# PLYMOUTH COUNTY RETIREMENT ASSOCIATION

FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
WITH INDEPENDENT AUDITOR'S REPORT THEREON

**PLYMOUTH COUNTY RETIREMENT ASSOCIATION**
INDEX TO FINANCIAL STATEMENTS
AND REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

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## INDEPENDENT AUDITOR'S REPORT

To the Retirement Board of
The Plymouth County Retirement Association

**Report on the Financial Statements**

We have audited the accompanying financial statements of plan net position and changes in plan net position of the Plymouth County Retirement Association (the Association), as of and for the years ended December 31, 2012 and 2011, and the related notes to the financial statements, which collectively comprise the Plymouth County Retirement Association's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

Association management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Association's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Association's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Association as of December 31, 2012 and 2011, and the changes in financial position for the years then ended in accordance with accounting principles generally accepted in the United States of America.



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**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, on pages 3 through 5 and the schedule of funding progress and employer contributions on page 14 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Lynch, Malloy, Marini, LLP

Norwell, MA
October 27, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**PLYMOUTH COUNTY RETIREMENT ASSOCIATION**
**Required Supplementary Information**
**Management's Discussion and Analysis**
**December 31, 2012 and 2011**

As management of the Plymouth County Retirement Association (the Association) we offer readers of the Association's financial statements this narrative overview and analysis of the financial activities of the Association for the years ended December 31, 2012 and 2011.

## FINANCIAL HIGHLIGHTS

The plan net position held in trust for pension benefits totaled approximately $682 million at December 31, 2012, compared to $619 million the year earlier. The net position is available for payment of monthly retirement benefits and other distributions to the Association's participants. The increase of $63 million resulted primarily from increase in net investment income.

The total number of participants in the Association in 2012 increased 1.3% during the year to 11,597 active and retired. The increase was a result of new retirements and new hires by member units.

The funded ratio of the Association was 50.5% at January 1, 2013, the date of the latest actuarial valuation.

## OVERVIEW OF THE FINANCIAL STATEMENTS

The Association is a multiple-employer cost sharing public employee retirement plan, which is a defined benefit plan. The Association covers substantially all non-teaching employees in Plymouth County, 23 municipalities and 29 special districts. Benefits are determined in accordance with a statutory formula set forth in M.G.L. Chapter 32. The maximum benefit is 80% of the high three consecutive year's average salary.

Contribution rates for active members are set at 5%, 7%, 8% or 9% of gross regular compensation, as defined; depending on the date membership began. Certain employees contribute an additional 2% on compensation over $30,000 per annum.

The Association's financial statements are comprised of a Statement of Plan Net Position, a Statement of Changes in Plan Nets Position, and Notes to the Financial Statements. Also included is certain required supplementary information.

The Association is administered by the Plymouth County Retirement Board and is governed by Chapter 32 of the Massachusetts General Laws.

The Statement of Plan Net Position presents fairly the information on the Association's assets and liabilities and the resulting net position held in trust for pension benefits. This statement reflects the Association's investments at fair market value, along with cash and short-term investments, receivables, and other assets and liabilities.

The Statement of Changes in Plan Net Position presents information showing how the Association's net position held in trust for pension benefits changed during the year ended December 31, 2012 and 2011. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds and withdrawals, and administrative expenses. Investment income during the period is also presented showing income from investing and securities lending activities.

The Notes to Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

## OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

The Required Supplementary Information and the related note present a schedule of funding progress along with a discussion of actuarial assumptions and methods.

The Association is on a funding schedule to be 100% funded by the year 2035. The participating governmental entities contribute to this schedule annually based on the status of the bi-annual actuarial evaluation.

## FINANCIAL ANALYSIS

### INVESTMENTS – 2012 compared to 2011

| | ($ in millions) December 31, 2012 | 2011 | Change Amount | % |
|---|---|---|---|---|
| Domestic Equity and Funds | $ 219.7 | $ 208.1 | $ 11.6 | 6% |
| Real Estate Funds | 98.9 | 86.6 | 12.3 | 14% |
| Venture Capital Funds | 42.8 | 40.5 | 2.3 | 6% |
| Hedge Funds | 21.8 | 20.6 | 1.2 | 6% |
| International Equity Funds | 137.7 | 126.1 | 11.6 | 9% |
| Fixed Income | | | | |
| Corporate Bond Funds | 63.9 | 59.3 | 4.6 | 8% |
| U.S. Government Securities | 32.1 | 26.8 | 5.3 | 20% |
| International Bonds | 54.5 | 56.4 | (1.9) | -3% |
| Total Managed Investments | 671.4 | 624.4 | 47.0 | 8% |
| Cash and Other Assets | 38.4 | 17.7 | 20.7 | 117% |
| **Total Assets** | **$ 709.8** | **$ 642.1** | **$ 67.7** | **11%** |

