

PERAC AUDIT REPORT



Franklin Regional Contributory Retirement System

JAN. 1, 2004 - DEC. 31, 2006



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

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January 4, 2008

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, 2004 to December 31, 2006. 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 Robert Madison and Harry Chadwick 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

1. **Membership Contribution Rates**

Membership contribution rates were discussed in the prior audit for the period ending December 31, 2003 and the Board proposed a full review of all membership records. At this time, procedures have not been implemented.

A. Based on inspection and inquiry, it was determined that the Franklin Regional Retirement System lacks a uniform method of correctly reporting monthly membership payroll. The Franklin Regional Retirement System administers thirty-nine (39) governmental units. An inspection of the actual payroll records show that many units do not report "Other Earnings" which makes it impossible to determine if "Regular Earnings" is exclusive of earnings not subject to pension deductions such as Overtime or Police Detail pay.

B. A sample of contribution rates and 2% over \$30,000 calculations revealed errors that need correction, such as, the 2% over \$30,000 not being deducted, or, payroll systems used by the units not deducting the 2%; there are typically other issues with the membership contribution rates in general, as referenced in the report of actuarial data for active and retiree/survivor generated by PERAC.

Recommendations:

A. Reporting of member contributions should be made on a prescribed form for all member units. The prescribed form should be consistent with G.L. c. 32 § 22(1) (h) and include the following member information: 1) name; 2) social security number or employee number; 3) compensation by type: total, regular, overtime, and 2% excess; 4) contribution amount; 5) contribution rate; and 6) any other member information deemed appropriate.

B. Membership records must be reviewed for active and retiree/survivor contribution rates. This review should also include the 2% over \$30,000 contributions.

Board Response:

This issue will be ever present in county and regional systems due to the numerous units and their varied levels of ability to understand the rules and regulations regarding retirement issues. Single unit systems have the advantage of having only one unit treasurer to train, and usually that treasurer is in the same building and often holds an ex-officio seat on the board. Regional systems have many treasurers that need training and guidance, a process that is exacerbated by distance and lack of availability. System staff are gearing up to address this issue permanently by devoting greater time and effort to educating the treasurers and analyzing the contribution reports as they come in each month. Part of the effort will be to standardize the reports and include information that will help staff monitor the treasurer's efforts, but it is realized that the reports are limited in what can be deduced from the information provided, and what will also be

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

needed is direct review of the treasurer's records at the unit's location. Regular visits with the unit treasurers, that include a thorough review of the payroll records, will give the system staff the opportunity to confirm understanding of retirement criteria, and if not, an opportunity to instruct and guide. With this approach, we believe we come close to the "just-down-the-hall" advantage that single unit systems enjoy, thereby realizing greater integrity behind the information we gather and hold for the benefit of our members and the system.

2. **Creditable Service**

While reviewing the refund section, an issue with respect to creditable service was discovered. It was determined that full creditable service was given to some members who apparently worked less than full-time. A review of Franklin Regional's Supplemental Regulations shows a historical pattern of constant change with regard to creditable service.

Recommendation:

Retirement staff must be familiar with the definition(s) of full-time or part-time/seasonal employees and how to calculate full-time or prorate part-time creditable service. In addition, the Board should review its Supplemental Regulations to clarify full and part-time creditable service definitions.

Board Response:

Retirement staff have no problem understanding how to calculate creditable service, nor is it contrary with board regulations to give full creditable service for part-time service. The true issue here is the board regulation regarding creditable service. Currently the board regulations read, *"An employee, either full time or part time, receiving a salary or wage for prescribed periods of employment is to be given creditable full time service retroactive to the date of membership."* The PERAC auditors noted the generosity of this regulation, and suggested that the board review this regulation. Presently, the board is actively reviewing this regulation, and discussing possible changes with staff and legal counsel that address the concern with full-time creditable service for part-time employment.

