

PERAC AUDIT REPORT



Fall River Contributory Retirement System
JAN. 1, 2005 - DEC. 31, 2007



TABLE OF CONTENTS

Letter from the Executive Director.....	1
Explanation of Findings and Recommendations.....	2
Statement of Ledger Assets and Liabilities	3
Statement of Changes in Fund Balances.....	4
Statement of Receipts	5
Statement of Disbursements	6
Investment Income.....	7
Schedule of Allocation of Investments Owned	8
Supplementary Investment Regulations.....	9
<u>Notes to Financial Statements:</u>	
Note 1 - Summary of Plan Provisions	10
Note 2 - Significant Accounting Policies	17
Note 3 - Supplementary Membership Regulations.....	18
Note 4 - Administration of the System	20
Note 5 - Actuarial Valuation and Assumptions.....	21
Note 6 - Membership Exhibit.....	22

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

MARY ANN BRADLEY | PAUL V. DOANE | KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS

January 5, 2009

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, 2005 to December 31, 2007. 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 finding presented in this report.

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

Sincerely,



Joseph E. Connarton
Executive Director



EXPLANATION OF FINDINGS AND RECOMMENDATIONS

Cash / Stale Dated Checks:

An inspection of the outstanding checks at 12/31/07 that comprise the bank activity for one bank account revealed 11 checks with a total value of \$4,472.93 had been issued and remain outstanding for more than six months. These items primarily represent regular benefit checks. Some items remain unresolved dating back to the 2004 calendar period. Inspections of the outstanding checks at 6/30/08 revealed 18 checks with a total value of \$7,583.20 had been issued and remained outstanding for more than six months.

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:

In August 2008 the Board resolved this issue by contacting those retirees/beneficiaries of retirees with outstanding checks. Most checks have been replaced. Those not replaced will be voided and funds credited back in the appropriate fund of the system.