The increase in the Association's investments is mostly attributable to the recovery in the U.S. and non-U.S. equity markets from the prior year. The Association's overall returns as published in PERAC's annual report for the past three years were 12.62% in 2012, 0.53% in 2011, and 15.49% in 2010. As published in PERAC's annual report, during the period from 1985 to 2012 the Association has achieved a return of 9.23% in annual performance.

## CONTRIBUTIONS AND DEDUCTIONS

Contributions to the Association by members and employees for the years ended December 31, 2012 and 2011 are summarized below:

| | ($ in millions) December 31, 2012 | 2011 | Change Amount | % |
|---|---|---|---|---|
| Member Contributions | $ 22.8 | $ 22.2 | $ 0.6 | 3% |
| Employer and Other Contributions | 51.8 | 51.3 | 0.5 | 1% |
| **Total** | **$ 74.6** | **$ 73.5** | **$ 1.1** | **1%** |

## CONTRIBUTIONS AND DEDUCTIONS (continued)

The member contributions increased by 3%. This is attributable to increased hiring as well as pay increases across many member units. The employer contributions are based on actuarial calculations.

Deductions from Association assets for the year ended December 31, 2012 and 2011 are summarized below:

| | ($ in millions) December 31, 2012 | December 31, 2011 | Change Amount | Change % |
|---|---|---|---|---|
| Member Benefits | $ 73.9 | $ 69.9 | $ 4.0 | 6% |
| Refunds and Transfers | 7.0 | 33.3 | (26.3) | -79% |
| Administration | 1.1 | 1.1 | - | 0% |
| **Total** | **$ 82.0** | **$ 104.3** | **$ (22.3)** | **-21%** |

The change in member benefits is attributable to increases in monthly benefits of newer retirees. The change in refunds and transfers is attributable to transfer of County House of Corrections to the Commonwealth of Massachusetts last year.

## ECONOMIC FACTORS

### Funding

A pension fund is well funded when it has enough money in reserve to meet all expected future obligations to participants. The funded ratios of the Association at January 1 (latest actuarial valuation completed was as of January 1, 2013), determined by an actuarial valuation as follows:

| 2012 | 2011 |
|---|---|
| 50.5% | 56.1% |

## PLAN AMENDMENTS

Any changes in benefits or other matters related to the Association require an action by the State Legislature. Many also require local acceptance by the governing body of the member units.

## OTHER

Other than changes in the fair value of Association assets as may be impacted by the stock and bond markets, no other matters are known by management to have a significant impact on the operations or financial position of the Association.

### Requests for Information

This financial report is designed to provide a general overview of the Association's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Plymouth County Retirement Association, 10 Cordage Park Circle, Suite 234, Plymouth, MA 02360.

# FINANCIAL STATEMENTS

**PLYMOUTH COUNTY RETIREMENT ASSOCIATION**

STATEMENT OF PLAN NET POSITION

DECEMBER 31, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| ASSETS | | |
| Cash and cash equivalents | $ 29,239,494 | $ 8,349,263 |
| Receivables | | |
| Employee | 2,048,122 | 2,845,594 |
| Securities sold | 1,941,991 | 876,531 |
| Interest and dividends | 910,935 | 1,025,460 |
| Other systems | 4,206,913 | 4,588,447 |
| Total receivables | 9,107,961 | 9,336,032 |
| Prepaid rent | 31,675 | 12,555 |
| Investments, at fair value | | |
| Domestic equities and funds | 219,651,585 | 208,060,179 |
| Real estate funds | 98,857,827 | 86,615,716 |
| Venture capital funds | 42,774,185 | 40,485,954 |
| Hedge funds | 21,795,034 | 20,597,580 |
| International equity funds | 137,736,489 | 126,062,711 |
| Fixed income | | |
| Corporate bond funds | 63,945,929 | 59,340,454 |
| U.S. government security | 32,151,162 | 26,766,187 |
| International bonds | 54,519,384 | 56,430,105 |
| Total investments | 671,431,595 | 624,358,886 |
| Total assets | $ 709,810,725 | $ 642,056,736 |
| LIABILITIES | | |
| Prepaid contributions - plan members | $ 24,043,752 | $ 20,472,238 |
| Due to brokers and investment managers | 3,131,727 | 1,909,011 |
| Due to other systems | 892,681 | 792,758 |
| Accounts payable | 123,557 | 142,506 |
| Total liabilities | 28,191,717 | 23,316,513 |
| PLAN NET POSITION HELD IN TRUST FOR PENSION BENEFITS (A SCHEDULE OF FUNDING PROGRESS IS PRESENTED IN SCHEDULE I) | $ 681,619,008 | $ 618,740,223 |

