

**FRANKLIN REGIONAL
RETIREMENT SYSTEM**

Annual Financial Statements

Required Supplementary Information,
and Other Information

For the Year Ended December 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Retirement Board
Franklin Regional Retirement System

Additional Offices:

Nashua, NH
Manchester, NH
Andover, MA
Ellsworth, ME

We have audited the accompanying financial statements of the Franklin Regional Retirement System as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the plan's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the plan's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Franklin Regional Retirement System as of December 31, 2014, and the changes in fiduciary net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

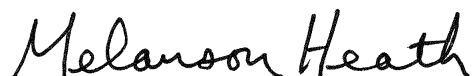
Emphasis of Matter

In 2014, the System adopted Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedules of Changes in the Net Pension Liability, of Net Pension Liability, of Contributions, and of the Investment Returns, listed in the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.



September 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Franklin Regional Retirement System (the System), we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2014.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of two components: (1) fund financial statements and (2) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

The Statement of Fiduciary Net Position presents information on the System's assets and liabilities and the resulting net position held in trust for pension benefits. This statement reflects the System's investments at fair value, as well as cash, receivables and other assets and liabilities.

The Statement of Changes in Fiduciary Net Position presents information showing how the System's net position available for benefits changed during the year ended December 31, 2014. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds and transfers, and administrative expenses. Investment income during the period is also presented showing income from investing.

The Notes to Financial Statements provide additional information that is essential for the reader to gain a full understanding of the data provided in the financial statements.

The Required Supplemental Information includes this management's discussion and analysis and Schedules of Changes in the Net Pension Liability, of Net Pension Liability, of Contributions, and of Investment Returns.

B. FINANCIAL HIGHLIGHTS

- The System's total net position available for benefits were \$118,718,562 at December 31, 2014.
- The System's net position increased by \$5,360,057 in comparison to the prior year.

- Employer and employee contributions to the plan were \$8,688,688 which represents a \$(101,004) decrease over the preceding year. The employer share of contributions represents 62% of the total contributions.
- Benefits paid to plan participants were \$8,799,152. As of the January 1, 2014 actuarial report, there were 520 retirees and beneficiaries receiving pension benefits.
- The System's funded ratio as of the January 1, 2014 actuarial report was 75.98%.

C. FINANCIAL STATEMENT ANALYSIS

The following is a summary of condensed financial data for the current and prior fiscal years.

FIDUCIARY NET POSITION

	<u>2014</u>	<u>2013</u> <u>Restated</u>
Cash and investments	\$ 119,700,024	\$ 114,237,107
Other assets	<u>523,261</u>	<u>272,445</u>
Total assets	120,223,285	114,509,552
Liabilities	<u>1,504,723</u>	<u>1,151,047</u>
Net position	<u>\$ 118,718,562</u>	<u>\$ 113,358,505</u>

CHANGES IN FIDUCIARY NET POSITION

	<u>2014</u>	<u>2013</u>
Additions:		
Contributions	\$ 9,174,120	\$ 9,253,586
Investment income, net	<u>8,386,214</u>	<u>18,261,473</u>
Total additions	17,560,334	27,515,059
Deductions:		
Benefits paid to participants	8,799,152	8,224,135
Refunds to members and transfers to other systems	2,954,169	947,552
Administrative expenses	<u>446,956</u>	<u>413,270</u>
Total expenses	<u>12,200,277</u>	<u>9,584,957</u>
Change in net position	5,360,057	17,930,102
Net position - beginning of year (as restated)	<u>113,358,505</u>	<u>95,428,403</u>
Net position - end of year	<u>\$ 118,718,562</u>	<u>\$ 113,358,505</u>

The System's total assets as of December 31, 2014 were \$120,223,285 and were mostly comprised of cash and investments. Total assets increased \$5,713,733 or 4.99% from the prior year primarily due to an increase in cash and investments. Total liabilities as of December 31, 2014 were \$1,504,723 and were mostly comprised of 3 (8) (c) payables. Total liabilities increased by \$353,676 or 30.73% over the prior year.

The System was 75.98% funded based on its actuarial valuation of January 1, 2014 with 19 years remaining in its amortization period.

