

PERAC AUDIT REPORT



Franklin Regional
Contributory Retirement System



JAN. 1, 2010 - DEC. 31, 2012



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

JOSEPH E. CONNARTON, *Executive Director*

Auditor SUZANNE M. BUMP | PHILIP Y. BROWN, ESQ. | JOHN B. LANGAN | JAMES M. MACHADO | DONALD R. MARQUIS | ROBERT B. MCCARTHY

October 10, 2014

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, 2010 to December 31, 2012. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

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

In closing, I acknowledge the work of examiners Harry Chadwick and 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
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

I. Membership:

The Franklin Regional Retirement System has more than 900 members from 39 member units. The auditor sampled payrolls from 19 member units to determine the accuracy of the members' rates, base deductions, and 2% additional deductions. The results are as follows:

Three members were discovered to be contributing at an incorrect rate.

One unit was withholding retirement contributions on a pay code related to inspection fees. This pay does not satisfy the definition of regular compensation.

Recommendation: The respective payroll departments of the above-referenced members should be contacted and instructed to make the necessary changes as soon as possible. The Board should review a future payroll to confirm that the changes have been implemented. The Board also must refund all excess deductions.

Board Response:

We will see that the corrections are made.

2. Service Purchases:

A review of recent retirees' folders revealed that it is not unusual for a member buying prior time to pay for this time after their retirement date. This happens because a member fills out the retirement application not too long before the desired retirement date. The time it takes to gather the information to calculate the amount owed, as well as having the Board vote to approve the purchase, pushes the process beyond the retirement date. It is noted that the payment is received before the Board sends the calculation to PERAC for approval.

Nearly all sections in Chapter 32 that reference buying time contain the language "before the date any retirement allowance becomes effective for him" as a deadline for making the payment. See, for examples, §§ 3(5), 3(6)(d), 3(8)(b), and 4(2)(c).

Recommendation: A member who as of their retirement date has not bought back time may either retire without the creditable service or move back the retirement date until the payment has been made.

Board Response:

This recommendation is somewhat divergent from what is stated in the PERAC retirement guides – which is encoded in our practice of finalizing all service purchases before paperwork is finalized and submitted to PERAC for approval. However, what now complicates this issue is that a recent DALA decision (Zavaglia) indicates an even more restrictive interpretation that perhaps all purchase need to be concluded even before the member leaves their employment prior to retirement.

3. Refunds:

An examination of refunds indicated that interest was incorrect in cases where a member transferred in from another system and was then eligible for a refund with 3% interest. The deductions made at the prior system did not start to receive 3% until they were transferred into

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Franklin Regional. Since recent interest rates have been less than 3%, this generally results in an underpayment to the member.

Recommendation: In these cases, the member's Annuity Savings Fund history should be requested from the other system so that 3% interest can be applied for the entire career.

Board Response:

Duly noted. We will follow the recommendation.

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,		
	2012	2011	2010
Net Assets Available For Benefits:			
Cash	\$1,335,467	\$844,585	\$909,053
Equities	25,682,412	11,713,012	13,361,148
Pooled Domestic Equity Funds	0	7,338,113	6,586,939
Pooled Domestic Fixed Income Funds	12,017,656	10,748,027	8,869,331
Pooled Real Estate Funds	4,989,676	3,615,754	3,917,017
PRIT Cash Fund	0	722,454	0
PRIT Core Fund	51,759,033	49,402,580	49,563,855
Interest Due and Accrued	66	46	46
Prepaid Expenses	4,672	4,349	5,128
Accounts Receivable	426,369	370,871	693,568
Accounts Payable	(114,075)	(212,403)	(73,238)
Total	<u>\$96,101,275</u>	<u>\$84,547,387</u>	<u>\$83,832,848</u>
Fund Balances:			
Annuity Savings Fund	\$27,352,361	\$26,819,919	\$26,004,392
Annuity Reserve Fund	8,074,409	7,322,171	6,766,401
Pension Fund	5,754,171	5,661,801	5,696,918
Military Service Fund	3,492	3,488	3,481
Expense Fund	0	0	0
Pension Reserve Fund	54,916,843	44,740,008	45,361,656
Total	<u>\$96,101,275</u>	<u>\$84,547,387</u>	<u>\$83,832,848</u>

