Fairhaven

Retirement System
Audit Report
Jan. 1, 2016 - Dec. 31, 2020

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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June 8, 2023

The Public Employee Retirement Administration Commission (PERAC) has completed a review of the audits of the Fairhaven Retirement System conducted by the firm of Melanson, Certified Public Accountants. Melanson conducted these audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audits covered the period from January 1, 2016 to December 31, 2020.

We conducted an inspection of the work papers prepared by Melanson. We determined that the audits were conducted in a competent professional manner and the work papers demonstrated that audit tests and procedures were performed in sufficient detail to allow us to accept the final audit reports as issued.

We identified specific differences between these financial audits designed to provide an opinion on financial statements and our compliance audits performed in accordance with the accounting and management standards established by PERAC in regulation 840 CMR 25.00 and in compliance with the provisions specified in PERAC Memo #18/2019.

Accordingly, we supplemented the field work conducted in the audits by Melanson with certain limited procedures designed to provide additional assurance that the accounting and management standards established by PERAC were adhered to and complied with. The specific objectives of our review were to determine: 1) that the Board is exercising appropriate fiduciary oversight, 2) that cash balances are accurately stated, 3) that travel expenses were properly documented and accounted for, 4) that retirement contributions are accurately deducted, 5) that retirement allowances were correctly calculated, and 6) that required member documentation is maintained.

To achieve these objectives, we inspected certain records of the Fairhaven Retirement Board in the above areas. Specifically, we reviewed the minutes of the Board meetings for compliance with fiduciary oversight, verified cash balances and tested a sample of travel expenses for Board approvals, supporting documentation and proper accounting. We tested the payroll records of a sample of active members to confirm that the correct percentage of regular compensation is being deducted, including the additional two percent over $30,000. We tested a sample of members who retired during our audit period to verify that their retirement allowance was calculated in accordance with the statute. We also reviewed a sample of member files for accuracy and completeness.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by PERAC with the exception of those related to our supplemental work which are detailed in the findings presented in this report.

It should be noted that the financial statements included in this audit report were based on the work performed by Melanson and the tests conducted for the periods referenced in their opinion. These audits were not performed by employees or representatives of PERAC. It should also be noted that the opinions expressed in these audit reports were based on the laws and regulations in effect at the time.

The financial statements and footnotes presented in this report were limited to the express results as of and for the years ended December 31, 2020, December 31, 2019, December 31, 2018, December 31, 2017, and December 31, 2016.

In closing, I wish to acknowledge the work of Melanson who conducted these examinations, and the PERAC examiners who conducted limited procedures to supplement the field work and express my appreciation to the Fairhaven Retirement Board and staff for their courtesy and cooperation.

Sincerely,

John W. Parsons, Esq.
Executive Director

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

1. Cash Reconciliations:

The Treasurer is not preparing cash reconciliations; the Administrator is instead. The Administrator is responsible for the accounting and production of the warrants and checks and therefore should not prepare the cash reconciliations, too. The previous Treasurer did not perform this duty despite receiving the stipend of $1,000 annually as the custodian of the accounts. The Interim Treasurer is currently reviewing the reconciliations prepared by the Administrator.

Recommendation: The Treasurer should be preparing the cash reconciliations as custodian and to ensure better internal controls over cash. Cash reconciliations should be signed and dated by the preparer and reviewer for best documentation.

Board Response:

- The Administrator is currently preparing the Cash reconciliation. The Board will notify the Town of Fairhaven Treasurer they should be preparing the cash reconciliations as custodian and to ensure better internal controls over cash.
- The cash reconciliations will be signed and dated by the preparer and reviewer.

2. New Retirement Allowance Calculations:

We tested eleven new retirement allowance calculations during the audit period and found issues with three retirees.

