

PERAC AUDIT REPORT



Fall River
Contributory Retirement System



JAN. 1, 2008 - DEC. 31, 2010



TABLE OF CONTENTS

| | |
|----------------------------------------------------|----|
| Letter from the Executive Director | 1 |
| Explanation of Findings and Recommendations..... | 2 |
| Statement of Ledger Assets and Liabilities..... | 4 |
| Statement of Changes in Fund Balances | 5 |
| Statement of Receipts..... | 6 |
| Statement of Disbursements..... | 7 |
| Investment Income | 8 |
| Schedule of Allocation of Investments Owned..... | 9 |
| Supplementary Investment Regulations | 10 |
| Notes to Financial Statements: | |
| Note 1 - Summary of Plan Provisions | 11 |
| Note 2 - Significant Accounting Policies | 18 |
| Note 3 - Supplementary Membership Regulations..... | 20 |
| Note 4 - Administration of the System | 23 |
| Note 5 - Actuarial Valuation and Assumptions..... | 24 |
| Note 6 - Membership Exhibit..... | 25 |
| Note 7 - Leased Premises..... | 26 |

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

August 24, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Fall River Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2008 to December 31, 2010. 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 Martin J. Feeney and 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 FINDINGS AND RECOMMENDATIONS

I. Cash/Stale Dated Checks

An inspection of the bank reconciliation on 12/31/10 for one bank account disclosed 25 checks with a total value of \$12,108.42 had been issued and outstanding for more than six months. Most of the outstanding items are regular benefit checks. Some items, dating back to 2008, remain unresolved. The reconciliation for another bank account on 12/31/10 disclosed two checks in the amount of \$1,415.33 that had been issued and outstanding for over six months.

This finding is similar to an issue cited in the prior audit report.

Recommendation: Checks that are outstanding for more than six months should be researched so that they can be properly voided and updated on a regular and timely basis. The Executive Director should review the list of outstanding checks and contact the payees to determine the status of the checks. Any outstanding check older than six months should be investigated and, where applicable, a replacement check should be issued. The Retirement System should consider notifying all retirees of the advantages of direct deposit as an alternative to monthly checks.

Board Response:

All outstanding checks over 6 months have been voided and re-issued.

2. Regular Compensation

PERAC auditors inspected a payroll register report to determine that the correct contribution rates are being calculated, that the additional 2% deduction is withheld from those members who make over \$30,000 on an annualized basis, and were hired after January 1, 1979 and to confirm compliance with 840 CMR 15.03. An inspection of the Fall River Housing Authority payroll records disclosed that five employees receive compensation of \$60 on a rotating schedule for carrying a beeper for notification in the event of an emergency call. This pay is excluded from regular retirement deductions. However, it is included when the 2% additional retirement contribution for compensation over \$30,000 is calculated.

These payments would appear to qualify as regular compensation pursuant to Chapter 21 of the Acts of 2009 which states, "...compensation received exclusively as wages by an employee for services performed..." and PERAC Regulation 840 CMR 15.03 (3) (a) and (b) which state, respectively, that regular compensation is wages for "services performed" (being available for emergency call is a service to the employer) and that wages include "pre-determined, non-discretionary, guaranteed payments.....because of the character of the work". Beeper pay is not specifically excluded by the legislation associated with Chapter 21 of the Acts of 2009. It fits the definition, even though it is rotated among several department employees.

Recommendation: Issues relating to regular compensation must be resolved. The Board is not in compliance with our interpretation of Chapter 21 of the Acts of 2009 as well as 840 CMR 15.03. The payment referenced above corresponds to the definition of regular compensation in 840 CMR 15.03. The Board should instruct the Fall River Housing Authority to begin deducting retirement contributions from the beeper pay. The rate of deduction must be the same as the member's other

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (Continued)

compensation plus the additional 2% retirement contributions for compensation over \$30,000 should continue to be withheld, if applicable.

Board Response:

This matter was resolved to completion of the audit. The FRHA is properly withholding from “beeper pay” from members.

Administrative Observation

Appropriations 2011

Due to the financial crisis faced by the City of Fall River, the Chairman of the Retirement Board requested that PERAC assist in calculating a new funding schedule for FY 2011.