The amount needed to finance benefits is accumulated through the collection of employers' and employees' contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 COLA and through earnings on investments. Contributions and net investment gain for calendar year 2014 resulted in an increase of \$17,560,334. Employers' contributions decreased by \$(178,770). The System had net investment gain of \$8,386,214 versus a gain of \$18,261,473 in 2013.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions, and the costs of administering the System. Total deductions for 2014 were \$12,200,277, which represents an increase of 27.29% over deductions of \$9,584,957 in 2013. Most of this increase was due to one member unit (Franklin COG) transferring to another system. The payment of pension benefits increased by \$575,017 or 6.99% over the previous year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Franklin Regional Retirement System's finances for all those with an interest in the System's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mr. Dale Kowacki, Executive Director
Franklin Regional Retirement System
278 Main Street
Suite 311
Greenfield, MA 01301

FRANKLIN REGIONAL RETIREMENT SYSTEM
STATEMENT OF FIDUCIARY NET POSITION
AS OF DECEMBER 31, 2014

<u>ASSETS</u>	<u>2014</u>	<u>2013</u> <u>Restated</u>
Cash	\$ 1,370,579	\$ 2,107,877
Investments, at fair value:		
Equities	32,259,140	32,327,580
Pooled domestic fixed income funds	12,726,981	11,880,754
Pooled equity funds	5,690,978	-
Pooled real estate funds	12,341,061	5,496,237
PRIT Fund	55,311,285	62,424,659
Receivables:		
Appropriation receivable	296,906	117,977
Member deductions and makeup payments	221,534	150,667
Prepaid expenses	<u>4,821</u>	<u>3,801</u>
TOTAL ASSETS	120,223,285	114,509,552
 <u>LIABILITIES AND NET POSITION</u> 		
Accounts payable	<u>1,504,723</u>	<u>1,151,047</u>
TOTAL LIABILITIES	1,504,723	1,151,047
Net position restricted for pensions	<u>118,718,562</u>	<u>113,358,505</u>
TOTAL LIABILITIES AND NET PENSION	\$ <u>120,223,285</u>	\$ <u>114,509,552</u>

The accompanying notes are an integral part of these financial statements.

FRANKLIN REGIONAL RETIREMENT SYSTEM
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED DECEMBER 31, 2014

Additions	<u>2014</u>	<u>2013</u> <u>Restated</u>
Contributions:		
Employers	\$ 5,418,158	\$ 5,596,928
Plan members	3,270,530	3,192,764
Other systems and Commonwealth of Massachusetts	466,030	439,735
Other	<u>19,402</u>	<u>24,159</u>
Total Contributions	9,174,120	9,253,586
Investment income:		
Appreciation in fair value of investments	9,063,673	18,879,081
Less: management fees	<u>(677,459)</u>	<u>(617,608)</u>
Net investment gain	<u>8,386,214</u>	<u>18,261,473</u>
Total Additions	17,560,334	27,515,059
Deductions		
Benefit payments to plan members and beneficiaries	8,799,152	8,224,135
Refunds to plan members	372,232	396,387
Transfers to other systems	2,581,937	551,165
Administrative expenses	<u>446,956</u>	<u>413,270</u>
Total Deductions	<u>12,200,277</u>	<u>9,584,957</u>
Net increase	5,360,057	17,930,102
Net position restricted for pensions:		
Beginning of Year, as restated	<u>113,358,505</u>	<u>95,428,403</u>
End of Year	<u>\$ 118,718,562</u>	<u>\$ 113,358,505</u>

The accompanying notes are an integral part of these financial statements.

Franklin Regional Retirement System

Notes to Financial Statements

1. Description of Plan

The Franklin Regional Retirement System's (the System) plan is a defined benefit multiple employer cost sharing pension plan covering the employees of its 39 member units, except school department employees who serve in a teaching capacity. The pensions of such employees are administered by the Massachusetts Teachers' Retirement Board. Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions.

