

PERAC AUDIT REPORT



Falmouth
Contributory Retirement System



JAN. 1, 2007 - DEC. 31, 2008



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

May 10, 2010

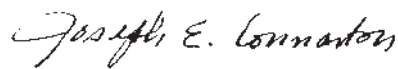
The Public Employee Retirement Administration Commission has completed an examination of the Falmouth Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2007 to December 31, 2008. This audit was conducted in accordance with the accounting and management 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. This 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 examiners John J. Shea and Scott C. Henderson 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

Member Deductions

An examination of Falmouth Housing Authority payroll records showed that a weekly payment of \$100 for being on call after normal hours, which is rotated regularly among four workers, is erroneously excluded from retirement deductions.

Recommendation:

The Board must formally instruct the payroll officer of the Housing Authority to begin withholding retirement deductions from these payments. The rate of deduction must be the same as that taken from the member's other compensation plus the additional 2% if the total compensation exceeds \$30,000 on an annualized basis for any pay period.

Board Response:

The retirement system staff along with the payroll officer for the Falmouth Housing Authority has undertaken a review of the payroll records to determine which members receive this weekly payment, and therefore, should have additional retirement deductions withheld. The staff will insure that going forward, retirement deductions are withheld from the appropriate payments.

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,	
	2008	2007
Net Assets Available For Benefits:		
Cash and Cash Equivalents	\$916,272	\$2,882,263
Short Term Investments	0	0
Fixed Income Securities	1	2,096,459
Equities	6,265,413	15,470,848
Pooled Domestic Equity Funds	12,757,439	18,897,634
Pooled International Equity Funds	7,763,337	14,463,994
Pooled Domestic Fixed Income Funds	12,083,235	9,250,713
Pooled International Fixed Income Funds	2,650,619	2,402,860
Pooled Alternative Investment Funds	4,424,311	3,429,711
Pooled Real Estate Funds	8,658,973	7,879,078
PRIT Cash Fund	0	0
PRIT Core Fund	6,813,299	6,409,259
Interest Due and Accrued	485	27,066
Accounts Receivable	2,306,919	3,094,098
Accounts Payable	(61,344)	(94,912)
Total	<u>\$64,578,958</u>	<u>\$86,209,070</u>
Fund Balances:		
Annuity Savings Fund	\$24,842,601	\$22,569,240
Annuity Reserve Fund	6,337,605	6,446,771
Pension Fund	1,985,806	3,017,794
Military Service Fund	3,298	3,278
Expense Fund	0	0
Pension Reserve Fund	31,409,648	54,171,989
Total	<u>\$64,578,958</u>	<u>\$86,209,070</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)	\$21,364,201	\$5,911,490	\$4,163,332	\$3,258	\$0	\$49,255,342	\$80,697,622
Receipts	2,604,955	178,525	4,371,997	20	698,245	4,916,546	12,770,288
Interfund Transfers	(1,161,095)	1,160,994	0	0	0	101	(0)
Disbursements	(238,821)	(804,238)	(5,517,535)	0	(698,245)	0	(7,258,840)
Ending Balance (2007)	22,569,240	6,446,771	3,017,794	3,278	0	54,171,989	86,209,070
Receipts	3,008,167	188,861	4,856,923	20	734,316	(22,802,245)	(14,013,958)
Interfund Transfers	(608,877)	568,973	0	0	0	39,904	0
Disbursements	(125,928)	(866,999)	(5,888,910)	0	(734,316)	0	(7,616,154)
Ending Balance (2008)	<u>\$24,842,601</u>	<u>\$6,337,605</u>	<u>\$1,985,806</u>	<u>\$3,298</u>	<u>\$0</u>	<u>\$31,409,648</u>	<u>\$64,578,958</u>

