

PERAC AUDIT REPORT



Taunton
Contributory Retirement System



JAN. 1, 2013 - DEC. 31, 2016



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. MCCARTHY | JENNIFER F. SULLIVAN

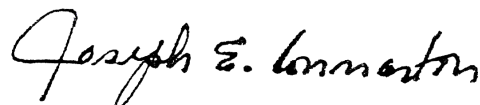
November 7, 2018

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, 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 Elaine Pursley, Michael Nicolazzo and Junior Yanga who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Retirement Allowance Calculations:

We found that the board used annual earnings totals provided in letters from each department for the retirement allowance calculations. Payroll registers were not provided as support for the annual regular compensation totals listed in these letters.

We requested and reviewed payroll registers for our testing. Clothing allowance was included in the salary of two retirees for time periods after June 30, 2012. Pursuant to 840 CMR 15.03 (3)(f), clothing does not qualify as regular compensation.

We found that another retiree had a higher regular compensation total for one year per the payroll register than what was used in the retirement allowance calculation.

We were unable to test one retiree's retirement allowance calculation because we were not provided with any payroll support since the earnings were from a different retirement system.

Recommendation: The board should review the above noted retirement allowance calculations and make corrections as needed. Other recent retirees who may have had a clothing allowance incorrectly included in the average salary should be investigated.

The board should request payroll registers for all new retirement allowance calculations.

Board Response:

Due to a change in payroll software vendors by the City of Taunton with three firms in the last 5 years (within the audit period for those allowances audited), it was difficult for the treasurer to have complete payroll archives for employees therefore the departments themselves had to verify regular compensation. Going forward, the board will work with the treasurer's office to obtain actual payroll registers as this information is newly archived with its current payroll software. The board will review other recent calculations to ensure the post 6/30/2012 compensation does not include clothing allowance.

2. Members' deductions:

During a review of a payroll from the Greater Attleboro Taunton Regional Transit Authority (GATRA) we identified two errors. First, retirement deductions were withheld from hours worked in excess of the standard work schedule. This is considered overtime, which is not regular compensation pursuant to 840 CMR 15.03 3(f). Second, one member received a salary increase but the retirement deductions did not change. This happened because the deductions are manually entered in the payroll system.

Recommendation: GATRA must stop withholding deductions on pay beyond 70 hours bi-weekly. Employees who receive raises must have the deductions updated timely.

The retirement board should review a full payroll from GATRA on a regular basis.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:

GATRA's use of ADP payroll software has made it difficult for them to have retirement deductions withheld automatically and therefore they have manually coded the withholdings. This can result in periodic errors and has been an on-going problem. The board has requested payroll registers each month and will have to institute a monthly audit to ensure accuracy.

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	\$8,002,368	\$9,826,944	\$8,833,645	\$10,687,094
Short Term Investments	0	242,795	380,544	380,544
Fixed Income Securities	33,221,864	31,693,287	41,355,692	38,961,153
Equities	76,718,958	95,951,601	96,808,394	104,708,330
Pooled Domestic Equity Funds	58,317,325	27,313,273	26,933,780	23,695,210
Pooled International Equity Funds	27,061,744	26,921,722	27,500,567	28,804,650
Pooled Domestic Fixed Income Funds	13,428,424	12,868,833	0	0
Pooled International Fixed Income Funds	8,087,595	7,785,150	11,601,428	11,086,403
Pooled Alternative Investment Funds	13,144,728	14,301,374	15,770,281	13,083,334
Pooled Real Estate Funds	37,380,447	35,228,887	33,633,835	17,145,827
Interest Due and Accrued	227,329	237,000	346,232	339,416
Prepaid Expenses	4,185	4,185	6,269	2,084
Accounts Receivable	8,134,509	7,785,976	7,814,847	8,497,680
Accounts Payable	<u>(668,686)</u>	<u>(433,303)</u>	<u>(722,918)</u>	<u>(1,313,076)</u>
Total	<u>\$283,060,790</u>	<u>\$269,727,725</u>	<u>\$270,262,596</u>	<u>\$256,078,649</u>
Fund Balances:				
Annuity Savings Fund	\$67,315,179	\$64,700,905	\$63,630,352	\$62,166,750
Annuity Reserve Fund	22,055,895	22,092,219	20,801,997	19,501,639
Pension Fund	7,964,643	8,368,421	9,405,878	10,463,417
Military Service Fund	36,091	35,820	32,592	26,521
Expense Fund	0	0	0	0
Pension Reserve Fund	<u>185,688,981</u>	<u>174,530,360</u>	<u>176,391,777</u>	<u>163,920,322</u>
Total	<u>\$283,060,790</u>	<u>\$269,727,725</u>	<u>\$270,262,596</u>	<u>\$256,078,649</u>

Note: Summation differences due to rounding only.

