PERAC AUDIT REPORT

Lexington
Contributory Retirement System

JAN. 1, 2013 - DEC. 31, 2016

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

TABLE OF CONTENTS

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

July 3, 2019

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, 2013 to December 31, 2016. 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 Walter Kloc and Carol Poladian who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

John W. Parsons, Esq.
Executive Director

FIVE MIDDLESEX AVENUE, SUITE 304 | SOMERVILLE, MA 02145
PH 617 666 4446 | FAX 617 628 4002 | TTY 617 591 8917 | WWW.MASS.GOV/PERAC

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Investment Management Fees:
The Board had inconsistent accounting and reporting practices for management fees. For the majority of the investment managers, the Board is netting management fees for accounting purposes. There were twelve investment managers who were paid fees during 2016. Of these twelve:

- Only four managers fees were reported on Schedule 7 of the Annual Statement and booked to account #5304 Management Fees on the general ledger
- In three other instances, managers fees were reported on Schedule 7 but not booked to #5304
- The manager fees for the remaining five managers were not reported on either Schedule 7 or booked to account #5304

Similarly, management fees were not completely recorded to account #5304 in 2015 and 2014.

Recommendation: Schedule 7 must include all investments and all investment management fees. In addition, the Board should not 'net' management fees for accounting purposes but must record gross income and management fees for each investment.

Board Response:
We are working with our consultant Meketa Investment Group to obtain fees on a more timely basis.

2. Retirement Allowance Calculations:
We found an incorrect calculation of retirement allowance for a new retiree which resulted in overpayment of benefits. The salary used in this retiree's accidental disability allowance calculation included the lump sum payout of vacation time due at retirement. This is not regular compensation pursuant to 840 CMR 15.03(3)(f).

Recommendation: The Board should review this retirement allowance calculation and make all necessary corrections.

Board Response:
The Lexington Retirement Board's attorney has contacted the individual about the error and the amount overpaid has been forwarded noting it has to be repaid. The individual has notified the Lexington Retirement Board he is seeking legal representation. The pension will be adjusted beginning with the July 2019 payment.

3. Credit card:
We noted that there is a Board credit card, but there is no supplemental regulation allowing its use. Although we did not find any expenditures that were not Board related, pursuant to 840 CMR 2.11, boards may not use a credit card unless PERAC has approved a regulation allowing it.

Recommendation: The Board should draft a supplemental regulation and request approval from PERAC.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:
The credit card is issued and held by the Town of Lexington and used to reserve rooms for conferences. All costs are reimbursed to the Town. Beginning in July 2019, the Town is changing to a new bank and creating a new Town policy for the use of credit cards. The Lexington Retirement Board will follow the new policy.

PERAC Response:
As noted the use of credit cards by a Board requires adoption and PERAC approval of a supplementary regulation. The Board should incorporate the policy that it will follow in a supplemental regulation and submit it to PERAC.

FINAL DETERMINATION:
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,			
	2016	2015	2014	2013
Net Assets Available For Benefits:				
Cash (A)	$6	$3	($9,811)	$6,554,423
Short Term Investments	3,086,213	6,347,062	267,453	2,476,343
Pooled Domestic Equity Funds	63,504,527	68,651,515	75,219,811	72,304,237
Pooled International Equity Funds	19,694,037	13,260,252	13,450,600	12,446,561
Pooled Domestic Fixed Income Funds	15,472,501	14,400,806	15,665,975	13,431,604
Pooled Alternative Investment Funds	15,300,957	14,295,176	9,662,904	6,769,491
Pooled Real Estate Funds	6,378,342	1,323,836	1,727,850	1,974,953
Pooled Domestic Balanced Funds	0	0	7,861,735	8,559,161
Pooled International Balanced Funds	4,703,196	4,591,378	0	0
Hedge Funds	15,477,160	13,858,359	14,120,999	6,244,145
Interest Due and Accrued	1,607	0	0	0
Accounts Receivable	2,957,331	2,766,318	2,835,884	2,526,142
Accounts Payable	(72,737)	(83,101)	(71,785)	(59,224)
Total	$146,503,140	$139,411,603	$140,731,614	$133,227,835
Fund Balances:				
Annuity Savings Fund	$34,705,077	$32,754,392	$31,723,478	$30,193,627
Annuity Reserve Fund	9,440,665	8,930,531	8,405,185	8,091,531
Pension Fund	1,568,057	1,964,635	2,227,999	2,123,499
Military Service Fund	5,470	5,464	5,459	5,453
Expense Fund	0	0	0	0
Pension Reserve Fund	100,783,871	95,756,580	98,369,493	92,813,724
Total	$146,503,140	$139,411,603	$140,731,614	$133,227,835

