PERAC AUDIT REPORT

Franklin Regional Contributory Retirement System

JAN. 1, 2007 - DEC. 31, 2009

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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January 13, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Franklin Regional Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2007 to December 31, 2009. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

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

It should be noted that the findings determined in this audit report were based on the Laws and Regulations in effect during the time the audit was conducted for the period referenced in this report. These findings do not reflect the changes made to Chapter 32 after passage of Chapter 21 of the Acts of 2009.

In closing, I acknowledge the work of examiner Scott Henderson who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

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EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Membership

The Board has instructed all its unit treasurers to stop retirement deductions from members in positions that pay less than $5,000 annually. This was due to the language in PERAC Memo #24/2009 that said, "Persons who are prohibited from being granted creditable service by this amendment will be required to participate in the alternative plan for public employees not enrolled in the Retirement System." However, in January 2010, PERAC issued Memo #10/2010 which states, "All retirement boards should continue to take deductions from those members in service making under $5,000 per year." The Memo then elaborates upon the legal rationale underlying this position.

Recommendation: PERAC completely understands the confusion that resulted from the issuance of the revised Memo #10/2010 directing the Boards to take contributions from such employees, however, the Board should identify all members-in-service whose deductions were stopped in 2009 because of their minimal salary and direct the treasurers to restart the deductions to the Retirement System.

The Board should also consider adopting a supplemental regulation for all new employees that restricts membership to those with annual compensation greater than $5,000.

Board Response:

The Board appreciates PERAC's understanding on this issue and did discuss going back and starting deductions again but would like not to - because it was an effort for treasurers and members the first time to get them stopped. The Board also appreciates the legislature's intent and believes the treasurers and affected members understand as well, and thus goodwill will likely be lost if procedure is reversed. Given that a limited number of members are affected and would gain no benefit from paying deductions without getting creditable service, the board would like to maintain the status quo.

2. Regular Compensation

Payrolls from all 39 member units were examined by the auditor. Errors were found in the payrolls of five units. Some types of regular compensation, such as shift differential and pay received for being on-call, were not included when retirement deductions were calculated. Conversely, some pay types that are not regular compensation, such as overtime and fees, were included when retirement deductions were calculated.

Recommendation: The Board should review the pay types with these five units to make certain that future contributions will be calculated correctly. Contributions that have been taken from pay types that do not qualify as regular compensation should be refunded.

Board Response:

This issue will be ever present in county and regional systems due to the numerous units and their varied levels of ability to understand the rules and regulations regarding retirement issues. Single unit systems have the advantage of having only one unit treasurer to train, and usually that treasurer is in the same building and often holds an ex-officio seat on the board. Regional systems have many treasurers that need training and guidance, a process that is exacerbated by distance and lack of availability. System staff address this issue by devoting greater time and effort to educating the treasurers and analyzing the contribution reports as they come in each month. Part of the effort is to standardize the reports and include information that will help staff monitor the treasurer's efforts, but it is realized that the reports are limited in what can be deduced from the information provided, and so, what also is needed is direct review of the treasurer's records at the unit's location. Regular visits with the unit treasurers, that include a thorough review of the payroll records, give the system staff the opportunity to confirm understanding of retirement criteria, and if not, an opportunity to instruct and guide. With this approach, we believe we come close to the "just-down-the-hall" advantage that single unit systems enjoy, thereby realizing greater integrity behind the information we gather and hold for the benefit of our members and the system.

3. Board Member Attendance

A review of meeting attendance by Board members revealed a significant level of absenteeism. One member missed 38% of the meetings in 2008 and 31% of the meetings in 2009. The result was an attendance rate that was below the seventy-five percent minimum considered reasonable.

Recommendation: Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to counsel members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the schedule of Board meetings in order to better accommodate its members. It should be noted that Board members receive a stipend in consideration for regular attendance and participation at the monthly Board meetings. In instances where a significant level of absenteeism occurs, it is the Board's responsibility to take appropriate action with members who fail to maintain minimum attendance requirements.

Board Response:

The Board feels that meeting attendance alone is not a full measure of commitment and effort, as it does not reflect time given to the system through one-on-one meetings with staff, units, banks, investment managers and members. Board members make themselves available at times that are not during monthly meetings, and there is no formal way to track that extra effort. In addition, the board members are high-level professionals that take time away from their work to serve the retirement system. They compromise with each other when deciding a meeting schedule with the understanding that they might not make all meetings. In fact, the board members just negotiated a new meeting time with the hope that it will reduce schedule conflicts.