Membership consisted of the following at January 1, 2014, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	520
Terminated plan members entitled to but not yet receiving benefits	563
Active plan members	<u>928</u>
Total	<u>2,011</u>
Number of participating employers	39

At January 1, 2014, the 39 participating employers consisted of:

Towns	24
School Districts	6
Special Districts	<u>9</u>
Total	<u>39</u>

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of service. The plan also provides for early retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the member employer's payroll on January 1, 1978, (3) voluntarily left member employer's employment on or after that date, and (4) left accumulated annuity deductions in the fund. A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The System is organized under Chapter 34B of the Massachusetts General Laws (MGL) and is subject to the provisions of Chapter 32 of the Massachusetts General Laws. The System is governed by a five-member Board. The Board members are appointed or elected as specified by MGL Chapter 34B section 19(b) for terms ranging from 3 to 6 years. The System is also guided by an Advisory Council comprised of the official "Treasurers" of each member unit.

Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2014 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting

The System follows accounting policies mandated by the Commonwealth of Massachusetts. The accounting records are maintained on the accrual basis of accounting. Contributions from the member's employees are recognized as revenue in the period in which employees provide services to member employers.

Investments

Investment Policy

Investments are reported at fair value in accordance with PERAC requirements. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

Rate of Return

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 7.37%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

3. **Cash and Short-Term Investments**

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned. Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The System does not have a deposit policy for custodial credit risk.

As of December 31, 2014, \$595,025 of the System's bank balance of \$1,483,552 was exposed to custodial credit risk as uninsured, uncollateralized, and/or collateral held by pledging bank's trust department not in the System's name.

4. **Investments**

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds (to the extent not required for current disbursements) in the PRIT Fund or in securities (other than mortgages or collateral loans), which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets is invested in any one security.

Due to their nature, none of the System's investments are subject to credit risk disclosure. Fair value of the PRIT Fund is the same as the value of the pool share. The Pension Reserves Investment Trust (PRIT) was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The PRIT is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board.

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System's policy is to limit custodial credit risk by diversifying plan assets as described under Asset Allocation and Management Structure below.

C. Concentration of Credit Risk

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund. The System's policy with respect to asset allocation and management structure is as follows:

Asset Allocation

The Board of Trustees of the Retirement System originally adopted an asset allocation policy in 2002 and modified the policy in 2012 to the following. It should be noted that this is a target allocation policy and the Board of Trustees has the authority to override these targets if market conditions warrant such action.

	<u>Percentages of Allocation</u>			<u>Corresponding Index</u>
	<u>Target</u>	<u>Minimum</u>	<u>Maximum</u>	
Diversified investments	45%	35%	55%	Customized
Domestic stocks	27%	22%	32%	Customized
Domestic bonds	13%	10%	16%	Barclay's Aggregate Bond Index
International stocks	5%	0%	8%	MSCI ACWI-ex US
Real estate	10%	0%	13%	NCREIF Real Estate Index

Although cash is not included in the asset allocation of the Fund, the Trustees realize the need to provide liquidity to pay obligations as they come due. Surplus cash flows, additional contributions, and investment manager cash will be utilized to pay obligations of the Fund and periodic re-balancing of the assets. The Fund's investment manager(s) shall be kept informed of the liquidity requirements of the Fund, and to the extent possible, avoid untimely sales of assets which could be detrimental to the performance of the Plan.

Management Structure

To diversify plan assets so as to minimize the risk associated with dependence on the success of one enterprise, the Board of Trustees has decided to employ a multi-manager team approach to investing plan assets.

Investment managers will be employed to utilize individual expertise within their assigned area of responsibility. Each manager will be governed by individual investment guidelines. Separate manager guidelines for each investment manager shall serve as addenda to the Policy.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates; however, the System's investments consist of equities and pooled funds, neither of which has specified maturity dates. Consequently, none of the System's investments are subject to interest rate risk.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The System does not have policies for foreign currency risk.

5. Receivables

Appropriation receivable

This balance represents legal amounts due for pension appropriation not received until after year end.

Member deductions and makeup payments

This balance represents member deductions and makeup payments for 2014 that were not received by the System until after year end.

6. Prepaid Expenses

This balance represents calendar year 2015 rent, administrative, and employee insurance expense paid in calendar year 2014.

7. Accounts Payable

Accounts payable represents calendar year 2014 expenditures paid after December 31, 2014 of \$81,597. The remaining \$1,423,126, represents 3 (8)(C) Reimbursements owed to the Massachusetts State Retirement Board, of which approximately \$500,000 was paid in January 2015, and the remaining will be paid once a final determination of amount owed is verified.