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 (2010)	\$24,755,610	\$6,418,263	\$6,237,302	\$1,797	\$0	\$34,822,152	\$72,235,125
Receipts	3,123,411	191,010	4,743,384	1,685	784,073	10,541,873	19,385,435
Interfund Transfers	(1,120,409)	1,121,316	1,462	0	0	(2,370)	(0)
Disbursements	(754,221)	(964,188)	(5,285,230)	0	(784,073)	0	(7,787,711)
Ending Balance (2010)	26,004,392	6,766,401	5,696,918	3,481	0	45,361,656	83,832,848
Receipts	3,286,943	204,282	5,336,898	7	829,131	(619,897)	9,037,364
Interfund Transfers	(1,429,531)	1,431,282	0	0	0	(1,750)	(0)
Disbursements	(1,041,885)	(1,079,794)	(5,372,014)	0	(829,131)	0	(8,322,824)
Ending Balance (2011)	26,819,919	7,322,171	5,661,801	3,488	0	44,740,009	84,547,388
Receipts	3,277,821	235,693	5,623,854	3	937,146	10,522,556	20,597,075
Interfund Transfers	(1,765,103)	1,768,623	342,201	0	0	(345,721)	0
Disbursements	(980,277)	(1,252,078)	(5,873,686)	0	(937,146)	0	(9,043,187)
Ending Balance (2012)	<u>\$27,352,361</u>	<u>\$8,074,409</u>	<u>\$5,754,170</u>	<u>\$3,492</u>	<u>\$0</u>	<u>\$54,916,843</u>	<u>\$96,101,275</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Annuity Savings Fund:			
Members Deductions	\$2,759,548	\$2,780,511	\$2,799,243
Transfers from Other Systems	340,824	340,446	135,888
Member Make Up Payments and Re-deposits	40,059	42,554	61,739
Member Payments from Rollovers	84,147	38,620	46,797
Investment Income Credited to Member Accounts	<u>53,243</u>	<u>84,811</u>	<u>79,743</u>
Sub Total	<u>3,277,821</u>	<u>3,286,943</u>	<u>3,123,411</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>235,693</u>	<u>204,282</u>	<u>191,010</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	308,021	292,296	264,160
Pension Fund Appropriation	67,626	90,179	100,545
Settlement of Workers' Compensation Claims	5,202,363	4,954,423	4,378,679
	<u>45,844</u>	<u>0</u>	<u>0</u>
Sub Total	<u>5,623,854</u>	<u>5,336,898</u>	<u>4,743,384</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	1,679
Investment Income Credited to the Military Service Fund	<u>3</u>	<u>7</u>	<u>5</u>
Sub Total	<u>3</u>	<u>7</u>	<u>1,685</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	<u>937,146</u>	<u>829,131</u>	<u>784,073</u>
Pension Reserve Fund:			
Pension Reserve Appropriation	206	54,731	494,454
Interest Not Refunded	12,998	8,777	3,959
Miscellaneous Income	7,815	384	1,840
Excess Investment Income	<u>10,501,537</u>	<u>(683,789)</u>	<u>10,041,620</u>
Sub Total	<u>10,522,556</u>	<u>(619,897)</u>	<u>10,541,873</u>
Total Receipts, Net	<u>\$20,597,075</u>	<u>\$9,037,364</u>	<u>\$19,385,435</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,			
	2012	2011	2010
Annuity Savings Fund:			
Refunds to Members	\$541,614	\$594,635	\$312,564
Transfers to Other Systems	<u>438,662</u>	<u>447,250</u>	<u>441,657</u>
Sub Total	<u>980,277</u>	<u>1,041,885</u>	<u>754,221</u>
Annuity Reserve Fund:			
Annuities Paid	1,203,873	1,067,197	964,188
Option B Refunds	<u>48,205</u>	<u>12,597</u>	<u>0</u>