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	\$61,424,053	\$17,266,221	\$10,391,685	\$26,494	\$0	\$128,917,550	\$218,026,003
Receipts	5,848,372	566,788	15,049,503	26	1,941,654	37,468,456	60,874,800
Interfund Transfers	(4,602,844)	4,644,206	2,424,322	0	0	(2,465,684)	0
Disbursements	(502,832)	(2,975,575)	(17,402,094)	0	(1,941,654)	0	(22,822,155)
Ending Balance 2013	62,166,750	19,501,639	10,463,417	26,521	0	163,920,322	256,078,649
Receipts	5,992,053	612,153	15,447,672	6,072	2,200,458	14,498,866	38,757,274
Interfund Transfers	(3,978,255)	3,969,112	2,036,554	0	0	(2,027,411)	0
Disbursements	(550,196)	(3,280,907)	(18,541,766)	0	(2,200,458)	0	(24,573,326)
Ending Balance 2014	63,630,352	20,801,997	9,405,878	32,592	0	176,391,777	270,262,596
Receipts	6,008,065	641,815	15,659,323	3,228	2,315,119	831,172	25,458,722
Interfund Transfers	(4,212,729)	4,185,589	2,719,729	0	0	(2,692,589)	0
Disbursements	(724,784)	(3,537,183)	(19,416,508)	0	(2,315,119)	0	(25,993,594)
Ending Balance 2015	64,700,905	22,092,219	8,368,421	35,820	0	174,530,360	269,727,725
Receipts	6,495,525	659,041	16,354,061	1,379	2,376,290	15,085,798	40,972,094
Interfund Transfers	(3,107,546)	3,124,936	3,910,894	(1,107)	0	(3,927,177)	0
Disbursements	(773,705)	(3,820,301)	(20,668,733)	0	(2,376,290)	0	(27,639,029)
Ending Balance 2016	\$67,315,179	\$22,055,895	\$7,964,643	\$36,091	\$0	\$185,688,981	\$283,060,790

