

PERAC AUDIT REPORT



Worcester Regional
Contributory Retirement System



JAN. 1, 2010 - DEC. 31, 2011



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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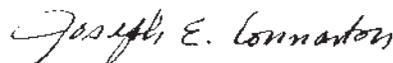
June 26, 2013

The Public Employee Retirement Administration Commission has completed an examination of the Worcester Regional Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2010 to December 31, 2011. 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 that noted in the finding presented in this report.

In closing, I acknowledge the work of examiners Scott Henderson and Susan Kerr 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 FINDING AND RECOMMENDATION

Expenses:

Due to clerical errors, there were two payments made in 2010 that never appeared on a warrant for Board approval. This is in violation of G.L. c. 32, § 23(2)(a) which states that : “Payments from such funds shall be made by him only upon vouchers signed by two persons designated by the Board of any such System by a vote a duly attested copy of which, bearing upon its face specimen signatures of such persons, shall be filed with the treasurer-custodian as his authority for making payments upon vouchers so signed. No voucher shall be drawn unless it shall have been previously authorized by vote of the Board.”

Recommendation: All payments issued by the Board must be included on the warrants approved at the monthly meetings.

Board Response:

This was a scrivener’s error that occurred during an accounting transaction. A thorough review of all subsequent warrants found no other errors. Strong controls are in place to ensure proper compliance with all accounting procedures.

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,		
	2011	2010
Net Assets Available For Benefits:		
Cash	\$2,333,329	\$2,666,464
Pooled Alternative Investment Funds	11,643,665	12,288,337
Pooled Real Estate Funds	16,908,053	15,809,530
PRIT Core Fund	364,086,611	363,964,801
Accounts Receivable	1,149,111	1,730,880
Accounts Payable	(16,898)	(3,182,855)
Total	<u>\$396,103,870</u>	<u>\$393,277,157</u>
Fund Balances:		
Annuity Savings Fund	\$205,821,738	\$197,802,806
Annuity Reserve Fund	47,957,568	45,237,026
Pension Fund	11,300,798	10,615,699
Military Service Fund	73,957	68,874
Expense Fund	0	0
Pension Reserve Fund	<u>130,949,810</u>	<u>139,552,751</u>
Total	<u>\$396,103,870</u>	<u>\$393,277,156</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)	\$185,725,164	\$43,222,368	\$171,029	\$75,460	\$0	\$115,786,632	\$344,980,654
Receipts	22,966,671	1,294,242	33,960,797	19,542	2,496,641	42,434,056	103,171,949
Interfund Transfers	(7,577,247)	7,600,157	18,671,155	(26,127)	0	(18,667,937)	(0)
Disbursements	<u>(3,311,782)</u>	<u>(6,879,741)</u>	<u>(42,187,281)</u>	<u>0</u>	<u>(2,496,641)</u>	<u>0</u>	<u>(54,875,446)</u>
Ending Balance (2010)	197,802,806	45,237,026	10,615,699	68,874	0	139,552,751	393,277,156
Receipts	23,167,998	1,361,507	35,802,606	15,973	2,892,305	(3,167,081)	60,073,309
Interfund Transfers	(9,617,289)	8,860,860	6,203,179	(10,891)	0	(5,435,860)	0
Disbursements	<u>(5,531,777)</u>	<u>(7,501,826)</u>	<u>(41,320,687)</u>	<u>0</u>	<u>(2,892,305)</u>	<u>0</u>	<u>(57,246,595)</u>
Ending Balance (2011)	<u>\$205,821,738</u>	<u>\$47,957,568</u>	<u>\$11,300,798</u>	<u>\$73,957</u>	<u>\$0</u>	<u>\$130,949,810</u>	<u>\$396,103,870</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2011	2010
Annuity Savings Fund:		
Members Deductions	\$21,158,754	\$20,713,471
Transfers from Other Systems	1,251,342	1,300,989
Member Make Up Payments and Re-deposits	277,767	273,245
Member Payments from Rollovers	95,781	138,872
Investment Income Credited to Member Accounts	<u>384,354</u>	<u>540,093</u>
Sub Total	<u>23,167,998</u>	<u>22,966,671</u>
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	<u>1,361,507</u>	<u>1,294,242</u>
Sub Total	<u>1,361,507</u>	<u>1,294,242</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	1,122,049	1,127,345
Pension Fund Appropriation	475,874	1,008,175
Settlement of Workers' Compensation Claims	34,175,183	31,766,527
	<u>29,500</u>	<u>58,750</u>
Sub Total	<u>35,802,606</u>	<u>33,960,797</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	15,854	19,347
Investment Income Credited to the Military Service Fund	<u>119</u>	<u>195</u>
Sub Total	<u>15,973</u>	<u>19,542</u>
Expense Fund:		
Investment Income Credited to the Expense Fund	<u>2,892,305</u>	<u>2,496,641</u>
Sub Total	<u>2,892,305</u>	<u>2,496,641</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	204,817	149,440
Interest Not Refunded	0	14,931
Miscellaneous Income	37,881	9,398
Excess Investment Income	<u>(3,409,780)</u>	<u>42,260,287</u>
Sub Total	<u>(3,167,081)</u>	<u>42,434,056</u>
Total Receipts, Net	<u>\$60,073,309</u>	<u>\$103,171,949</u>