The accompanying notes are an integral part of these financial statements.

**PLYMOUTH COUNTY RETIREMENT ASSOCIATION**

STATEMENT OF CHANGES IN PLAN NET POSITION

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

| | 2012 | 2011 |
|---|---|---|
| ADDITIONS | | |
| Contributions | | |
| Employer | $ 48,647,942 | $ 46,633,325 |
| Plan Members | 22,840,457 | 22,189,095 |
| Other systems and state | 2,845,761 | 4,521,438 |
| Miscellaneous | 274,320 | 181,498 |
| Total contributions | 74,608,480 | 73,525,356 |
| Investment Income | | |
| Net increase (decrease) in fair value of investments | | |
| Domestic equities and funds | 24,036,437 | (2,883,517) |
| Real estate funds | 6,928,005 | 8,145,399 |
| Venture capital funds | (11,670) | 2,179,871 |
| International equity funds | 20,271,773 | (20,216,869) |
| Corporate bond funds | 3,859,624 | (893,362) |
| Hedge funds | 1,410,442 | (571,645) |
| U.S. government security | 2,321,224 | 2,233,955 |
| International bonds | 236,020 | 2,022,878 |
| Interest and dividends | 17,662,938 | 13,347,377 |
| | 76,714,793 | 3,364,087 |
| Less investment expense | (6,459,984) | (4,117,385) |
| Net investment income | 70,254,809 | (753,298) |
| Total additions | 144,863,289 | 72,772,058 |
| DEDUCTIONS | | |
| Benefits | 73,879,531 | 69,891,090 |
| Refunds and transfers of contributions | 6,974,549 | 33,285,605 |
| Administrative and other expenses | 1,130,424 | 1,096,024 |
| Total deductions | 81,984,504 | 104,272,719 |
| NET CHANGE IN PLAN NET POSITION | 62,878,785 | (31,500,661) |
| PLAN NET POSITION HELD IN TRUST FOR PENSION BENEFITS | | |
| Beginning of year | 618,740,223 | 650,240,884 |
| End of year | $ 681,619,008 | $ 618,740,223 |

The accompanying notes are an integral part of these financial statements.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies followed by the Plymouth County Retirement Association (Association).

Basis of Accounting

The financial statements are prepared using the accrual basis of accounting under which expenses are recorded when the liability is incurred, revenues are recorded in the accounting period in which they are earned and become measurable, and investment purchases and sales are recorded as of trade dates. Member and employer contributions are established by statute. Member contributions are a percentage of salaries and are recognized in the period in which employees' salaries are earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

The Association is administered by the Plymouth County Retirement Board (Board) and is governed by Chapter 32 of the Massachusetts General Laws. Administrative expenses are paid with funds provided by operations of the plan.

Investments

The Association is authorized to invest in eligible investments as approved by the board as set forth in its investment policy.

Investments are reported at fair value. Short-term investments include bills and notes and commercial paper, valued at fair value. Debt and equity securities are reported at fair value, as determined by the Association's custodial agent, using pricing services or prices quoted by independent brokers based on the latest reported sales prices at current exchange rates for securities traded on national or international exchanges. The fair value of the pro rata share of units owned by the Association in equity index and commingled trust funds and mutual funds, is determined by the respective fund trustee based on quoted sales prices of the underlying securities. The fair value of real estate funds is provided by the fund's manager based on the value of the underlying real estate properties as determined from independent appraisals. Other investments that do not have an established market are reported at estimated fair value.