(A) Negative due to timing of year-end transactions

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 2013	$28,917,090	$7,574,328	$2,173,721	$5,448	$0	$79,886,554	$118,557,142
Receipts	3,476,847	234,570	5,318,442	5	462,007	15,307,258	24,799,129
Interfund Transfers	(1,721,767)	1,716,250	2,385,605	0	0	(2,380,088)	0
Disbursements	(478,543)	(1,433,618)	(7,754,269)	0	(462,007)	0	(10,128,436)
Ending Balance 2013	30,193,627	8,091,531	2,123,499	5,453	0	92,813,724	133,227,835
Receipts	3,707,551	244,981	5,557,706	5	670,538	8,145,482	18,326,263
Interfund Transfers	(1,641,208)	1,641,208	2,589,713	0	0	(2,589,713)	0
Disbursements	(536,492)	(1,572,535)	(8,042,919)	0	(670,538)	0	(10,822,484)
Ending Balance 2014	31,723,478	8,405,185	2,227,999	5,459	0	98,369,493	140,731,614
Receipts	3,981,045	261,368	5,750,314	5	560,206	(56,621)	10,496,316
Interfund Transfers	(1,969,898)	1,954,168	2,572,022	0	0	(2,556,291)	0
Disbursements	(980,233)	(1,690,189)	(8,585,700)	0	(560,206)	0	(11,816,327)
Ending Balance 2015	32,754,392	8,930,531	1,964,635	5,464	0	95,756,580	139,411,603
Receipts	4,641,634	275,776	5,985,623	5	587,550	7,681,978	19,172,566
Interfund Transfers	(2,055,465)	2,055,466	2,654,687	0	0	(2,654,687)	0
Disbursements	(635,484)	(1,821,108)	(9,036,888)	0	(587,550)	0	(12,081,029)
Ending Balance 2016	$34,705,077	$9,440,665	$1,568,057	$5,470	$0	$100,783,871	$146,503,140

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
Annuity Savings Fund:				
Members Deductions	$3,721,017	$3,484,817	$3,296,191	$3,111,300
Transfers from Other Systems	830,037	405,532	307,893	255,324
Member Make Up Payments and Re-deposits	20,467	23,066	28,756	30,388
Member Payments from Rollovers	32,686	3,722	35,081	33,875
Investment Income Credited to Member Accounts	37,427	63,908	39,631	45,961
Sub Total	4,641,634	3,981,045	3,707,551	3,476,847
Annuity Reserve Fund:				
Investment Income Credited to the Annuity Reserve Fund	275,776	261,368	244,981	234,570
Sub Total	275,776	261,368	244,981	234,570
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	354,803	382,570	435,930	374,567
Received from Commonwealth for COLA and Survivor Benefits	92,585	97,028	106,410	128,229
Pension Fund Appropriation	5,506,077	5,255,537	5,005,537	4,805,537
Settlement of Workers' Compensation Claims	24,111	7,131	2,290	2,502
Recovery of 91A Overearnings	8,047	8,047	7,539	7,606
Sub Total	5,985,623	5,750,314	5,557,706	5,318,442
Military Service Fund:				
Investment Income Credited to the Military Service Fund	5	5	5	5
Expense Fund:				
Investment Income Credited to the Expense Fund	587,550	560,206	670,538	462,007
Pension Reserve Fund:				
Interest Not Refunded	2,814	8,681	1,496	9,691
Miscellaneous Income	0	1,922	0	0
Excess Investment Income	7,679,164	(67,224)	8,143,985	15,297,568
Sub Total	7,681,978	(56,621)	8,145,482	15,307,258
Total Receipts, Net	$19,172,566	$10,496,316	$18,326,263	$24,799,129