STATEMENT OF DISBURSEMENTS

FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010
Annuity Savings Fund:		
Refunds to Members	\$3,323,947	\$2,120,307
Transfers to Other Systems	<u>2,207,831</u>	<u>1,191,475</u>
Sub Total	<u>5,531,777</u>	<u>3,311,782</u>
Annuity Reserve Fund:		
Annuities Paid	7,371,092	6,753,702
Option B Refunds	<u>130,734</u>	<u>126,039</u>
Sub Total	<u>7,501,826</u>	<u>6,879,741</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	32,237,424	30,262,722
Survivorship Payments	1,871,533	1,827,092
Ordinary Disability Payments	468,213	434,689
Accidental Disability Payments	5,173,991	4,797,651
Accidental Death Payments	763,667	767,140
Section 101 Benefits	171,761	191,135
3 (8) (c) Reimbursements to Other Systems	634,097	3,906,852
Sub Total	<u>41,320,687</u>	<u>42,187,281</u>
Expense Fund:		
Board Member Stipend	15,000	15,000
Salaries	446,277	409,348
Legal Expenses	77,107	48,268
Medical Expenses	327	0
Travel Expenses	8,810	5,511
Administrative Expenses	134,389	127,199
Professional Services	10,000	0
Actuarial Services	25,550	0
Education and Training	1,745	4,108
Furniture and Equipment	3,117	5,241
Management Fees	2,015,144	1,744,618
Rent Expenses	79,611	79,611
Service Contracts	30,882	15,092
Fiduciary Insurance	44,347	42,647
Sub Total	<u>2,892,305</u>	<u>2,496,641</u>
Total Disbursements	<u>\$57,246,595</u>	<u>\$54,875,446</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,	
	2011	2010
Investment Income Received From:		
Cash	\$18,349	\$28,961
Pooled or Mutual Funds	<u>12,003,520</u>	<u>9,320,227</u>
Total Investment Income	<u>12,021,870</u>	<u>9,349,188</u>
Plus:		
Realized Gains	11,945,028	9,530,838
Unrealized Gains	<u>38,681,012</u>	<u>67,806,697</u>
Sub Total	<u>50,626,041</u>	<u>77,337,535</u>
Less:		
Realized Loss	(2,238,046)	(809,407)
Unrealized Loss	<u>(59,181,358)</u>	<u>(39,285,857)</u>
Sub Total	<u>(61,419,405)</u>	<u>(40,095,264)</u>
Net Investment Income	<u>1,228,506</u>	<u>46,591,459</u>
Income Required:		
Annuity Savings Fund	384,354	540,093
Annuity Reserve Fund	1,361,507	1,294,242
Military Service Fund	119	195
Expense Fund	<u>2,892,305</u>	<u>2,496,641</u>
Total Income Required	<u>4,638,285</u>	<u>4,331,172</u>
Net Investment Income	<u>1,228,506</u>	<u>46,591,459</u>
Less: Total Income Required	<u>4,638,285</u>	<u>4,331,172</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>(\$3,409,780)</u>	<u>\$42,260,287</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2011		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$2,333,329	0.6%
Pooled Alternative Investment Funds	11,643,665	2.9%
Pooled Real Estate Funds	16,908,053	4.3%
PRIT Core Fund	<u>364,086,611</u>	<u>92.2%</u>
Grand Total	<u>\$394,971,657</u>	<u>100.0%</u>

For the year ending December 31, 2011, the rate of return for the investments of the Worcester Regional Retirement System was -0.18%. For the five-year period ending December 31, 2011, the rate of return for the investments of the Worcester Regional Retirement System averaged 0.21%. For the twenty-seven year period ending December 31, 2011, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Worcester Regional Retirement System was 7.91%.