3. **Travel Expenses**

The auditors sampled expenses and determined that some travel expenses are being misclassified in the general ledger. When accounting for travel, transportation costs are charged to the Travel Account 5719 and other forms of travel (e.g., meals, lodging, seminars, and conferences) are charged to the Administrative Expense Account 5589.

Recommendation:

All forms of travel must be charged against Travel Account 5719. Board travel regulations consistently reference travel to include such items as transportation, lodging, and other expenses incidental to travel.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

Board Response:

The system recognizes and appreciates the need for consistency in reporting across the state, and will adapt its accounting methods and reporting to meet both the general needs of PERAC and the need for detail in reporting by the board.

Administrative Observation

Accounting Software. The Franklin Regional Retirement System uses a custom accounting system designed by the Executive Director and used by a limited number of entities. The auditors want to make sure the Board is aware that it is beyond the scope of this audit to validate 'custom' accounting software. The Board must make sure that comprehensive and up-to-date written documentation exists and staff members are fully acquainted with the software. In addition, the Board must understand the inherent risks of 'custom' software and its impact on operational controls.

Board Response:

The board has no expectations that PERAC auditors would validate custom software, but appreciates their concern about documentation and cross training of all staff in the use of the accounting system. Staff are actively engaged in both regards by learning each other's area of experience with the accounting functions and perfecting clear instructions for the use of their fellow staff, in the form of a written manual.

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,		
	2006	2005	2004
Net Assets Available for Benefits:			
Cash	\$1,452,903	\$2,547,638	\$4,231,428
Fixed Income Securities	0	54,720	55,860
Equities	9,765,996	8,545,947	6,501,489
Pooled Domestic Equity Funds	5,265,959	20,623,601	16,978,935
Pooled International Equity Funds	0	6,291,396	5,126,581
Pooled Domestic Fixed Income Funds	8,417,154	17,653,479	17,281,713
Pooled Real Estate Funds	3,456,280	6,380,833	4,876,811
PRIT Cash Fund	42,558,456	0	0
Interest Due and Accrued	3,681	0	2,140
Accounts Receivable	1,606,869	786,779	1,123,392
Accounts Payable	(62,162)	(62,536)	(34,476)
Total	<u>\$72,465,138</u>	<u>\$62,821,857</u>	<u>\$56,143,874</u>
Fund Balances:			
Annuity Savings Fund	\$21,156,128	\$19,804,713	\$17,653,461
Annuity Reserve Fund	5,139,746	4,962,803	4,972,688
Pension Fund	6,977,026	6,117,785	6,545,349
Military Service Fund	1,745	1,745	1,745
Pension Reserve Fund	39,190,493	31,934,811	26,970,631
Total	<u>\$72,465,138</u>	<u>\$62,821,857</u>	<u>\$56,143,874</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 (2004)	\$16,606,628	\$4,720,133	\$6,753,383	\$0	\$0	\$22,107,713	\$50,187,858
Receipts	2,530,012	147,328	3,148,860	1,745	486,851	4,847,718	11,162,515
Inter Fund Transfers	(721,821)	706,621	0	0	0	15,199	(0)
Disbursements	(761,359)	(601,394)	(3,356,895)	0	(486,851)	0	(5,206,499)
Ending Balance (2004)	17,653,461	4,972,688	6,545,349	1,745	0	26,970,631	56,143,874
Receipts	3,259,414	149,062	3,081,207	0	545,315	4,952,868	11,987,867
Inter Fund Transfers	(486,857)	475,545	0	0	0	11,312	(0)
Disbursements	(621,305)	(634,493)	(3,508,771)	0	(545,315)	0	(5,309,883)
Ending Balance (2005)	19,804,713	4,962,803	6,117,785	1,745	0	31,934,811	62,821,857
Receipts	2,877,620	149,940	4,564,846	0	707,460	7,248,860	15,548,726
Inter Fund Transfers	(708,545)	690,986	10,736	0	0	6,822	(0)
Disbursements	(817,661)	(663,984)	(3,716,341)	0	(707,460)	0	(5,905,446)
Ending Balance (2006)	<u>\$21,156,128</u>	<u>\$5,139,746</u>	<u>\$6,977,026</u>	<u>\$1,745</u>	<u>\$0</u>	<u>\$39,190,493</u>	<u>\$72,465,138</u>