PERAC’S Actuarial Unit worked with the City of Fall River on developing the new funding schedule.

The original and revised appropriations are as follows:

| | Original Appropriation | Revised Appropriation |
|-------------------|---------------------------|--------------------------|
| City | \$18,326,761.00 | \$ 16,500,000.00 |
| Redevelopment | 11,089.00 | 8,591.00 |
| Housing Authority | 1,391,862.00 | 1,265,192.00 |
| Diman Vocational | <u>243,360.00</u> | <u>218,217.00</u> |
| Total | \$ 19,973,072.00 | \$ 17,992,000.00 |

The City of Fall River has paid their total revised appropriation of \$16,500,000.00 for FY 2011.

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, | | |
|-------------------------------------------|----------------------|----------------------|----------------------|
| | 2010 | 2009 | 2008 |
| Net Assets Available For Benefits: | | | |
| Cash | \$2,978,779 | \$7,828,871 | \$5,476,657 |
| Pooled Alternative Investment Funds | 5,727,911 | 5,210,626 | 4,968,180 |
| PRIT Cash Fund | 0 | 0 | 0 |
| PRIT Core Fund | 178,390,492 | 155,763,962 | 156,981,273 |
| Accounts Receivable | 15,190,031 | 17,469,069 | 774,559 |
| Accounts Payable | 0 | 0 | (792) |
| Total | <u>\$202,287,213</u> | <u>\$186,272,528</u> | <u>\$168,199,877</u> |
| Fund Balances: | | | |
| Annuity Savings Fund | \$67,944,190 | \$67,357,374 | \$66,832,515 |
| Annuity Reserve Fund | 28,278,877 | 26,524,443 | 25,013,303 |
| Pension Fund | 9,117,929 | 15,539,915 | 16,126,648 |
| Military Service Fund | 82,897 | 85,391 | 88,930 |
| Expense Fund | 0 | 0 | 0 |
| Pension Reserve Fund | 96,863,320 | 76,765,405 | 60,138,481 |
| Total | <u>\$202,287,213</u> | <u>\$186,272,528</u> | <u>\$168,199,877</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 (2008) | \$64,955,682 | \$23,241,163 | \$16,206,717 | \$94,818 | \$0 | \$133,984,473 | \$238,482,852 |
| Receipts | 7,224,476 | 711,859 | 17,107,840 | 545 | 1,447,320 | (66,549,242) | (40,057,202) |
| Interfund Transfers | (4,405,321) | 4,412,655 | 7,295,849 | (6,433) | 0 | (7,296,750) | 0 |
| Disbursements | (942,322) | (3,352,373) | (24,483,756) | 0 | (1,447,320) | 0 | (30,225,772) |
| Ending Balance (2008) | 66,832,515 | 25,013,303 | 16,126,649 | 88,930 | 0 | 60,138,481 | 168,199,878 |
| Receipts | 6,215,483 | 751,418 | 19,033,137 | 431 | 1,349,965 | 22,903,169 | 50,253,603 |
| Interfund Transfers | (4,463,114) | 4,380,110 | 6,363,219 | (3,970) | 0 | (6,276,245) | 0 |
| Disbursements | (1,227,510) | (3,620,388) | (25,983,090) | 0 | (1,349,965) | 0 | (32,180,953) |
| Ending Balance (2009) | 67,357,374 | 26,524,443 | 15,539,916 | 85,391 | 0 | 76,765,405 | 186,272,529 |
| Receipts | 6,674,515 | 821,513 | 21,196,263 | 5,080 | 1,261,117 | 20,102,120 | 50,060,609 |
| Interfund Transfers | (4,916,032) | 4,861,467 | 66,344 | (7,574) | 0 | (4,205) | (0) |
| Disbursements | (1,171,668) | (3,928,546) | (27,684,593) | 0 | (1,261,117) | 0 | (34,045,924) |
| Ending Balance (2010) | <u>\$67,944,190</u> | <u>\$28,278,877</u> | <u>\$9,117,930</u> | <u>\$82,897</u> | <u>\$0</u> | <u>\$96,863,320</u> | <u>\$202,287,213</u> |

