PERAC AUDIT REPORT

Norfolk County Contributory Retirement System

JAN. 1, 2009 - DEC. 31, 2011

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

December 5, 2013

The Public Employee Retirement Administration Commission has completed an examination of the Norfolk County Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2009 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 those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Scott Henderson, Susan Kerr, and William Walsh who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

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EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Retiree Affidavits:

The last time affidavits were sent out to retirees was 2010. Pursuant to 840 CMR 15.01 they should be sent out "no less frequently than once every two years."

Recommendation: Affidavits should be sent out as soon as possible. A sample of those returned should be compared to the retirement application to verify the signature. (840 CMR 15.01(3)

Board Response:

Retiree affidavits were issued on August 15, 2013 and will be issued every two years thereafter. Retirees were required to either have their form notarized or to sign the form at the Retirement office with photo identification.

2. Membership:

Payrolls from 20 units (one-half of the System's employers) were reviewed. Issues were found in 5 of these. The problems include incorrect 2% deductions, deductions that did not increase when a member's salary did, and a member contributing at an incorrect rate.

Recommendation: Verifying the accuracy of retirement contributions in a County Retirement System is an ongoing process. We recommend that Board staff set up a procedure to periodically review payroll registers from all their units.

Board Response:

Deduction posting has historically been a manual process. However, the Retirement System has informed all member units that manual deductions will not be supported after 2014. The use of electronic deduction process provides a mode of verification with each posting which will provide a heightened level of deduction accuracy. Also, after the conclusion of the audit, a manual verification was conducted on some units.

3. Retiree Calculations

A review of recent retirees' folders reveals that payroll records are not used when calculating a member's high three-year average salary. Instead, the salary amounts are "backed into" from the contributions received from the member. The folders do have a form from the employer listing the last three years' salaries, but these forms were not used to calculate the benefit. Differences between the employer salaries and the salaries based on the contributions were not explained.

Recommendation: The system should start requesting payroll records from the employer for all retirees to help confirm the salary on this form. Any differences between this form, the payroll, and the salary calculated based on the contributions should be reconciled.

Board Response:

The salary form sent to the employers states that the employees' payroll records must be submitted with the form. The Retirement Board staff will be diligently enforcing this request and any salary discrepancies will be addressed.

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	2009
Net Assets Available For Benefits:			
Cash	$12,873,999	$35,900,170	$11,297,968
Fixed Income Securities (at book value)	82,933,750	79,857,364	71,197,806
Equities	184,693,257	178,870,253	163,304,948
Pooled Domestic Equity Funds	83,465,819	83,284,035	76,759,473
Pooled International Equity Funds	20,369,499	24,507,403	26,745,684
Pooled Domestic Fixed Income Funds	35,006,446	36,714,051	54,375,029
Pooled International Fixed Income Funds	16,663,415	17,145,979	16,556,242
Pooled Alternative Investment Funds	57,522,166	50,482,481	43,029,356
Pooled Real Estate Funds	46,944,913	32,257,623	23,269,599
Hedge Funds	30,878,817	31,825,684	30,636,271
Interest Due and Accrued	930,305	949,751	967,180
Accounts Receivable	4,503,322	6,493,488	7,888,791
Accounts Payable	(1,318,597)	(1,224,883)	(1,914,344)
Total	$575,467,110	$577,063,401	$524,114,002
Fund Balances:			
Annuity Savings Fund	$215,559,545	$204,504,103	$214,549,241
Annuity Reserve Fund	58,564,491	57,351,144	52,901,966
Pension Fund	7,858,383	1,360,970	7,180,355
Military Service Fund	27,355	27,300	27,219
Expense Fund	0	0	0
Pension Reserve Fund	293,457,335	313,819,883	249,455,222
Total	$575,467,110	$577,063,401	$524,114,002