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
Annuity Savings Fund:				
Members Deductions	\$5,929,800	\$5,702,243	\$5,536,787	\$5,306,904
Transfers from Other Systems	313,372	129,808	296,365	446,155
Member Make Up Payments and Re-deposits	92,618	58,525	36,027	0
Member Payments from Rollovers	96,833	56,685	63,583	37,343
Investment Income Credited to Member Accounts	<u>62,902</u>	<u>60,805</u>	<u>59,292</u>	<u>57,970</u>
Sub Total	<u>6,495,525</u>	<u>6,008,065</u>	<u>5,992,053</u>	<u>5,848,372</u>
Annuity Reserve Fund:				
Recovery of Annuity from Reinstatement	0	0	4,264	4,404
Investment Income Credited to the Annuity Reserve Fund	<u>659,041</u>	<u>641,815</u>	<u>607,888</u>	<u>562,384</u>
Sub Total	<u>659,041</u>	<u>641,815</u>	<u>612,153</u>	<u>566,788</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	555,427	518,141	485,598	440,281
Pension Fund Appropriation	428,569	197,275	182,497	362,470
Settlement of Workers' Compensation Claims	15,365,065	14,943,906	14,753,156	14,202,211
Recovery of Pension from Reinstatement	5,000	0	7,500	25,000
	<u>0</u>	<u>0</u>	<u>18,921</u>	<u>19,541</u>
Sub Total	<u>16,354,061</u>	<u>15,659,323</u>	<u>15,447,672</u>	<u>15,049,503</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	1,343	3,195	6,045	0
Investment Income Credited to the Military Service Fund	<u>35</u>	<u>33</u>	<u>27</u>	<u>26</u>
Sub Total	<u>1,379</u>	<u>3,228</u>	<u>6,072</u>	<u>26</u>
Expense Fund:				
Investment Income Credited to the Expense Fund	<u>2,376,290</u>	<u>2,315,119</u>	<u>2,200,458</u>	<u>1,941,654</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	35,136	112,093	17,591	38,753
Interest Not Refunded	1,451	9,448	6,165	14,014
Miscellaneous Income	0	131	2,533	2,634
Excess Investment Income	<u>15,049,212</u>	<u>709,500</u>	<u>14,472,578</u>	<u>37,413,055</u>
Sub Total	<u>15,085,798</u>	<u>831,172</u>	<u>14,498,866</u>	<u>37,468,456</u>
Total Receipts, Net	<u>\$40,972,094</u>	<u>\$25,458,722</u>	<u>\$38,757,274</u>	<u>\$60,874,800</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,				
	2016	2015	2014	2013
Annuity Savings Fund:				
Refunds to Members	\$272,938	\$438,318	\$327,047	\$314,870
Transfers to Other Systems	<u>500,767</u>	<u>286,466</u>	<u>223,148</u>	<u>187,962</u>
Sub Total	<u>773,705</u>	<u>724,784</u>	<u>550,196</u>	<u>502,832</u>
Annuity Reserve Fund:				
Annuities Paid	3,757,638	3,513,377	3,254,775	2,974,545
Option B Refunds	<u>62,663</u>	<u>23,805</u>	<u>26,132</u>	<u>1,030</u>
Sub Total	<u>3,820,301</u>	<u>3,537,183</u>	<u>3,280,907</u>	<u>2,975,575</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	15,184,578	14,460,249	13,452,827	12,486,495
Survivorship Payments	1,152,350	1,133,890	1,067,049	943,223
Ordinary Disability Payments	229,874	225,371	245,083	262,462
Accidental Disability Payments	2,569,051	2,481,380	2,490,116	2,444,350
Accidental Death Payments	342,446	380,150	398,467	423,456
Section 101 Benefits	350,540	346,099	242,758	169,900
3 (8) (c) Reimbursements to Other Systems	678,739	214,601	385,781	371,518
State Reimbursable COLA's Paid	155,168	166,565	232,036	266,293
Chapter 389 Beneficiary Increase Paid	<u>5,987</u>	<u>8,203</u>	<u>27,649</u>	<u>34,398</u>
Sub Total	<u>20,668,733</u>	<u>19,416,508</u>	<u>18,541,766</u>	<u>17,402,094</u>
Expense Fund:				
Board Member Stipend	22,500	22,125	22,500	22,500
Salaries	210,581	190,751	162,132	154,315
Legal Expenses	22,266	56,093	21,590	35,050
Travel Expenses	10,739	14,551	13,225	5,074
Administrative Expenses	21,396	26,156	18,882	17,582
Actuarial Services	15,000	1,750	10,000	0
Accounting Services	9,000	7,144	0	0
Education and Training	5,300	6,430	6,970	2,880
Furniture and Equipment	13,527	14,784	6,125	2,533
Management Fees	1,706,445	1,654,154	1,619,390	1,426,540
Custodial Fees	160,037	157,521	162,997	140,356
Consultant Fees	75,000	75,000	63,220	60,000
Rent Expenses	52,520	42,737	40,701	32,331
Service Contracts	38,598	32,937	40,089	30,461
Fiduciary Insurance	<u>13,381</u>	<u>12,986</u>	<u>12,637</u>	<u>12,033</u>
Sub Total	<u>2,376,290</u>	<u>2,315,119</u>	<u>2,200,458</u>	<u>1,941,654</u>
Total Disbursements	<u>\$27,639,029</u>	<u>\$25,993,594</u>	<u>\$24,573,326</u>	<u>\$22,822,155</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,			
	2016	2015	2014	2013
Investment Income Received From:				
Cash	\$34,317	\$8,335	\$6,441	\$0
Short Term Investments	82	140	25	7,232
Fixed Income	1,115,584	1,379,198	1,622,597	1,833,670
Equities	1,113,555	1,240,885	1,278,197	1,264,047
Pooled or Mutual Funds	1,793,023	1,789,268	1,356,019	1,053,819
Commission Recapture	<u>6,941</u>	<u>8,025</u>	<u>13,091</u>	<u>21,808</u>
Total Investment Income	<u>4,063,502</u>	<u>4,425,852</u>	<u>4,276,370</u>	<u>4,180,575</u>
Plus:				
Realized Gains	8,493,442	7,397,991	8,372,642	14,869,620
Unrealized Gains	25,970,761	20,074,105	25,025,390	32,658,782
Interest Due and Accrued - Current Year	<u>227,329</u>	<u>237,000</u>	<u>346,232</u>	<u>339,416</u>
Sub Total	<u>34,691,531</u>	<u>27,709,096</u>	<u>33,744,263</u>	<u>47,867,818</u>
Less:				
Paid Accrued Interest on Fixed Income Securities	(112,034)	(167,572)	(326,033)	(385,627)
Realized Loss	(6,399,149)	(6,763,972)	(6,504,397)	(3,716,690)
Unrealized Loss	(13,859,370)	(21,129,901)	(13,510,545)	(7,620,640)
Interest Due and Accrued - Prior Year	<u>(237,000)</u>	<u>(346,232)</u>	<u>(339,416)</u>	<u>(350,348)</u>
Sub Total	<u>(20,607,553)</u>	<u>(28,407,677)</u>	<u>(20,680,391)</u>	<u>(12,073,304)</u>
Net Investment Income	<u>18,147,481</u>	<u>3,727,271</u>	<u>17,340,242</u>	<u>39,975,089</u>
Income Required:				
Annuity Savings Fund	62,902	60,805	59,292	57,970
Annuity Reserve Fund	659,041	641,815	607,888	562,384
Military Service Fund	35	33	27	26
Expense Fund	<u>2,376,290</u>	<u>2,315,119</u>	<u>2,200,458</u>	<u>1,941,654</u>
Total Income Required	<u>3,098,269</u>	<u>3,017,771</u>	<u>2,867,665</u>	<u>2,562,035</u>
Net Investment Income	<u>18,147,481</u>	<u>3,727,271</u>	<u>17,340,242</u>	<u>39,975,089</u>
Less: Total Income Required	<u>3,098,269</u>	<u>3,017,771</u>	<u>2,867,665</u>	<u>2,562,035</u>
Excess Income (Loss) To The Pension Reserve Fund	\$15,049,212	\$709,500	\$14,472,578	\$37,413,055