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2008	2007
Annuity Savings Fund:		
Members Deductions	\$2,497,079	\$2,341,043
Transfers from Other Systems	309,845	55,381
Member Make Up Payments and Re-deposits	65,672	60,588
Member Payments from Rollovers	2,490	23,540
Investment Income Credited to Member Accounts	<u>133,081</u>	<u>124,404</u>
Sub Total	<u>3,008,167</u>	<u>2,604,955</u>
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	<u>188,861</u>	<u>178,525</u>
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems Received from Commonwealth for COLA and Survivor Benefits	92,277	0
Pension Fund Appropriation	160,147	171,997
Settlement of Workers' Compensation Claims	4,604,498	4,200,000
	<u>0</u>	<u>0</u>
Sub Total	<u>4,856,923</u>	<u>4,371,997</u>
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	0	0
Investment Income Credited to the Military Service Fund	<u>20</u>	<u>20</u>
Sub Total	<u>20</u>	<u>20</u>
Expense Fund:		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	<u>734,316</u>	<u>698,245</u>
Sub Total	<u>734,316</u>	<u>698,245</u>
Pension Reserve Fund:		
Federal Grant Reimbursement	10,088	11,141
Pension Reserve Appropriation	0	0
Interest Not Refunded	4,497	1,267
Miscellaneous Income	0	2,687
Excess Investment Income (Loss)	<u>(22,816,829)</u>	<u>4,901,452</u>
Sub Total	<u>(22,802,245)</u>	<u>4,916,546</u>
Total Receipts	<u>(\$14,013,958)</u>	<u>\$12,770,288</u>

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,	
	2008	2007
Annuity Savings Fund:		
Refunds to Members	\$124,413	\$158,010
Transfers to Other Systems	<u>1,515</u>	<u>80,811</u>
Sub Total	<u>125,928</u>	<u>238,821</u>
Annuity Reserve Fund:		
Annuities Paid	866,999	804,238
Option B Refunds	<u>0</u>	<u>0</u>
Sub Total	<u>866,999</u>	<u>804,238</u>
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	4,155,581	3,861,742
Survivorship Payments	201,799	190,946
Ordinary Disability Payments	47,946	47,285
Accidental Disability Payments	1,232,700	1,194,030
Accidental Death Payments	115,618	113,630
Section 101 Benefits	39,837	37,969
3 (8) (c) Reimbursements to Other Systems	95,430	71,934
State Reimbursable COLA's Paid	<u>0</u>	<u>0</u>
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>
Sub Total	<u>5,888,910</u>	<u>5,517,535</u>
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>
Expense Fund:		
Board Member Stipend	3,000	3,000
Salaries	116,619	110,798
Legal Expenses	33,727	13,560
Medical Expenses	370	422
Travel Expenses	1,601	2,114
Administrative Expenses	13,416	20,433
Furniture and Equipment	0	5,355
Management Fees	396,847	388,222
Custodial Fees	35,737	49,976
Consultant Fees	60,000	57,500
Rent Expenses	14,624	14,624
Service Contracts	53,950	27,950
Fiduciary Insurance	<u>4,425</u>	<u>4,291</u>
Sub Total	<u>734,316</u>	<u>698,245</u>
Total Disbursements	<u>\$7,616,154</u>	<u>\$7,258,840</u>

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31,	
	2008	2007
Investment Income Received From:		
Cash and Cash Equivalents	\$78,119	\$170,506
Fixed Income	21,397	758,881
Equities	88,075	159,948
Pooled or Mutual Funds	402,654	62,781
Commission Recapture	9,775	2,098
Total Investment Income	<u>600,020</u>	<u>1,154,214</u>
Plus:		
Realized Gains	1,324,069	1,412,406
Unrealized Gains	6,181,409	10,950,481
Interest Due and Accrued - Current Year	485	27,066
Sub Total	<u>7,505,963</u>	<u>12,389,953</u>
Less:		
Paid Accrued Interest on Fixed Income Securities	(65)	(74,471)
Realized Loss	(5,161,723)	(945,872)
Unrealized Loss	(24,677,680)	(6,503,950)
Interest Due and Accrued - Prior Year	(27,066)	(117,229)
Sub Total	<u>(29,866,534)</u>	<u>(7,641,522)</u>
Net Investment Income (Loss)	<u>(21,760,551)</u>	<u>5,902,645</u>
Income Required:		
Annuity Savings Fund	133,081	124,404
Annuity Reserve Fund	188,861	178,525
Military Service Fund	20	20
Expense Fund	734,316	698,245
Total Income Required	<u>1,056,278</u>	<u>1,001,193</u>
Net Investment Income (Loss)	<u>(21,760,551)</u>	<u>5,902,645</u>
Less: Total Income Required	<u>1,056,278</u>	<u>1,001,193</u>
Excess Income (Loss) To The Pension Reserve Fund	<u>(\$22,816,829)</u>	<u>\$4,901,452</u>