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, 2009	2008	2007
Net Assets Available For Benefits:			
Cash	$2,290,581	$2,018,470	$1,663,316
Equities	11,363,505	7,355,698	11,134,540
Pooled Domestic Equity Funds	5,727,271	4,037,846	5,561,288
Pooled Domestic Fixed Income Funds	8,184,877	8,937,353	9,763,999
Pooled Real Estate Funds	2,290,257	3,535,008	4,061,780
PRIT Cash Fund	0	0	0
PRIT Core Fund	41,496,600	33,492,695	47,236,061
Interest Due and Accrued	2	130	3,074
Accounts Receivable	948,224	1,021,558	1,257,830
Accounts Payable	(66,193)	(67,880)	(84,230)
Total	$72,235,125	$60,330,877	$80,597,658
Fund Balances:			
Annuity Savings Fund	$24,755,610	$23,444,974	$22,343,591
Annuity Reserve Fund	6,418,263	5,820,679	5,291,942
Pension Fund	6,237,302	5,828,478	6,068,968
Military Service Fund	1,797	1,786	1,777
Expense Fund	0	0	0
Pension Reserve Fund	34,822,152	25,234,960	46,891,379
Total	$72,235,125	$60,330,877	$80,597,658

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2007)	$21,156,128	$5,139,746	$6,977,026	$1,745	$0	$39,190,493	$72,465,138
Receipts	2,858,227	155,589	3,958,539	32	764,119	7,696,758	15,433,264
Interfund Transfers	(729,336)	724,203	1,005	0	0	4,128	(0)
Disbursements	(941,427)	(727,596)	(4,867,602)	0	(764,119)	0	(7,300,745)
Ending Balance (2007)	22,343,591	5,291,942	6,068,968	1,777	0	46,891,379	80,597,658
Receipts	3,112,258	159,921	4,120,996	9	785,106	(21,656,586)	(13,478,297)
Interfund Transfers	(1,172,115)	1,171,948	0	0	0	167	(0)
Disbursements	(838,760)	(803,132)	(4,361,486)	0	(785,106)	0	(6,788,484)
Ending Balance (2008)	23,444,974	5,820,679	5,828,478	1,786	0	25,234,960	60,330,877
Receipts	3,278,572	178,415	5,142,400	9	764,256	9,731,703	19,095,355
Interfund Transfers	(1,301,638)	1,302,626	143,522	2	0	(144,511)	0
Disbursements	(666,297)	(883,456)	(4,877,098)	0	(764,256)	0	(7,191,108)
Ending Balance (2009)	$24,755,610	$6,418,263	$6,237,302	$1,797	$0	$34,822,152	$72,235,125

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2009	2008	2007
Annuity Savings Fund:			
Members Deductions	$2,803,191	$2,722,285	$2,564,465
Transfers from Other Systems	278,301	204,090	132,682
Member Make Up Payments and Re-deposits	53,202	35,413	38,853
Member Payments from Rollovers	30,731	21,356	0
Investment Income Credited to Member Accounts	113,147	129,115	122,227
Sub Total	3,278,572	3,112,258	2,858,227
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	178,415	159,921	155,589
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	240,783	225,051	206,265
Received from Commonwealth for COLA and Survivor Benefits	96,009	111,752	119,931
Pension Fund Appropriation	4,789,108	3,779,153	3,632,343
Settlement of Workers' Compensation Claims	16,500	5,040	0
Sub Total	5,142,400	4,120,996	3,958,539
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	0
Investment Income Credited to the Military Service Fund	9	9	32
Sub Total	9	9	32
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	764,256	785,106	764,119
Sub Total	764,256	785,106	764,119
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	0
Pension Reserve Appropriation	0	866,309	854,903
Interest Not Refunded	9,434	7,100	4,135
Miscellaneous Income	4,979	2,557	7,740
Excess Investment Income (Loss)	9,717,291	(22,532,552)	6,829,980
Sub Total	9,731,703	(21,656,586)	7,696,758
Total Receipts	$19,095,355	($13,478,297)	$15,433,264