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 (2009)	$201,701,384	$52,028,889	$9,004,059	$27,083	$0	$168,294,352	$431,055,767
Receipts	24,328,322	1,596,861	42,881,314	135	4,542,097	85,877,666	159,226,395
Interfund Transfers	(8,001,365)	7,884,863	4,833,298	0	0	(4,716,797)	0
Disbursements	(3,479,100)	(8,608,648)	(49,538,315)	0	(4,542,097)	0	(66,168,160)
Ending Balance (2009)	214,549,241	52,901,966	7,180,355	27,219	0	249,455,222	524,114,002
Receipts	22,912,760	1,642,568	41,357,219	82	4,693,966	69,520,488	140,127,082
Interfund Transfers	(11,763,250)	11,756,117	5,162,961	0	0	(5,155,827)	0
Disbursements	(21,194,648)	(8,949,505)	(52,339,565)	0	(4,693,966)	0	(87,177,684)
Ending Balance (2010)	204,504,103	57,351,144	1,360,970	27,300	0	313,819,883	577,063,401
Receipts	23,315,418	1,727,692	42,641,385	55	4,875,744	(1,051,759)	71,508,534
Interfund Transfers	(9,271,935)	9,172,433	19,410,290	0	0	(19,310,788)	0
Disbursements	(2,988,041)	(9,686,778)	(55,554,261)	0	(4,875,744)	0	(73,104,825)
Ending Balance (2011)	$215,559,545	$58,564,491	$7,858,383	$27,355	$0	$293,457,335	$575,467,110

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2011	2010	2009
Annuity Savings Fund:			
Members Deductions	$20,622,700	$20,182,063	$21,453,646
Transfers from Other Systems	1,881,246	1,727,821	1,376,731
Member Make Up Payments and Re-deposits	212,864	195,807	334,214
Member Payments from Rollovers	126,362	148,772	187,409
Investment Income Credited to Member Accounts	472,246	658,297	976,322
Sub Total	23,315,418	22,912,760	24,328,322
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	1,727,692	1,642,568	1,596,861
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	1,375,626	1,196,392	1,122,897
Received from Commonwealth for COLA and Survivor Benefits	948,097	1,028,690	1,109,053
Pension Fund Appropriation	40,292,661	39,083,814	40,623,363
Settlement of Workers' Compensation Claims	25,000	48,323	26,000
Sub Total	42,641,385	41,357,219	42,881,314
Military Service Fund:			
Investment Income Credited to the Military Service Fund	55	82	135
Expense Fund:			
Investment Income Credited to the Expense Fund	4,875,744	4,693,966	4,542,097
Pension Reserve Fund:			
Federal Grant Reimbursement	32,649	19,441	11,160
Interest Not Refunded	53,220	60,539	22,038
Miscellaneous Income	8,857	6,021	6,806
Excess Investment Income (Loss)	(1,146,485)	69,434,487	85,837,663
Sub Total	(1,051,759)	69,520,488	85,877,666
Total Receipts, Net	$71,508,534	$140,127,082	$159,226,395

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2011	2010	2009
Annuity Savings Fund:			
Refunds to Members	$1,303,054	$1,969,269	$2,262,991
Transfers to Other Systems	1,684,987	19,225,379	1,216,109
Sub Total	2,988,041	21,194,648	3,479,100
Annuity Reserve Fund:			
Annuities Paid	9,355,856	8,781,958	8,121,198
Option B Refunds	330,923	167,547	487,449
Sub Total	9,686,778	8,949,505	8,608,648
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	38,844,598	36,473,550	34,343,335
Survivorship Payments	2,586,935	2,476,093	2,330,278
Ordinary Disability Payments	598,038	500,295	497,591
Accidental Disability Payments	8,465,538	8,027,286	7,548,200
Accidental Death Payments	1,318,366	1,259,082	1,136,126
Section 101 Benefits	236,393	287,986	251,823
3 (8) (c) Reimbursements to Other Systems	2,556,296	2,286,584	2,260,598
State Reimbursable COLA's Paid	948,097	1,028,690	1,170,365
Sub Total	55,554,261	52,339,565	49,538,315
Expense Fund:			
Board Member Stipend	15,000	15,000	15,000
Salaries	472,309	426,887	453,423
Legal Expenses	223,476	128,245	117,409
Medical Expenses	525	0	0
Travel Expenses	16,968	5,898	6,907
Administrative Expenses	169,249	161,739	156,253
Professional Services	21,875	25,500	19,175
Education and Training	7,790	4,490	4,700
Furniture and Equipment	1,150	29,762	2,635
Management Fees	3,188,298	3,172,515	3,011,904
Custodial Fees	494,984	477,466	507,073
Consultant Fees	127,500	120,000	120,000
Rent Expenses	54,839	53,787	51,279
Service Contracts	35,950	28,601	35,684
Fiduciary Insurance	45,832	44,076	40,656
Sub Total	4,875,744	4,693,966	4,542,097
Total Disbursements	$73,104,825	$87,177,684	$66,168,160