8. Commitments And Contingencies

Litigation – There are several pending legal issues in which the System is involved. The System’s management is of the opinion that the potential future settlement of some claims may result in a gain while others may result in an increase in future benefits paid. Management believes these events would not materially affect its financial statements taken as a whole; however, the outcome of these claims is undeterminable at the present time.

9. Risk Management

The System is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the System carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

10. Restatement of Beginning Net Position

Beginning (January 1, 2014) net position of the System has been restated as follows:

As previously reported	\$ 111,610,374
Record 3 (8) (C) Reimbursement payable	(1,050,333)
Change in procedure to annualize appropriation revenue	<u>2,798,464</u>
As restated	<u>\$ 113,358,505</u>

11. Net Pension Liability of Participating Employers

The components of the net pension liability of the participating employers at December 31, 2014 were as follows:

A. Net Pension Liability of Employers

Total pension liability	\$ 156,253,266
Plan fiduciary net position *	<u>118,718,993</u>
Employers' net pension liability	<u>\$ 37,534,273</u>
Plan fiduciary net position as a percentage of total pension liability	75.98%

* Reflects rounding differences from page 6.

B. Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation Date	1/1/2014
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.00%
Inflation rate	not explicitly assumed

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Mortality rates were based on the RP-2000 Mortality Table Projected to 2017 with Scale AA. For disabled lives, the mortality rates were based on the RP-2000 Mortality Table set forward two years.

There were no changes in benefit terms or assumptions for 2014.

C. Target Allocations

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's targeted asset allocation as of December 31, 2014, are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Real Return Arithmetic Basis *</u>	<u>Long-Term Expected Real Rate of Return</u>
PRIT Core	45.00%	9.50%	4.28%
Large Cap Equity	12.00%	12.00%	1.44%
Mid Cap Equity	5.00%	14.00%	0.70%
Small Cap Equity	10.00%	11.40%	1.14%
International Equity	5.00%	8.20%	0.41%
Real Estate	10.00%	9.70%	0.97%
Fixed Income	13.00%	6.30%	0.82%
Total	<u>100.00%</u>		<u>9.76%</u>
Inflation		not explicitly stated	
Expected arithmetic nominal return			<u>9.76%</u>

* Inclusive of fees and inflation

D. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the Board's funding policy, which establishes the contractually required rates by statute. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

E. Sensitivity of Discount Rate

The following presents the net pension liability of the participating employers calculated using the discount rate of 7.75%, as well as what the participating employers' net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Discount (8.75%)</u>
Participating employers' net pension liability	\$ 55,586,413	\$ 37,534,273	\$ 22,168,615

**FRANKLIN REGIONAL RETIREMENT SYSTEM
CONTRIBUTORY RETIREMENT SYSTEM**

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY

(Unaudited)

	<u>2014</u>
Total Pension liability	
Service cost	\$ 4,703,273
Interest on unfunded liability - time value of \$	11,306,271
Benefit payments, including refunds of member contributions	<u>(11,287,291)</u>
Net change in total pension liability	4,722,253
 Total pension liability - beginning	 <u>151,531,013</u>
Total pension liability - ending (a)	\$ <u>156,253,266</u>
 Plan fiduciary net position *	
Contributions - employer	\$ 5,418,158
Contributions - member	3,270,956
Net investment income	8,362,434
Benefit payments, including refunds of member contributions	(11,287,291)
Administrative expense	<u>(403,802)</u>
Net change in plan fiduciary net position	5,360,455
 Plan fiduciary net position - beginning	 <u>113,358,538</u>
Plan fiduciary net position - ending (b) *	\$ <u>118,718,993</u>
 Net pension liability (asset) - ending (a-b)	 \$ <u>37,534,273</u>

* Reflects certain rounding and immaterial classification differences from page 6 and 7.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

**FRANKLIN REGIONAL RETIREMENT SYSTEM
CONTRIBUTORY RETIREMENT SYSTEM**

Schedules of Net Pension Liability, Contributions, and Investment Returns

(Unaudited)

