

**FRANKLIN REGIONAL
RETIREMENT SYSTEM**

Annual Financial Statements

Required Supplementary Information,
and Other Information

For the Year Ended December 31, 2015

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Additional Offices:

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

INDEPENDENT AUDITORS' REPORT

To the Retirement Board
Franklin Regional Retirement System

We have audited the accompanying financial statements of the Franklin Regional Retirement System as of and for the year ended December 31, 2015, 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, 2015, 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.

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.

Melanson Heath

September 7, 2016

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, 2015.

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 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 Available for Benefits 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 Available for Benefits presents information showing how the System's net position available for benefits changed during the year ended December 31, 2015. 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 \$118,210,148 at December 31, 2015.
- The System's net position decreased by \$(508,414) in comparison to the prior year.

- Employer and employee contributions to the plan were \$9,159,114 which represents a \$470,426 increase over the preceding year. The employer share of contributions represents 58% of the total contributions.
- Benefits paid to plan participants were \$9,351,991. At December 31, 2015, there were 554 retirees and beneficiaries receiving pension benefits.
- The System's funded ratio as of the December 31, 2015 actuarial was 71.73%.

C. FINANCIAL STATEMENT ANALYSIS

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

FIDUCIARY NET POSITION

	<u>2015</u>	<u>2014</u>
Cash and investments	\$ 119,138,210	\$ 119,700,024
Other assets	448,896	523,261
Total assets	<u>119,587,106</u>	<u>120,223,285</u>
Liabilities	<u>1,376,958</u>	<u>1,504,723</u>
Net position	<u>\$ 118,210,148</u>	<u>\$ 118,718,562</u>

CHANGES IN FIDUCIARY NET POSITION

	<u>2015</u>	<u>2014</u>
Additions:		
Contributions	\$ 9,651,650	\$ 9,174,120
Investment income, net	615,820	8,386,214
Total additions	<u>10,267,470</u>	<u>17,560,334</u>
Deductions:		
Benefits paid to participants	9,351,991	8,799,152
Refunds to members and transfers to other systems	910,799	2,954,169
Administrative expenses	513,094	446,956
Total expenses	<u>10,775,884</u>	<u>12,200,277</u>
Change in net position	(508,414)	5,360,057
Net position - beginning of year	<u>118,718,562</u>	<u>113,358,505</u>
Net position - end of year	<u>\$ 118,210,148</u>	<u>\$ 118,718,562</u>

The System's total assets as of December 31, 2015 were \$119,587,106 and were mostly comprised of cash and investments. Total assets decreased by \$(636,179) or .53% from the prior year primarily due to a decrease in cash and investments. Total liabilities as of December 31, 2015 were \$1,376,958 and were mostly comprised of 3 (8) (c) payables. Total liabilities decreased by \$(127,765) or 8.49% over the prior year.

The System was 71.73% funded based on its actuarial valuation of January 1, 2014 rolled forward to December 31, 2015 with 18 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 2015 resulted in an increase of \$10,627,470. Employers' contributions increased by \$227,187. The System had net investment gain of \$615,820 versus a gain of \$8,386,214 in 2014.

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 2015 were \$10,775,884, which represents a decrease of 11.68% over deductions of \$12,200,277 in 2014. Most of this decrease was due to one member unit (Franklin COG) transferring to another system in 2014. The payment of pension benefits increased by \$552,839 or 6.28% 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, 2015

<u>ASSETS</u>	<u>2015</u>	<u>2014</u>
Cash	\$ 1,027,504	\$ 1,370,579
Investments, at fair value:		
Equities	30,477,850	32,259,140
Pooled domestic fixed income funds	12,801,913	12,726,981
Pooled equity funds	5,310,656	5,690,978
Pooled real estate funds	12,730,489	12,341,061
PRIT Fund	56,789,798	55,311,285
Receivables:		
Appropriation receivable	5,934	296,906
Member deductions and makeup payments	281,738	221,534
Other	154,825	-
Prepaid expenses	<u>6,399</u>	<u>4,821</u>
TOTAL ASSETS	119,587,106	120,223,285
<u>LIABILITIES AND NET POSITION</u>		
Accounts payable	<u>1,376,958</u>	<u>1,504,723</u>
TOTAL LIABILITIES	1,376,958	1,504,723
Net position restricted for pensions	<u>118,210,148</u>	<u>118,718,562</u>
TOTAL LIABILITIES AND NET PENSION	\$ <u>119,587,106</u>	\$ <u>120,223,285</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, 2015