Sub Total	<u>1,252,078</u>	<u>1,079,794</u>	<u>964,188</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	4,823,937	4,285,710	3,989,389
Survivorship Payments	273,174	261,162	205,918
Ordinary Disability Payments	14,348	21,116	24,344
Accidental Disability Payments	351,531	352,887	307,017
Accidental Death Payments	58,228	67,694	98,433
3 (8) (c) Reimbursements to Other Systems	284,841	293,267	556,670
State Reimbursable COLA's Paid	<u>67,626</u>	<u>90,179</u>	<u>103,458</u>
Sub Total	<u>5,873,686</u>	<u>5,372,014</u>	<u>5,285,230</u>
Expense Fund:			
Board Member Stipend	19,667	18,000	18,000
Salaries	236,493	233,572	230,732
Legal Expenses	29,149	6,701	14,941
Travel Expenses	1,587	2,521	3,011
Administrative Expenses	17,793	16,205	19,995
Actuarial Services	11,006	0	14,500
Actcounting Services	13,000	12,500	0
Education and Training	16,530	9,238	1,865
Furniture and Equipment	1,234	7,537	3,213
Management Fees	504,925	442,198	391,768
Custodial Fees	13,559	10,000	15,070
Consultant Fees	20,000	20,000	20,000
Rent Expenses	17,642	17,424	17,424
Service Contracts	24,472	23,432	24,055
Fiduciary Insurance	<u>10,089</u>	<u>9,804</u>	<u>9,498</u>
Sub Total	<u>937,146</u>	<u>829,131</u>	<u>784,073</u>
Total Disbursements	<u>\$9,043,187</u>	<u>\$8,322,824</u>	<u>\$7,787,711</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2012	2011	2010
Investment Income Received From:			
Cash	\$3,505	\$5,540	\$4,327
Equities	363,284	104,042	92,237
Pooled or Mutual Funds	<u>1,826,303</u>	<u>1,746,099</u>	<u>1,492,735</u>
Total Investment Income	<u>2,193,092</u>	<u>1,855,680</u>	<u>1,589,300</u>
Plus:			
Realized Gains	2,459,906	2,594,475	2,344,975
Unrealized Gains	11,712,839	8,832,163	14,549,389
Interest Due and Accrued - Current Year	<u>66</u>	<u>46</u>	<u>46</u>
Sub Total	<u>14,172,811</u>	<u>11,426,684</u>	<u>16,894,410</u>
Less:			
Realized Loss	(698,087)	(1,602,667)	(564,374)
Unrealized Loss	(3,940,146)	(11,245,209)	(6,822,883)
Interest Due and Accrued - Prior Year	<u>(46)</u>	<u>(46)</u>	<u>(2)</u>
Sub Total	<u>(4,638,279)</u>	<u>(12,847,922)</u>	<u>(7,387,259)</u>
Net Investment Income	<u>11,727,623</u>	<u>434,442</u>	<u>11,096,451</u>
Income Required:			
Annuity Savings Fund	53,243	84,811	79,743
Annuity Reserve Fund	235,693	204,282	191,010
Military Service Fund	3	7	5
Expense Fund	<u>937,146</u>	<u>829,131</u>	<u>784,073</u>
Total Income Required	<u>1,226,086</u>	<u>1,118,231</u>	<u>1,054,831</u>
Net Investment Income	<u>11,727,623</u>	<u>434,442</u>	<u>11,096,451</u>
Less: Total Income Required	<u>1,226,086</u>	<u>1,118,231</u>	<u>1,054,831</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>\$10,501,537</u>	<u>(\$683,789)</u>	<u>\$10,041,620</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2012		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$1,335,467	1.4%
Equities	25,682,412	26.8%
Pooled Domestic Fixed Income Funds	12,017,656	12.5%
Pooled Real Estate Funds	4,989,676	5.2%
PRIT Core Fund	<u>51,759,033</u>	<u>54.0%</u>
Grand Total	<u>\$95,784,244</u>	<u>100.0%</u>