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
Annuity Savings Fund:				
Refunds to Members	$142,354	$329,396	$198,352	$171,361
Transfers to Other Systems	493,129	650,837	338,140	307,182
Sub Total	635,484	980,233	536,492	478,543
Annuity Reserve Fund:				
Annuities Paid	1,821,108	1,690,189	1,552,894	1,433,618
Option B Refunds	0	0	19,640	0
Sub Total	1,821,108	1,690,189	1,572,535	1,433,618
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	7,153,105	6,693,041	6,324,970	6,093,221
Survivorship Payments	423,048	389,945	386,662	307,638
Ordinary Disability Payments	65,840	64,446	63,283	49,644
Accidental Disability Payments	699,077	677,363	683,391	652,259
Accidental Death Payments	236,167	210,876	197,837	197,227
Section 101 Benefits	87,755	80,716	78,661	65,661
3 (8) (c) Reimbursements to Other Systems	371,894	469,313	308,114	388,618
Sub Total	9,036,888	8,585,700	8,042,919	7,754,269
Expense Fund:				
Salaries	118,095	126,773	141,288	99,013
Management Fees	283,675	275,338	368,790	215,543
Custodial Fees	30,951	30,859	28,889	27,117
Investment Consultant fees	83,000	79,000	75,000	75,000
Legal Expenses	8,548	10,179	2,805	6,823
Medical Expenses	72	0	0	73
Fiduciary Insurance	7,360	7,143	6,952	6,623
Service Contracts	27,362	23,450	22,334	21,270
Travel Expenses	413	1,658	1,644	1,640
Administrative Expenses	2,835	2,496	4,336	4,936
Actuarial Services Expenses (A)	8,500	2,500	10,375	(9,189)
Accounting Services	12,000	0	6,000	6,000
Education and Training	2,968	810	2,126	3,449
Furniture and Equipment	1,770	0	0	3,708
Sub Total	587,550	560,206	670,538	462,007
Total Disbursements	$12,081,029	$11,816,327	$10,822,484	$10,128,436

(A) Negative due to a prior overestimated accrual

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
Investment Income Received From:				
Cash	$62	$77	$190	$436
Short Term Investments	19,750	1,396	0	0
Equities	45,145	45,156	48,061	45,328
Pooled or Mutual Funds	1,941,197	4,715,527	7,701,325	4,253,523
Total Investment Income	2,006,153	4,762,157	7,749,576	4,299,287
Plus:				
Realized Gains	1,137	0	0	0
Unrealized Gains	11,712,819	7,564,436	9,864,787	16,654,325
Interest Due and Accrued - Current Year	1,607	0	0	0
Sub Total	11,715,563	7,564,436	9,864,787	16,654,325
Less:				
Realized Loss	(1,137)	0	0	(113,550)
Unrealized Loss	(5,140,657)	(11,508,330)	(8,515,223)	(4,799,904)
Interest Due and Accrued - Prior Year	0	0	0	(47)
Sub Total	(5,141,795)	(11,508,330)	(8,515,223)	(4,913,501)
Net Investment Income	8,579,922	818,262	9,099,141	16,040,111
Income Required:				
Annuity Savings Fund	37,427	63,908	39,631	45,961
Annuity Reserve Fund	275,776	261,368	244,981	234,570
Military Service Fund	5	5	5	5
Expense Fund	587,550	560,206	670,538	462,007
Total Income Required	900,758	885,487	955,155	742,543
Net Investment Income	8,579,922	818,262	9,099,141	16,040,111
Less: Total Income Required	900,758	885,487	955,155	742,543
Excess Income (Loss) To The Pension Reserve Fund	$7,679,164	($67,224)	$8,143,985	$15,297,568

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2016	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$6	0.0%
Short Term Investments	3,086,213	2.1%
Pooled Domestic Equity Funds	63,504,527	44.2%
Pooled International Equity Funds	19,694,037	13.7%
Pooled Domestic Fixed Income Funds	15,472,501	10.8%
Pooled Alternative Investment Funds	15,300,957	10.7%
Pooled Real Estate Funds	6,378,341	4.4%
Pooled International Balanced Funds	4,703,196	3.3%
Hedge Funds	15,477,160	10.78%
Grand Total	$143,616,938	100.0%

For the year ending December 31, 2016, the rate of return for the investments of the Lexington Retirement System was 7.14%. For the five-year period ending December 31, 2016, the rate of return for the investments of the Lexington Retirement System averaged 8.51%. For the 32-year period ending December 31, 2016, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Lexington Retirement System was 8.64%.