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
Annuity Savings Fund:			
Refunds to Members	$477,359	$387,598	$407,015
Transfers to Other Systems	188,938	451,162	534,413
Sub Total	666,297	838,760	941,427
Annuity Reserve Fund:			
Annuities Paid	883,456	777,445	711,521
Option B Refunds	0	25,688	16,075
Sub Total	883,456	803,132	727,596
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	3,737,332	3,325,454	3,094,065
Survivorship Payments	150,348	150,348	154,346
Ordinary Disability Payments	16,303	16,095	13,171
Accidental Disability Payments	306,276	274,038	240,806
Accidental Death Payments	56,213	54,821	53,438
Section 101 Benefits	0	0	0
3 (8) (c) Reimbursements to Other Systems	514,466	448,853	1,195,042
State Reimbursable COLA's Paid	96,161	91,878	116,735
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	4,877,098	4,361,486	4,867,602
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	0	0	0
Expense Fund:			
Board Member Stipend	17,500	17,000	15,750
Salaries	223,749	220,594	181,586
Legal Expenses	39,272	23,760	17,015
Medical Expenses	0	0	0
Travel Expenses	5,074	4,387	2,220
Administrative Expenses	50,641	61,361	74,519
Professional Services	0	0	0
Education and Training	0	0	0
Furniture and Equipment	6,727	26,865	8,345
Management Fees	362,856	375,396	412,646
Custodial Fees	16,250	16,774	13,331
Consultant Fees	20,000	20,000	20,000
Rent Expenses	13,385	10,500	10,500
Service Contracts	0	0	0
Fiduciary Insurance	8,802	8,469	8,208
Depreciation	0	0	0
Sub Total	764,256	785,106	764,119
Total Disbursements	$7,191,108	$6,788,484	$7,300,745

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2009	2008	2007
Investment Income Received From:			
Cash	$13,840	$30,275	$88,243
Short Term Investments	0	0	0
Fixed Income	0	0	0
Equities	96,953	98,353	85,681
Pooled or Mutual Funds	1,288,218	1,659,456	1,710,300
Commission Recapture	0	0	0
Total Investment Income	1,399,010	1,788,084	1,884,223
Plus:			
Realized Gains	2,276,775	990,449	4,361,828
Unrealized Gains	15,437,185	3,981,652	7,038,535
Interest Due and Accrued - Current Year	2	130	3,074
Sub Total	17,713,962	4,972,230	11,403,437
Less:			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(3,136,569)	(4,481,173)	(484,507)
Unrealized Loss	(5,203,156)	(23,734,468)	(4,927,526)
Interest Due and Accrued – Prior Year	(130)	(3,074)	(3,681)
Sub Total	(8,339,855)	(28,218,715)	(5,415,714)
Net Investment Income (Loss)	10,773,118	(21,458,401)	7,871,947
Income Required:			
Annuity Savings Fund	113,147	129,115	122,227
Annuity Reserve Fund	178,415	159,921	155,589
Military Service Fund	9	9	32
Expense Fund	764,256	785,106	764,119
Total Income Required	1,055,827	1,074,151	1,041,967
Net Investment Income (Loss)	10,773,118	(21,458,401)	7,871,947
Less: Total Income Required	1,055,827	1,074,151	1,041,967
Excess Income (Loss) To The Pension Reserve Fund	$9,717,291	($22,532,552)	$6,829,980

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	As of December 31, 2009	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$2,290,581	3.2%
Equities	11,363,505	15.9%
Pooled Domestic Equity Funds	5,727,271	8.0%
Pooled Domestic Fixed Income Funds	8,184,877	11.5%
Pooled Real Estate Funds	2,290,257	3.2%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	41,496,600	58.2%
Grand Total	$71,353,092	100.0%

For the year ending December 31, 2009, the rate of return for the investments of the Franklin Regional Retirement System was 18.20%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Franklin Regional Retirement System averaged 3.26%. For the twenty-five year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Franklin Regional Retirement System was 8.03%.

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

SUPPLEMENTARY INVESTMENT REGULATIONS

The Franklin Regional Retirement System has not submitted any supplementary investment regulations to the Public Employee Retirement Administration Commission.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Franklin Regional Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 105 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

- Salary is defined as gross regular compensation.