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STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
Annuity Savings Fund:			
Members Deductions	\$2,428,875	\$2,286,771	\$2,184,038
Transfers from Other Systems	291,666	722,736	154,740
Member Make Up Payments and Re-deposits	41,687	146,472	95,896
Investment Income Credited to Member Accounts	<u>115,392</u>	<u>103,435</u>	<u>95,337</u>
Sub Total	<u>2,877,620</u>	<u>3,259,414</u>	<u>2,530,012</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>149,940</u>	<u>149,062</u>	<u>147,328</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	174,030	139,653	160,685
Received from Commonwealth for COLA and Survivor Benefits	95,541	248,646	84,258
Pension Fund Appropriation	4,295,275	2,692,908	2,903,917
Sub Total	<u>4,564,846</u>	<u>3,081,207</u>	<u>3,148,860</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	0	0	1,745
Sub Total	<u>0</u>	<u>0</u>	<u>1,745</u>
Expense Fund:			
Investment Income Credited to the Expense Fund	707,460	545,315	486,851
Sub Total	<u>707,460</u>	<u>545,315</u>	<u>486,851</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	18,729
Pension Reserve Appropriation	0	1,434,284	1,019,503
Interest Not Refunded	7,751	8,293	13,537
Miscellaneous Income	5,721	9,516	3,844
Excess Investment Income	<u>7,235,387</u>	<u>3,500,775</u>	<u>3,792,105</u>
Sub Total	<u>7,248,860</u>	<u>4,952,868</u>	<u>4,847,718</u>
Total Receipts	<u>\$15,548,726</u>	<u>\$11,987,867</u>	<u>\$11,162,515</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
Annuity Savings Fund:			
Refunds to Members	\$360,444	\$248,588	\$374,908
Transfers to Other Systems	<u>457,217</u>	<u>372,718</u>	<u>386,450</u>
Sub Total	<u>817,661</u>	<u>621,305</u>	<u>761,359</u>
Annuity Reserve Fund:			
Annuities Paid	663,984	632,858	596,544
Option B Refunds	<u>0</u>	<u>1,634</u>	<u>4,850</u>
Sub Total	<u>663,984</u>	<u>634,492</u>	<u>601,394</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	2,924,661	2,819,612	2,696,627
Survivorship Payments	156,938	139,985	134,842
Ordinary Disability Payments	12,729	13,725	13,723
Accidental Disability Payments	245,194	175,400	150,016
Accidental Death Payments	52,064	50,699	49,342
3 (8) (c) Reimbursements to Other Systems	193,470	165,298	153,136
State Reimbursable COLA's Paid	<u>131,285</u>	<u>144,051</u>	<u>159,209</u>
Sub Total	<u>3,716,341</u>	<u>3,508,771</u>	<u>3,356,895</u>
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:			
Board Member Stipend	15,000	15,000	15,000
Salaries	186,352	161,768	112,540
Legal Expenses	21,748	21,595	26,947
Travel Expenses	2,092	927	3,086
Administrative Expenses	127,820	77,575	60,742
Furniture and Equipment	4,868	8,769	367
Management Fees	302,581	217,983	237,670
Custodial Fees	4,000	4,000	0
Consultant Fees	25,000	20,000	20,000
Rent Expenses	10,500	10,500	10,500
Fiduciary Insurance	7,499	7,198	0
Sub Total	<u>707,460</u>	<u>545,315</u>	<u>486,851</u>
Total Disbursements	<u>\$5,905,446</u>	<u>\$5,309,883</u>	<u>\$5,206,499</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2006	2005	2004
Investment Income Received From:			
Cash	\$143,517	\$100,159	\$146,497
Fixed Income	0	3,468	0
Equities	97,292	48,150	356,503
Pooled or Mutual Funds	946,001	474,885	232,181
Commission Recapture	0	0	4,910
Total Investment Income	<u>1,186,810</u>	<u>626,661</u>	<u>740,092</u>
Plus:			
Realized Gains	2,235,022	904,969	2,337,706
Unrealized Gains	6,911,431	6,256,243	4,455,990
Interest Due and Accrued – Current Year	<u>3,681</u>	<u>0</u>	<u>0</u>
Sub Total	<u>9,150,134</u>	<u>7,161,212</u>	<u>6,793,696</u>
Less:			
Realized Loss	(423,148)	(194,647)	(1,713,461)
Unrealized Loss	(1,705,617)	(3,294,639)	(1,195,772)
Interest Due and Accrued - Prior Year	<u>0</u>	<u>0</u>	<u>(102,933)</u>
Sub Total	<u>(2,128,765)</u>	<u>(3,489,286)</u>	<u>(3,012,167)</u>
Net Investment Income	<u>8,208,179</u>	<u>4,298,587</u>	<u>4,521,621</u>
Income Required:			
Annuity Savings Fund	115,392	103,435	95,337
Annuity Reserve Fund	149,940	149,062	147,328
Expense Fund	<u>707,460</u>	<u>545,315</u>	<u>486,851</u>
Total Income Required	<u>972,792</u>	<u>797,812</u>	<u>729,516</u>
Net Investment Income	<u>8,208,179</u>	<u>4,298,587</u>	<u>4,521,621</u>
Less: Total Income Required	<u>972,792</u>	<u>797,812</u>	<u>729,516</u>
Excess Income To The Pension Reserve Fund	<u>\$7,235,387</u>	<u>\$3,500,775</u>	<u>\$3,792,105</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2006			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$1,452,903	2.0%	100.0%
Equities	9,765,996	13.8%	60.0%
Pooled Domestic Equity Funds	5,265,959	7.4%	22.5%
Pooled Domestic Fixed Income Funds	8,417,154	11.9%	12.5%
Pooled Real Estate Funds	3,456,280	4.9%	5.0%
PRIT Core Fund	<u>42,558,456</u>	60.0%	
Grand Total	<u>\$70,916,749</u>	<u>100.0%</u>	