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

AS OF DECEMBER 31, 2008			
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED *
Cash and Cash Equivalents	\$916,272	1.5%	100%
Short Term	0	0.0%	0%
Fixed Income	1	0.0%	19.5%
Equities	6,265,413	10.0%	53-65%
Pooled Domestic Equity Funds	12,757,439	20.5%	38%
Pooled International Equity Funds	7,763,337	12.5%	15%
Pooled Domestic Fixed Income Funds	12,083,235	19.4%	17%
Pooled International Fixed Income Funds	2,650,619	4.3%	2.5%
Pooled Alternative Investment Funds	4,424,311	7.0%	7.5%
Pooled Real Estate Funds	8,658,973	13.9%	10%
PRIT Cash Fund	0	0.0%	10%
PRIT Core Fund	<u>6,813,299</u>	<u>10.9%</u>	100%
Grand Total	<u>\$62,332,898</u>	<u>100.0%</u>	

* based upon market value

For the year ending December 31, 2008, the rate of return for the investments of the Falmouth Retirement System was -24.56%. For the five-year period ending December 31, 2008, the rate of return for the investments of the Falmouth Retirement System averaged 1.82%. For the twenty-four year period ending December 31, 2008, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Falmouth Retirement System was 8.69%.

The composite rate of return for all retirement systems for the year ending December 31, 2008 was -28.61%. For the five-year period ending December 31, 2008, the composite rate of return for the investments of all retirement systems averaged 3.13%. For the twenty-four year period ending December 31, 2008, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 8.94%.

SUPPLEMENTARY INVESTMENT REGULATIONS

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

September 14, 2007

19.01(8)

The Falmouth Retirement Board is authorized to increase its allocation to Alternative Investments (private equity) from 5.0% to 7.5%. The board has successfully invested in this asset class since 2001 and believes that the additional allocation will provide incremental benefits to the system's performance.

February 15, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Falmouth Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO Non-US Partnership Fund III, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

February 14, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Falmouth Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO Venture Partnership Fund III, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, and the underlying funds in which the Fund may invest, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

February 14, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Falmouth Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the Institutional Retirement Trust (IRT) International Equity Trust (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

February 13, 2007

17.03

Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Falmouth Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the INVESCO US Buyouts & Expansion Capital Partnership Fund III, LP (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, and the underlying funds in which the Fund may invest, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, and other available class exemptions.

October 12, 2001

17.04(1)(c)

Exemption of the Board and INVESCO from the second sentence of 840 CMR 17.04(1)(c) – This Regulation deals with the use of non-public information by managers and consultants. PERAC recognizes that, in making the investments contemplated by the INVESCO Funds delineated above, that sentence, which prohibits action until information is publicly disseminated, represents an undue burden on the ability of the Partnerships to operate. Consequently, the Falmouth Retirement Board's request as it applies to 840 CMR 17.04(1)(c) is approved.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

17.04(6)

Exemption of the Board and INVESCO from 840 CMR 17.04(6), except as otherwise provided for in the Partnership Agreement and/or as disclosed in INVESCO's Form ADV – This Regulation deals with the Priority of Transactions and an investment manager's obligation to prioritize board transactions and provide the board with the opportunity to act prior to the manager acting, if applicable. PERAC recognizes that this Regulation may impede the ability of partnerships such as INVESCO's to operate. Upon receipt of a copy of the provisions of the Partnership Agreement and/or disclosures in the INVESCO Form ADV, the Commission will approve the Falmouth request as it applies to 840 CMR 17.04(6).

19.01(7)(a)(6)

Exemption of the Board and INVESCO from 840 CMR 19.01(7)(a)(6) with respect to the management fees and the General Partner's Carried Interest to be received by the manager or the General Partner pursuant to the (a) Subscription Agreement, (b) Agreement as defined in the side letter, and/or (c) Manager's Investment Advisory Agreement with respect to the Board's commitments to the Partnerships – PERAC recognizes the fact that the market, at the present time, is such that fee limitations, as outlined in these Regulations, result in limiting the number of partnerships available to the retirement boards. Consequently, the Falmouth Retirement Board's request, as it applies to 840 CMR 19.01(7)(a)(6), is approved.

