Fidelity Real Estate Growth Fund III, L.P. (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund--

- I. While the assets of the System are so invested, the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., the System's interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, the Fund qualifies as a "venture capital operating company" within the meaning of the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder. As such, the limitations and restrictions of 840 CMR Sections 16.00 et seq. and 17.00 et seq. shall not apply.
2. The limitations and restrictions of 840 CMR Section 19.01(6) shall not apply to the Fund for the two-year period commencing on the date of the Fund's initial investment.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

March 13, 2007

16.08

The Taunton Retirement Board is authorized to invest in the Fidelity Real Estate Growth Fund III, now run under the umbrella of Pyramis Global Advisors Trust Company. The Board has been a satisfied investor in a predecessor Fidelity Real Estate Growth Fund, and the strategy and the portfolio management team are essentially the same. The Board has received over 100% of its original investment back from Fidelity (Pyramis) and is pursuing this investment in order to maintain its allocation to real estate. The manager has submitted the required regulatory documents.

February 14, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Taunton Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO International Partnership Fund IV, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

February 14, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Taunton Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO U.S. LBO & Corporate Finance Partnership Fund IV, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, and the underlying funds in which the Fund may invest, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

February 14, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Taunton Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO U.S. Venture Partnership Fund IV, LP (the "Fund"),

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, and the underlying funds in which the Fund may invest, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

February 14, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Taunton Retirement Board may invest funds of the Retirement System (the “System”) in the fund known as the Institutional Retirement Trust (IRT) Equity Real Estate Securities Trust (the “Fund”), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended (“ERISA”), taking into account ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

February 13, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Taunton Retirement Board may invest funds of the Retirement System (the “System”) in the fund known as INVESCO Core Real Estate USA, LLC (the “Fund”), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq., the System’s interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, the Fund qualified as a “venture capital operating company” within the meaning of the Employee Retirement Income Security Act of 1974, as amended, and the regulations promulgated thereunder.

January 7, 2000

16.08

In accordance with PERAC Investment Guideline 99-3, the Taunton Retirement Board may invest in Boston Millennia Partners II, L.P. The board is an investor in Boston Millennia Partners I and has submitted the required documentation in support of this request.

September 24, 1998

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

19.01

(7)(a) Boards shall establish specifications and criteria for selection including:

(6) the range of fees that are considered tolerable, provided, however, that in no event shall a board retain a qualified investment manager whose fee is based on a percentage of committed capital, provided, however, that such a fee may be paid for one year after the partnership commences operations, and provided further, that such a fee is paid by all investors.

(6)(a) the Board, however, may retain Boston Millennia Partners and pay compensation according to the fee schedule submitted to PERAC provided that such a fee is paid by all investors.

March 24, 1994

20.04

All investments shall consist of recognized quality marketable securities issued by:

(1) United States based corporations and equities of foreign corporations.

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

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Taunton 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:

Electricians and other specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

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

WITHDRAWAL OF CONTRIBUTIONS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$729.84 per year (or \$312.00 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

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

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$729.84 per year, per child, (or \$312.00 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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 5I of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

METHODS OF PAYMENT

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

Cash and bank 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

August 2, 1999

Buy-Backs:

All members who are eligible veterans may purchase military service under Chapter 71 of the Acts of 1996, in installments or in its entirety, up to the date of retirement.

May 28, 1998

Rules and Regulations:

I. BOARD: Five (5) members as designated by M.G.L. Chapter 32.

II. STAFF: Executive Director, Assistant Director. Salaries and benefits as determined by vote of the Board. Hiring as determined by vote of the Board.

III. MEETINGS: Regular monthly meetings vary each month and are held in accordance with the open meeting law of the Commonwealth of Massachusetts.

Membership/Eligibility Requirements:

A. Membership is mandatory for all full-time permanent employees.

B. Employees employed 20 or more hours per week are allowed membership in the system.

C. Federal grant employees working at least 20 hours per week are considered members. Deductions are to be withheld from their salary as so long as said employees meet the eligibility requirements of the System.

Creditable Service:

A. Credit will be granted on the basis of one (1) year credit for each year of service with the exception of seasonal employees who receive one (1) year credit for actual full-time service of no less than 7 months during any one calendar and elected officials are entitled to a full year of creditable service for the weeks served during his/her last calendar year as an elected official.

B. Full-time employees will receive full credit except in instance where full-time employees also had part-time service. Part-time service will then be prorated as it relates to the full-time position.

C. Part-time employees will receive full credit provided that they have not been a full-time/part-time employee as stated previously. An employee who has remained part-time constantly will receive the full credit and will be equitable with full-time employees. The deciding factor will be their earnings.

D. Five-year maximum credit will be allowed to reserve or permanent-intermittent police officers regardless of whether they are appointed as permanent members of the Police department (s. 4(2)(b)) and only if they gain employment in a qualified position becoming eligible for membership.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

E. Five-year maximum credit will be allowed to reserve firefighters regardless of whether they are appointed as permanent members of the Fire department (s. 4(2)(b)) and only if they gain employment in a qualified position becoming eligible for membership.

F. Five-year maximum credit will be allowed to permanent-intermittent firefighters only if they are later appointed as permanent members of the Fire department (s. 4(2)(b)).