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2016		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$8,002,368	2.9%
Fixed Income Securities	33,221,864	12.1%
Equities	76,718,958	27.9%
Pooled Domestic Equity Funds	58,317,325	21.2%
Pooled International Equity Funds	27,061,744	9.8%
Pooled Domestic Fixed Income Funds	13,428,424	4.9%
Pooled International Fixed Income Funds	8,087,595	2.9%
Pooled Alternative Investment Funds	13,144,728	4.8%
Pooled Real Estate Funds	<u>37,380,447</u>	<u>13.6%</u>
Grand Total	<u>\$275,363,453</u>	<u>100.0%</u>

For the year ending December 31, 2016, the rate of return for the investments of the Taunton Retirement System was 7.03%. For the five-year period ending December 31, 2016, the rate of return for the investments of the Taunton Retirement System averaged 9.37%. 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 Taunton Retirement System was 9.51%.

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

November 17, 2010

Regulation Number 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

Regulation Number 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 –

1. 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

Regulation Number 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 –

1. 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

Regulation Number 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

Regulation Number 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"), 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

Regulation Number 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

Regulation Number 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

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

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

Regulation Number 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

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

Regulation Number 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.

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 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

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

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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.

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 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:

Membership:

Effective April 26, 2013

Any individual who is permanently employed twenty (20) or more hours per week by the City of Taunton or any of its departments, or any member unit of the Taunton Retirement System ("System"), or by the Taunton Retirement Board and who earns at least \$5,000 in regular compensation as that term is so defined in M.G.L. c. 32 § 1 and 840 CMR 15.03 shall become a member of the System. An individual who is employed in a temporary capacity is excluded from membership in the System unless at the time of hire the employee will be employed at least 20 hours per week and there is an expectation that the temporary assignment will continue for at least six (6) months. In addition to the foregoing, any elected official who earns at least \$5,000 per year in regular compensation may elect to join the System within (90) days of assuming office.