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,		
	2007	2006	2005
Net Assets Available For Benefits:			
Cash	\$12,090,985	\$2,852,838	\$7,028,574
Equities	122,185	24,208,026	25,368,634
Pooled Domestic Equity Funds	0	87,585,633	87,420,543
Pooled International Equity Funds	0	33,662,349	23,286,462
Pooled Domestic Fixed Income Funds	11,388,964	58,962,006	52,148,433
Pooled Alternative Investment Funds	4,204,874	2,282,467	0
Pooled Real Estate Funds	0	13,343,684	10,801,652
PRIT Cash Fund	0	0	0
PRIT Core Fund	203,680,664	0	0
Accounts Receivable	7,084,482	6,150,284	5,867,659
Accounts Payable	(89,301)	(154,430)	(335,020)
Total	<u>\$238,482,852</u>	<u>\$228,892,857</u>	<u>\$211,586,936</u>
Fund Balances:			
Annuity Savings Fund	\$64,955,682	\$62,071,086	\$59,514,490
Annuity Reserve Fund	23,241,163	22,433,306	21,713,382
Pension Fund	16,206,717	1,366,078	2,168,704
Military Service Fund	94,818	73,903	38,989
Expense Fund	0	0	0
Pension Reserve Fund	133,984,473	142,948,484	128,151,371
Total	<u>\$238,482,852</u>	<u>\$228,892,857</u>	<u>\$211,586,936</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 (2005)	\$56,562,827	\$21,433,293	\$2,832,448	\$30,480	\$0	\$124,811,657	\$205,670,705
Receipts	5,870,752	644,514	13,565,758	8,509	1,081,804	10,739,009	31,910,346
Interfund Transfers	(2,450,824)	2,466,611	7,383,508	0	0	(7,399,295)	0
Disbursements	(468,265)	(2,831,035)	(21,613,011)	0	(1,081,804)	0	(25,994,115)
Ending Balance (2005)	59,514,490	21,713,382	2,168,704	38,989	0	128,151,371	211,586,936
Receipts	6,474,112	655,335	13,900,273	36,189	1,243,179	23,079,709	45,388,797
Interfund Transfers	(2,902,834)	2,937,527	8,249,178	(1,276)	0	(8,282,595)	0
Disbursements	(1,014,682)	(2,872,938)	(22,952,077)	0	(1,243,179)	0	(28,082,876)
Ending Balance (2006)	62,071,087	22,433,306	1,366,078	73,903	0	142,948,484	228,892,857
Receipts	7,078,203	674,019	15,209,538	47,171	1,567,330	14,213,479	38,789,740
Interfund Transfers	(3,204,674)	3,238,651	23,169,768	(26,255)	0	(23,177,490)	0
Disbursements	(988,934)	(3,104,813)	(23,538,668)	0	(1,567,330)	0	(29,199,745)
Ending Balance (2007)	<u>\$64,955,682</u>	<u>\$23,241,163</u>	<u>\$16,206,717</u>	<u>\$94,818</u>	<u>\$0</u>	<u>\$133,984,473</u>	<u>\$238,482,852</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
Annuity Savings Fund:			
Members Deductions	\$6,084,941	\$5,713,370	\$5,325,577
Transfers from Other Systems	543,401	322,100	53,233
Member Make Up Payments and Re-deposits	68,214	65,492	73,106
Member Payments from Rollovers	21,691	29,499	90,883
Investment Income Credited to Member Accounts	<u>359,956</u>	<u>343,650</u>	<u>327,953</u>
Sub Total	<u>7,078,203</u>	<u>6,474,112</u>	<u>5,870,752</u>
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	<u>674,019</u>	<u>655,335</u>	<u>644,514</u>
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	182,222	169,937	195,609
Pension Fund Appropriation	<u>1,227,316</u>	<u>1,280,364</u>	<u>2,170,121</u>
Sub Total	<u>13,800,000</u>	<u>12,449,972</u>	<u>11,200,028</u>
Sub Total	<u>15,209,538</u>	<u>13,900,273</u>	<u>13,565,758</u>
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	46,075	35,633	8,296
Investment Income Credited to the Military Service Fund	<u>1,095</u>	<u>557</u>	<u>214</u>
Sub Total	<u>47,171</u>	<u>36,189</u>	<u>8,509</u>
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	<u>1,567,330</u>	<u>1,243,179</u>	<u>1,081,804</u>
Sub Total	<u>1,567,330</u>	<u>1,243,179</u>	<u>1,081,804</u>
Pension Reserve Fund:			
Federal Grant Reimbursement	324,607	283,484	333,644
Pension Reserve Appropriation	0	0	0
Interest Not Refunded	10,688	10,663	2,577
Miscellaneous Income	127,520	24,471	48,497
Excess Investment Income	<u>13,750,664</u>	<u>22,761,090</u>	<u>10,354,292</u>
Sub Total	<u>14,213,479</u>	<u>23,079,709</u>	<u>10,739,009</u>
Total Receipts	<u>\$38,789,740</u>	<u>\$45,388,797</u>	<u>\$31,910,346</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
Annuity Savings Fund:			
Refunds to Members	\$356,004	\$773,535	\$243,762
Transfers to Other Systems	<u>632,930</u>	<u>241,147</u>	<u>224,503</u>
Sub Total	<u>988,934</u>	<u>1,014,682</u>	<u>468,265</u>
Annuity Reserve Fund:			
Annuities Paid	3,025,172	2,819,323	2,675,394
Option B Refunds	<u>79,641</u>	<u>53,615</u>	<u>155,641</u>
Sub Total	<u>3,104,813</u>	<u>2,872,938</u>	<u>2,831,035</u>
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	13,278,464	12,552,844	12,008,964
Survivorship Payments	1,372,059	1,317,562	1,345,013
Ordinary Disability Payments	461,270	451,541	445,382
Accidental Disability Payments	5,142,625	5,521,313	4,794,657
Accidental Death Payments	1,927,643	1,903,070	1,917,934
Section 101 Benefits	256,765	240,253	232,581
3 (8) (c) Reimbursements to Other Systems	<u>1,099,841</u>	<u>965,494</u>	<u>868,481</u>
Sub Total	<u>23,538,668</u>	<u>22,952,077</u>	<u>21,613,011</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	15,000
Salaries	196,166	187,753	189,280
Legal Expenses	26,800	13,031	12,000
Medical Expenses	0	17,449	18,456
Travel Expenses	3,894	2,090	4,379
Administrative Expenses	27,472	12,891	12,272
Furniture and Equipment	0	15,985	405
Management Fees	1,109,540	836,070	689,603
Custodial Fees	65,809	51,007	40,986
Consultant Fees	70,000	70,000	70,000
Rent Expense	0	0	0
Service Contracts	36,826	6,794	14,421
Fiduciary Insurance	<u>16,573</u>	<u>15,110</u>	<u>15,002</u>
Sub Total	<u>1,567,330</u>	<u>1,243,179</u>	<u>1,081,804</u>
Total Disbursements	<u>\$29,199,745</u>	<u>\$28,082,876</u>	<u>\$25,994,115</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,		
	2007	2006	2005
Investment Income Received From:			
Cash	\$249,657	\$56,840	\$74,811
Equities	234,930	289,617	859,466
Pooled or Mutual Funds	1,962,245	2,423,059	2,054,463
Commission Recapture	<u>2,442</u>	<u>3,690</u>	<u>20,856</u>
Total Investment Income	<u>2,449,274</u>	<u>2,773,206</u>	<u>3,009,597</u>
Plus:			
Realized Gains	25,541,082	7,910,110	4,602,762
Unrealized Gains	<u>25,435,232</u>	<u>27,866,171</u>	<u>19,427,728</u>
Sub Total	<u>50,976,314</u>	<u>35,776,281</u>	<u>24,030,490</u>
Less:			
Realized Loss	(4,885,876)	(2,743,276)	(3,751,584)
Unrealized Loss	<u>(32,186,648)</u>	<u>(10,802,399)</u>	<u>(10,879,727)</u>
Sub Total	<u>(37,072,524)</u>	<u>(13,545,676)</u>	<u>(14,631,311)</u>
Net Investment Income	<u>16,353,064</u>	<u>25,003,812</u>	<u>12,408,776</u>
Income Required:			
Annuity Savings Fund	359,956	343,650	327,953
Annuity Reserve Fund	674,019	655,335	644,514
Military Service Fund	1,095	557	214
Expense Fund	<u>1,567,330</u>	<u>1,243,179</u>	<u>1,081,804</u>
Total Income Required	<u>2,602,400</u>	<u>2,242,721</u>	<u>2,054,484</u>
Net Investment Income	<u>16,353,064</u>	<u>25,003,812</u>	<u>12,408,776</u>
Less: Total Income Required	<u>2,602,400</u>	<u>2,242,721</u>	<u>2,054,484</u>
Excess Income To The Pension Reserve Fund	<u>\$13,750,664</u>	<u>\$22,761,090</u>	<u>\$10,354,292</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2007			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED
Cash	\$12,090,985	5.2%	100%
Equities	122,185	0.1%	60%
Pooled Domestic Fixed Income Funds	11,388,964	4.9%	40-80%
Pooled Alternative Investment Funds	4,204,874	1.8%	5%
PRIT Cash Fund	0	0.0%	100%
PRIT Core Fund	<u>203,680,664</u>	<u>88.0%</u>	100%
Grand Total	<u>\$231,487,671</u>	<u>100.0%</u>	