Net investment income includes net appreciation (depreciation) in the fair value of investments, interest income, dividend income, investment income from real estate and investment expenses, which includes investment management and custodial fees and all other significant investment related costs. Foreign currency translation gains and losses are reflected in the net appreciation (depreciation) in the fair value of investments. Investment income from real estate includes the Association's pro rata share of income from operations, net appreciation (depreciation) in the fair value of the underlying real estate properties and the Association's real estate investment management fees.

The Association may invest in various traditional financial instruments that fall under the broad definition of derivatives, which may include U.S. Treasury Strips, collateralized mortgage obligations, convertible stocks and bonds, and variable rate instruments. These investments do not increase investment risk beyond allowable limits specified in the Association's investment policy.

The Association's investment policy provides for investments in any combinations of stocks, bonds, fixed income and securities and other investment securities along with investments in commingled, mutual and index funds. Investment securities and investment securities underlying commingled or mutual fund investments are exposed to various risks, such as interest rate, market and credit risks. Due to the risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities may occur in the near term and that such change could materially affect the amounts reported in the statement of Association's net position.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Use of Estimates

The preparation of the Association's financial statements in conformity with accounting principles generally accepted in the United States of America requires the Board to make significant estimates and assumptions that affect the reported amounts of net position held in trust for pension benefits at the date of the financial statements and the actuarial information in Schedule I included in the required supplementary information as of the benefit information date, the changes in Plan net position during the reporting period and, when applicable, disclosures of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

### Risks and Uncertainties

Contributions to the Association and the actuarial information in Schedule I included in the required supplementary information are reported based on certain assumptions pertaining to interest rates, inflation rates and employee compensation and demographics. Due to the changing nature of these assumptions, it is at least reasonably possible that changes in these assumptions may occur in the near term and, due to the uncertainties inherent in setting assumptions, that the effect of such changes could be material to the financial statements.

## 2. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION

The following brief description of the Association is provided for general information purposes only. Participants should refer to Chapter 32 of the Massachusetts General Laws, the Association's Retirement Guide, and other applicable statements, for more complete information.

### General

The Association is a multiple-employer cost sharing public employee retirement plan, which is a defined benefit pension plan covering eligible County and local municipal employees, except teachers and other employees covered by the Commonwealth of Massachusetts Teachers' Retirement System. Membership in the Association is mandatory immediately upon the commencement of employment for all permanent, full-time employees. The supervisory authority for the management and operation of the Association is the Board, which acts as a fiduciary for investment of the funds and the application of Association interpretations.

At December 31, 2012 and 2011, the date of the latest updated valuation, the Association's membership consisted of:

| | 2012 | 2011 |
|---|---|---|
| Retirees and beneficiaries currently receiving benefits | 3,580 | 3,493 |
| Terminated vested participants | 2,221 | 2,188 |
| Active participants | 5,796 | 5,771 |
| | 11,597 | 11,452 |

### Benefits

The Association provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

## 2. PLAN DESCRIPTIONS AND CONTRIBUTION INFORMATION (continued)

Benefits (continued)

Members become vested after 10 years of creditable service. A retirement allowance may be received upon reaching age 65 or upon attaining 20 years of service. The Association also provides death and disability benefits.

The Association also provides early retirement at age 55 if the participant (1) has a record of 10 years of creditable service (2) was on the Association payroll on January 1, 1978, (3) voluntarily left Association employment on or after that date, and (4) left accumulated annuity deductions in the fund.

Contributions

The contributions rates for active members are pursuant to statute. Active members contribute 5, 7, 8, or 9% of their gross regular compensation depending on the date upon which their membership began and certain employees contribute an additional 2% over $30,000 of annual compensation.

Employer contributions are based on an actuarial calculation. The Association and its members determine and pay pension costs on an accrual basis. Employer contributions are due semiannually on a fiscal year basis in July and January; however, in 2012 and 2011, the Association authorized an actuarially determined discount of approximately 2% on contributions paid in advance of July 1st. The Commonwealth of Massachusetts currently reimburses the Association on a quarterly basis for the portion of benefit payments owing to cost-of-living increases granted after the implementation of Proposition 2 1/2.

Participating Employers

As of December 31, 2012 and 2011, there were 53 participating employers consisting of:

| | |
|---|---|
| Towns | 23 |
| County | 1 |
| Special Districts | 29 |
| | 53 |

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

## 3. FUNDED STATUS AND FUNDING PROGRESS – PENSION PLAN

The funded status of the plan as of January 1, 2013, the most recent actuarial valuation date, is as follows:

| Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|
| $666,899,774 | $1,319,764,989 | $652,865,215 | 50.5% | $238,655,485 | 273.6% |

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AALs for benefits.