For the year ending December 31, 2006, the rate of return for the investments of the Franklin Regional Retirement System was 13.40%. For the five-year period ending December 31, 2006, the rate of return for the investments of the Franklin Regional Retirement System averaged 7.34%. For the twenty-one-year period ending December 31, 2006, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Franklin Regional Retirement System was 9.37%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Franklin Regional Retirement System submitted the following supplementary investment regulations, which were approved by PERAC on:

October 8, 1997

20.03(1) Equity investments shall not exceed 60% of the total market value of the portfolio at the time of purchase.

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 106 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.
- 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. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

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

WITHDRAWAL OF CONTRIBUTIONS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. 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 \$667.92 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2) (a) (iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

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 \$312 per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

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

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

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

METHODS OF PAYMENT

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

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

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.

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 PERAC on:

March 31, 1997:

1. Creditable Service. An employee, either full time or part time, receiving a salary or wage for prescribed periods of employment is to be given creditable full time service retroactive to the date of service (Retroactive clause is effective for all members active on or after February 27, 1997). Settlement of small allowance in one sum shall be as provided in G.L. c. 32, § 13. (Revision of Rule #2 previously approved March 19, 1991. Resubmitted and re-approved March 19, 1993) (Underscored language added by request approved March 31, 1997).

December 18, 1995:

1. Eligibility for Membership/Buy Backs. All permanent employees working 20 or more hours per week must become members of the system. Temporary or part time employees hired after 1/1/96 who later becomes eligible for membership shall have the option of buying back creditable service time at the rate proportionate to actual time worked. (Revision of Rule #1 originally approved March 19, 1991 and amended by rule approved March 19, 1993)

March 19, 1993:

1. Membership. All full time employees, part time employees working 20 or more hours on a regular basis and all recipients of federal grant funding must belong to the retirement system. Employers may offer all other employees receiving compensation the option of joining the retirement system. Retirement deductions will be taken from all regular compensation as defined in G.L. c. 32 § 1 but that regular compensation shall not include overtime payments and police off-duty detail work.