One retiree had over three years' worth of longevity included in the three highest years of regular compensation. Another retiree did not have Rapid Response (First Responder/Narcan) pay included in the three highest years of regular compensation. This pay should be considered regular compensation because it is payment for "holding the training, certification, licensing or other educational incentives approved by the employer for the performance of services related to the position the employee holds". (840 CMR 15.03 3(b))

One retiree's COLA was in excess of the maximum allowed. (This is the first retiree mentioned above.) This happened because the member and the member's Domestic Relations Order's (DRO) alternate payee were both granted COLAs separately rather than as a combined benefit. One accidental disability retiree did not receive one year of COLA due to him.

Recommendation: When there is a partial payment of longevity or other annual stipend paid in the final year, there needs to be a proration of the earliest year so that there are only three years' worth included in the three highest years of regular compensation.

Any other retirees who received the Rapid Response pay should have it added to their average salary. The contributions that would have been withheld on the pay should be subtracted from the retroactive payment. For active members of the system, the payroll department should start withholding retirement contributions.

The Board should review retirement calculations and COLA payments noted above and make all necessary corrections. Any benefit being split by former spouses should be based on the total and pro-rated according to the DRO.

Board Response:

- One retiree's calculation had over three years' worth of longevity included in the three highest years of regular compensation due to pro-rating in the final year. Any calculation having a partial payment of longevity or other annual stipends paid in the final year will have a proration of the earliest year in order for there to be only three years' worth included in the three highest years of regular compensation.
- One retiree's calculation did not have Rapid Response (First Responder Narcan) pay included in the three highest years of regular compensation. Any retiree who received this pay, will have it added to their average salary. The contributions that should have been withheld on the pay will be subtracted from the retroactive payment. For active members of the system, the payroll department will start withholding retirement contributions.
- One retiree who had a QDRO, was in excess of the maximum COLA amount allowed, due to granting a COLA to both the retiree and the alternate payee separately, rather than as a combined benefit. The necessary correction will be made.
- One ADR retiree did not receive one year COLA due to him. The necessary correction will be made.

3. Active Members' Creditable Service and Payroll Deductions:

There were two active members found with creditable service issues. One member's Annuity Savings Fund (ASF) was transferred in from a different board, but their creditable service time was not added to total service. The other active member was a call firefighter whose buyback did not grant full-time creditable service for the entire time he was serving as a call firefighter.

A review of a recent payroll found two issues. The first is that an employee who qualified for membership was not having contributions withheld. The second is that a member who was paid multiple checks had the additional 2% withheld from only one check.

Recommendation: The creditable service and ASF accounts should be reviewed when a transfer in occurs. Call firefighters who are later appointed full-time firefighters should receive full time credit for the period they serve as a call firefighter provided they meet all of the buyback requirements of section 4(2)(b) and memos 11 and 38 of 2020. The Board should review second checks paid in the same period to ensure that the additional 2% is taken out. The Board should occasionally review payrolls to ensure that eligible members have been enrolled in the system and are contributing.

Board Response:

- One active member's Annuity Savings Fund that was transferred from another board, although reflected in the member comments section, did not have the creditable service added into the total service. The Administrator has corrected this.
- An active member who previously bought back call fire fighter service was not grant full-timed creditable service for the entire time. The time will be recalculated and the member will be notified.
- A review of payroll found one employee who was eligible for membership did not have retirement deductions withheld for 5 weeks. The payroll department will be notified to collect the missing deductions from the member to correct this.

EXPLANATION OF FINDINGS AND RECOMMENDATIONS
(Continued)

- A review of payroll found a member who works for the town , as well as receiving a stipend as a retirement board member, was not having the additional 2% withheld from the stipend paycheck. The Board administrator will correct this with Harper's Payroll Service.

FINAL DETERMINATION:
PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

SUPPLEMENTARY INFORMATION

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2020	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$303,357	0.4%
PRIT Cash Fund	11	0.0%
PRIT Core Fund	78,276,094	99.6%
Grand Total	$78,579,462	100.0%

For the year ending December 31, 2020, the rate of return for the investments of the Fairhaven Retirement System was 12.54%. For the five-year period ending December 31, 2020, the rate of return for the investments of the Fairhaven Retirement System averaged 10.38%. For the 36-year period ending December 31, 2020, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Fairhaven Retirement System was 9.41%.