Make-up Payments/Redeposits:

A. Member may buy back CETA and EEA service with the City of Taunton provided that the employee gains employment in a qualified position becoming eligible for membership and provided that said service can be documented.

B. Make-up payments are allowed for members who previously worked less than part-time and were ineligible for membership. Credit will be prorated as it relates to the current position. Credit will only be given for actual service with the exception of seasonal employees who can buyback up to one-year credit for service not less than seven months in a calendar year.

C. The board, upon proper request and review, will determine how much creditable service, if any and make-up payments, if any, will be allowed for employment which is sporadic, temporary, and of a limited nature.

Disbursements of Funds:

A. Disbursements shall be authorized by signatures of any two members of either our five-member board or the executive director or assistant director who is authorized to sign by the retirement board as per Chapter 32, s. 23(2).

Miscellaneous:

A. Accidental disability applicants must be present when their application is reviewed by the board unless a medical reason exists that prevents them from being present.

B. Reserve or permanent-intermittent police officers and reserve, permanent intermittent, or call firefighters who are actually assigned to duty before being permanently appointed, may pay retirement deductions into the system (not to exceed five years).

C. Investments shall be made in accordance with M.G.L. Chapter 32 and PERAC Regulations 840 CMR for waived systems as amended.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

October 8, 2002

Travel Regulations:

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

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 City Auditor 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: Ann Marie Hebert
Chairperson

Appointed Member: Gill E. Enos Serves at the discretion of the Mayor

Elected Member: Richard T. Avila Term Expires: 11/30/2011

Elected Member: Peter H. Corr Term Expires: 12/31/2013

Appointed Member: A. Joan Ventura Term Expires: 01/27/2012

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:)	Coverage provided to a limit of \$50,000,000
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.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	\$134,940,498
The actuarial liability for retired and inactive members was	<u>158,363,229</u>
The total actuarial liability was	293,303,727
System assets as of that date were	<u>197,520,054</u>
The unfunded actuarial liability was	<u>\$95,783,673</u>
The ratio of system's assets to total actuarial liability was	67.3%
As of that date the total covered employee payroll was	\$53,542,943

The normal cost for employees on that date was 8.80% of payroll
 The normal cost for the employer was 3.50% of payroll

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

Investment Return: 8.00% per annum
 Rate of Salary Increase: 3.00% per annum

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2010	\$197,520,054	\$293,303,727	\$95,783,673	67.3%	\$53,542,943	178.9%
1/1/2008	\$192,018,134	\$281,787,443	\$89,769,309	68.1%	\$51,021,751	175.9%
1/1/2006	\$159,373,967	\$239,916,299	\$80,542,332	66.4%	\$47,703,996	168.8%
1/1/2004	\$134,562,661	\$202,033,980	\$67,471,319	66.6%	\$44,752,109	150.8%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Retirement in Past Years										
Superannuation	31	29	38	29	47	32	22	32	31	32
Ordinary Disability	0	0	1	0	3	0	0	2	1	1
Accidental Disability	2	2	3	2	5	7	8	3	3	1
Total Retirements	33	31	42	31	55	39	30	37	35	34
Total Retirees, Beneficiaries and Survivors	658	668	682	676	712	729	737	743	748	758
Total Active Members	1,066	1,148	1,147	1,102	1,102	1,142	1,148	1,150	1,188	1,181
Pension Payments										
Superannuation	\$5,150,772	\$5,598,747	\$5,967,899	\$6,564,745	\$7,136,961	\$7,950,869	\$8,434,366	\$8,810,350	\$9,206,232	\$10,236,727
Survivor/Beneficiary Payments	356,959	430,297	477,902	512,418	555,851	566,231	574,032	670,051	701,358	736,882
Ordinary Disability	164,217	153,092	163,250	140,840	144,597	157,959	186,813	202,653	223,535	230,187
Accidental Disability	1,368,207	1,467,184	1,472,979	1,593,773	1,691,134	1,692,748	2,145,905	2,052,563	2,308,496	2,346,114
Other	<u>1,284,933</u>	<u>1,249,590</u>	<u>1,208,224</u>	<u>1,198,050</u>	<u>1,167,615</u>	<u>1,210,047</u>	<u>1,274,158</u>	<u>1,237,395</u>	<u>1,223,718</u>	<u>1,209,899</u>
Total Payments for Year	<u>\$8,325,087</u>	<u>\$8,898,911</u>	<u>\$9,290,254</u>	<u>\$10,009,825</u>	<u>\$10,696,157</u>	<u>\$11,577,854</u>	<u>\$12,615,275</u>	<u>\$12,973,012</u>	<u>\$13,663,339</u>	<u>\$14,759,809</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 – LEASED PREMISES

The Taunton Retirement System leases approximately 1,200 square feet of space for its offices located at 40 Dean Street, Taunton, MA. They signed an initial 5-year lease term (@ \$19.85 per sq ft) and are in the fourth year of that initial term; the lease term expires January 19, 2012. The lessor is Koss Realty Trust.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2009:

For the year ending:

2010	\$ 23,820.00
2011	\$ 23,820.00
2012 (Through January 19, 2012)	\$ 992.50
Total future minimum lease payments required	<u>\$ 48,632.50</u>

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