Treasurers are obligated to ensure that all employees participate in a qualified pension plan. The treasurer must enroll the employee either in a deferred compensation plan, county retirement system or social security. (Revision of Rule #1 originally approved March 19, 1991)

2. Member-Survivor Allowances. The total allowance payable under §12(2) (d) together with any allowance payable under § 12B shall at no time be greater than the annual rate of regular compensation payable to such member on the date of his death. (Revision of Rule #3 originally approved March 19, 1991)

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

3. Eligibility for Superannuation /Interest on Refunds. An employee who becomes a member after January 1, 1978 must complete 10 years of creditable service to be eligible for a retirement allowance. An employee who becomes a member after January 1, 1984 and has less than 60 months of creditable service shall receive no interest on the return of their deductions. You will receive 50% interest after 5 years of creditable service. You will receive 100% interest after 10 years of creditable service. Employees whose withdrawal from service is not voluntary shall receive 100% interest. (Revision of Rule #4 originally approved March 19, 1991)

December 17, 1992:

1. Creditable Service. An employee, either full time or part time, receiving a salary or wage for prescribed periods of employment is to be given creditable full time service retroactive to the date of service (Retroactive clause is effective for all members active on or after February 27, 1997). . Settlement of small allowance in one sum shall be as provided in G.L. c. 32, § 13. (Revision of Rule #2 previously approved March 19, 1991. Resubmitted and reapproved March 19, 1993)

March 19, 1991 (to be effective July 1, 1991). NOTE: Rules 1-5 approved March 19, 1991 supersede rules 1- 9 submitted December 29, 1987;

1. Membership. Any employee earning compensation, including recipients of federal grant funding who are not covered by Teachers' Retirement must belong to the retirement system. Retirement deductions will be taken from all compensation paid for services by a town payroll warrant except for overtime payments and police off-duty detail work. REVISED by rule approved March 19, 1993.

2. Creditable Service. An employee receiving a salary or wage for prescribed periods of employment be given creditable service based on actual service rendered, provided that in the case of any employee whose work is found by the board to be seasonal in nature, the board shall credit as the equivalent of one year of service actual full time service of not less than seven months during any one calendar year. Settlement of small allowance in one sum shall be as provided in G.L. c. 32, § 13. REVISED by rule approved December 17, 1992.

3. Section 12B Benefits. The total annual allowance derived from and payable under the provisions of Chapter 32 of the General Laws, § 12B shall at no time be greater than the annual rate of regular compensation payable to such member on the date of his death, and that is the case of call firemen, special police and part-time workers, that the annual rate of regular compensation be considered the earnings of the member for the twelve months immediately preceding his death. REVISED by rule approved March 19, 1993.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

4. Eligibility for Superannuation /Interest on Refunds. An employee who becomes a member after January 1, 1978 must have 10 years of creditable service to be eligible for a retirement allowance and also provides that an employee who becomes a member after January 1, 1984 and has less than 60 months of creditable service shall receive no interest on the return of their deductions. For employees hired after January 1, 1984, you will receive 50% interest after 5 years of creditable service. You will receive 100% interest after 10 years of creditable service. REVISED by rule approved March 19, 1993.

5. Contribution Rates. Employees who became members prior to January 1, 1975 contribute 5% of their regular compensation. Employees whose membership commenced on or after January 1, 1975 but prior to January 1, 1984 must contribute 7%. Those employees whose membership begins on or after January 1, 1984 must contribute 8%. (Resubmitted and reapproved December 17, 1992 and March 19, 1993).