The composite rate of return for all retirement systems for the year ending December 31, 2020 was 12.80%. For the five-year period ending December 31, 2020, the composite rate of return for the investments of all retirement systems averaged 10.38%. For the 36-year period ending December 31, 2020, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.31%.

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:	Anne M. Carreiro, Chairperson		
Appointed Member:	Mark Rees	Serves until a successor is appointed	
Elected Member:	Wally Therrien	Term Expires:	5/21/2024
Elected Member:	Timothy Cox	Term Expires:	1/7/2025
Appointed Member:	Alfred Robichaud	Term Expires:	6/24/2024

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. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. 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.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of $1,000,000 with a $10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of $50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

BOARD REGULATIONS

The Fairhaven Retirement Board has adopted Supplemental Regulations which are available on the PERAC website at [https://mass.gov/Fairhaven-retirement-board-regulations.](https://mass.gov/Fairhaven-retirement-board-regulations)

ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Public Employee Retirement Administration Commission as of January 1, 2022.

The actuarial liability for active members was	$43,795,931
The actuarial liability for vested terminated members was	2,421,209
The actuarial liability for non-vested terminated members was	270,428
The actuarial liability for retired members was	54,416,024
The total actuarial liability was	$100,903,592
System assets as of that date were (actuarial value)	84,456,718
The unfunded actuarial liability was	$16,446,874
The ratio of system's assets to total actuarial liability was	83.7%
As of that date the total covered employee payroll was	$14,041,205

The normal cost for employees on that date was	9.1% of payroll
The normal cost for the employer (including expenses) was	10.8% of payroll

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

Investment Return:	7.00% per annum
Rate of Salary Increase:	Varies based on service and group

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2022

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)
1/1/2022	$84,456,718	$100,903,592	$16,446,874	83.7%	$14,041,215	117.1%
1/1/2020	$67,487,093	$90,565,425	$23,078,332	74.5%	$13,033,100	177.1%
1/1/2018	$58,926,133	$80,864,341	$21,938,208	72.9%	$11,770,740	186.4%
1/1/2016	$51,043,605	$73,127,682	$22,084,077	69.8%	$11,126,329	198.5%
1/1/2014	$47,562,444	$64,658,172	$17,095,728	73.6%	$10,563,797	161.8%

SUPPLEMENTARY INFORMATION (Continued)

MEMBERSHIP EXHIBIT

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Retirement in Past Years										
Superannuation	5	8	7	6	7	9	5	12	6	6
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	1	3	0	0	0	0	1	1	0	3
Total Retirements	6	11	7	6	7	9	6	13	6	9
Total Retirees, Beneficiaries and Survivors	193	197	197	203	203	197	211	210	204	218
Total Active Members	265	269	271	252	264	263	268	262	261	264
Pension Payments										
Superannuation	$1,995,325	$2,134,025	$2,240,830	$2,273,577	$2,397,359	$2,572,942	$2,629,688	$2,811,795	$2,931,549	$3,064,503
Survivor/Beneficiary Payments	66,261	81,424	84,093	77,370	74,930	77,435	80,665	138,951	163,106	196,379
Ordinary Disability	70,466	71,906	73,346	74,786	76,226	77,726	79,346	103,755	66,692	62,614
Accidental Disability	411,264	617,345	529,694	558,410	544,470	518,528	551,924	572,745	642,244	792,813
Other	182,405	179,550	220,341	303,582	254,490	261,124	381,879	400,495	421,345	329,956
Total Payments for Year	$2,725,721	$3,084,250	$3,148,304	$3,287,725	$3,347,474	$3,507,755	$3,723,502	$4,027,742	$4,224,935	$4,446,264

FAIRHAVEN
CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of
Fairhaven, Massachusetts)

Financial Statements,
Required Supplementary Information,
and Other Information

For the Year Ended December 31, 2020

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MELANSON

INDEPENDENT AUDITORS' REPORT

To the Honorable Fairhaven Contributory Retirement Board
Fairhaven Contributory Retirement System
Town of Fairhaven, Massachusetts