21.01(2), 21.01(3)(a), 21.01(4) and 21.01(5)

Exemption of the Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4) and 21.01(5) to the extent as otherwise permitted under the applicable agreement – These Regulations prohibit certain transactions as follows: 21.01(2) prohibits the sale of securities not owned by the system at the time of the sale (short sales); 21.01(3)(a) permits the use of forward currency contracts in limited circumstances; 21.01(4) prohibits the use of call options; 21.01(5) prohibits the purchase of options other than as required to close out option positions. PERAC has received a letter dated August 22, 2000 from INVESCO that clarifies the possible use of options, futures, or other derivatives. In pertinent part, the letter states as follows: "Although the above referenced funds do not expect to use options, futures, or other derivatives other than infrequently, if at all, futures and/or options would be used only for nonspeculative true hedging purposes. In general, we would anticipate their use, if at all, for among other reasons to protect downside risk on public securities of companies distributed to the funds by the underlying portfolio funds we invest in and where a commitment to a fund was made in a non US currency to limit currency risk of the funds."

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

PERAC approves the exemption of the Falmouth Retirement Board and INVESCO from 840 CMR 21.01(2), 21.01(3)(a), 21.01(4) and 21.01(5) for the limited purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limit currency risk of the funds where a commitment to a fund was made in a non US currency.

Please be advised that this Supplemental Regulation as it exempts the Falmouth Retirement Board from PERAC Regulations, only does so in relation to the INVESCO Funds that are the subject of the Supplementary Regulation. In all other circumstances, these Regulations apply to the Falmouth Retirement Board.

The Supplementary Regulations approved herein are applicable only to the Falmouth Retirement System's investment in the INVESCO Venture Partnership Fund, the INVESCO U.S. Buyout Partnership Fund, and the INVESCO Non-U.S. Partnership Fund. Exemption from the regulations pertaining to prohibited investments is limited to the purpose of protecting downside risk on public securities of companies distributed to the funds by underlying portfolio funds and to limiting currency risk of the funds where a commitment to a fund was made in a non-U.S. currency.

August 31, 2001

16.08

In accordance with PERAC Investment Guideline 99-2, the Falmouth Retirement System is modifying its international growth equity mandate with State Street Global Advisors to allow for securities lending. There is no change in the fund's investment strategy, investment universe, or benchmark. The Board understands and is comfortable with the practice of securities lending and is satisfied with State Street Bank's capabilities in this area.

August 8, 2000

16.08

In accordance with PERAC Investment Guideline 99-2, the Falmouth Retirement Board may modify its investment mandate with Cutler & Company, its domestic large cap equity manager, to allow for the opportunistic use of mid cap equities when and as deemed appropriate by the manager. The Board has had a successful relationship with Cutler & Company since 1997 and is confident, based on the manager's performance record, that it can effectively accomplish the modified, slightly expanded, mandate.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

May 1, 2000

16.08

In accordance with PERAC Investment Guideline 99-2, the Falmouth Retirement Board may modify its fixed income mandate with Freedom Capital Management to allow the opportunistic investment of up to 15% of the account in high-yield securities. The Board wishes to have exposure to this sub-class and has had a satisfactory relationship with Freedom Capital for over two years as its fixed income manager.

August 8, 1996

16.02(3)

The board may incur expenses for investment advice or management of the funds of the system by a qualified investment manager and the board may incur expenses for consulting services. Such expenses may be charged against earned income from investments provided that the total of such expenses shall not exceed in any one year:

- (a) 1% of the value of the fund for the first \$5 million, and
- (b) 0.5% of the value of the fund in excess of \$5 million.

October 19, 1995

18.02(4)

Rate of Return

A statement of the rate of return objective for the entire portfolio which shall be at least one percent (100 basis points) greater than a composite performance index consisting of 55% of the Standard and Poors "500" Stock Index and 45% of the Shearson Lehman Government/Corporate Bond Index, cumulated quarterly.

February 18, 1993

20.03(1)

Equity investments shall not exceed 65% of the total book value of the portfolio at the time of purchase.