Purchase of past non-membership service

Any individual who is an active member of the Taunton Retirement System ("System") as of the effective date of this regulation may purchase any past service rendered as a part-time, provisional, temporary, temporary provisional, seasonal or intermittent employee in the City of Taunton, or as an employee of any member unit of the System pursuant to M.G.L. c. 32, § 4(2)(c) provided that the position in which the member rendered the non-membership service has a part-time or full-time equivalent position that would qualify the incumbent of that position for membership in the System and this past non-membership service was for at least (6) consecutive months in duration. For example, the position of crossing guard has neither a part-time or full-time equivalent which would warrant membership in the System because those employed in such a position, by definition, will never work twenty (20) or more hours per week and thus never qualify for membership in the System. Accordingly, members may not purchase past service rendered as a crossing guard. Conversely, an individual who renders temporary or part-time service as a custodian for a minimum of 6 consecutive months and subsequently becomes a member of the System by virtue of being permanently employed twenty (20) or more hours per week will be able to purchase this service as the position of custodian has a full-time equivalent that would qualify the incumbent of that position for membership in the System. Creditable service shall be calculated based on the regulation in effect at the time the member actually purchases the service.

Creditable Service:

Effective April 26, 2013

All full-time employees will receive full credit except in an instance in which full-time employees also had part-time service. Part-time service shall be prorated as it relates to the full-time position. Part-time employees will receive full credit provided that they have not been a fulltime/part-time employee as stated in the preceding sentence.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

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

Make-up Payments/Redeposits

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

Miscellaneous:

October 25, 2016

Correction of Errors

In all cases in which a benefit calculation error occurs that results in an underpayment or non-payment of a pension or benefit to a member or beneficiary, or in the event of any overpayment as the result of an error to a member or beneficiary, the Board shall, consistent with the provisions of M.G.L. c. 32, § 20(5)(c) pay to or collect from the member or beneficiary, as the case may be, the actuarial equivalent of the benefit paid or received in error. Pursuant to the Supreme Judicial Court's decision in *Herrick v. Essex Regional Retirement Board*, 465 Mass. 801 (2013) and PERAC Memorandum #32/2013, the Board has determined that the actuarial equivalent requires that the interest to be applied will be calculated for each calendar year based on the 10-year Treasury rate in effect on January 1st of each year.

Disbursements of Funds

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

Accidental disability applicants must be present when the Board reviews their application unless a medical reason exists that prevents them from being present.

Travel Regulations:

The Taunton 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/service-details/taunton-retirement-board-travel-regulations>.

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 until a successor is appointed
Elected Member:	Peter H. Corr	Term Expires: 12/31/19
Elected Member:	Dennis M. Smith	Term Expires: 11/30/20
Appointed Member:	Barry J. Amaral	Term Expires: 02/27/21

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 issued through Travelers Casualty & 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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, 2016.

The actuarial liability for active members was	\$164,343,443
The actuarial liability for inactive members was	1,976,591
The actuarial liability for retired members was	<u>205,483,920</u>
The total actuarial liability was	\$371,803,954
System assets as of that date were (actuarial value)	<u>278,487,094</u>
The unfunded actuarial liability was	<u>\$93,316,860</u>
The ratio of system's assets to total actuarial liability was	74.9%
As of that date the total covered employee payroll was	\$59,156,684

The normal cost for employees on that date was 8.9% of payroll
 The normal cost for the employer excluding administrative expenses was 4.3% of payroll

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

Investment Return: 7.75% per annum
 Rate of Salary Increase: 3.50% per annum

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2016

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)
1/1/2016	\$278,487,094	\$371,803,954	\$93,316,860	74.9%	\$59,156,684	157.7%
1/1/2014	\$239,531,317	\$364,926,837	\$125,395,520	65.6%	\$55,498,644	225.9%
1/1/2012	\$209,808,060	\$339,006,864	\$129,198,804	61.9%	\$55,614,435	232.3%
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%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Retirement in Past Years										
Superannuation	32	31	32	26	36	32	47	39	43	43
Ordinary Disability	2	1	1	0	0	0	1	0	0	0
Accidental Disability	3	3	1	2	2	1	3	0	0	5
Total Retirements	37	35	34	28	38	33	51	39	43	48
Total Retirees, Beneficiaries and Survivors	743	748	758	760	774	779	808	822	838	856
Total Active Members	1,150	1,188	1,181	1,142	1,112	1,087	1,096	1,123	1,112	1,106
Pension Payments										
Superannuation	\$8,810,350	\$9,206,232	\$10,236,727	\$10,732,451	\$11,321,100	\$11,745,233	\$12,486,495	\$13,452,827	\$14,460,249	\$15,184,578
Survivor/Beneficiary Payments	670,051	701,358	736,882	792,862	792,776	810,808	943,223	1,067,049	1,133,890	1,152,350
Ordinary Disability	202,653	223,535	230,187	212,541	216,821	221,400	262,462	245,083	225,371	229,874
Accidental Disability	2,052,563	2,308,496	2,346,114	2,392,062	2,428,903	2,406,526	2,444,350	2,490,116	2,481,380	2,569,051
Other	<u>1,237,395</u>	<u>1,223,718</u>	<u>507,093</u>	<u>514,320</u>	<u>590,879</u>	<u>617,770</u>	<u>1,265,565</u>	<u>1,286,690</u>	<u>1,115,619</u>	<u>1,532,880</u>
Total Payments for Year	<u>\$12,973,012</u>	<u>\$13,663,339</u>	<u>\$14,057,003</u>	<u>\$14,644,236</u>	<u>\$15,350,479</u>	<u>\$15,801,737</u>	<u>\$17,402,094</u>	<u>\$18,541,766</u>	<u>\$19,416,508</u>	<u>\$20,668,733</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 – LEASED PREMISES