## 3. FUNDED STATUS AND FUNDING PROGRESS – PENSION PLAN (continued)

Additional information as of the latest actuarial valuation follows:

| | |
|---|---|
| Valuation date | January 1, 2013 |
| Actuarial cost method | Entry age |
| Amortization method | Level percent, open group |
| Remaining amortization period | 22 years |
| Asset valuation method | Actuarially valued using a five-year smoothing method of gains and losses |
| Actuarial assumptions: | |
| Investment rate of return | 8.25% |
| Projected salary increases | 4.00% |
| Cost-of-living adjustments | 3.00% of $13,000/year |

For financial reporting purposes, the projection of benefits for the Association does not explicitly incorporate the potential effects of the legal limit on employer contributions disclosed in Note 2.

## 4. CASH AND CASH EQUIVALENTS

The Association maintains deposits in authorized financial institutions. In the case of deposits, custodial credit risk is the risk that, in the event of a bank failure, the Association's deposits may not be returned. The Association does not have a formal deposit policy for custodial credit risk. At December 31, 2012, cash and short-term investment deposits totaled $30,630,460 and had a carrying amount of $29,239,494. Of the deposit amounts, $30,130,460 was exposed to custodial credit risk at December 31, 2012, because it was uninsured and uncollateralized. The difference between deposit amounts and carrying amounts generally represents outstanding checks and deposits in transit.

## 5. INVESTMENTS, AT FAIR VALUE

Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that those changes could materially affect the amounts reported in the financial statements. Fair value represents the price that would be received upon the sale of an asset or paid upon the transfer of a liability in an orderly transaction between market participants as of a measurement date. Financial instruments that are measured and reported at fair value are classified and disclosed in one of the following three categories.

**Level 1** – quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities. Level 1 includes debt and equity securities that trade in an active exchange market, as well as U.S. Treasury securities;

**Level 2** – observable prices that are based on inputs not quoted in active markets, but corroborated by market data. This category generally includes certain U.S. governmental and agency mortgage backed debt securities, corporate debt securities, and some alternative investments;

**Level 3-** unobservable inputs are used when little or no market data is available. Significant professional judgment is used in determining the fair value assigned to such assets or liabilities. This category includes financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. Investments that are included in this category generally include limited partnerships, private equity, real estate funds and hedge funds.

Fixed income – the accounts invest principally in fixed income instruments and debt instruments. Account investments are primarily valued using market quotations or prices obtained from independent pricing sources which may employ various pricing methods to value the investments.

Equity funds and Exchange Trade Funds – Valued at the closing price reported on an active market on which the individual securities are traded.

The following summarizes the Association's investments December 31, 2012:

| Type | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Balance 12/31/2012 |
|---|---|---|---|
| Domestic Equity and Funds | $ 219,651,585 | $ | $ 219,651,585 |
| Real Estate Funds | | 98,857,827 | 98,857,827 |
| Venture Capital Funds | | 42,774,185 | 42,774,185 |
| Hedge funds | | 21,795,034 | 21,795,034 |
| International Equity Funds | 137,736,489 | | 137,736,489 |
| Fixed Income | | | |
| Corporate Bond Funds | 63,945,929 | | 63,945,929 |
| U.S. Government Securities | 32,151,162 | | 32,151,162 |
| International Bonds | | 54,519,384 | 54,519,384 |
| Total Fixed Income | 96,097,091 | 54,519,384 | 150,616,475 |
| Total | $ 453,485,165 | $ 196,151,396 | $ 671,431,595 |

The following summarizes the Association's investments December 31, 2011:

| Type | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Balance 12/31/2011 |
|---|---|---|---|
| Domestic Equity and Funds | $ 208,060,179 | $ | $ 208,060,179 |
| Real Estate Funds | | 86,615,716 | 86,615,716 |
| Venture Capital Funds | | 40,485,954 | 40,485,954 |
| Hedge funds | | 20,597,580 | 20,597,580 |
| International Equity Funds | 126,062,711 | | 126,062,711 |
| Fixed Income | | | |
| Corporate Bond Funds | 59,340,454 | | 59,340,454 |
| U.S. Government Securities | 26,766,187 | | 26,766,187 |
| International Bonds | | 56,430,105 | 56,430,105 |
| Total Fixed Income | 86,106,641 | 56,430,105 | 142,536,746 |
| Total | $ 420,229,531 | $ 183,531,775 | $ 624,358,886 |

*Credit risk* is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. Equity securities, money market funds, repurchase agreements, international equity funds and equity mutual funds are not rated as to credit risk. Obligations of the U.S. Government and certain of its agencies are not considered to have credit risk and therefore no rating is disclosed. The investment policy of the Association does not formally address credit risk; however, the Board provides guidelines with each investment manager, as applicable.