STATEMENT OF RECEIPTS

| | FOR THE PERIOD ENDING DECEMBER 31, | | |
|-------------------------------------------------------------------------------------------------------|------------------------------------|---------------------|-----------------------|
| | 2010 | 2009 | 2008 |
| Annuity Savings Fund: | | | |
| Members Deductions | \$5,696,389 | \$5,823,131 | \$6,296,666 |
| Transfers from Other Systems | 727,408 | 19,834 | 453,344 |
| Member Make Up Payments and Re-deposits | 31,625 | 41,360 | 100,655 |
| Member Payments from Rollovers | 20,482 | 10,650 | 0 |
| Investment Income Credited to Member Accounts | <u>198,610</u> | <u>320,508</u> | <u>373,810</u> |
| Sub Total | <u>6,674,515</u> | <u>6,215,483</u> | <u>7,224,476</u> |
| Annuity Reserve Fund: | | | |
| Investment Income Credited to the Annuity Reserve Fund | <u>821,513</u> | <u>751,418</u> | <u>711,859</u> |
| Pension Fund: | | | |
| 3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits | 199,196 | 189,074 | 189,365 |
| Pension Fund Appropriation | 999,195 | 1,072,863 | 1,168,475 |
| Settlement of Workers' Compensation Claims | 19,973,072 | 17,770,000 | 15,750,000 |
| | <u>24,800</u> | <u>1,200</u> | <u>0</u> |
| Sub Total | <u>21,196,263</u> | <u>19,033,137</u> | <u>17,107,840</u> |
| Military Service Fund: | | | |
| Contribution Received from Municipality on Account of Military Service | 4,768 | 0 | 0 |
| Investment Income Credited to the Military Service Fund | 312 | 431 | 545 |
| Sub Total | <u>5,080</u> | <u>431</u> | <u>545</u> |
| Expense Fund: | | | |
| Expense Fund Appropriation | 0 | 0 | 0 |
| Investment Income Credited to the Expense Fund | <u>1,261,117</u> | <u>1,349,965</u> | <u>1,447,320</u> |
| Sub Total | <u>1,261,117</u> | <u>1,349,965</u> | <u>1,447,320</u> |
| Pension Reserve Fund: | | | |
| Federal Grant Reimbursement | 385,635 | 366,863 | 355,324 |
| Pension Reserve Appropriation | 0 | 0 | 0 |
| Interest Not Refunded | 5,002 | 8,003 | 19,370 |
| Miscellaneous Income | 12,865 | 28,873 | 50,282 |
| Excess Investment Income (Loss) | <u>19,698,618</u> | <u>22,499,429</u> | <u>(66,974,218)</u> |
| Sub Total | <u>20,102,120</u> | <u>22,903,169</u> | <u>(66,549,242)</u> |
| Total Receipts (Net) | <u>\$50,060,609</u> | <u>\$50,253,603</u> | <u>(\$40,057,202)</u> |