Schedule of Net Pension Liability

	<u>2014</u>
Total pension liability	\$ 156,253,266
Plan fiduciary net position	<u>(118,718,993)</u>
Net pension liability (asset)	<u>\$ 37,534,273</u>
Plan fiduciary net position as a percentage of the total pension liability	75.98%
Covered employee payroll	\$ 30,854,652
Participating employer net pension liability as a percentage of covered employee payroll	121.65%

Schedule of Contributions

	<u>2014</u>
Actuarially determined contribution *	\$ 5,888,495
Contributions in relation to the actuarially determined contribution	<u>5,888,495</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 30,854,652
Contributions as a percentage of covered employee payroll	19.08%

Schedule of Investment Returns

Year Ended December 31

	<u>2014</u>
Annual money weighted rate of return, net of investment expense	7.37%

* Reflects the actuarially determined contribution assuming semi-annual payments on July 1, 2014 and January 1, 2015. Amounts actually contributed per page 7 differ due to single payments of appropriations made by certain employers on July 1, 2014.

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

Additional Offices:

Nashua, NH
Manchester, NH
Andover, MA
Ellsworth, ME

INDEPENDENT AUDITOR'S REPORT

To the Retirement Board
Franklin Regional Retirement System

Report on Schedules

We have audited the accompanying schedule of employer allocations of Franklin Regional Retirement System as of and for the year ended December 31, 2014. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying schedule of pension amounts by employer of Franklin Regional Retirement System as of and for the year ended December 31, 2014.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these schedules in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for Franklin Regional Retirement System as of and for the year ended December 31, 2014, in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use

Our report is intended solely for the information and use of Franklin Regional Retirement System management, the Retirement Board, System employers as of and for the year ended December 31, 2014 and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Melanson Heath

September 30, 2015

**FRANKLIN REGIONAL RETIREMENT SYSTEM
CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER ALLOCATIONS**

December 31, 2014

<u>Employer</u>	FY 2015 Pension Fund <u>Appropriation</u>	Employer Allocation <u>Percentage</u>
Town of Ashfield	\$ 74,747	1.31%
Town of Bernardston	81,023	1.42%
Bernardston Fire & Water District	2,853	0.05%
Town of Buckland	99,282	1.74%
Town of Charlemont	58,200	1.02%
Town of Colrain	62,764	1.10%
Town of Conway	146,641	2.57%
Town of Deerfield	460,463	8.07%
Town of Erving	235,081	4.12%
Franklin County Regional Housing Authority	231,087	4.05%
Franklin County Solid Waste Management District	22,253	0.39%
Franklin Regional Council of Governments	395,416	6.93%
Franklin Regional Transit Authority	53,064	0.93%
Frontier Regional School District	334,363	5.86%
Town of Gill	69,611	1.22%
Hawlemont Regional School District	50,782	0.89%
Town of Hawley	21,112	0.37%
Town of Heath	46,217	0.81%
Town of Leverett	161,476	2.83%
Town of Leyden	22,253	0.39%
Mahar Regional School District	247,064	4.33%
Mohawk Regional School District	515,239	9.03%
Town of Monroe	17,118	0.30%
Town of New Salem	38,229	0.67%
New Salem/Wendell Union School District	108,411	1.90%
Town of Northfield	146,641	2.57%
Town of Orange	740,049	12.97%
Orange Housing Authority	8,559	0.15%
Pioneer Valley Regional School District	378,869	6.64%
Town of Rowe	110,694	1.94%
Town of Shelburne	98,711	1.73%
Shelburne Falls Fire District	37,659	0.66%
Town of Shutesbury	151,776	2.66%
South Deerfield Fire District	10,271	0.18%
South Deerfield Water Supply District	22,823	0.40%
Town of Sunderland	213,399	3.74%
Town of Warwick	45,076	0.79%
Town of Wendell	35,376	0.62%
Town of Whately	151,205	2.65%
Total	<u>\$ 5,705,857</u>	<u>100.00%</u>

See actuarial assumptions in the Franklin Regional Retirement System audited financial statements.