Additions	<u>2015</u>	<u>2014</u>
Contributions:		
Employers	\$ 5,645,345	\$ 5,418,158
Plan members	3,513,769	3,270,530
Other systems and Commonwealth of Massachusetts	472,213	466,030
Other	<u>20,323</u>	<u>19,402</u>
Total Contributions	9,651,650	9,174,120
Investment income:		
Appreciation in fair value of investments	1,259,135	9,063,673
Less: management fees	<u>(643,315)</u>	<u>(677,459)</u>
Net investment gain	<u>615,820</u>	<u>8,386,214</u>
Total Additions	10,267,470	17,560,334
Deductions		
Benefit payments to plan members and beneficiaries	9,351,991	8,799,152
Refunds to plan members	368,098	372,232
Transfers to other systems	542,701	2,581,937
Administrative expenses	<u>513,094</u>	<u>446,956</u>
Total Deductions	<u>10,775,884</u>	<u>12,200,277</u>
Net increase (decrease)	(508,414)	5,360,057
Net position restricted for pensions:		
Beginning of Year	<u>118,718,562</u>	<u>113,358,505</u>
End of Year	<u>\$ 118,210,148</u>	<u>\$ 118,718,562</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 System's plan is a defined benefit multiple employer cost sharing pension plan covering the employees of its 38 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 of each plan consisted of the following at December 31, 2015:

Retirees and beneficiaries receiving benefits	554
Terminated plan members entitled to but not yet receiving benefits	557
Active plan members	<u>951</u>
Total	<u><u>2,062</u></u>
Number of participating employers	38

At December 31, 2015, the 38 participating employers consisted of:

Towns	24
School Districts	6
Special Districts	<u>8</u>
Total	<u><u>38</u></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, 2015 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, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was .57%. 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, 2015, \$621,681 of the System's bank balance of \$1,129,702 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 2015 that were not received by the System until after year end.

Other receivable

This balance is comprised primarily of amounts due from the State for 3(8)(c) and COLA reimbursements billed in or due for 2015.

6. Prepaid Expenses

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

7. Accounts Payable

Accounts payable represents calendar year 2015 expenditures paid after December 31, 2015 of \$81,597. The remaining \$1,295,361, represents 3 (8)(C) Reimbursements owed to the Massachusetts State Retirement Board, which will be paid once a final determination of the 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. Net Pension Liability of Participating Employers

The components of the net pension liability of the participating employers at December 31, 2015 were as follows:

A. Net Pension Liability of Employers

Total pension liability	\$ 164,799,959
Plan fiduciary net position *	<u>118,210,146</u>
Employers' net pension liability	<u>\$ 46,589,813</u>
Plan fiduciary net position as a percentage of total pension liability	71.73%

* Reflects rounding differences from page 6.

B. Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation of January 1, 2014 rolled forward to December 31, 2015 is shown below:

Valuation Date	1/1/2014
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.25%
Inflation rate	2.20%

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.

Changes of benefit terms

Effective July 1, 2015, the COLA base was increased from \$15,000 to \$16,000. All other benefits remained the same from the prior measurement date. The benefit change is reflected in the changes in total pension liability, increasing it by \$962,410.