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

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

DEFERRED VESTED BENEFIT

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

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

WITHDRAWAL OF CONTRIBUTIONS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $729.84 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. An additional $15.00 per year of service, not to exceed $300 annually may be added to the benefit in systems in which the local option contained in G.L. 32, §. 7(2)(e) has been adopted.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

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

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $729.84 per year, per child (or $312.00 per year in systems in which the local option contained in G.L. c. 32, §. 9(2)(d)(ii) has not been adopted) payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

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

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE

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

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

COST OF LIVING

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

METHODS OF PAYMENT

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

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

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain or loss 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 Franklin Regional Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

Creditable Service:
November 12, 2009
Documentation in the form of actual payroll records that include: position, wages paid, hours and/or pay rate, and start and end dates, are to be provided by the unit treasurer. Where no payroll records exist, the board will review provided materials.

January 1, 2009
Beginning January 1, 2009, new members of the Franklin Regional Retirement System shall receive creditable service, for each position worked, in prorated increments, in the following manner:

Weekly hours worked are:		**Creditable Service**
Not less than	**not greater than**	**percentage given**
0	4.99	10%
5	9.99	20%
10	14.99	35%
15	19.99	45%
20	22.99	50%
23	25.99	60%
26	28.99	70%
29	31.99	80%
32	34.99	90%
35	40	100%

Any individual who is already a member prior to January 1, 2009, and on January 1, 2009 is an "active" member, shall receive full creditable service regardless of the number of hours worked, for any and all positions they continue working in as of January 1, 2009, except that members working occasionally and sporadically with no clear pattern of a regular work schedule will be given creditable service equal to the actual time worked. Additional positions started on or after January 1, 2009 will receive prorated creditable service as per the above table.

Any individual who is an "inactive" member as of January 1, 2009 shall, for time worked prior to January 1, 2009, receive creditable service consistent with the board regulations in effect prior to January 1, 2009. When returning to "active" membership for prior positions, or for additional positions, started on or after January 1, 2009, they will receive prorated creditable service as per the above table. Any return to "active" membership for prior positions shall be consistent with board policy, as of January 1, 2009, regarding membership.

In the application of this regulation, membership and positions allowed will be consistent with board policy regarding membership.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

In the case of School Department employees whose full-time employment requires them to work from on or about September1st to on or about June 30th, including but not limited to cafeteria workers, clerical and secretarial staff, teacher's assistants 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 one (1) year of creditable service, based on the following conversion: the number of months worked in a ten month year is multiplied by 1.2 to yield the twelve month equivalent and the creditable service to be given. This conversion will apply in partial years worked as well, whether due to lay-off, resignation, transfer or retirement.

June 24, 2008
When a member seeks, and is approved, to purchase both refunded membership service (a buyback) and non-membership service (a make-up), and the member chooses to make partial payments, the payments will be applied to membership service first, starting with the most recent, and then non-membership service, starting with the most recent. Payments must be made within five years from the date the board votes the approval of a buyback and/or make-up (separately or together) unless a greater time period is approved by the board. At the conclusion of five years from the date the board votes the approval (or an approved longer period), or if the member transfers to another retirement system, or if the member terminates service, or if the member retires; prorated service will be given and applied as a purchase of the most recent service first, and the approval for any balance of unpurchased service will be cancelled, after which, the member can re-request board approval, with the appropriate retirement board, for the unpurchased service.

March 31, 1997
An employee, either full time or part time, receiving a salary or wage for prescribed periods of employment is to be given creditable full time service retroactive to the date of service (Retroactive clause is effective for all members active on or after February 27, 1997). Settlement of small allowance in one sum shall be as provided in G.L. c. 32, § 13.

Regular Compensation:
(retroactive to July 1, 1988)
Retirement deductions will be taken from all compensation paid for services by a town warrant if an employee is a member of the retirement system.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Miscellaneous:
October 27, 2005
The Franklin County Retirement System has determined by vote on October 27, 2005, that it is necessary, and in the best interest of its active and retired members, beneficiaries and survivors, to grant access to the name, address, telephone numbers and/or social security numbers of these individuals for the sole and limited purpose of assisting in the proper administration of M.G. L. c32 and 32B and the issuance of monthly benefit checks. The Board recognizes the need to protect the privacy of its active and retired members, beneficiaries and survivors, and to that end will only allow access to personal information to the Franklin County Regional Council of Governments', Director of Finance, Human Resources Department, Data Processing Department and Benefits Coordinator. The Board will also grant access (for the purpose of mailings but will not allow the release of) of the names and addresses of its active and retired members to candidates who are seeking an elected seat on the board. The following procedure must be undertaken for access to be granted.