March 19, 1991 (to be effective July 1, 1991). NOTE: Rules 1-5 approved March 19, 1991 supersede rules 1- 9 submitted December 29, 1987;

1. Membership. Any employee earning compensation, including recipients of federal grant funding who are not covered by Teachers' Retirement must belong to the retirement system. Retirement deductions will be taken from all compensation paid for services by a town payroll warrant except for overtime payments and police off-duty detail work. REVISED by rule approved March 19, 1993.

2. Creditable Service. An employee receiving a salary or wage for prescribed periods of employment be given creditable service based on actual service rendered, provided that in the case of any employee whose work is found by the board to be seasonal in nature, the board shall credit as the equivalent of one year of service actual full time service of not less than seven months during any one calendar year. Settlement of small allowance in one sum shall be as provided in G.L. c. 32, § 13. REVISED by rule approved December 17, 1992.

3. Section 12B Benefits. The total annual allowance derived from and payable under the provisions of Chapter 32 of the General Laws, § 12B shall at no time be greater than the annual rate of regular compensation payable to such member on the date of his death, and that is the case of call firemen, special police and part-time workers, that the annual rate of regular compensation be considered the earnings of the member for the twelve months immediately preceding his death. REVISED by rule approved March 19, 1993.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

4. Eligibility for Superannuation /Interest on Refunds. An employee who becomes a member after January 1, 1978 must have 10 years of creditable service to be eligible for a retirement allowance and also provides that an employee who becomes a member after January 1, 1984 and has less than 60 months of creditable service shall receive no interest on the return of their deductions. For employees hired after January 1, 1984, you will receive 50% interest after 5 years of creditable service. You will receive 100% interest after 10 years of creditable service. REVISED by rule approved March 19, 1993.

5. Contribution Rates. Employees who became members prior to January 1, 1975 contribute 5% of their regular compensation. Employees whose membership commenced on or after January 1, 1975 but prior to January 1, 1984 must contribute 7%. Those employees whose membership begins on or after January 1, 1984 must contribute 8%. (Resubmitted and reapproved December 17, 1992 and March 19, 1993).

November 27, 1989 (retroactive to July 1, 1988):

1. Membership. The Board considers a full-time employee earning regular compensation, a part-time permanent, temporary, provisional, temporary provisional, seasonal or intermittent employee eligible for membership in the retirement system whose base pay is at least \$200.00 per year, unless waived by the board. Anyone earning at least \$2,000.00 annually must become a member of the system.

Retirement deductions will not be taken on overtime payments. (Revision of Rule #1 originally submitted December 29, 1987).

2. Regular Compensation. 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.

December 29, 1987:

1. Membership. The Board considers a part-time, part-time permanent, temporary provisional, seasonal or intermittent employee eligible for membership in the retirement system whose base pay is at least \$200.00 per year, unless waived by the board. Anyone earning at least \$2,000.00 annually must become a member. REVISED by rule approved November 27, 1989 retroactive to July 1, 1988.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

2. Creditable Service. A part-time, part-time permanent, temporary, provisional, temporary provisional, seasonal or intermittent employee receiving weekly or monthly salaries or wages for prescribed periods of employment be given creditable service based on actual service rendered, provided that in the case of any such employee whose work is found by the board to be seasonal in its nature, the board shall credit as the equivalent of one year of service actual full time service of not less than seven months during any one calendar year.

Definition: A day to be based on a seven and one half hour period of employment.

3. Section 12B Benefits. The total annual allowance derived from and payable under the provisions of Chapter 32 of the General Laws, § 12B shall at no time be greater than the annual rate of regular compensation payable to such member on the date of his death, and that is the case of call firefighters, special police and part-time workers, that the annual rate of regular compensation be considered the earnings of the member for the twelve months immediately preceding his death.

4. Membership. To allow any cafeteria worker who works five hours or more per day be considered a full-time employee and eligible for membership in the retirement system. And further any employee who earns \$200.00 annually is considered eligible for membership.