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, 2015, 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%	6.40%	2.88%
Large Cap Equity	12.00%	7.90%	0.95%
Mid Cap Equity	5.00%	9.90%	0.50%
Small Cap Equity	10.00%	7.60%	0.76%
International Equity	5.00%	5.20%	0.26%
Real Estate	10.00%	7.90%	0.79%
Fixed Income	13.00%	3.20%	0.42%
Total	<u>100.00%</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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Discount (8.75%)
Participating employers' net pension liability	\$ 65,423,791	\$ 46,589,813	\$ 30,538,693

F. Deferred Outflows/Inflows of Resources

The following schedule reflects the deferred outflows/inflows of resources for the System for the year ended December 31, 2015:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ (7,047,272)	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	<u>(2,112,832)</u>	<u>2,112,832</u>
Total	<u>\$ (9,160,104)</u>	<u>\$ 2,112,832</u>

The following summarizes changes in deferred outflows/inflows, excluding employer specific amounts:

	<u>Measurement Year</u>	<u>Amortization Period</u>	<u>Beginning Balance on Prior Measurement Period Deferrals</u>	<u>Current Measurement Period Additions</u>	<u>Amortization of Amounts Recognized in Current Period Pension Expense</u>	<u>End of Year Balance</u>
<u>Deferred (Inflows) of Resources:</u>						
Net Differences between projected and actual earnings on pension plan investments	2014	5	\$ (245,221)	\$ -	\$ (61,305)	\$ (183,916)
	2015	5	<u>-</u>	<u>(8,579,195)</u>	<u>(1,715,839)</u>	<u>(6,863,356)</u>
Total Deferred (Inflows) of Resources			<u>\$ (245,221)</u>	<u>\$ (8,579,195)</u>	<u>\$ (1,777,144)</u>	<u>\$ (7,047,272)</u>

The following schedule reflects the amortization of the balance of deferred outflows/inflows of resources, excluding employer-specific amounts, for the net difference between projected and actual investment earnings (in thousands):

Year ended June 30:	
2016	\$ (1,777,144)
2017	(1,777,144)
2018	(1,777,145)
2019	<u>(1,715,839)</u>
Total	<u>\$ (7,047,272)</u>

FRANKLIN REGIONAL RETIREMENT SYSTEM
CONTRIBUTORY RETIREMENT SYSTEM

SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY

(Unaudited)

	<u>2015</u>	<u>2014</u>
Total Pension liability		
Service cost	\$ 4,703,273	\$ 4,703,273
Interest on unfunded liability - time value of \$	12,116,265	11,306,271
Changes of benefit terms	962,410	-
Benefit payments, including refunds of member contributions	<u>(9,235,255)</u>	<u>(11,287,291)</u>
Net change in total pension liability	8,546,693	4,722,253
Total pension liability - beginning	<u>156,253,266</u>	<u>151,531,013</u>
Total pension liability - ending (a)	<u><u>\$ 164,799,959</u></u>	<u><u>\$ 156,253,266</u></u>
Plan fiduciary net position *		
Contributions - employer	\$ 5,645,345	\$ 5,418,158
Contributions - member	2,971,069	3,270,956
Net investment income	579,359	8,362,434
Benefit payments, including refunds of member contributions	(9,235,255)	(11,287,291)
Administrative expense	<u>(469,365)</u>	<u>(403,802)</u>
Net change in plan fiduciary net position	(508,847)	5,360,455
Plan fiduciary net position - beginning	<u>118,718,993</u>	<u>113,358,538</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 118,210,146</u></u>	<u><u>\$ 118,718,993</u></u>
Net pension liability (asset) - ending (a-b)	<u><u>\$ 46,589,813</u></u>	<u><u>\$ 37,534,273</u></u>