March 27, 1991

20.04

All investments shall consist of recognized quality marketable securities issued by:

- (1) United States based corporations and fixed income and equity securities of non-U.S. based corporations, provided that:
 - (a) all such fixed income securities are denominated in U.S. currency and issued and traded in U.S. markets and provided further that the total of all such fixed income securities shall be considered part of the board's fixed income asset allocation and shall not exceed 10% of the total market value of the fixed income portfolio; and
 - (b) all such equity securities are denominated in U.S. currency and issued and traded in U.S. markets and provided further that the total of such equity securities shall be considered part of the board's equity asset allocation and shall not exceed 10% of the total market value of the equity portfolio.

NOTES TO FINANCIAL STATEMENTS

NOTE I – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Falmouth 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 including electricians.

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 \$708.60 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.

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 \$312 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.

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 or loss 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 Falmouth Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission:

MEMBERSHIP:

December 22, 1986

In order to be eligible for membership in the retirement system, "the employee must work a minimum of 50% of a normal 40 hour work week, therefore 20 hours." If the employee does not work the minimum 20 hours per week, he or she is not eligible for membership in this contributory retirement system.

December 19, 1986

In all cases involving part-time, provisional, temporary provisional or intermittent employment or service of any employee in this governmental unit, the board shall have and exercise full jurisdiction to determine such employee's eligibility for membership; provided that any person holding a position for which the annual compensation is fixed in an amount of \$200 or less, and/or the duties of such position require less than 20 hours, regularly, in the service of this governmental unit during the regular work week of permanent or temporary employment shall not be eligible for membership.

CREDITABLE SERVICE:

March 11, 1999

Effective this day... any active member of the Falmouth Retirement System who can prove prior seasonal, temporary or otherwise non-eligible service as an employee of the Town of Falmouth will be allowed to purchase this type of service as long as documentation can be recovered to support this type of employment and the member is an active member of this system.

The following information will be required to support and calculate contributions owed, plus interest, and service rendered: total income gained through this employment; hourly wage received; hours worked; period of time covered. The calculation of creditable service will be based on actual hours worked, the sum of which is to be either reported to this office through payroll records and/or determined using the employees hourly wage as submitted to this office by the Treasurers' records or computer payroll printout indicating total income paid for the period of time worked.

September 29, 1993

Members who are receiving partial workers' compensation benefits and return to employment will be required to contribute to the system regardless of the number of hours employed and will receive full creditable service for such contributions. No contributions either from the member or governmental unit will be required with respect to the workers' compensation benefits paid for partial incapacity.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

May 18, 1993

Members re-depositing funds or purchasing service credit will be allowed to make payment in one lump sum or in scheduled installment payments made directly to the retirement system as approved by the retirement board. If installment payments are made, service credit will be applied to the member's record upon final payment.

June 25, 1991

Members who have previous CETA employment on which no retirement deductions were taken due to ineligibility for membership at the time of that employment based on its temporary nature, will be allowed to pay late entry make-up payments and receive creditable service for such CETA employment. Excluded will be intermittent sporadic employment of limited duration and the type of service that would not create an expectation that he/she would become entitled to the right to membership in a Massachusetts retirement system.

December 19, 1986

Any person who becomes a member, who was eligible to join the system on July 1, 1941, the effective date of the Falmouth Retirement System, or who was not eligible to join because of the type of employment, who claims any previous period of part-time, provisional, temporary, temporary-provisional, seasonal or intermittent employment or service shall be credited with an accumulated total of actual time worked. The accumulated total shall be credited in full months and any fraction thereof shall be credited to the nearest full month. Nothing in this rule shall be construed to prevent any member from claiming creditable service under any other provisions of Sections one to twenty-eight inclusive of Chapter 32 of the General Laws.