1. All information must be in sealed pre-stamped envelopes or on pre-paid post cards;

2. Information must be supplied to the Staff at least one week prior to mailing; and

3. Address labels will be generated and affixed by the Retirement Board Staff with a cost to the candidate for the labels and time required billed at the lowest office rate. All information will be mailed by the Franklin County Retirement System staff. All other requests for the addresses or other personal information of the active and retired members, beneficiaries and survivors will be evaluated on a case-by case basis, and this supplemental regulation may be amended, from time to time subject to PERAC's approval, to address the needs of the active and retired members, beneficiaries and survivors, and the Franklin County Retirement System.

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 Chairperson who shall be appointed by the other four members, a second member appointed by the Advisory Council, 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.

Chair:	Sandra A. Hanks	Term Expires:	12/31/14
Appointed Member:	Herbert L. Sanderson	Term Expires:	12/31/12
Elected Member:	Mary A. Stokarski	Term Expires:	12/31/11
Elected Member:	David R. Gendron	Term Expires:	12/31/10
Appointed Member:	Paul J. Mokrzecki	Term Expires:	6/30/15

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

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

Treasurer - Custodian:	)	Coverage provided to a limit of $50,000,000
Chair:	)	under a master MACRS sponsored policy issued
Elected Members:	)	through a layered program with Travelers,
Appointed Members:	)	National Union Fire, and Arch. Separate fidelity
Staff Employees:	)	coverage pertaining to ERISA/Crime to a limit of
	)	$1,000,000 issued through Travelers Casualty
	)	and Surety Company, deductible $10,000

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Stone Consulting Inc. as of January 1, 2008.

The actuarial liability for active members was	$62,190,942
The actuarial liability for inactive members was	2,278,893
The actuarial liability for retired members was	41,502,482
The total actuarial liability was	$105,972,317
System assets as of that date were (actuarial value)	77,859,319
The unfunded actuarial liability was	$28,112,998
The ratio of system's assets to total actuarial liability was	73.5%
As of that date the total covered employee payroll was	$30,302,151

The normal cost for employees on that date was	8.50% of payroll
The normal cost for the employer was	4.40% of payroll

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

Investment Return:	8.00% per annum
Rate of Salary Increase:	4.75% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2008 (in thousands)

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)
1/1/2008	$77,859	$105,972	$28,113	73.5%	$30,302	92.8%
1/1/2006	$61,539	$91,823	$30,284	67.0%	$26,229	115.5%
1/1/2003	$41,299	$72,770	$31,471	56.8%	$23,638	133.1%

NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Retirement in Past Years										
Superannuation	5	28	25	36	20	12	13	20	23	34
Ordinary Disability	0	0	0	0	0	0	0	0	1	1
Accidental Disability	0	0	0	0	1	1	1	2	1	1
Total Retirements	5	28	25	36	21	13	14	22	25	36
Total Retirees, Beneficiaries and Survivors	341	360	391	406	399	398	396	403	416	448
Total Active Members	2,669	2,607	2,275	2,134	2,103	2,253	2,120	1,300	1,316	1,344
Pension Payments										
Superannuation	$1,859,471	$2,052,529	$2,248,463	$2,513,935	$2,696,627	$2,819,612	$2,924,661	$3,094,065	$3,325,454	$3,737,332
Survivor/Beneficiary Payments	120,457	127,360	125,937	103,583	134,842	139,985	156,938	154,346	150,348	150,348
Ordinary Disability	12,021	12,338	6,830	12,675	13,723	13,725	12,729	13,171	16,095	16,303
Accidental Disability	116,776	118,299	119,453	116,165	150,016	175,400	245,194	240,806	274,038	306,276
Other	68,762	59,914	57,364	36,990	49,342	50,699	52,064	1,365,215	595,552	666,840
Total Payments for Year	$2,177,487	$2,370,440	$2,558,047	$2,783,348	$3,044,550	$3,199,421	$3,391,586	$4,867,602	$4,361,486	$4,877,098

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