At December 31, 2012 and 2011, the Association had $63,945,929 and $59,340,454, respectively, of the corporate fixed income bonds. Eaton Vance managed $26,247,211 and $22,749,731, respectively, of the corporate fixed income bonds, Income Research and Management managed $37,698,718 and $36,589,805, respectively and Lee Munder managed $0 and $918, respectively. The average rating for the Eaton Vance was B+ in 2012 and ranged from B - CCC in 2011, Income Research and Management managed investments is Aa2 in 2012 and Aa3 in 2011, Lee Munder managed investments were not rated.

At December 31, 2012 and 2011, the $32,151,162 and $26,766,187, respectively, of U.S. government fixed income securities were managed by Income Research and Management. The average rating for the U.S. government fixed income securities is Aaa for 2012 and 2011. At December 31, 2012 and 2011, the $54,519,384 and $56,430,105, respectively, of the international fixed income bonds were managed by McDonnell Investments. The average rating for the McDonnell managed investments range from Aa1 - Caa3 in 2012 and Aa1 – Ca in 2011.

*Interest rate risk* is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The investment policy of the Association does not formally address interest rate risk; however, the Board provides guidelines with each investment manager, as applicable. The average maturity as of December 31, 2012 of the corporate fixed income bonds managed by Eaton Vance and Income Research and Management is 6.76 and 8.33 years, respectively. The average maturity as of December 31, 2011 of the corporate fixed income bonds managed by Eaton Vance, Income Research and Management and Lee Munder was 6.27, 9.42, and 4.00 years, respectively. The average maturity of the U.S. Government Securities managed by Income Research and Management is 8.33 years for 2012 and 9.42 years for 2011. The average maturity of the international fixed income securities managed by McDonnell range from 5.40 - 9.08 years for 2012 and from 4.61 - 8.97 years for 2011.

*Foreign currency risk* is the risk that changes in exchange rates will adversely affect the fair market value of an investment. The investment policy of the Association does not formally address foreign currency risk; however, the Board provides guidelines with each investment manager, as applicable.

The following table represents the Association's foreign currency exposure for international bonds at December 31, 2012 and 2011; the information for international equity funds was not available:

| Country | 2012 Total | 2011 Total |
|---|---|---|
| Australia | $ 602,709 | $ 596,423 |
| Britain | 89,225 | 85,009 |
| Canada | 3,644,680 | 3,244,568 |
| Denmark | 683,793 | 641,533 |
| France | 5,221,650 | 6,402,498 |
| Finland | 1,177,797 | 1,101,776 |
| Germany | 6,446,662 | 5,957,956 |
| Ireland | 1,014,478 | 1,053,127 |
| Japan | 8,623,806 | 7,950,309 |
| Lexumbourg | 179,445 | 71,020 |
| New Zealand | 810,391 | 85,149 |
| Singapore | 1,221,210 | 1,094,762 |
| Sweden | 137,990 | 125,398 |
| United Kingdom | 4,792,101 | 4,650,016 |
| United States | 19,873,447 | 23,370,561 |
| Total | $ 54,519,384 | $ 56,430,105 |

*Concentration of credit risk* is assumed to arise when the amount of investments that the Association has with anyone issuer exceeds 5 percent or more of the total value of the Association's investments. The Association does not have more than 5% of its investments in any one issuer, except for certain pooled funds.

## 6. LEGALLY REQUIRED RESERVE ACCOUNTS

The balances in the System's legally required reserves at December 31, 2012 and 2011 were as follows:

| | 2012 | 2011 | Purpose |
|---|---|---|---|
| Annuity Savings Fund | $ 225,555,247 | $ 217,793,800 | Active members' contribution balance |
| Annuity Reserve Fund | 76,746,575 | 74,300,256 | Retired members' contribution account |
| Pension Reserve Fund | 379,303,709 | 326,632,703 | Amounts appropriated to fund future retirement benefits |
| Military Credit | 13,478 | 13,464 | Members' contribution while on military leave |
| | $681,619,009 | $618,740,223 | |

All reserve accounts are funded at levels required by state statute.