The composite rate of return for all retirement systems for the year ending December 31, 2016 was 8.08%. For the five-year period ending December 31, 2016, the composite rate of return for the investments of all retirement systems averaged 9.12%. For the 32-year period ending December 31, 2016, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.11%.

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
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.

October 26, 2004
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
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 104 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.

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 57. 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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 $871.56 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 $871.56 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 $150,000.00 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 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. In certain circumstances, 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 may not be undertaken. This is because such a person may 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.

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:

Creditable Service

May 17, 2011

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 35 hours 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.

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 35 hours 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.

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:	Carolyn Kosnoff		
Appointed Member:	Frederick Weiss	Term Expires:	1/11/21
Elected Member:	Robert Cunha, Chairman	Term Expires:	6/30/20
Elected Member:	Joseph Foley	Term Expires:	12/29/20
Appointed Member:	Alan Fields	Term Expires:	1/20/21

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.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of $1,000,000 with a $10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of $50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Sherman Actuarial Services, LLC as of January 1, 2018.

The actuarial liability for active members was	$77,684,680
The actuarial liability for retired and inactive members was	110,476,504
The total actuarial liability was	$188,161,184
System assets as of that date were (actuarial value)	163,999,576
The unfunded actuarial liability was	$24,161,608
The ratio of system's assets to total actuarial liability was	87.2%
As of that date the total covered employee payroll was	$38,607,665

The normal cost for employees on that date was	8.9% of payroll
The normal cost for the employer (including administrative expenses) was	3.6% of payroll

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

Investment Return:	7.50% per annum
Rate of Salary Increase:	Varies by group and service

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2018

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)
1/1/2018	$163,999,576	$188,161,184	$24,161,608	87.2%	$38,607,665	62.6%
1/1/2016	$144,699,520	$169,564,366	$24,864,846	85.3%	$36,130,638	68.8%
1/1/2014	$130,168,913	$158,134,597	$27,965,684	82.3%	$32,850,691	85.1%
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%

NOTE 6 - MEMBERSHIP EXHIBIT

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Retirement in Past Years										
Superannuation	17	8	20	16	21	13	23	21	23	21
Ordinary Disability	2	0	1	0	1	0	1	0	0	0
Accidental Disability	0	0	1	1	1	2	0	1	0	1
Total Retirements	19	8	22	17	23	15	24	22	23	22
Total Retirees, Beneficiaries and Survivors	386	386	386	385	384	382	394	400	409	425
Total Active Members	596	606	598	613	635	643	662	677	701	715
Pension Payments										
Superannuation	$4,583,162	$4,707,798	$4,948,644	$5,251,143	$5,580,241	$5,775,397	$6,093,221	$6,324,970	$6,093,221	$7,153,105
Survivor/Beneficiary Payments	243,209	245,999	251,035	272,437	278,346	287,407	307,638	386,662	307,638	423,048
Ordinary Disability	46,229	47,309	34,203	35,943	26,159	42,365	49,644	63,283	49,644	65,840
Accidental Disability	742,860	757,620	747,890	710,545	727,438	713,499	652,259	683,391	652,259	699,077
Other	466,240	438,634	488,356	227,355	243,143	253,697	651,506	584,613	1,482,937	695,817
Total Payments for Year	$6,081,700	$6,197,360	$6,470,128	$6,497,423	$6,855,327	$7,072,365	$7,754,269	$8,042,919	$8,585,700	$9,036,888

NOTE 7 - OTHER POST EMPLOYMENT BENEFITS

Chapter 88 of the Acts of 2004 allowed the town of Lexington to establish a Group Insurance Liability Fund to pay premium costs and claim costs on behalf of retired town employees and eligible spouses and dependents. Section 2(b) states that the fund shall be subject to PERAC's triennial audit.

The most recent actuarial valuation of the Town of Lexington's Group Insurance Liability Fund was prepared by Sherman Actuarial Services, LLC as of June 30, 2017.