STATEMENT OF DISBURSEMENTS

| | FOR THE PERIOD ENDING DECEMBER 31, | | |
|----------------------------------------------------------------|------------------------------------|---------------------|---------------------|
| | 2010 | 2009 | 2008 |
| Annuity Savings Fund: | | | |
| Refunds to Members | \$398,995 | \$805,067 | \$694,419 |
| Transfers to Other Systems | <u>772,673</u> | <u>422,442</u> | <u>247,903</u> |
| Sub Total | <u>1,171,668</u> | <u>1,227,510</u> | <u>942,322</u> |
| Annuity Reserve Fund: | | | |
| Annuities Paid | 3,881,579 | 3,511,456 | 3,244,668 |
| Option B Refunds | <u>46,968</u> | <u>108,932</u> | <u>107,706</u> |
| Sub Total | <u>3,928,546</u> | <u>3,620,388</u> | <u>3,352,373</u> |
| Pension Fund: | | | |
| Pensions Paid: | | | |
| Regular Pension Payments | 16,168,017 | 14,920,045 | 14,022,374 |
| Survivorship Payments | 1,549,054 | 1,446,049 | 1,421,684 |
| Ordinary Disability Payments | 553,288 | 552,250 | 494,692 |
| Accidental Disability Payments | 5,739,926 | 5,465,552 | 5,250,939 |
| Accidental Death Payments | 1,963,356 | 1,990,635 | 1,926,929 |
| Section 101 Benefits | 272,218 | 271,598 | 258,828 |
| 3 (8) (c) Reimbursements to Other Systems | 1,438,733 | 1,336,961 | 1,108,310 |
| State Reimbursable COLA's Paid | 0 | 0 | 0 |
| Chapter 389 Beneficiary Increase Paid | <u>0</u> | <u>0</u> | <u>0</u> |
| Sub Total | <u>27,684,593</u> | <u>25,983,089</u> | <u>24,483,756</u> |
| Military Service Fund: | | | |
| Return to Municipality for Members Who Withdrew Their Funds | <u>0</u> | <u>0</u> | <u>0</u> |
| Expense Fund: | | | |
| Board Member Stipend | 14,250 | 15,000 | 13,250 |
| Salaries | 202,325 | 202,339 | 199,858 |
| Legal Expenses | 22,054 | 19,659 | 31,973 |
| Medical Expenses | 0 | 0 | 0 |
| Travel Expenses | 4,118 | 1,293 | 5,051 |
| Administrative Expenses | 56,638 | 49,907 | 89,033 |
| Professional Services | 0 | 0 | 0 |
| Education and Training | 1,550 | 500 | 0 |
| Furniture and Equipment | 0 | 2,371 | 17,066 |
| Management Fees | 858,761 | 961,910 | 1,022,591 |
| Custodial Fees | 0 | 0 | 565 |
| Consultant Fees | 0 | 0 | 5,833 |
| Rent Expenses | 51,884 | 51,984 | 17,295 |
| Service Contracts | 29,986 | 26,965 | 27,703 |
| Fiduciary Insurance | <u>19,551</u> | <u>18,038</u> | <u>17,102</u> |
| Sub Total | <u>1,261,117</u> | <u>1,349,965</u> | <u>1,447,320</u> |
| Total Disbursements | <u>\$34,045,924</u> | <u>\$32,180,953</u> | <u>\$30,225,772</u> |

INVESTMENT INCOME

| | FOR THE PERIOD ENDING DECEMBER 31, | | |
|---------------------------------------------------------|------------------------------------|---------------------|-----------------------|
| | 2010 | 2009 | 2008 |
| Investment Income Received From: | | | |
| Cash | \$8,768 | \$13,887 | \$186,210 |
| Short Term Investments | 0 | 0 | 0 |
| Fixed Income | 0 | 0 | 0 |
| Equities | 0 | 0 | (225) |
| Pooled or Mutual Funds | 4,802,371 | 4,601,778 | 6,668,584 |
| Commission Recapture | 0 | 0 | 0 |
| Total Investment Income | <u>4,811,139</u> | <u>4,615,665</u> | <u>6,854,569</u> |
| Plus: | | | |
| Realized Gains | 4,793,442 | 3,377,240 | 3,024,770 |
| Unrealized Gains | 32,571,181 | 41,067,343 | 11,700,280 |
| Interest Due and Accrued - Current Year | 0 | 0 | 0 |
| Sub Total | <u>37,364,623</u> | <u>44,444,583</u> | <u>14,725,050</u> |
| Less: | | | |
| Realized Loss | (143,460) | (11,269,880) | (14,289,143) |
| Unrealized Loss | (20,052,132) | (12,868,617) | (71,731,159) |
| Interest Due and Accrued - Prior Year | 0 | 0 | 0 |
| Sub Total | <u>(20,195,591)</u> | <u>(24,138,497)</u> | <u>(86,020,303)</u> |
| Net Investment Income (Loss) | <u>21,980,171</u> | <u>24,921,752</u> | <u>(64,440,683)</u> |
| Income Required: | | | |
| Annuity Savings Fund | 198,610 | 320,508 | 373,810 |
| Annuity Reserve Fund | 821,513 | 751,418 | 711,859 |
| Military Service Fund | 312 | 431 | 545 |
| Expense Fund | 1,261,117 | 1,349,965 | 1,447,320 |
| Total Income Required | <u>2,281,553</u> | <u>2,422,322</u> | <u>2,533,535</u> |
| Net Investment Income (Loss) | <u>21,980,171</u> | <u>24,921,752</u> | <u>(64,440,683)</u> |
| Less: Total Income Required | 2,281,553 | 2,422,322 | 2,533,535 |
| Excess Income (Loss) To The Pension Reserve Fund | <u>\$19,698,618</u> | <u>\$22,499,429</u> | <u>(\$66,974,218)</u> |