We have audited the accompanying financial statements of the Fairhaven Contributory Retirement System (the System), a component unit of the Town of Fairhaven, Massachusetts, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Merrimack, New Hampshire
Andover, Massachusetts
Greenfield, Massachusetts
Ellsworth, Maine

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accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Fairhaven Contributory Retirement System as of December 31, 2020, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in the Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns, listed in the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson

Andover, Massachusetts
November 19, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Fairhaven Contributory Retirement System (the System), we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2020.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements comprise two components: (1) fund financial statements and (2) notes to financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

Fund Financial Statements
A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

The Statement of Fiduciary Net Position presents information on the System's assets and liabilities and the resulting net position held in trust restricted for pension benefits. This statement reflects the System's investments at fair value, as well as cash, receivables, and liabilities.

The Statement of Changes in Fiduciary Net Position presents information showing how the System's net position restricted for pensions changed during the year ended December 31, 2020. It reflects contributions by members and participating employers, transfers from other systems and reimbursements from the Commonwealth of Massachusetts, investment activity, along with deductions for retirement benefits, refunds, transfers, and administrative expenses.

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

The Required Supplementary Information includes this Management's Discussion and Analysis the Schedule of Changes in the Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns.

Financial Highlights

- The System's total net position restricted for pensions was $78,727,823 at December 31, 2020, which is an increase of $7,890,549, in comparison to the prior year.

- Employer and employee contributions to the plan were $4,855,056, which represents a $105,466 increase over the prior year. The employer share of contributions represents 70.4% of the total contributions made to the System.
- Benefits paid to plan participants increased by $280,971 or 5.6%, totaling $5,260,409. At December 31, 2020, there were 197 retirees and beneficiaries in receipt of pension benefits.
- The System's funded ratio (based on the System's GASB 68 accounting valuation) as of December 31, 2020 was 83.9%.

Financial Statement Analysis

The following is a summary of financial statement data for the current and prior fiscal years:

FIDUCIARY NET POSITION

	2020	2019
Assets		
Cash and receivables	$ 452	$ 496
Investments	78,276	70,341
Total assets	$ 78,728	$ 70,837
Net Position		
Restricted for pensions	$ 78,728	$ 70,837

The Systems total assets as of December 31, 2020 were $78,727,823 and comprised mostly cash and investments. Total assets increased $7,890,549 or 11.1% from the prior year primarily due to an increase in investment value.

CHANGES IN FIDUCIARY NET POSITION

	2020	2019
Additions		
Contributions	$ 4,995	$ 4,899
Investment income, net	8,447	9,809
Total additions	13,442	14,708
Deductions		
Benefit payments	5,260	4,980
Other	291	476
Total deductions	5,551	5,456
Changes in net position	7,891	9,252
Net Position Restricted for Pensions		
Beginning of year	70,837	61,585
End of year	$ 78,728	$ 70,837

The System was 73.3% funded based on its actuarial funding valuation of January 1, 2020 with 13 years remaining in its amortization period from July 1, 2021.

The amount needed to finance benefits is accumulated through the collection of employers' and employees' contributions, transfers from other systems in accordance with Massachusetts General Laws (MLG) Chapter 32, section 3(8)C, reimbursements from the Commonwealth of Massachusetts for pre-1998 COLA and through earnings on investments. Contributions and net investment gain for calendar year 2020 resulted in a net gain of $13,441,517. Employers' contributions increased by $167,410, or 5.0% in the calendar year 2020. The System had net investment gain of $8,446,484 versus a gain of $9,811,049 in 2019, the System saw net investment gain in both years primarily due to investment results being approximately $3,402,000 and $5,363,000 respectively greater than expected.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds and transfers of member contributions, reimbursement payments in accordance with MGL, Chapter 32, Section 3(8)c, more commonly referred to as 3(8)c reimbursements, and the costs of administering the System. Total deductions for calendar year 2019 were $5,550,968 which represents an increase of $95,834 or 1.8% over deductions of $5,455,134 in 2019. The payment of pension benefits increased by $280,971 or 5.6% over the previous year.