The Taunton Retirement Board leases approximately 2,954 square feet of space for its offices located at 104 Dean Street, Taunton, MA. They signed a 10-year lease term (with a \$17.00 per sq. ft. start rent increasing five percent each year) which will expire February 28, 2025. The landlord is Donald Emond, Trustee of Waterfront Realty Trust.

The following schedule displays the minimum lease obligations on the non-cancelable operating lease as of December 31, 2016:

<u>For the year ending:</u>	<u>Annual Rent</u>
2017	\$55,138.87
2018	\$57,876.25
2019	\$60,758.86
2020	\$63,789.17
2021	\$66,967.18
2022	\$70,292.89
2023	\$73,793.38
2024	\$77,471.11
2025	<u>\$6,481.57</u>
Total future minimum lease payments required	<u>\$532,569.28</u>

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COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOHN W. PARSONS, ESQ., *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. MCCARTHY | JENNIFER F. SULLIVAN

September 6, 2019

Ann Marie Hebert, Chairperson
Taunton Retirement Board
104 Dean Street
Suite 203
Taunton, MA 02780

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

Dear Chairperson Hebert:

The Public Employee Retirement Administration Commission has completed a follow-up review of the findings and recommendations contained in its audit report of the Taunton 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 used annual earnings totals provided by the departments for retirement allowance calculations. We requested payroll information and found that Clothing pay was included in regular compensation for two retirees tested. We also found that payroll reports provided showed higher compensation than what was used for another retiree tested.

Follow-up Result: The Board has not made any corrections to the retirees found with issues. We noted that the Board has started to request payroll information to determine the regular compensation to use in retirement allowance calculations. We tested five new retirements and noted that two of the five included full detailed payroll information in the folders. Two others had payrolls that did not show detail by pay codes. The last one tested did not have any payrolls in the folder. This issue is partially resolved.



September 6, 2019
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2. The Audit Report cited a finding that there were two errors with members' deductions from the Greater Attleboro Taunton Regional Transit Authority (GATRA). One member had deductions taken out of pay that was over the normal work schedule. The other member had an increase to earnings but the deductions did not change because the deductions were manually entered into payroll.

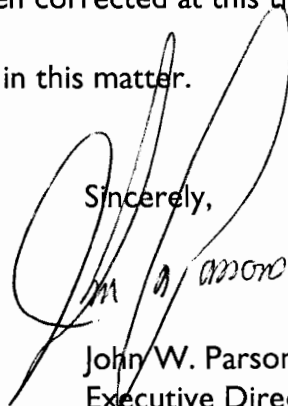
Follow-up Result: We reviewed the two members from the finding and did not have any issues with the July 2019 payroll. We tested an additional five GATRA employees and did not find any issues with the members' deductions. Also, we are aware that GATRA will be working with their payroll provider to automate deduction calculations. This issue is resolved.

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

The Commission wishes to acknowledge the effort demonstrated by the staff of the Taunton Retirement Board to correct the issues from the most recent examination of the system. PERAC auditors may conduct an additional follow-up visit 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,

A handwritten signature in black ink, appearing to read "John W. Parsons", is written over the typed name below.

John W. Parsons, Esq.
Executive Director

JWP/tal
cc: Taunton Retirement Board Members