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2011	2010	2009
Investment Income Received From:			
Cash	$38,999	$87,335	$14,596
Fixed Income	4,945,780	4,786,687	3,864,748
Equities	2,916,800	2,949,296	2,966,673
Pooled or Mutual Funds	660,501	623,870	490,653
Commission Recapture	16,098	20,511	20,443
Total Investment Income	8,578,178	8,467,698	7,357,113
Plus:			
Realized Gains	12,023,498	15,779,532	25,199,750
Unrealized Gains	27,088,511	64,647,991	91,231,493
Interest Due and Accrued - Current Year	930,305	949,751	967,180
Sub Total	40,042,314	81,377,273	117,398,424
Less:			
Paid Accrued Interest on Fixed Income Securities	(324,427)	(417,274)	(422,435)
Realized Loss	(12,061,678)	(9,370,531)	(13,867,777)
Unrealized Loss	(29,355,384)	(2,660,586)	(16,766,387)
Interest Due and Accrued - Prior Year	(949,751)	(967,180)	(745,859)
Sub Total	(42,691,241)	(13,415,572)	(31,802,458)
Net Investment Income	5,929,251	76,429,399	92,953,079
Income Required:			
Annuity Savings Fund	472,246	658,297	976,322
Annuity Reserve Fund	1,727,692	1,642,568	1,596,861
Military Service Fund	55	82	135
Expense Fund	4,875,744	4,693,966	4,542,097
Total Income Required	7,075,737	6,994,912	7,115,416
Net Investment Income	5,929,251	76,429,399	92,953,079
Less: Total Income Required	7,075,737	6,994,912	7,115,416
Excess Income (Loss) To The Pension Reserve Fund	($1,146,485)	$69,434,487	$85,837,663

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2011	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$12,873,999	2.3%
Fixed Income Securities (at book value)	82,933,750	14.5%
Equities	184,693,257	32.3%
Pooled Domestic Equity Funds	83,465,819	14.6%
Pooled International Equity Funds	20,369,499	3.6%
Pooled Domestic Fixed Income Funds	35,006,446	6.1%
Pooled International Fixed Income Fund	16,663,415	2.9%
Pooled Alternative Investment Funds	57,522,166	10.1%
Pooled Real Estate Funds	46,944,913	8.2%
Hedge Funds	30,878,817	5.4%
Grand Total	$571,352,080	100.0%

For the year ending December 31, 2011, the rate of return for the investments of the Norfolk County Retirement System was 1.20%. For the five-year period ending December 31, 2011, the rate of return for the investments of the Norfolk County Retirement System averaged 1.67%. For the 27-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 Norfolk County Retirement System was 8.50%.

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 27-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 Norfolk County Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

April 25, 2011
The Norfolk County Retirement System is authorized to invest in the ArcLight Energy Partners Fund V, L.P. To the extent that the partnership engages in foreign currency hedging, 21.01 (3) (a & b) will not apply. To the extent that the partnership engages in other hedging activities central to its investment strategy, 21.01(4) (a – c) will not apply. To the extent that the partnership engages in hedging activities central to its investment strategy, 21.01(5) will not apply. Since the partnership may own restricted securities, 21.01(6) will not apply. To the extent that the partnership engages in activities consistent with private equity management, 21.01(8) will not apply. To the extent that the partnership may extend loans to the principals of underlying portfolio companies, 21.01(9) will not apply. 21.01(10) applies only to the general partners, not the underlying portfolio companies.

June 9, 2010
16.08
In accordance with Investment Guideline 99-2, the Norfolk County Retirement Board is authorized to make a modest modification to its 130/30 equity management mandate with D.E. Shaw Investment Management Company. In order to eliminate the role of Goldman Sachs as prime broker/custodian, the Board will transfer assets from its existing separately-managed account to a commingled vehicle with the same process and a similar strategy. The new fund is the D.E. Shaw U.S. Broad Market Core Alpha Extension Special Fund II.

April 29, 2009
16.08
In accordance with Investment Guideline 99-2, the Norfolk County Retirement System is authorized to make a modification to its existing fixed income management account with Income Research & Management. As part of a revised asset allocation plan, the System is allocating more money to fixed income and is accomplishing this by adding to the assets under management by IR&M, with whom the System has had a successful relationship for seven years. The new money will be managed with the same investment universe and benchmark as the existing Core Bond Fund but it will be in a separately managed account in which IR&M has greater flexibility to overweight or underweight particular sectors of the investment grade fixed income market.