* Reflects certain rounding and classification differences from page 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>2015</u>	<u>2014</u>
Total pension liability	\$ 164,799,959	\$ 156,253,266
Plan fiduciary net position	<u>(118,210,146)</u>	<u>(118,718,993)</u>
Net pension liability (asset)	<u>\$ 46,589,813</u>	<u>\$ 37,534,273</u>
 Plan fiduciary net position as a percentage of the total pension liability	 71.73%	 75.98%
 Covered employee payroll	 \$ 32,088,838	 \$ 30,854,652
 Participating employer net pension liability as a percentage of covered employee payroll	 145.19%	 121.65%
 Schedule of Contributions	 <u>2015</u>	 <u>2014</u>
Actuarially determined contribution *	\$ 5,645,345	\$ 5,888,495
Contributions in relation to the actuarially determined contribution	<u>5,645,345</u>	<u>5,888,495</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
 Covered employee payroll	 \$ 32,088,838	 \$ 30,854,652
 Contributions as a percentage of covered employee payroll	 17.59%	 19.08%
 Schedule of Investment Returns		
 <i>Year Ended December 31</i>	 <u>2015</u>	 <u>2014</u>
 Annual money weighted rate of return, net of investment expense	 0.57%	 7.37%

* Reflects the actuarially determined contribution assuming semi-annual payments on July 1, 2015 and January 1, 2016. Amounts actually contributed in 2014 per page 7 differ due to single payments of appropriations made by certain employers on July 1, 2015.

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, 2015. 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, 2015.

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, 2015, 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, 2015 and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

Melanson Heath

September 7, 2016

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

December 31, 2015

<u>Employer</u>	FY 2015 Pension Fund <u>Appropriation</u>	Employer Allocation <u>Percentage</u>
Town of Ashfield	\$ 74,532	1.32024%
Town of Bernardston	81,061	1.43589%
Bernardston Fire & Water District	3,264	0.05782%
Town of Buckland	105,042	1.86068%
Town of Charlemont	57,667	1.02150%
Town of Colrain	72,565	1.28540%
Town of Conway	144,712	2.56339%
Town of Deerfield	462,969	8.20090%
Town of Erving	231,212	4.09562%
Franklin County Regional Housing Authority	262,681	4.65306%
Franklin County Solid Waste Management District	23,505	0.41636%
Franklin Regional Transit Authority	48,214	0.85405%
Frontier Regional School District	335,336	5.94004%
Town of Gill	80,442	1.42493%
Hawlemont Regional School District	51,683	0.91550%
Town of Hawley	20,129	0.35656%
Town of Heath	44,611	0.79023%
Town of Leverett	181,364	3.21263%
Town of Leyden	21,217	0.37583%
Mahar Regional School District	261,677	4.63527%
Mohawk Regional School District	536,412	9.50185%
Town of Monroe	17,953	0.31801%
Town of New Salem	38,626	0.68421%
New Salem/Wendell Union School District	114,511	2.02842%
Town of Northfield	157,001	2.78107%
Town of Orange	905,685	16.04304%
Orange Housing Authority	8,161	0.14456%
Pioneer Valley Regional School District	399,141	7.07027%
Town of Rowe	121,064	2.14449%
Town of Shelburne	104,998	1.85990%
Shelburne Falls Fire District	35,906	0.63603%
Town of Shutesbury	159,401	2.82358%
South Deerfield Fire District	10,336	0.18309%
South Deerfield Water Supply District	27,201	0.48183%
Town of Sunderland	216,523	3.83543%
Town of Warwick	45,698	0.80948%
Town of Wendell	38,677	0.68511%
Town of Whately	144,168	2.55375%
Total	<u>\$ 5,645,345</u>	<u>100.00000%</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, 2015