The actuarial liability for active members was	$106,770,211
The actuarial liability for retired members was	103,510,744
The total actuarial liability was	$210,280,955
System assets as of that date were	9,869,875
The unfunded actuarial liability was	$200,411,080
The ratio of system's assets to total actuarial liability was	4.7%

GASB DISCLOSURE INFORMATION
AS OF June 30, 2017

Schedule of Funding Progress

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)
6/30/2017	$9,869,875	$210,280,955	$200,411,080	4.7%	$102,059,394	196.4%
6/30/2015	$5,798,656	$195,460,311	$189,661,655	3.0%	$99,122,987	191.3%
6/30/2013	$3,069,273	$131,406,069	$128,336,796	2.3%	$83,486,497	153.7%
6/30/2011	$2,000,000	$306,300,691	$304,300,691	0.7%	n/a	n/a
6/30/2009	$840,000	$266,098,830	$265,258,830	0.3%	n/a	n/a

The Town's annual OPEB cost is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount calculated in accordance with GASB 45. The ARC represents the amount that is projected to cover each year's normal cost and amortize the unfunded liability over a period not to exceed 30 years.

NOTES TO FINANCIAL STATEMENTS (Continued)

Net OPEB Obligation (NOO)

Fiscal Year Ending 6/30	Annual Required Contribution (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost a+b+c (d)	Annual Contribution (e)	Net Increase in NOO d-e (f)	NOO as of following Date (g)
2017	15,521,809	4,576,131	(3,492,850)	16,605,090	8,685,157	7,919,933	99,442,560
2016	15,868,861	4,175,925	(3,187,382)	16,857,404	8,853,284	8,004,120	91,522,627
2015	15,158,335	3,782,306	(2,886,942)	16,053,699	8,181,308	7,872,391	83,518,507
2014	11,822,057	3,110,140	(4,366,521)	10,565,676	6,231,434	4,334,242	75,646,116
2013				0		0	71,311,874

Other Required Information

Actuarial Cost Method	Projected Unit Credit
Amortization Method	4.0% Increasing
Remaining Amortization Period	30 years (as of 7/1/17)
Asset Valuation	Market Value

Actuarial Assumptions

Investment Rate of Return	5.0%
Inflation Rate	4.0%
Medical/Drug Cost Trend Rate	5.5%, decreasing 0.5% for 1 year and 0.5% for 2019 and after for an ultimate rate of 4.5%

Plan Membership

Actives	1,428
Retirees, Beneficiaries, and Dependents	1,335
Total	2,763

PERAC
Five Middlesex Avenue | Suite 304
Somerville, MA | 02145
Ph: 617.666.4446 | Fax: 617.628.4002
TTY: 617.591.8917 | Web: www.mass.gov/perac

January 6, 2022

Robert Cunha, Chairperson
Lexington Retirement Board
1625 Massachusetts Avenue
Lexington, MA 02420

REFERENCE: Report of the Examination of the Lexington Retirement Board for the four-year period from January 1, 2013 through December 31, 2016.

Dear Chairperson Cunha:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Lexington Retirement Board for the period referenced above. We conduct these visits as a regular part of the oversight process to ensure the timely implementation of the recommendations contained in that report. The examination also addressed the other matters discussed at the completion of the audit. The results are as follows:

1. The Audit Report cited a finding that the Board had inconsistent accounting and reporting practices for management fees. The majority of management fees were not being recorded in the general ledger and also not being reported on Schedule 7 of the Annual Statement.

Follow-up Result: No changes have been implemented. This issue is not resolved.

2. The Audit Report cited a finding that a retiree's three-year average salary included a lump sum payout of vacation time which is not considered regular compensation pursuant to 840 CMR 15.03(3)(f).

Follow-up Result: The Board has recalculated this retiree's allowance and in September 2019, began withholding a portion of the allowance to repay the overpayment. This issue is resolved.

3. The Audit Report cited a finding that the Board does not have a PERAC approved regulation allowing the use of a credit card, as required by 840 CMR 2.11.

Follow-up Result: The Board has not submitted a regulation for the use of a credit card to PERAC for approval. This issue is not resolved.

The additional matters discussed have been reviewed and most have been resolved.

The Commission wishes to acknowledge the effort demonstrated by the staff of the Lexington Retirement Board to address some of the issues from the most recent examination of the system. PERAC auditors will conduct further follow-up as warranted to ensure progress is being made in those areas that have not been corrected at this time.

Thank you for your continued cooperation in this matter.

Sincerely,

John W. Parsons, Esq.
Executive Director

JWP/cms

cc: Lexington Retirement Board Members