June 2, 2008
21.01(1)
The Norfolk County Retirement Board's investment in D.E. Shaw Investment Management Company's Domestic Equity 130/30 strategy permits purchases on margin.

21.01(8)
In connection with any margin financing permitted by Supplementary Regulation 21.01(1) or short selling permitted by Supplementary Regulation 21.01(2), the Norfolk County Retirement Board may grant to a lender or broker-dealer providing such margin financing or securities loans a security interest in the assets maintained with such lender or broker-dealer in order to secure the obligations relating to such margin financing or securities lending.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

March 4, 2008
21.01(2)
The Norfolk County Retirement Board's investment in D.E. Shaw Investment Management Company's Domestic Equity 130/30 strategy permits the portfolio manager to execute short sales in an amount of approximately 30% of the account's net market value and to purchase additional stocks with the proceeds of these short sales. Total market exposure will be approximately 1.0.

November 1, 2007
Notwithstanding the provisions of the Public Employee Retirement Administration Commission's regulations and M.G.L. c. 32, *et seq*., the Norfolk County Retirement Board may invest funds of the Norfolk County Retirement System (the "System") in the fund known as Hamilton Lane Co-Investment Fund II, L.P. (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund –

1. while the System holds interest in the Fund, the General Partner may not be subject to the rules as established in 840 CMR 16.00 *et seq*. and 17.00 *et seq*. for so long as the Fund does not qualify as a "plan asset" as contemplated by the Employee Retirement Income Security Act of 1974 ("ERISA) and as recently amended by the Pension Protection Act of 2006. The Fund will not be considered a plan asset so long as less than 25% of the equity interest in the Fund is held by "benefit plan investors" as contemplated by ERISA and related amendments.

September 28, 2007
16.08
In accordance with Investment Guideline 99-2, the Norfolk County Retirement Board is authorized to modify its real estate securities mandate with INVESCO by transforming it from a domestic REIT account to a global REIT account. The investment universe is expanding and the account's benchmark is changing, but the portfolio management team remains the same, as does the basic strategy and investment process. The Board and its consultant are comfortable with INVESCO's capability to run the expanded mandate.

September 27, 2007
16.08
Notwithstanding the provisions of any statute or regulation to the contrary, specifically including the provisions of 840 CMR 21.01, the Norfolk County Retirement System is hereby granted an exemption from restrictions on investment for the purpose of investing $15 million of the Norfolk County Retirement System's assets in the Eaton Vance Loan Opportunities Fund, Ltd., a private placement investment.

June 9, 2005
16.08
In accordance with PERAC Investment Guideline 99-3, the Norfolk County Retirement Board is authorized to invest in Prism Venture Partners V, L.P. although meaningful returns are not yet available. The Board has been a satisfied investor in Prism Venture Partners IV, the predecessor fund, and the management team and basic strategy remains the same.

March 11, 2005
16.08
In accordance with Investment Guideline 99-3, the Norfolk County Retirement System is authorized to invest in Ascend Ventures II. The System has invested in Ascend Ventures I, with satisfactory results to date, and has submitted the necessary regulatory documents.

February 1, 2005
16.08
In accordance with Investment Guideline 99-2, the Norfolk County Retirement System is authorized to modify its small cap value equity mandate with The Boston Company. The system has had an existing investment in the TBC Small Cap Opportunities strategy and intends to transfer the assets to the TBC Small Cap Value strategy. The two strategies invest in the same market universe, have the same benchmark (Russell 2000 Value), and utilize the same research team, but the performance of the Small Cap Value strategy has been less momentum-driven and less volatile than that of the Small Cap Opportunities strategy. The transfer also affords the Board the benefits of better diversification in portfolio managers, as the manager of the existing account also manages a mid-cap value account for the System.

December 30, 2003
21.01
For the sole purpose of the Norfolk County Retirement System's investment in the Mesirow Absolute Return Fund the provisions of 840 CMR 21.01(1), 21.01(2), 21.01(3), 21.01(4), 21.01(5) and 21.01 (6) shall not apply.

April 8, 2002
16.08
In accordance with Investment Guideline 99-2, the Norfolk County Retirement Board is authorized to modify its fixed income mandate with Income Research & Management. First, in order to achieve operational efficiencies and lower fees, the account is changing from a separately managed account to a commingled fund, the IR&M Core Bond Fund. The management team and process remain the same. Second, the investment universe is being modified to focus on intermediate rather than long maturities, consistent with the Board's asset allocation objectives. The Board has had a successful relationship with IR&M since 1998 and has great confidence in their fixed income capabilities.