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

| AS OF DECEMBER 31, 2010 | | |
|-------------------------------------|----------------------|----------------------------------|
| | MARKET VALUE | PERCENTAGE OF TOTAL ASSETS |
| Cash | \$2,978,779 | 1.59% |
| Pooled Alternative Investment Funds | 5,727,911 | 3.06% |
| PRIT Cash Fund | 0 | 0.00% |
| PRIT Core Fund | <u>178,390,492</u> | <u>95.35%</u> |
| Grand Total | <u>\$187,097,182</u> | <u>100.00%</u> |

For the year ending December 31, 2010, the rate of return for the investments of the Fall River Retirement System was 13.34%. For the five year period ending December 31, 2010, the rate of return for the investments of the Fall River Retirement System averaged 3.00%. For the 26 year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Fall River Retirement System was 8.45%.

The composite rate of return for all retirement systems for the year ending December 31, 2010 was 13.67%. For the five year period ending December 31, 2010, the composite rate of return for the investments of all retirement systems averaged 4.39%. For the 26 year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.46%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Fall River Retirement System voted on October 1, 2007 to invest all of the system's assets, with the exception of the funds invested with Standard Life, with the PRIT fund.

On April 27, 2011 Fall River Retirement System voted to rescind the Supplemental Investment Regulations submitted and previously approved by the Public Employee Retirement Administration Commission.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Fall River 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. As of July 1, 2010, those who leave service voluntarily with less than 10 years receive 3% 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”.

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 \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. 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 \$312.00 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 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first \$12,000 of a retiree's total allowance is subject to a cost-of-living adjustment. Under the provisions of Chapter 32, Section 103 (j) inserted by Section 19 of Chapter 188 effective July 27 2010, systems may increase the maximum base on which the COLA is calculated in multiples of \$1,000. 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 accounts are considered to be funds on deposit with banks and are available upon demand.

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

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

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

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board primarily relies upon the investment strategy of the PRIM Board to maintain their progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

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

NOTES TO FINANCIAL STATEMENTS (Continued)

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

Membership:

December 30, 2008

Board/Commission service is excluded from membership. Active in-service members of the Fall River Contributory Retirement System (FRCRS) who also serve on a paid Board or Commission under the jurisdiction of the FRCRS may make contributions to this System on his/her Board/Commission pay as a dual member. No additional creditable service shall be granted for Board/Commission service. Upon termination of his/her full-time employment and qualifying in-service membership within the FRCRS contributions withheld from Board/Commission pay shall cease.

December 20, 2005

All full-time permanent and provisional employees are required to become members of the Fall River Contributory Retirement System. Regularly scheduled employment of 30 hours or more per week shall constitute full-time.

Employees hired/classified as temporary, substitute, intermittent, seasonal, emergency are not eligible for membership.

Part-time employees who are regularly scheduled to work 20 or more hours per week are required to become members of the Fall River Contributory Retirement System.

Employees whose regular work schedule is less than 20 hours per week will be considered "less than part-time" and are not eligible for membership.

Any member who subsequently becomes a temporary, intermittent, seasonal, emergency or less than part-time employee within any of this system's governmental units shall continue to be a member of this Retirement System. Creditable service adjustments in accordance with Board regulations will apply.

Creditable Service:

February 2, 2011

Purchase of creditable service under the provisions of Chapter 235 of the Acts of 1994, which was adopted by the local legislative body of the City of Fall River on February 2, 2011, may be paid in full in one lump sum or in installments through additional payroll deductions within one year of the acceptance of the legislation for those who were unemployed and return to service prior to February 2, 2011. If the member does not complete payment in full on or before February 2, 2012 he/she shall be required to pay additional interest determined using the Fall River Retirement

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONTINUED)

System's rate of buyback interest on any remaining balance. Payments via installments must be paid in full within a 5-year period beginning with the first installment.