For the year ending December 31, 2012, the rate of return for the investments of the Franklin Regional Retirement System was 13.39%. For the five-year period ending December 31, 2012, the rate of return for the investments of the Franklin Regional Retirement System averaged 2.69%. For the twenty-eight-year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Franklin Regional Retirement System was 8.21%.

The composite rate of return for all retirement systems for the year ending December 31, 2012 was 13.84%. For the five-year period ending December 31, 2012, the composite rate of return for the investments of all retirement systems averaged 1.83%. For the twenty-eight-year period ending December 31, 2012, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.27%.

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 I – 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 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the State Police. The other 3 classes are as follows:

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

In addition, members of Group 1 who join the system on or after April 2, 2012 will have their withholding rate reduced to 6 % after achieving 30 years of creditable service.

RATE OF INTEREST

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

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire at age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A person who became a member before April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

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

A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- attainment of age 60 with 10 years of service if classified in Group 1, or
- attainment of age 55 with 10 years of service if classified in Group 2, or
- attainment of age 55 if classified in Group 4.

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

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

- For persons who became members prior to April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last 3 years (whether or not consecutive) preceding retirement.
- For persons who became members on or after April 2, 2012, Average Salary is the average annual rate of regular compensation received during the 5 consecutive years that produce the highest average, or, if greater, during the last 5 years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age. For persons who became members prior to April 2, 2012 the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.
- For persons who became members on or after April 2, 2012 and retire with less than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 57. A .15% reduction is applied for each year of age under the maximum age for the member's group.
- For persons who became members on or after April 2, 2012 and retire with more than 30 years of creditable service, the highest rate of 2.5% applies to Group 1 employees who retire at or after age 67, Group 2 employees who retire at or after age 62, and to Group 4 employees who retire at or after age 55. A .125% reduction is applied for each year of age under the maximum age for the member's group.

DEFERRED VESTED BENEFIT

A participant who has attained the requisite years of creditable service can elect to defer his or her retirement until a later date. Certain public safety employees cannot defer beyond age 65. All participants must begin to receive a retirement allowance or withdraw their accumulated deductions no later than April 15 of the calendar year following the year they reach age 70½.

NOTES TO FINANCIAL STATEMENTS (Continued)

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching “maximum age”. “Maximum age” applies only to those employees classified in Group 4 who are subject to mandatory retirement.

Retirement Allowance: For persons who became members prior to April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

For persons in Group 1 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 60. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 60, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

For persons in Group 2 and Group 4 who became members on or after April 2, 2012, the benefit is equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member’s final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she would have been entitled had they retired for superannuation.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$774.36 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. For systems that have adopted Chapter 157 of the Acts of 2005, veterans as defined in G.L. c. 32, s. 1 receive an additional benefit of \$15 per year for each year of creditable service, up to a maximum of \$300.

ACCIDENTAL DEATH

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

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$774.36 per year, per child (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, s. 9(2)(d)(ii) has not been adopted), payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries while in the performance of his duties that results in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death. In addition, an eligible family member may receive a one time payment of \$100,000.00 from the State Retirement Board. This lump sum payment is also available to the family of a public prosecutor in certain, limited circumstances.

NOTES TO FINANCIAL STATEMENTS (Continued)

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of \$6,000. For Systems that accept the provisions of Section 28 of Chapter 131 of the Acts of 2010, the amount of this benefit is \$9,000. For Systems that accept the provisions of Section 63 of Chapter 139 of the Acts of 2012, the amount of this benefit is \$12,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and selected Option C on the day before his or her death. For a member who became a member prior to April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 55 benefit rate is used. For a member classified in Group 1 who became a member on or after April 2, 2012 whose death occurred prior to the member's superannuation retirement age, the age 60 benefit rate is used. If the member died after age 60, the actual age is used. For a member classified in Group 2 or Group 4, whose death occurred prior to the member's minimum superannuation retirement age, the benefit shall be calculated using an age 55 age factor. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is \$3,000 unless the retirement system has accepted the local option increasing this minimum annual allowance to \$6,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

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

COST OF LIVING

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

Under the provisions of Chapter 32, Section 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. For many years the COLA base was calculated based upon the first \$12,000 of a retiree's allowance. Now the maximum base upon which the COLA is calculated varies from system to system. Each increase in the base must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

NOTES TO FINANCIAL STATEMENTS (Continued)

METHODS OF PAYMENT

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

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

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

Option C: A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who is has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system. If a member received regular compensation concurrently from two or more systems on or after January 1, 2010, and was not vested in both systems as of January 1, 2010, such a pro-ration will not be undertaken. This is because such a person will receive a separate retirement allowance from each system.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Franklin Regional Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

MEMBERSHIP:

There are no Supplementary Membership Regulations at this time.

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:

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
20	22.99	50%
23	25.99	60%
26	28.99	70%
29	31.99	80%
32	34.99	90%
35	40	100%
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%

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(s).

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

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(s). 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.