April 18, 2001
16.08
The Norfolk County Retirement Board ("the Board") may maintain its current investment on behalf of the Norfolk County Retirement System with a real estate investment fund, as contemplated by 840 CMR 19.01(4)-(6), known as Sentinel Realty Partners Fund IV. Said investment arising after other prospective real estate managers identified through the competitive bidding process would not agree to the Board's contract consistent with PERAC requirements, and since the Board already maintained an ongoing relationship with Sentinel.

19.01
The Norfolk County Retirement Board ("the Board") may maintain its current investment on behalf of the Norfolk County Retirement System with a real estate investment trust fund, as contemplated by 840 CMR 19.01(4)-(6), known as the Corcoran Jennison Apartment Fund, Inc. ("the Fund"). Said investment subject to further Board action.

January 25, 2000
16.08
In accordance with PERAC Investment Guideline 99-3, the Norfolk County Retirement Board may invest in the Halpern Denny Fund III, L.P. The board is an investor in Halpern Denny Fund II, L.P. and has submitted the required supporting documents. This investment is contingent on the Fund's continuing compliance with ERISA and its accompanying regulations, including, but not limited to, those setting forth exemptions for plan assets such as a venture capital operating company ("VCOC").

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Norfolk County 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.

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.

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 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.

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.

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.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

September 28, 2008
Creditable Service
Any permanent part-time employee or permanent full-time employee who is a member of the Norfolk County Retirement System and who has his or her hours of employment reduced to less than twenty hours per week, regularly scheduled, shall become an inactive member of the Norfolk County Retirement System. The employer of such member shall notify the Norfolk County Retirement System on the appropriate form of the effective date that the member's hours of employment are so reduced, shall report the number of hours the member will be scheduled to work and the rate of pay, and as of the reported effective date shall discontinue the withholding of retirement deductions. As of the reported effective date, the member shall cease earning creditable service. When a member is returned to a permanent position that is regularly scheduled twenty (20) or more hours per week, the employer shall file a New Member Enrollment Form, or such other document as may be prescribed by the Norfolk County Retirement System, reporting the effective date that the member is regularly scheduled twenty (20) or more hours per week, the title of the position, and the rate of pay; and, as of the reported effective date the employer shall begin again the withholding of retirement deductions, whereupon the member shall become an active member of the Norfolk County Retirement System. If the member wishes to buyback creditable service for the period when the member was inactive due to working less than twenty hours per week, regularly scheduled, then such creditable service shall be based on actual service rendered pro-rated against 1,950 hours per year (i.e. day = 7 1/2hours, week 37 1/2 hours), except in the case of employees of school departments or school districts, who shall be granted creditable service based on actual service rendered pro-rated against 1,080 hours per year (i.e. day = 6 hours, school year = 180 days).

August 23, 2005
The Norfolk County Retirement Board has determined that is necessary and in the best interests 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. c. 32 and M.G.L. c. 32B and the issuance of monthly benefits allowance. 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 treasurers, directors, human resources departments, data processing/information technology departments, and benefit coordinators of the member units of the Norfolk County Retirement System.

All other requests for the addresses or other personal information on 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 members, beneficiaries and survivors of the Norfolk County Retirement System

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

November 25, 1985
Call fire fighters and special police shall be excluded from membership as of May 29, 1957. Reserve or special police officers, employed prior to May 27, 1957 shall be granted in proportion to the minimum salary paid for a regular permanent fire fighter or a regular permanent police officer in the town affected. ($4,000 earnings for 1 year service to be used as basis)

One year credit is to be granted for every five years of creditable service for call fire fighters up to a maximum of 5 years of creditable service PROVIDED, that such service as call fire fighters shall only be credited if such call fire fighters were later appointed as a permanent member of the fire department.

Employees compensated on a per diem basis shall not be eligible for membership or creditable service.

The purchase or buy-back of prior creditable service must be paid in one lump sum.

A member shall be allowed to buy back time which they earned during their status as a less than half time employee and ineligible for membership, provided that creditable service shall be granted based on actual service rendered.

Travel Regulations:
October 18, 2003
The Norfolk County Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Regulations available upon written request, and are also available on the PERAC website http://www.mass.gov/perac/Norfolk County.

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the County Treasurer who shall be a member ex-officio, a second member appointed by the County Commissioners, 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 Advisory Council.