For the year ending December 31, 2007, the rate of return for the investments of the Fall River Retirement System was 7.42%. For the five-year period ending December 31, 2007, the rate of return for the investments of the Fall River Retirement System averaged 10.61%. For the twenty-three year period ending December 31, 2007, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Fall River Retirement System was 9.81%.

SUPPLEMENTARY INVESTMENT REGULATIONS

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

August 9, 2005

16.08

In accordance with PERAC Investment Guideline 99-2, the Fall River Retirement Board will be transferring a portion of the assets currently invested in SsgA's Bond Market Index Fund into SsgA's Treasury Inflation Protected Securities (TIPS) Index Fund. This would provide diversification benefits to the Board as well as protection against rising inflation. The Board has had a satisfactory relationship with SsgA for fixed income index management, it is satisfied that there is no lower-cost or better-performing product available in the market, and feels that it would be administratively cumbersome to have a separate manager for this portion of the fixed income mandate.

December 20, 2004

16.08

In accordance with PERAC Investment Guideline 99-2, the Fall River Retirement Board is authorized to modify its equity mandate with RhumbLine Advisors by investing in that firm's Russell 1000 Index product as well as its previously-approved Small Cap Index product. Funds for this investment will come from the proceeds of two actively managed large cap accounts run by Freedom Capital Management. These accounts have been terminated by the Board as a result of poor investment performance.

November 6, 2003

16.08

Also in accordance with Guideline 99-2, the Board's fixed income mandate with Freedom Capital is being changed from separate account management to a commingled fund, the Freedom Core Plus Fixed Income Fund, in order to obtain structural efficiency and improve portfolio flexibility.

March 16, 2000

16.08

The Fall River Retirement Board may modify its fixed income mandate with Freedom Capital Management in accordance with PERAC Investment Guideline 99-2. At the manager's discretion, up to 25% of the account may be invested on an opportunistic basis in high yield securities. The board has had a satisfactory relationship with Freedom Capital as its domestic fixed income manager since 1995 and the manager has recently hired an experienced professional to upgrade its capability in the high-yield area.

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 106 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

Group 1:

General employees, including clerical, administrative, technical, and all other employees not otherwise classified.

Group 2:

Certain specified hazardous duty positions.

Group 4:

Police officers, firefighters, and other specified hazardous positions.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of regular compensation
1975 - 1983:	7% of regular compensation
1984 to 6/30/96:	8% of regular compensation
7/1/96 to present:	9% of regular compensation
1979 to present:	an additional 2% of regular compensation in excess of \$30,000.

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire 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. Elected officials and others who were hired prior to 1978 may be vested after 6 years in accordance with G.L. c. 32, § 10.

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

WITHDRAWAL OF CONTRIBUTIONS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

DISABILITY RETIREMENT

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

ORDINARY DISABILITY

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

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

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

ACCIDENTAL DISABILITY

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

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of \$687.96 per year (or \$312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member’s retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution.