In the case of School Department employees whose full-time employment requires them to work from on or about September 1st to on or about June 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.

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

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 a sealed pre-stamped envelopes or on a 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.

Chairperson:	Sandra A. Hanks	Term Expires:	12/31/2014
Council Member:	Paula J. Light	Term Expires:	12/31/2015
Elected Member:	David R. Gendron	Term Expires:	12/31/2016
Elected Member:	Mary A. Stokarski	Term Expires:	12/31/2014
Appointed Member:	Paul J. Mokrzecki	Term Expires:	06/30/2015

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

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

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/Chairperson:)	Coverage provided to a limit of \$10,000,000 under a
Elected Members:)	master MACRS sponsored policy issued through
Appointed Members:)	Travelers Casualty & Surety Co. of America
Staff Employees:)	Deductible \$50,000. Separate fidelity 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, 2012.

The actuarial liability for active members was	\$71,129,850
The actuarial liability for inactive members was	3,078,801
The actuarial liability for retired members was	<u>61,114,543</u>
The total actuarial liability was	\$135,323,194
System assets as of that date were (actuarial value)	<u>85,648,257</u>
The unfunded actuarial liability was	<u>\$49,674,937</u>
The ratio of system's assets to total actuarial liability was	63.3%
As of that date the total covered employee payroll was	\$30,037,760

The normal cost for employees on that date was 8.8% of payroll
 The normal cost for the employer was 4.0% of payroll

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

Investment Return: 7.875% per annum
 Rate of Salary Increase: 4.250% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2012

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)
1/1/2012	\$85,648,000	\$135,323,000	\$49,675,000	63.3%	\$30,038,000	165.4%
1/1/2010	\$79,459,000	\$119,349,000	\$39,890,000	66.6%	\$29,457,000	135.4%
1/1/2008	\$77,859,000	\$105,972,000	\$28,113,000	73.5%	\$30,302,000	92.8%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Retirement in Past Years										
Superannuation	36	20	12	13	20	23	34	27	30	37
Ordinary Disability	0	0	0	0	0	1	1	0	0	0
Accidental Disability	0	1	1	1	2	1	1	1	0	2
Total Retirements	36	21	13	14	22	25	36	28	30	39
 Total Retirees, Beneficiaries and Survivors	406	399	398	396	403	416	448	472	485	500
 Total Active Members	2,134	2,103	2,253	2,120	1,300	1,316	1,344	1,085	1,135	1,050
Pension Payments										
Superannuation	\$2,513,935	\$2,696,627	\$2,819,612	\$2,924,661	\$3,094,065	\$3,325,454	\$3,737,332	\$3,989,389	\$4,285,710	\$4,823,937
Survivor/Beneficiary										
Payments	103,583	134,842	139,985	156,938	154,346	150,348	150,348	205,918	261,162	273,174
Ordinary Disability	12,675	13,723	13,725	12,729	13,171	16,095	16,303	24,344	21,116	14,348
Accidental Disability	116,165	150,016	175,400	245,194	240,806	274,038	306,276	307,017	352,887	351,531
Other	36,990	49,342	50,699	52,064	1,365,215	595,552	666,840	758,562	451,140	410,695
Total Payments for Year	<u>\$2,783,348</u>	<u>\$3,044,550</u>	<u>\$3,199,421</u>	<u>\$3,391,586</u>	<u>\$4,867,603</u>	<u>\$4,361,486</u>	<u>\$4,877,098</u>	<u>\$5,285,230</u>	<u>\$5,372,014</u>	<u>\$5,873,686</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 – LEASED PREMISES

The Franklin Regional Retirement Board leases approximately 2,000 square feet of space for its offices located at Suites 311 & 312, 278 Main Street, Greenfield, MA. They signed an initial 3-year lease which expired July 31, 2012, at which point it was renewed for an additional 3 years. The landlord is P.D.V., Inc.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2012:

<u>For the year ending:</u>	<u>Annual Rent</u>
2013	\$17,946.72
2014	\$17,946.72
2015	\$10,468.92
Total future minimum lease payments required	<u>\$46,362.36</u>

PERAC

Five Middlesex Avenue | Third Floor
Somerville, MA | 02145

Ph: 617.666.4446 | Fax: 617.628.4002

TTY: 617.591.8917 | Web: www.mass.gov/perac