

# PERAC AUDIT REPORT



Fairhaven  
Contributory Retirement System



JAN. 1, 2007 - DEC. 31, 2009



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# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

November 9, 2010

The Public Employee Retirement Administration Commission has completed an examination of the Fairhaven Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2007 to December 31, 2009. 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 the finding presented in this report.

It should be noted that the finding determined in this audit report was based on the Laws and Regulations in effect during the time the audit was conducted for the period referenced in this report. The finding does not reflect the changes made to Chapter 32 after passage of Chapter 21 of the Acts of 2009.

In closing, I acknowledge the work of examiner John J. Shea who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton  
Executive Director



## EXPLANATION OF FINDING AND RECOMMENDATION

### **Regular Compensation:**

An examination of payroll records showed that several types of payments are being made on which no retirement deductions are being taken. The Housing Authority pays several employees an “On Call Amount.” Employees in the Sewer and the Water Departments receive “Beeper” pay. Several School Department Employees receive “Security Pay” and one receives “Official” pay.

### **Recommendation:**

The Board must determine if these payments are to be considered regular compensation pursuant to 840 CMR 15.03

(1) (a) which states in pertinent parts:

To be considered regular compensation, any compensation to an employee must:

- iii) be ordinary, normal, recurrent, repeated, and of indefinite duration;
- iv) be made pursuant to an official written policy of the employer or to a collective bargaining agreement;

The Board should formally instruct the payroll officers of all departments involved to begin withholding retirement deductions. The rate of deduction must be the same as the member’s other compensation plus the additional 2% if total compensation exceeds \$30,000 on an annualized basis for any pay period.

### **Board Response:**

1. The Housing Authority “On Call Pay” is paid at time and one half, and is not to be considered regular compensation.
2. The School Department “Security Pay” is paid at time and one half, and is not to be considered regular compensation. The “Official Pay” is not regular and recurring, and is not to be considered regular compensation.
3. The Sewer and Water Department “Beeper Pay” is paid a flat rate and is regular and recurring. This is to be considered regular compensation. The Board has voted at their October 25, 2010 meeting to instruct the payroll officer to immediately begin withholding retirement deductions.

### **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,		
	2009	2008	2007
<b>Net Assets Available For Benefits:</b>			
Cash	\$257,241	\$218,833	\$121,443
PRIT Cash Fund	949,364	908,875	215
PRIT Core Fund	32,031,188	27,563,254	39,455,702
Accounts Receivable	94,098	109,613	990,444
Accounts Payable	0	0	0
<b>Total</b>	<u>\$33,331,890</u>	<u>\$28,800,576</u>	<u>\$40,567,804</u>
<b>Fund Balances:</b>			
Annuity Savings Fund	\$9,047,581	\$8,742,019	\$8,357,622
Annuity Reserve Fund	3,039,368	2,854,795	2,615,309
Pension Fund	365,264	(348,781)	13,554
Military Service Fund	7,199	7,164	1,220
Expense Fund	0	0	0
Pension Reserve Fund	<u>20,872,477</u>	<u>17,545,379</u>	<u>29,580,100</u>
<b>Total</b>	<u>\$33,331,890</u>	<u>\$28,800,576</u>	<u>\$40,567,804</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 (2007)	\$7,699,606	\$2,769,531	\$175,066	\$1,213	\$0	\$25,741,855	\$36,387,272
Receipts	1,059,389	80,556	1,911,586	7	280,636	3,981,434	7,313,609
Interfund Transfers	(127,049)	111,365	158,873	0	0	(143,189)	0
Disbursements	(274,325)	(346,143)	(2,231,973)	0	(280,636)	0	(3,133,076)
Ending Balance (2007)	8,357,622	2,615,309	13,554	1,220	0	29,580,100	40,567,804
Receipts	1,066,621	80,886	1,979,295	5,943	262,972	(12,034,721)	(8,639,004)
Interfund Transfers	(520,246)	520,246	0	0	0	0	0
Disbursements	(161,978)	(361,646)	(2,341,630)	0	(262,972)	0	(3,128,225)
Ending Balance (2008)	8,742,019	2,854,795	(348,781)	7,164	0	17,545,379	28,800,575
Receipts	987,388	86,995	2,060,345	36	244,813	4,568,041	7,947,619
Interfund Transfers	(505,640)	502,583	1,244,000	0	0	(1,240,943)	0
Disbursements	(176,186)	(405,004)	(2,590,300)	0	(244,813)	0	(3,416,304)
Ending Balance (2009)	<u>\$9,047,581</u>	<u>\$3,039,368</u>	<u>\$365,264</u>	<u>\$7,199</u>	<u>\$0</u>	<u>\$20,872,477</u>	<u>\$33,331,890</u>

# STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
<b>Annuity Savings Fund:</b>			
Members Deductions	\$906,903	\$918,449	\$842,783
Transfers from Other Systems	33,082	92,118	160,855
Member Make Up Payments and Re-deposits	5,536	8,296	10,783
Member Payments from Rollovers	0	0	0
Investment Income Credited to Member Accounts	<u>41,866</u>	<u>47,757</u>	<u>44,969</u>
Sub Total	<u>987,388</u>	<u>1,066,621</u>	<u>1,059,389</u>
<b>Annuity Reserve Fund:</b>			
Investment Income Credited to the Annuity Reserve Fund	<u>86,995</u>	<u>80,886</u>	<u>80,556</u>
<b>Pension Fund:</b>			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	54,241	47,907	45,472
Pension Fund Appropriation	61,380	70,371	80,444
Pension Fund Appropriation	1,944,725	1,861,017	1,785,670
Settlement of Workers' Compensation Claims	0	0	0
Sub Total	<u>2,060,345</u>	<u>1,979,295</u>	<u>1,911,586</u>
<b>Military Service Fund:</b>			
Contribution Received from Municipality on Account of Military Service	0	5,936	0
Investment Income Credited to the Military Service Fund	<u>36</u>	<u>7</u>	<u>7</u>
Sub Total	<u>36</u>	<u>5,943</u>	<u>7</u>
<b>Expense Fund:</b>			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>244,813</u>	<u>262,972</u>	<u>280,636</u>
Sub Total	<u>244,813</u>	<u>262,972</u>	<u>280,636</u>
<b>Pension Reserve Fund:</b>			
Federal Grant Reimbursement	39,155	60,207	122,733
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	789	355	985
Miscellaneous Income	0	0	0
Excess Investment Income (Loss)	<u>4,528,097</u>	<u>(12,095,283)</u>	<u>3,857,717</u>
Sub Total (Net)	<u>4,568,041</u>	<u>(12,034,721)</u>	<u>3,981,434</u>
<b>Total Receipts (Net)</b>	<u><b>\$7,947,619</b></u>	<u><b>(\$8,639,004)</b></u>	<u><b>\$7,313,609</b></u>

## STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
<b>Annuity Savings Fund:</b>			
Refunds to Members	\$88,116	\$122,393	\$184,025
Transfers to Other Systems	<u>88,070</u>	<u>39,585</u>	<u>90,300</u>
Sub Total	<u>176,186</u>	<u>161,978</u>	<u>274,325</u>
<b>Annuity Reserve Fund:</b>			
Annuities Paid	405,004	361,646	346,143
Option B Refunds	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>405,004</u>	<u>361,646</u>	<u>346,143</u>
<b>Pension Fund:</b>			
Pensions Paid:			
Regular Pension Payments	1,876,917	1,733,848	1,650,596
Survivorship Payments	56,100	49,305	48,935
Ordinary Disability Payments	67,766	56,617	47,854
Accidental Disability Payments	381,607	339,334	309,743
Accidental Death Payments	56,299	63,567	69,797
Section 101 Benefits	15,564	15,424	21,299
3 (8) (c) Reimbursements to Other Systems	136,047	83,534	83,747
State Reimbursable COLA's Paid	<u>0</u>	<u>0</u>	<u>0</u>
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>2,590,300</u>	<u>2,341,630</u>	<u>2,231,973</u>
<b>Military Service Fund:</b>			
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>
<b>Expense Fund:</b>			
Board Member Stipend	<u>0</u>	<u>0</u>	<u>0</u>
Salaries	51,957	68,054	53,830
Medical Expenses	<u>0</u>	<u>50</u>	<u>0</u>
Travel Expenses	1,251	1,023	2,058
Administrative Expenses	4,041	8,145	9,297
Management Fees	170,527	169,537	199,781
Service Contracts	14,601	13,862	13,436
Fiduciary Insurance	<u>2,437</u>	<u>2,302</u>	<u>2,233</u>
Sub Total	<u>244,813</u>	<u>262,972</u>	<u>280,636</u>
<b>Total Disbursements</b>	<u><b>\$3,416,304</b></u>	<u><b>\$3,128,225</b></u>	<u><b>\$3,133,076</b></u>

## INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2009	2008	2007
<b>Investment Income Received From:</b>			
Cash	\$1,205	\$3,753	\$7,156
Pooled or Mutual Funds	874,908	1,204,475	1,245,351
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Investment Income</b>	<b>876,114</b>	<b>1,208,228</b>	<b>1,252,507</b>
<b>Plus:</b>			
Realized Gains	657,741	448,187	3,027,698
Unrealized Gains	7,732,311	1,949,641	3,016,603
Interest Due and Accrued - Current Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>8,390,052</u>	<u>2,397,828</u>	<u>6,044,301</u>
<b>Less:</b>			
Paid Accrued Interest on Fixed Income Securities	0	0	0
Realized Loss	(2,099,982)	(2,487,124)	0
Unrealized Loss	(2,264,378)	(12,822,593)	(3,032,923)
Interest Due and Accrued - Prior Year	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>(4,364,360)</u>	<u>(15,309,718)</u>	<u>(3,032,923)</u>
<b>Net Investment Income (Loss)</b>	<b>4,901,806</b>	<b>(11,703,661)</b>	<b>4,263,885</b>
<b>Income Required:</b>			
Annuity Savings Fund	41,866	47,757	44,969
Annuity Reserve Fund	86,995	80,886	80,556
Military Service Fund	36	7	7
Expense Fund	<u>244,813</u>	<u>262,972</u>	<u>280,636</u>
<b>Total Income Required</b>	<b>373,710</b>	<b>391,622</b>	<b>406,167</b>
Net Investment Income (Loss)	<u>4,901,806</u>	<u>(11,703,661)</u>	<u>4,263,885</u>
Less: Total Income Required	<u>373,710</u>	<u>391,622</u>	<u>406,167</u>
<b>Excess Income (Loss) To The Pension Reserve Fund</b>	<b><u>\$4,528,097</u></b>	<b><u>(\$12,095,283)</u></b>	<b><u>\$3,857,717</u></b>

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2009		
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	\$257,241	0.77%
PRIT Cash Fund	949,364	2.86%
PRIT Core Fund	<u>32,031,188</u>	<u>96.37%</u>
<b>Grand Total</b>	<u>\$33,237,792</u>	<u>100.00%</u>

For the year ending December 31, 2009, the rate of return for the investments of the Fairhaven Retirement System was 17.74%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Fairhaven Retirement System averaged 4.11%. For the twenty-five-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Fairhaven Retirement System was 9.43%.

The composite rate of return for all retirement systems for the year ending December 31, 2009 was 18.22%. For the five-year period ending December 31, 2009, the composite rate of return for the investments of all retirement systems averaged 3.97%. For the twenty-five-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.30%.

## SUPPLEMENTARY INVESTMENT REGULATIONS

The Fairhaven Retirement Board voted on January 28, 1986 to invest all of the system's assets with the Pension Reserve Investment Trust Fund as of July 1, 1986. As a result of that motion, the supplemental investment regulations submitted and previously approved by the Public Employee Retirement Administration were effectively rescinded.

# NOTES TO FINANCIAL STATEMENTS

## NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Fairhaven 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:**

Electricians and other 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 no later than the end of month they attain 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.

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. 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 \$729.84 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. 32, § 7(2)(e) has been adopted.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### ACCIDENTAL DEATH

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

**Allowance:** An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of \$729.84 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.

### DEATH IN ACTIVE SERVICE

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

### COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase 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 5I 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.

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

#### **MEMBERSHIP:**

##### **May 18, 1989:**

Eligibility: Any individual employed in a part-time, temporary, seasonal or intermittent capacity, working less than twenty (20) hours per week, shall not be eligible to join the Fairhaven Retirement System until they become a permanent employee of the Town of Fairhaven, working more than twenty (20) hours per week.

#### **CREDITABLE SERVICE:**

##### **September 9, 1993:**

Buy-Backs: The period of time over which members may buy-back prior service is increased to seven years.