**FRANKLIN REGIONAL RETIREMENT SYSTEM
CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF PENSION AMOUNTS BY EMPLOYER**

As of and for the year ended December 31, 2014

Entity	Deferred Outflows of Resources					Deferred Inflows of Resources					Pension Expense		
	Net Pension Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Pension Plan Earnings on Investments	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	Differences Between Expected and Actual Experience	Changes of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Pension Expense	Net Amortization of Deferred Amounts From Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Employer Pension Expense
Town of Ashfield	\$ 491,699	\$ -	\$ 3,212	\$ -	\$ -	\$ 3,212	\$ -	\$ -	\$ -	\$ -	\$ 59,405	\$ -	\$ 59,405
Town of Bernardston	532,987	-	3,482	-	-	3,482	-	-	-	-	64,393	-	64,393
Bernardston Fire & Water District	18,767	-	123	-	-	123	-	-	-	-	2,267	-	2,267
Town of Buckland	653,096	-	4,267	-	-	4,267	-	-	-	-	78,904	-	78,904
Town of Charlemont	382,850	-	2,501	-	-	2,501	-	-	-	-	46,254	-	46,254
Town of Colrain	412,877	-	2,697	-	-	2,697	-	-	-	-	49,882	-	49,882
Town of Conway	964,631	-	6,302	-	-	6,302	-	-	-	-	116,543	-	116,543
Town of Deerfield	3,029,016	-	19,789	-	-	19,789	-	-	-	-	365,953	-	365,953
Town of Erving	1,546,412	-	10,103	-	-	10,103	-	-	-	-	186,831	-	186,831
Franklin County Regional Housing Authority	1,520,138	-	9,931	-	-	9,931	-	-	-	-	183,657	-	183,657
Franklin County Solid Waste Management District	146,384	-	956	-	-	956	-	-	-	-	17,685	-	17,685
Franklin Regional Council of Governments	2,601,125	-	16,994	-	-	16,994	-	-	-	-	314,257	-	314,257
Franklin Regional Transit Authority	349,069	-	2,281	-	-	2,281	-	-	-	-	42,173	-	42,173
Frontier Regional School District	2,199,508	-	14,370	-	-	14,370	-	-	-	-	265,735	-	265,735
Town of Gill	457,918	-	2,992	-	-	2,992	-	-	-	-	55,324	-	55,324
Hawlemont Regional School District	334,055	-	2,182	-	-	2,182	-	-	-	-	40,359	-	40,359
Town of Hawley	138,877	-	907	-	-	907	-	-	-	-	16,779	-	16,779
Town of Heath	304,028	-	1,986	-	-	1,986	-	-	-	-	36,731	-	36,731
Town of Leverett	1,062,220	-	6,940	-	-	6,940	-	-	-	-	128,333	-	128,333
Town of Leyden	146,384	-	956	-	-	956	-	-	-	-	17,685	-	17,685
Mahar Regional School District	1,625,234	-	10,618	-	-	10,618	-	-	-	-	196,354	-	196,354
Mohawk Regional School District	3,389,345	-	22,143	-	-	22,143	-	-	-	-	409,487	-	409,487
Town of Monroe	112,603	-	736	-	-	736	-	-	-	-	13,604	-	13,604
Town of New Salem	251,480	-	1,643	-	-	1,643	-	-	-	-	30,383	-	30,383
New Salem/Wendell Union School District	713,151	-	4,659	-	-	4,659	-	-	-	-	86,160	-	86,160
Town of Northfield	964,631	-	6,302	-	-	6,302	-	-	-	-	116,543	-	116,543
Town of Orange	4,868,195	-	31,805	-	-	31,805	-	-	-	-	588,155	-	588,155
Orange Housing Authority	56,301	-	368	-	-	368	-	-	-	-	6,802	-	6,802
Pioneer Valley Regional School District	2,492,276	-	16,283	-	-	16,283	-	-	-	-	301,106	-	301,106
Town of Rowe	728,165	-	4,757	-	-	4,757	-	-	-	-	87,974	-	87,974
Town of Shelburne	649,343	-	4,242	-	-	4,242	-	-	-	-	78,451	-	78,451
Shelburne Falls Fire District	247,726	-	1,618	-	-	1,618	-	-	-	-	29,929	-	29,929
Town of Shutesbury	998,412	-	6,523	-	-	6,523	-	-	-	-	120,624	-	120,624
South Deerfield Fire District	67,562	-	441	-	-	441	-	-	-	-	8,163	-	8,163
South Deerfield Water Supply District	150,137	-	981	-	-	981	-	-	-	-	18,139	-	18,139
Town of Sunderland	1,403,782	-	9,171	-	-	9,171	-	-	-	-	169,599	-	169,599
Town of Warwick	296,521	-	1,937	-	-	1,937	-	-	-	-	35,824	-	35,824
Town of Wendell	232,712	-	1,520	-	-	1,520	-	-	-	-	28,115	-	28,115
Town of Whately	994,658	-	6,498	-	-	6,498	-	-	-	-	120,170	-	120,170
Total for All Entities	\$ 37,534,273	\$ -	\$ 245,221	\$ -	\$ -	\$ 245,221	\$ -	\$ -	\$ -	\$ -	\$ 4,534,735	\$ -	\$ 4,534,735