## 7. FEDERAL INCOME TAX STATUS

The Association is qualified under the Internal Revenue code of 1986, as amended and, therefore, is exempt from federal income taxes. The plan administrator believes that the Association is designed and is currently being operated in substantial compliance with the applicable requirements of the Internal Revenue Code and will retain its status as a qualified plan.

## 8. COMMITMENTS AND CONTINGENCIES

The Plan is involved in certain lawsuits at December 31, 2012. In the opinion of Plan management, the ultimate resolution of these legal actions will not result is a material loss to the Plan.

## 9. RECENT ACCOUNTING PRONOUNCEMENTS

In 2012, the Association adopted Government Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* (the Statement). The objective of this Statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources and net position in a statement of financial position. Amounts that are required to be reported as deferred outflows should be reported in a statement of financial position in a separate section following assets. Similarly, amounts to be reported as deferred inflows of resources should be reported in a separate section following liabilities. The statement of financial position should report the residual amount as a net position, rather than net assets.

The adoption of this Statement resulted in a change in the presentation of the Statement of Plan Net Assets to what is now referred to as the Statement of Plan Net Position and the term “net assets” is changed to “net position” throughout the financial statements.

In June 2012, the GASB issued Statement No. 67, *Accounting for Pension Plans*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined contribution Plans,* and Statement No. 50, *Pension Disclosures,* as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position.

## 10. SUBSEQUENT EVENTS

Management has evaluated all subsequent events through October 27, 2014, the date the financial statements were available to be issued.

# REQUIRED SUPPLEMENTARY INFORMATION

**PLYMOUTH COUNTY RETIREMENT ASSOCIATION**
REQUIRED SUPPLEMENTARY INFORMATION

## SCHEDULE OF FUNDING PROGRESS

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll ((b-a)/c) |
|---|---|---|---|---|---|---|
| 01/01/00 | $450,210,619 | $ 611,204,058 | $160,993,439 | 73.7% | $178,010,731 | 90.4% |
| 01/01/02 | $466,325,660 | $ 733,198,204 | $266,872,544 | 63.6% | $205,039,686 | 130.2% |
| 01/01/04 | $520,104,805 | $ 802,158,453 | $282,053,648 | 64.8% | $208,312,002 | 135.4% |
| 01/01/06 | $558,533,863 | $ 918,851,707 | $360,317,844 | 60.8% | $226,262,731 | 159.2% |
| 01/01/07 | $606,629,089 | $ 987,840,418 | $381,211,329 | 61.4% | $244,574,136 | 155.9% |
| 01/01/08 | $683,819,938 | $1,056,020,215 | $372,200,277 | 64.8% | $252,682,832 | 147.3% |
| 01/01/09 | $579,877,224 | $1,159,210,636 | $579,333,412 | 50.0% | $264,541,078 | 219.0% |
| 01/01/10 | $673,709,456 | $1,132,847,379 | $459,137,923 | 59.5% | $227,507,647 | 201.8% |
| 01/01/11 | $666,760,812 | $1,187,447,414 | $520,716,602 | 56.1% | $228,289,638 | 228.1% |
| 01/01/13 | $666,899,774 | $1,319,764,989 | $652,865,215 | 50.5% | $238,655,485 | 273.6% |

The actuarial factors used to compile the information presented in the schedule of funding progress are detail in Note 3 of the financial statements.

## SCHEDULE OF EMPLOYER CONTRIBUTION

| Year ended | Annual Required Contributions of Employers | Percentage Contributed |
|---|---|---|
| December 31, 2002 | $20,481,367 | 100% |
| December 31, 2003 | $22,565,574 | 100% |
| December 31, 2004 | $25,022,030 | 100% |
| December 31, 2005 | $28,243,954 | 100% |
| December 31, 2006 | $32,521,806 | 100% |
| December 31, 2007 | $41,286,384 | 100% |
| December 31, 2008 | $42,708,712 | 100% |
| December 31, 2009 | $45,039,921 | 99% |
| December 31, 2010 | $46,850,764 | 93% |
| December 31, 2011 | $46,633,325 | 100% |
| December 31, 2012 | $49,833,100 | 98% |

See accompanying Independent Auditor's Report