Ex-officio Member:	Joseph A. Connolly, Chairman		
Appointed Member:	Paul J. Connors	Term Expires:	12/31/15
Elected Member:	Josephine E. Shea	Term Expires:	12/31/13
Elected Member:	Edwin S. Little	Term Expires:	12/31/14
Appointed Member:	Karen Jelloe	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:	)	Coverage provided to a limit of $50,000,000
Ex-officio Member:	)	under a master MACRS sponsored policy issued
Elected Members:	)	through a layered program with Travelers,
Appointed Members:	)	National Union Fire, and Arch. Separate fidelity
Staff Employees:	)	coverage pertaining to ERISA/Crime to a limit of
		$1,000,000 issued through Travelers Casualty
		and Surety Company, deductible $10,000.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Buck Consultants as of January 1, 2010.

The actuarial liability for active members was	$491,501,685
The actuarial liability for inactive members was	10,817,007
The actuarial liability for retired members was	499,562,363
The total actuarial liability was	$1,001,881,055
System assets as of that date were (actuarial value)	600,790,835
The unfunded actuarial liability was	$401,090,220
The ratio of system's assets to total actuarial liability was	60.0%
As of that date the total covered employee payroll was	$223,332,595

The normal cost for employees on that date was	8.4% of payroll
The normal cost for the employer (including administrative expenses) was	4.3% of payroll

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

Investment Return:	8.25% per annum
Rate of Salary Increase:	4.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2010

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)
1/1/2010	$600,790,835	$1,001,881,055	$401,090,220	60.0%	$223,332,595	179.6%
1/1/2008	$596,157,147	$907,719,124	$311,561,977	65.7%	$223,814,977	139.2%
1/1/2007	$533,077,948	$855,677,413	$322,599,465	62.3%	$219,620,865	146.9%

NOTE 6 - MEMBERSHIP EXHIBIT

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Retirement in Past Years										
Superannuation	21	86	164	69	100	88	98	120	159	123
Ordinary Disability	0	0	4	3	2	0	1	1	3	2
Accidental Disability	0	0	13	8	10	13	7	11	7	10
Total Retirements	21	86	181	80	112	101	106	132	169	135
Total Retirees, Beneficiaries and Survivors	2,668	2,662	2,818	2,798	2,818	2,815	2,821	2,858	2,874	2,938
Total Active Members	7,103	5,697	5,672	5,831	5,822	5,862	5,938	5,741	5,007	5,201
Pension Payments										
Superannuation	$21,754,856	$24,489,035	$27,390,252	$28,805,033	$29,698,280	$31,120,710	$32,435,249	$34,343,335	$36,473,550	$38,844,598
Survivor/Beneficiary Payments	1,854,494	1,805,685	1,950,130	2,035,267	2,152,294	2,195,866	2,236,592	2,330,278	2,476,093	2,586,935
Ordinary Disability	567,918	559,979	588,192	600,294	575,207	538,049	522,202	497,591	500,295	598,038
Accidental Disability	5,394,757	5,579,296	5,722,738	6,263,463	6,818,530	6,729,068	7,171,820	7,548,200	8,027,286	8,465,538
Other	1,428,075	5,457,886	3,447,279	5,536,253	4,637,744	4,683,516	4,622,413	4,818,911	4,862,342	5,059,152
Total Payments for Year	$31,000,100	$37,891,881	$39,098,591	$43,240,310	$43,882,055	$45,267,209	$46,988,276	$49,538,315	$52,339,565	$55,554,261

NOTE 7 – LEASED PREMISES

The Norfolk County Retirement Board leases approximately 3,000 square feet of space for its offices located at Building 15, 480 Neponset Street, Canton, MA. The initial lease was dated August 2, 1996. The third amendment to the lease is effective September 1, 2011 through August 31, 2016. The landlord is APCA Neponset, LLC.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2011:

For the year ending:	Annual Rent
2012	$43,500.00
2013	$44,000.00
2014	$45,000.00
2015	$45,000.00
2016	$30,000.00
Total future minimum lease payments required	$207,500.00

In addition to the base rent above, there is additional rent to cover real estate taxes and common area maintenance costs.

Note: The landlord is currently holding a $3,000 security deposit.

TRANSFER OF PLAN ADMINISTRATION

Chapter 61 of the Acts of 2009, as amended by Chapter 102 of the Acts of 2009, transferred active members of the county sheriffs' departments in Barnstable, Bristol, Dukes, Norfolk, Plymouth, and Suffolk Counties to the State effective January 1, 2010.

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