The composite rate of return for all retirement systems for the year ending December 31, 2011 was 0.27%. For the five-year period ending December 31, 2011, the composite rate of return for the investments of all retirement systems averaged 1.38%. For the twenty-seven year period ending December 31, 2011, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.11%.

SUPPLEMENTARY INVESTMENT REGULATIONS

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

March 28, 2007

21.01

For the sole purpose of the Worcester Regional Retirement Board's investment in the Attalus Multi Strategy Fund, Ltd., the provisions of 840 CMR 21.01(1), 21.01(2), 21.01(3), 21.01(5), and 21.01(6) shall not apply.

March 28, 2007

21.01

For the sole purpose of the Worcester Regional Retirement Board's investment in the EnTrust Capital Diversified Fund, the provisions of 840 CMR 21.01(1), 21.01(2), 21.01(3), 21.01(5), and 21.01(6) shall not apply.

March 21, 2006

19.01(6)

Notwithstanding the provisions of Public Employee Retirement Administration Commission regulations, the Worcester Regional Retirement Board may invest funds of the Worcester Regional Retirement System (the "System") in the fund known as AEW Partners V, L.P. ("the Fund"), and while the funds of the System are so invested, the assets of the System shall be deemed to include, for purposes of applying the rules set forth in 840 CMR 16.00 et seq. and 17.00 et seq.; the System's interest in the Fund but not any of the underlying assets of the Fund; provided that, at all times, the Fund qualified as a "venture capital operating company" or "real estate operating company" within the meaning of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and the regulations promulgated thereunder.

The Limitations and restrictions of 840 CMR Section 19.01(6) shall not apply to the Fund for the two-year period commencing on the date of the Fund's initial investment.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

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

ADMINISTRATION

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

PARTICIPATION

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

There are 3 classes of membership in the Retirement System:

Group 1:

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

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

RATE OF INTEREST

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

RETIREMENT AGE

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

SUPERANNUATION RETIREMENT

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

AMOUNT OF BENEFIT

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

- Salary is defined as gross regular compensation. 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).
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

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

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

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$751.80 per year (or \$312 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. An additional \$15.00 per year of service, not to exceed \$300 annually may be added to the benefit in systems in which the local option contained in G.L. c. 32, § 7(2)(e) has been adopted.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

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

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$751.80 per year, per child (or \$312 per year in systems in which the local option contained in G.L. c. 32, § 9(2)(d)(ii) has not been adopted) payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

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

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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%. The first \$12,000 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, § 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. Presently that amount is \$12,000. Each increase must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

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 unmarried at the time of retirement for a member whose retirement becomes

NOTES TO FINANCIAL STATEMENTS (Continued)

effective on or after February 2, 1992, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or “pops up” 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.

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 primarily relies upon the investment strategy of the PRIM Board to maintain their 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 Worcester Regional Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

Membership

January 26, 1993

Part time teachers

At a meeting of the Worcester County Retirement Board, a vote was taken to accept only teacher aides, who are employed for 1,040 hours or more per year.

June 30, 1986

School Employees

Full-time employees working during the school year receive 1 full year of creditable service.

December 28, 1984

All part-time employees who work at least 20 hours per week (1040) within the calendar year must join the system.

Creditable Service

December 28, 1984

Elected members of water district are allowed one full year of creditable service for each calendar year served as an elected official.

Call fire fighters

When earnings are \$225 per year or more, then 4 months of creditable service is allowed for each calendar year, but only if such fire fighter is later appointed as a permanent member of the fire department pursuant to G.L. c. 32, § 4(2)(b).

Cafeteria

6 hours per day is considered a full day. The Retirement Board will allow full year service to include summer months off. If a cafeteria employee works less than 6 hours per day, 5, 4, or 3 hours per day, then service is prorated and based on a 6 hour full day and creditable service is allowed at 83%, 66% or 50% of full 12 months.

Library

If a librarian works all of the hours the library is open, that being 20 hours or more per week, then the retirement board will allow full creditable service. If a member works part-time and not the full hours of the library, then such hours worked will be prorated against the hours the library is opened.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

Part-time police work

Use hourly rate to determine hours worked based on 37 hours per week being full-time. All other part-time employees will have their time prorated, using a 35-hour week as full time.

Free Prior Service (before 7/1/47) or Date of Charter - \$50.00 per month equals one full year of creditable service.