Purchase of creditable service under the provisions of Chapter 235 of the Act of 1994 may be paid in full in one lump sum or in installments through additional payroll deductions within one year of the return to service for those who became unemployed and/or returned to service after February 2, 2011. If the member does not complete payment in full within one year of his/her return to service he/she shall be required to pay additional interest, determined using the Fall River Retirement System's rate of buyback interest on any remaining balance. Payments via installments must be paid in full within a 5-year period beginning with the first installment.

December 20, 2005

Creditable service shall be calculated on a 12-month basis for all members of the Fall River Contributory Retirement System.

Members from the school department shall be granted creditable service for the summer months upon return to service within the Fall River Contributory Retirement System in September.

Members from the school department who retire in July or August shall be granted creditable service for the portion of the summer months leading up to their retirement date if he/she completed the prior school year and shall not be required to return to service in September.

A member whose entire service is part-time shall receive one year of creditable service for each year worked 20+ hours per week.

A member employed on a part-time basis who becomes full-time shall have his/her creditable service adjusted and receive credit for his/her part-time service on a pro-rated basis as it relates to a full-time position.

A member employed on a full-time basis who becomes part-time shall receive credit for his/her part-time service on a pro-rated basis as it relates a full-time position.

A member employed on a part-time basis who becomes less than part-time shall receive credit for his/her less than part-time service on a pro-rated basis as it relates to their former part-time position.

Buy backs:

The Fall River Contributory Retirement Board shall only accept liability for the buyback of service rendered to governmental units within the Fall River Contributory Retirement System unless otherwise required by law.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (CONTINUED)

Purchase of part-time, intermittent, less than part-time or substitute service shall be pro-rated as it relates to a full-time position.

A member may purchase creditable service via payroll deduction for a period of no longer than 5 years.

Any member eligible to purchase credit for military service may do so, prior to being retired, via a lump sum payment or payroll deduction (not to exceed a period of 5 years). The amount to be paid will be interest free for a period of 5 years from the member's date of application to purchase said military service and thereafter regular interest will be charged on the amount/remaining balance due.

Regular Compensation:

December 20 2005

Motor Vehicle: That the use of an employer owned motor vehicle shall be considered a fringe benefit and the value of said use shall not be considered regular compensation for retirement purposes.

Miscellaneous:

July 28, 2009

If a retired member or survivor benefit recipient dies without a valid beneficiary on file, payment of the balance of annuity and/or pro-rated retirement allowance shall be paid to his/her surviving spouse. If there is no surviving spouse, payment of the balance of annuity and/or pro-rated retirement allowance shall be paid in equal shares to the surviving natural/legally adopted children of the retiree or survivor benefit recipient upon receipt of the following documentation:

1. A letter of request for payment from the surviving children, which must certify under the pains and penalties of perjury that they are the only known surviving children of said retiree/survivor benefit recipient. This letter must also include each surviving child's signature, address, telephone number and social security number.
2. A copy of each child's birth certificate, which must show the retiree/survivor benefit recipient as parent. If there is no surviving spouse or surviving biological or legally adopted children of the retiree/survivor benefit recipient payment of the balance of annuity and/or pro-rated retirement allowance shall be paid to his/her estate upon receipt of an estate tax identification number.

Travel Regulations:

October 8, 2002

The Fall River 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/fallriver>).