5. Membership. Teacher aids who earn \$200.00 or more annually shall be eligible for membership.

6. Membership. Those employees whose compensation is derived from federal grants.

7. Eligibility for Superannuation /Interest on Refunds. An employee who becomes a member after January 1, 1978 must have 10years of creditable service to be eligible for a retirement allowance and also that an employee who becomes a member after January 1, 1984 and has less than 60 months of creditable service shall receive no interest on the return of their deductions. For employees hired after January 1, 1984 who request a refund, they shall receive 50% of interest after 5 years of creditable service and 100% of interest after 10 years of creditable service.

8. Membership Elected officials who receive compensation may belong to the 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 chairman who shall be elected by the board members, a second member elected by the county retirement board 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.

Chairman:	Sandra A. Hanks	Term Expires:	12/31/08
Appointed Member:	Herbert L. Sanderson Jr.	Term Expires:	12/31/08
Elected Member:	David R. Gendron	Term Expires:	12/31/07
Elected Member:	Patricia E. Auchard	Term Expires:	12/31/08
Appointed Member:	Paul J. Mokrzecki	Term Expires:	6/30/10

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

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of 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:)	Amity Insurance
Ex-officio Member:)	Fiduciary Liability
Elected Member:)	\$50,000,000
Appointed Member:)	Crime/Employee Dishonesty
Staff Employee:)	\$1,000,000

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, 2006.

The actuarial liability for active members was	\$52,364,364
The actuarial liability for vested terminated inactive members was	2,331,116
The actuarial liability for retired members was	37,127,626
The total actuarial liability was	91,823,106
System assets as of that date were	<u>61,538,920</u>
The unfunded actuarial liability was	<u>\$30,284,186</u>
The ratio of system's assets to total actuarial liability was	67.0%
As of that date the total covered employee payroll was	\$26,228,669

The normal cost for employees on that date was 8.30% of payroll
 The normal cost for the employer was 4.50% of payroll

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

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

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006 (amounts in \$000's)

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)
1/1/2006	\$61,539	\$91,823	\$30,284	67.0%	\$26,229	115.5%
1/1/2003	\$41,299	\$72,770	\$31,471	56.8%	\$23,638	133.1%
1/1/2001	\$42,002	\$57,235	\$15,233	73.4%	\$17,923	85.0%
1/1/1998	\$41,568	\$64,535	\$22,967	64.4%	\$15,254	150.6%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Retirement in Past Years										
Superannuation	10	17	0	5	28	25	36	20	12	13
Ordinary Disability	1	0	0	0	0	0	0	0	0	0
Accidental Disability	0	0	0	0	0	0	0	1	1	1
Total Retirements	11	17	0	5	28	25	36	21	13	14
Total Retirees, Beneficiaries and Survivors	334	316	319	341	360	391	406	399	398	396
Total Active Members	3,035	2,715	2,719	2,669	2,607	2,275	2,134	2,103	2,253	2,120
Pension Payments										
Superannuation	\$1,549,268	\$1,373,184	\$1,686,416	\$1,859,471	\$2,052,529	\$2,248,463	\$2,513,935	\$2,696,627	\$2,819,612	\$2,924,661
Survivor/Beneficiary Payments	115,709	326,761	119,715	120,457	127,360	125,937	103,583	134,842	139,985	156,938
Ordinary Disability	14,600	5,989	6,126	12,021	12,338	6,830	12,675	13,723	13,725	12,729
Accidental Disability	119,425	112,432	113,422	116,776	118,299	119,453	116,165	150,016	175,400	245,194
Other	<u>60,061</u>	<u>66,159</u>	<u>67,237</u>	<u>68,762</u>	<u>59,914</u>	<u>57,364</u>	<u>36,990</u>	<u>49,342</u>	<u>50,699</u>	<u>52,064</u>
Total Payments for Year	<u>\$1,859,063</u>	<u>\$1,884,525</u>	<u>\$1,992,916</u>	<u>\$2,177,487</u>	<u>\$2,370,440</u>	<u>\$2,558,047</u>	<u>\$2,783,348</u>	<u>\$3,044,550</u>	<u>\$3,199,421</u>	<u>\$3,391,586</u>

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