NOTES TO FINANCIAL STATEMENTS (Continued)

ACCIDENTAL DEATH

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

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement per year, per child, payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

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

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

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

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

DEATH IN ACTIVE SERVICE

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

COST OF LIVING

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

METHODS OF PAYMENT

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

ALLOCATION OF PENSION COSTS

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

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

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

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

December 20, 2005

Membership

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 the system's governmental units shall continue to be a member of this Retirement System. Creditable service in accordance with Board regulations will apply.

Creditable Service

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 to 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.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Buybacks

The Fall River Contributory Retirement System 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.

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

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

May 9, 1995

Creditable Service

Creditable service for all part time employees who are members shall be prorated according to the following formula:

$$\frac{\text{Number of days worked}^*}{\text{Full Week}} \times 12 = \text{creditable service}$$

Example:

$$\frac{30 \text{ hours}}{40 \text{ hours}} \times 12 = 9 \text{ months creditable service}$$

* The regulation states days but can refer to days in some cases and hours in others.

February 27, 1992

Membership

To allow all permanent 20-hour employees to establish membership in the system.

December 13, 1991

Membership

To allow provisional employees to have deductions for retirement effective with actual starting date of employment.

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 City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, 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: Kevin Almeida Term Expires:

Appointed Member: Anthony F. Cordeiro Term Expires:

Elected Member: Joseph C. Almeida Term Expires: 12/31/08 *
*deceased June 30, 2008

Elected Member: David M. Machado Term Expires: 12/11/10

Appointed Member: Arthur M. Viana Term Expires: 01/27/09

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:

MACRS Blanket Policy:

Ex-officio Member:)	\$50,00,000 Fiduciary Liability
Elected Members:)	\$1,000,000 Fidelity (ERISA) Bond
Appointed Members:)	St. Paul Travelers Insurance Company
Staff Employees:)	National Union Fire Arch Insurance Company

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, 2006.

The actuarial liability for active members was	\$175,262,912
The actuarial liability for vested terminated members was	2,174,494
The actuarial liability for non-vested terminated members was	607,842
The actuarial liability for retired members was	<u>203,732,417</u>
The total actuarial liability was	381,777,665
System assets as of that date were	<u>217,828,844</u>
The unfunded actuarial liability was	<u>\$163,948,821</u>
The ratio of system's assets to total actuarial liability was	57.1%
As of that date the total covered employee payroll was	\$64,728,351

The normal cost for employees on that date was	8.03% of payroll
The normal cost for the employer was	5.70% of payroll

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

Investment Return:	8.25% per annum
Rate of Salary Increases:	Varies by group and service

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2006

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2006	\$217,828,844	\$381,777,665	\$163,948,821	57.1%	\$64,728,351	253.3%
1/1/2004	\$208,579,459	\$349,707,630	\$141,128,171	59.6%	\$60,205,440	234.4%
1/1/2001	\$218,685,230	\$269,517,661	\$50,832,431	81.1%	\$57,900,220	87.8%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Retirement in Past Years										
Superannuation	27	43	36	48	144	50	25	30	54	68
Ordinary Disability	2	0	0	5	2	1	2	2	0	2
Accidental Disability	10	7	7	10	11	6	7	12	9	7
Total Retirements	39	50	43	63	157	57	34	44	63	77
Total Retirees, Beneficiaries and Survivors	1,395	1,457	1,460	1,484	1,599	1,520	1,492	1,485	1,613	1,501
Total Active Members	2,048	2,064	2,106	2,092	1,949	1,845	1,867	1,889	1,862	1,832
Pension Payments										
Superannuation	\$7,739,197	\$7,964,240	\$8,322,720	\$8,647,261	\$9,936,712	\$11,364,174	\$11,803,328	\$12,008,964	\$12,552,844	\$13,278,464
Survivor/Beneficiary Payments	801,971	836,392	910,292	956,214	1,126,765	1,164,677	1,313,587	1,345,013	1,317,562	1,372,059
Ordinary Disability	403,911	384,738	383,599	393,416	376,031	406,052	444,483	445,382	451,541	461,270
Accidental Disability	3,427,352	3,578,210	3,861,877	3,941,076	4,260,634	4,445,253	4,502,030	4,794,657	5,521,313	5,142,625
Other	2,023,012	2,152,618	2,235,345	2,390,829	2,165,056	3,136,217	2,780,436	3,018,995	3,108,817	3,284,249
Total Payments for Year	<u>\$14,395,443</u>	<u>\$14,916,198</u>	<u>\$15,713,833</u>	<u>\$16,328,796</u>	<u>\$17,865,198</u>	<u>\$20,516,374</u>	<u>\$20,843,863</u>	<u>\$21,613,011</u>	<u>\$22,952,077</u>	<u>\$23,538,668</u>

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