##### **September 6, 1989:**

Any individual employed in a part-time, temporary, seasonal or intermittent capacity, working less than twenty (20) hours per week, shall not be eligible to join the Fairhaven Retirement System until they become a permanent employee of the Town of Fairhaven, working twenty (20) hours or more per week. If at this time they wish to pay back into the system for previous time worked, they may do so and their creditable service would be formulated by prorating the part-time work to that of a full-time position.

#### **MISCELLANEOUS:**

##### **July 17, 2002:**

Travel Regulations:

The Fairhaven Retirement System has adopted Travel Supplemental Regulations under the provisions of M.G.L. c. 7, § 50 and M.G.L. c. 32, § 21(4). These regulations are available upon written request and are also available on the PERAC website (<http://www.mass.gov/perac>).

## 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 Town Accountant who shall be a member ex-officio, a second member appointed by the Board of Selectmen, 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.

Ex-officio Member: Anne M. Carreiro

Appointed Member: Jeffrey W. Osuch Serves until a successor is appointed.

Elected Member: Earl M. Faunce Term Expires: 01/31/2011  
Chairman

Elected Member: Joyce A. Shepard Term Expires: 01/07/2013

Appointed Member: Christine A. Tetreault Term Expires: 07/01/2012

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 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 Employee:	)	coverage pertaining to ERISA/Crime to a limit of
	)	\$1,000,000 issued through Travelers Casualty
	)	and Surety Company, deductible \$10,000.

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Public Employee Retirement Administration Commission as of January 1, 2008.

The actuarial liability for active members was	\$24,416,307
The actuarial liability for vested terminated members was	884,888
The actuarial liability for non-vested terminated members was	164,869
The actuarial liability for retired members was	<u>22,725,934</u>
The total actuarial liability was	\$48,191,998
System assets as of that date were	<u>40,567,804</u>
The unfunded actuarial liability was	<u>\$ 7,624,194</u>
The ratio of system's assets to total actuarial liability was	84.2%
As of that date the total covered employee payroll was	\$10,125,461

The normal cost for employees on that date was 8.3% of payroll  
 The normal cost for the employer was 6.0% of payroll

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

Investment Return: 8.00% per annum  
 Rate of Salary Increases: Service based table with ultimate rates of 4.75%, 5.00%, and 5.25% for Groups 1, 2 and 4, respectively

### GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2008

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 )
1/1/2008	\$40,567,804	\$48,191,998	\$7,624,194	84.2%	\$10,125,461	75.3%
1/1/2007	\$33,696,596	\$46,092,442	\$12,395,846	73.1%	\$9,926,260	124.9%
1/1/2005	\$28,173,087	\$40,220,938	\$12,047,851	70.0%	\$9,240,237	130.4%
1/1/2002	\$21,234,541	\$31,482,821	\$10,248,280	67.4%	\$8,178,898	125.3%

## NOTES TO FINANCIAL STATEMENTS (Continued)

### NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Retirement in Past Years</b>										
Superannuation	5	6	12	17	7	4	4	4	6	8
Ordinary Disability	0	0	1	0	0	0	0	0	1	0
Accidental Disability	1	3	0	0	0	0	1	0	1	2
<b>Total Retirements</b>	6	9	13	17	7	4	5	4	8	10
Total Retirees, Beneficiaries and Survivors	151	155	164	179	177	176	175	174	167	162
Total Active Members	290	309	298	302	329	313	308	311	296	281
<b>Pension Payments</b>										
Superannuation	\$ 809,628	\$ 844,867	\$ 987,166	\$1,313,969	\$1,227,264	\$1,543,480	\$1,640,882	\$1,650,596	\$1,733,848	\$1,876,917
Survivor/Beneficiary Payments	23,712	25,449	26,248	54,817	43,563	41,753	43,300	48,935	49,305	56,100
Ordinary Disability	23,050	23,050	40,018	42,732	39,001	45,694	46,774	47,854	56,617	67,766
Accidental Disability	180,357	200,033	239,058	246,541	235,679	275,098	281,068	309,743	339,334	381,607
Other	307,190	308,833	329,970	221,184	399,701	166,840	217,879	174,844	162,525	207,910
<b>Total Payments for Year</b>	<u>\$1,343,936</u>	<u>\$1,402,231</u>	<u>\$1,622,459</u>	<u>\$1,879,244</u>	<u>\$1,945,208</u>	<u>\$2,072,865</u>	<u>\$2,229,904</u>	<u>\$2,231,973</u>	<u>\$2,341,629</u>	<u>\$2,590,300</u>

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