(Continued)

**FRANKLIN REGIONAL RETIREMENT SYSTEM
CONTRIBUTORY RETIREMENT SYSTEM**

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER (CONTINUED)

As of and for the year ended December 31, 2014

<u>Entity</u>	<u>Deferred Outflows Recognized in Future Pension Expense</u>				<u>Covered Employer Payroll</u>
	<u>30-Jun 2016</u>	<u>30-Jun 2017</u>	<u>30-Jun 2018</u>	<u>30-Jun 2019</u>	
Town of Ashfield	\$ 803	\$ 803	\$ 803	\$ 803	\$ 404,196
Town of Bernardston	870	870	870	870	438,136
Bernardston Fire & Water District	31	31	31	31	15,427
Town of Buckland	1,067	1,067	1,067	1,067	536,871
Town of Charlemont	625	625	625	625	314,718
Town of Colrain	674	674	674	674	339,401
Town of Conway	1,576	1,576	1,576	1,576	792,965
Town of Deerfield	4,947	4,947	4,947	4,947	2,489,970
Town of Erving	2,526	2,526	2,526	2,526	1,271,212
Franklin County Regional Housing Authority	2,483	2,483	2,483	2,483	1,249,613
Franklin County Solid Waste Management District	239	239	239	239	120,333
Franklin Regional Council of Governments	4,248	4,248	4,248	4,249	2,138,227
Franklin Regional Transit Authority	570	570	570	570	286,948
Frontier Regional School District	3,592	3,592	3,592	3,593	1,808,083
Town of Gill	748	748	748	748	376,427
Hawlemont Regional School District	546	546	546	546	274,606
Town of Hawley	227	227	227	227	114,162
Town of Heath	497	497	497	497	249,923
Town of Leverett	1,735	1,735	1,735	1,735	873,187
Town of Leyden	239	239	239	239	120,333
Mahar Regional School District	2,655	2,655	2,655	2,655	1,336,006
Mohawk Regional School District	5,536	5,536	5,536	5,536	2,786,175
Town of Monroe	184	184	184	184	92,564
Town of New Salem	411	411	411	411	206,726
New Salem/Wendell Union School District	1,165	1,165	1,165	1,165	586,238
Town of Northfield	1,576	1,576	1,576	1,576	792,965
Town of Orange	7,951	7,951	7,951	7,951	4,001,848
Orange Housing Authority	92	92	92	92	46,282
Pioneer Valley Regional School District	4,071	4,071	4,071	4,071	2,048,749
Town of Rowe	1,189	1,189	1,189	1,189	598,580
Town of Shelburne	1,061	1,061	1,061	1,061	533,786
Shelburne Falls Fire District	405	405	405	405	203,641
Town of Shutesbury	1,631	1,631	1,631	1,631	820,734
South Deerfield Fire District	110	110	110	110	55,538
South Deerfield Water Supply District	245	245	245	245	123,419
Town of Sunderland	2,292	2,292	2,292	2,292	1,153,964
Town of Warwick	484	484	484	484	243,752
Town of Wendell	380	380	380	380	191,299
Town of Whately	1,624	1,624	1,624	1,625	817,648
Total for All Entities	\$ <u>61,305</u>	\$ <u>61,305</u>	\$ <u>61,305</u>	\$ <u>61,306</u>	\$ <u>30,854,652</u>

See actuarial assumptions in the Franklin Regional Retirement System audited financial statements