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, 2009.

| | |
|---------------------------------------------------------------|----------------------|
| The actuarial liability for active members was | \$193,355,623 |
| The actuarial liability for vested terminated members was | 3,558,749 |
| The actuarial liability for non-vested terminated members was | 1,147,034 |
| The actuarial liability for retired members was | <u>224,881,356</u> |
| The total actuarial liability was | 422,942,762 |
| System assets as of that date were | <u>193,429,859</u> |
| | |
| The unfunded actuarial liability was | <u>\$229,512,903</u> |
| The ratio of system's assets to total actuarial liability was | 45.7% |
| As of that date the total covered employee payroll was | \$70,178,061 |

The normal cost for employees on that date was 8.4% of payroll
 The normal cost for the employer was 5.2% of payroll

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

Investment Return: 8.25% per annum
 Rate of Salary Increase: Service based

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2009

| 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) |
|--------------------------------|------------------------------------------|--------------------------------------------|--------------------------------------|----------------------------|-----------------------------|--------------------------------------------------|
| 1/1/2009 | \$193,429,859 | \$422,942,762 | \$229,512,903 | 45.7% | \$70,178,061 | 327.0% |
| 1/1/2006 | \$217,777,665 | \$381,777,665 | \$163,948,821 | 57.1% | \$64,728,351 | 253.4% |
| 1/1/2004 | \$208,579,459 | \$349,707,630 | \$141,128,171 | 59.6% | \$60,205,440 | 234.4% |

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|------------------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Retirement in Past Years | | | | | | | | | | |
| Superannuation | 48 | 144 | 50 | 25 | 30 | 54 | 68 | 69 | 66 | 66 |
| Ordinary Disability | 5 | 2 | 1 | 2 | 2 | 0 | 2 | 2 | 2 | 1 |
| Accidental Disability | 10 | 11 | 6 | 7 | 12 | 9 | 7 | 4 | 10 | 5 |
| Total Retirements | 63 | 157 | 57 | 34 | 44 | 63 | 77 | 75 | 78 | 72 |
| Total Retirees, Beneficiaries and Survivors | 1,484 | 1,599 | 1,520 | 1,492 | 1,485 | 1,613 | 1,501 | 1,500 | 1,500 | 1,513 |
| Total Active Members | 2,092 | 1,949 | 1,845 | 1,867 | 1,889 | 1,862 | 1,832 | 1,772 | 1,472 | 1,467 |
| Pension Payments | | | | | | | | | | |
| Superannuation | \$8,647,261 | \$9,936,712 | \$11,364,174 | \$11,803,328 | \$12,008,964 | \$12,552,844 | \$13,278,464 | \$14,022,374 | \$14,920,045 | \$16,168,017 |
| Survivor/Beneficiary Payments | 956,214 | 1,126,765 | 1,164,677 | 1,313,587 | 1,345,013 | 1,317,562 | 1,372,059 | 1,421,684 | 1,446,049 | 1,549,054 |
| Ordinary Disability | 393,416 | 376,031 | 406,052 | 444,483 | 445,382 | 451,541 | 461,270 | 494,692 | 552,250 | 553,288 |
| Accidental Disability | 3,941,076 | 4,260,634 | 4,445,253 | 4,502,030 | 4,794,657 | 5,521,313 | 5,142,625 | 5,250,939 | 5,465,552 | 5,739,926 |
| Other | 2,390,829 | 2,165,056 | 3,136,217 | 2,780,436 | 3,018,995 | 3,108,817 | 3,284,249 | 3,294,067 | 3,599,193 | 3,674,308 |
| Total Payments for Year | <u>\$16,328,796</u> | <u>\$17,865,198</u> | <u>\$20,516,373</u> | <u>\$20,843,864</u> | <u>\$21,613,011</u> | <u>\$22,952,077</u> | <u>\$23,538,667</u> | <u>\$24,483,756</u> | <u>\$25,983,090</u> | <u>\$27,684,593</u> |

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 7 – LEASED PREMISES

The Fall River Retirement Board leases approximately 3,052 square feet of space for its offices located at Suites 301 & 304, 30 Third Street, Fall River, MA. 02721. They signed an initial five-year lease term (\$17.00 per sq ft) which will expire October 31, 2013. The landlord is MKM Management LLC.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2010:

| <u>For the year ending:</u> | <u>Annual Rent</u> |
|----------------------------------------------|---------------------|
| 2011 | \$51,883.92 |
| 2012 | \$51,883.92 |
| 2013 (Through October 31, 2013) | \$43,236.60 |
| Total future minimum lease payments required | <u>\$147,005.76</u> |

Note: Last month's rent October 2013, was paid in advance on September 2, 2008.

PERAC

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