In all cases involving a part-time provisional, seasonal or intermittent employment or service of any employee, including such employment or service in a municipal office or position, the Board shall fix and determine the amount of creditable service provided that one full work week as defined for such position by a collective bargaining agreement, the Town of Falmouth Salary Administration Plan or Department of Education, equal one full work week of creditable service and that any lesser period shall receive the applicable percentage of creditable service; provided that in the case of Food Service Workers employed in the school lunch program and other full-time school department employees (except teachers), the Board shall credit as the equivalent of one year of service actual full-time service of not less than eight months, and provided further that in all other cases, the board shall credit as full time service (one year) all other actual full time service of not less than nine months, provided that the board shall credit as full time service not to exceed five years that period of time during which a reserve or permanent intermittent police officer or a reserve, permanent intermittent or call firefighter was on his respective list and was eligible for assignment to duty subsequent to his appointment; and, provided, further that such service as a permanent-intermittent or call fire-fighter shall be credited only if such permanent-intermittent or call fire-fighter was later appointed as a permanent member of the Fire Department.

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

REGULAR COMPENSATION:

February 14, 1994

Paramedic and EMT specialization pay received by town of Falmouth fire fighters is regular compensation.

MISCELLANEOUS:

February 14, 1994

Members who have been receiving workers' compensation benefits and return to work under partial workers' compensation benefits and part-time work shall have deductions made on the part-time employment compensation.

June 6, 2003

Travel Regulations

The Falmouth 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 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: Mary Ellen Alwardt

Appointed Member: Robert L. Whritenour, Jr. Serves until a successor is appointed

Elected Member: Russell R. Ferreira Term Expires: 10/30/2010

Elected Member: Paul D. Brodeur Term Expires: 12/03/2011
Chairman

Appointed Member: Ellen K. Philbin Term Expires: 06/30/2012

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 Employees:)	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	\$ 64,462,655
The actuarial liability for vested terminated members was	912,332
The actuarial liability for non-vested terminated members was	279,888
The actuarial liability for retired members was	<u>60,095,817</u>
The total actuarial liability was	\$125,750,692
System assets as of that date were	<u>84,964,799</u>
The unfunded actuarial liability was	<u>\$ 40,785,893</u>
The ratio of system's assets to total actuarial liability was	67.6%
As of that date the total covered employee payroll was	\$ 26,227,194

The normal cost for employees on that date was 8.42% of payroll
 The normal cost for the employer was 5.94% of payroll

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

Investment Return: 8.00% per annum
 Rate of Salary Increase: Service based table with ultimate rates of 4.75%, 5.00% and 5.25% per year 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	\$84,964,799	\$125,750,692	\$40,785,893	67.6%	\$26,227,194	155.5%
1/1/2006	\$70,680,316	\$106,467,179	\$35,786,863	66.4%	\$24,781,804	144.4%
1/1/2004	\$62,841,919	\$94,608,837	\$31,766,918	66.4%	\$22,751,210	139.6%

NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - MEMBERSHIP EXHIBIT

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Retirement in Past Years										
Superannuation	N/A	N/A	9	11	21	13	11	13	15	7
Ordinary Disability	N/A	N/A	0	3	0	0	0	0	0	0
Accidental Disability	N/A	N/A	3	3	0	2	2	3	2	2
Total Retirements	0	0	12	17	21	15	13	16	17	9
Total Retirees, Beneficiaries and Survivors	N/A	271	276	286	321	322	317	327	341	334
Total Active Members	N/A	659	539	591	635	748	711	647	597	617
Pension Payments										
Superannuation	\$1,985,969	\$2,188,528	\$2,310,705	\$2,430,921	\$2,925,546	\$3,107,029	\$3,319,190	\$3,540,331	\$3,861,742	\$4,155,581
Survivor/Beneficiary Payments	138,094	117,624	113,416	148,825	171,280	223,151	248,546	185,149	190,946	201,799
Ordinary Disability	28,057	63,259	57,946	128,134	129,813	128,374	129,117	62,925	47,285	47,946
Accidental Disability	504,653	631,253	620,621	698,116	855,683	896,131	951,453	1,095,869	1,194,030	1,232,700
Other	53,375	77,206	155,855	142,949	124,377	99,950	148,767	260,516	223,532	250,884
Total Payments for Year	<u>\$2,710,148</u>	<u>\$3,077,870</u>	<u>\$3,258,543</u>	<u>\$3,548,945</u>	<u>\$4,206,699</u>	<u>\$4,454,635</u>	<u>\$4,797,073</u>	<u>\$5,144,790</u>	<u>\$5,517,535</u>	<u>\$5,888,910</u>

N/A: Retirement detail for 1999 and 2000 is not available.

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