School Employees - Full-time employees working during the school year receive 1 full year of creditable service.

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 Chairman who shall be selected by the other four Board members, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Chairman: Kevin P. Blanchette

Appointed Member: Carol A. Baron Term Expires: 12/31/15

Elected Member: Pauline M. Lajoie Term Expires: 12/31/13

Elected Member: Michael Donoghue Term Expires: 12/31/14

Appointed Member: Eugene J. Durgin Term Expires: 12/31/14

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 - Custodian:)	\$50,000,000 Fiduciary and
Ex-officio Member:)	\$1,000,000 Fidelity Bond
Elected Members:)	MACRS Master Policy
Appointed Members:)	Travelers Casualty & Surety Co. of
Staff Employees:)	America, National Union Fire, and
		Arch Insurance Co.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the KMS Actuaries as of January 1, 2012.

The actuarial liability for active members was	\$509,004,624
The actuarial liability for vested and non-vested terminated members was	10,996,041
The actuarial liability for retired members was	<u>462,796,117</u>
The total actuarial liability was	<u>\$982,796,782</u>
System assets as of that date were	<u>436,671,982</u>
The unfunded actuarial liability was	<u>\$546,124,800</u>
The ratio of system's assets to total actuarial liability was	44.4%
As of that date the total covered employee payroll was	\$238,952,079

The normal cost for employees on that date was 8.5% of payroll
 The normal cost for the employer was 3.4% of payroll

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

Investment Return: 8.00% per annum
 Rate of Salary Increase: 3.00% 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	\$436,671,982	\$982,796,782	\$546,124,800	44.4%	\$238,952,079	228.5%
1/1/2010	\$413,976,785	\$863,002,067	\$449,025,282	48.0%	\$241,992,607	185.6%
1/1/2007	\$389,758,785	\$692,768,325	\$303,009,540	56.3%	\$211,518,755	143.3%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Retirement in Past Years										
Superannuation	112	232	107	64	96	112	106	92	116	130
Ordinary Disability	4	1	0	2	3	1	2	2	1	2
Accidental Disability	9	6	6	5	11	6	12	10	4	16
Total Retirements	125	239	113	71	110	119	120	104	121	148
 Total Retirees, Beneficiaries and Survivors	2,931	3,017	3,015	3,023	3,012	3,014	2,904	3,020	3,043	3,105
 Total Active Members	6,496	6,340	6,690	6,907	7,117	7,412	7,208	6,911	6,895	6,822
 Pension Payments										
Superannuation	\$18,268,552	\$22,220,187	\$23,744,032	\$24,187,800	\$25,122,949	\$26,324,051	\$27,610,573	\$28,827,689	\$30,262,722	\$32,237,424
Survivor/Beneficiary Payments	1,409,371	1,304,701	1,312,631	1,416,383	1,456,075	1,470,071	1,577,431	1,748,429	1,827,092	1,871,533
Ordinary Disability	303,288	283,429	272,797	281,553	350,822	368,537	395,114	421,976	434,689	468,213
Accidental Disability	3,009,079	3,197,795	3,399,482	3,606,715	3,888,592	4,103,393	4,509,949	4,665,092	4,797,651	5,173,991
Other	<u>1,155,262</u>	<u>1,498,278</u>	<u>1,608,781</u>	<u>1,743,430</u>	<u>2,792,917</u>	<u>4,305,946</u>	<u>16,438,934</u>	<u>2,208,157</u>	<u>4,865,128</u>	<u>1,569,526</u>
Total Payments for Year	<u>\$24,145,552</u>	<u>\$28,504,390</u>	<u>\$30,337,723</u>	<u>\$31,235,881</u>	<u>\$33,611,355</u>	<u>\$36,571,998</u>	<u>\$50,532,001</u>	<u>\$37,871,343</u>	<u>\$42,187,282</u>	<u>\$41,320,687</u>

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 – LEASED PREMISES

The Worcester Regional Retirement Board leases approximately 4,683 square feet of space for its offices located at Suite 106 23 Midstate Drive Auburn, MA. 01501. They signed an initial 5-year lease term (\$6,634.25 a month) which expired May 31, 2012. The lease has been renewed and will expire on May 31, 2017. The landlord is Paino Associates LLC.

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	\$79,611.00
2014	\$79,611.00
2015	\$79,611.00
2016	\$79,611.00
2017	\$33,171.25
Total future minimum lease payments required	<u>\$351,615.25</u>

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