Entity	Net Pension Liability	Deferred Outflows of Resources		Deferred Inflows of Resources		Pension Expense			
		Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions	Total Deferred Outflows of Resources	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	\$ 615,096	\$ 93,041	\$ 3,000	\$ 96,041	\$ -	\$ -	\$ 104,283	\$ 817	\$ 105,100
Town of Bernardston	668,979	101,191	4,656	105,847	-	-	113,419	1,269	114,688
Bernardston Fire & Water District	26,937	4,075	2,291	6,366	-	-	4,567	624	5,191
Town of Buckland	866,889	131,127	35,366	166,493	-	-	146,972	9,636	156,608
Town of Charlemont	475,913	71,988	438	72,426	-	-	80,686	119	80,805
Town of Colrain	598,863	90,585	54,329	144,914	-	-	101,531	14,803	116,334
Town of Conway	1,194,277	180,649	-	180,649	1,939	1,939	202,478	(528)	201,950
Town of Deerfield	3,820,783	577,940	38,358	616,298	-	-	647,775	10,452	658,227
Town of Erving	1,908,143	288,630	-	288,630	7,144	7,144	323,506	(1,946)	321,560
Franklin County Regional Housing Authority	2,167,850	327,913	176,720	504,633	-	-	367,537	48,153	415,690
Franklin County Solid Waste Management District	193,983	29,342	7,725	37,067	-	-	32,888	2,105	34,993
Franklin Regional Transit Authority	397,900	60,187	-	60,187	22,257	22,257	67,460	(6,064)	61,396
Franklin Regional Council of Governments	-	-	-	-	2,030,781	2,030,781	-	(553,350)	(553,350)
Frontier Regional School District	2,767,456	418,611	23,457	442,068	-	-	469,194	6,391	475,585
Town of Gill	663,870	100,418	60,053	160,471	-	-	112,553	16,363	128,916
Hawlemont Regional School District	426,529	64,518	7,471	71,989	-	-	72,314	2,036	74,350
Town of Hawley	166,120	25,128	-	25,128	3,939	3,939	28,164	(1,073)	27,091
Town of Heath	368,165	55,689	-	55,689	5,795	5,795	62,419	(1,579)	60,840
Town of Leverett	1,496,758	226,403	112,127	338,530	-	-	253,760	30,552	284,312
Town of Leyden	175,099	26,486	-	26,486	4,153	4,153	29,686	(1,131)	28,555
Mahar Regional School District	2,159,564	326,660	89,457	416,117	-	-	366,132	24,375	390,507
Mohawk Regional School District	4,426,891	669,619	138,273	807,892	-	-	750,535	37,683	788,218
Town of Monroe	148,162	22,411	5,279	27,690	-	-	25,119	1,438	26,557
Town of New Salem	318,772	48,218	4,164	52,382	-	-	54,045	1,134	55,179
New Salem/Wendell Union School District	945,035	142,948	37,631	180,579	-	-	160,221	10,254	170,475
Town of Northfield	1,295,695	195,990	61,852	257,842	-	-	219,672	16,853	236,525
Town of Orange	7,474,423	1,130,597	900,532	2,031,129	-	-	1,267,213	245,376	1,512,589
Orange Housing Authority	67,351	10,188	-	10,188	1,593	1,593	11,419	(434)	10,985
Pioneer Valley Regional School District	3,294,024	498,261	126,086	624,347	-	-	558,469	34,356	592,825
Town of Rowe	999,115	151,128	59,925	211,053	-	-	169,390	16,328	185,718
Town of Shelburne	866,526	131,072	38,067	169,139	-	-	146,911	10,372	157,283
Shelburne Falls Fire District	296,324	44,823	-	44,823	7,025	7,025	50,239	(1,914)	48,325
Town of Shutesbury	1,315,502	198,986	47,936	246,922	-	-	223,030	13,062	236,092
South Deerfield Fire District	85,301	12,903	905	13,808	-	-	14,462	246	14,708
South Deerfield Water Supply District	224,484	33,956	23,980	57,936	-	-	38,059	6,534	44,593
Town of Sunderland	1,786,918	270,293	27,964	298,257	-	-	302,954	7,619	310,573
Town of Warwick	377,136	57,046	5,709	62,755	-	-	63,940	1,555	65,495
Town of Wendell	319,193	48,282	19,081	67,363	-	-	54,116	5,199	59,315
Town of Whately	1,189,787	179,970	-	179,970	28,206	28,206	201,716	(7,685)	194,031
Total for All Entities	\$ 46,589,813	\$ 7,047,272	\$ 2,112,832	\$ 9,160,104	\$ 2,112,832	\$ 2,112,832	\$ 7,898,834	\$ -	\$ 7,898,834