Requests for Information

This financial report is designed to provide a general overview of the Fairhaven Contributory Retirement System's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to:

Ms. Mary Sturgeon

Fairhaven Contributory Retirement System

40 Center Street

Fairhaven, MA 02719

FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Fairhaven, Massachusetts)
Statement of Fiduciary Net Position
December 31, 2020

Assets	
Cash and short-term investments	$ 303,368
Investments:	
External investment pool	78,276,094
Accounts receivable	148,361
Total assets	$ 78,727,823
Net Position	
Restricted for pensions	$ 78,727,823
Total net position	$ 78,727,823

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

FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Fairhaven, Massachusetts)
Statement of Changes in Fiduciary Net Position
For the Year Ended December 31, 2020

Additions:	
Contributions:	
Employers	$ 3,515,609
Plan members	1,339,447
Other systems and Commonwealth of Massachusetts	121,260
Other	18,717
Total contributions	4,995,033
Investment income:	
Appreciation in fair value of investments	8,788,115
Less: management fees	(341,631)
Net investment income	8,446,484
Total additions	13,441,517
Deductions:	
Benefit payments to plan members and beneficiaries	5,260,409
Refunds to plan members	142,093
Transfers to other systems	34,483
Administrative expenses	113,983
Total deductions	5,550,968
Net increase	7,890,549
Net position restricted for pensions:	
Beginning of year	70,837,274
End of year	$ 78,727,823

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

1. Description of Plan

Substantially all employees of the Town of Fairhaven (except teachers and administrators under contract employed by the School Department) and Fairhaven Housing Authority are members of the Fairhaven Contributory Retirement System (the System), a cost sharing, multiple employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the MGL establishes the authority of the System, contribution percentages, and benefits paid. The Fairhaven Contributory Retirement Board does not have the authority to amend benefit provisions.

Membership of the plan consisted of the following at January 1, 2020 (the latest actuarial valuation):

Retirees and beneficiaries receiving benefits	197
Inactive members entitled to a return of employee contributions/Terminated plan members entitled to but not yet receiving benefits	53
Inactive members with a vested right to a deferred or immediate benefit	8
Active plan members	250
Total	508
Number of participating employers	2

Participant Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of $30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
July 1, 1996 - Present	9%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6.00% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

- 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.

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4 have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and

2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

Methods of Payment
A member may elect to receive his or her retirement allowance in one of three forms of payment as follows:

- 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 has not remarried, 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" to Option A) 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" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

Participant Refunds
Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3.00%.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations
The System is a member of the Massachusetts Contributory Retirement Systems and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the Town, the System is included as a

pension trust fund in the Town's basic financial systems. The System is governed by a five-member board. The five members include two appointed by the town, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of PERAC.

Summary of Significant Accounting Policies
The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2020 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting
The System follows accounting policies mandated by the Commonwealth of Massachusetts. The accounting records are maintained on the accrual basis of accounting. Contributions from the Town of Fairhaven and Fairhaven Housing Authority employees are recognized as revenue in the period in which employees provide services to the respective member unit.

Investments
Investment Policy
Investments are reported at fair value in accordance with PERAC requirements. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

Rate of Return
For the year ended December 31, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 12.07%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested throughout the year.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned. Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The System does not have a deposit policy for custodial credit risk.

As of December 31, 2020, none of the System's bank balance of $414,347 was exposed to custodial credit risk as uninsured or uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

4. **Investments**

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the Pension Reserves Investment Trust (PRIT) Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

All of the System's investments are reported at fair value* and comprise shares in the PRIT fund, which is exempt from credit risk disclosure.

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts general law, chapter 32, section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts general law, chapter 30B.*

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System's investment policy manages custodial credit risk through diversification and the "prudent person" principles outlined in PERAC guidelines.

The System's investments of $78,276,094 are held in a state investment pool, which is exempt from custodial credit risk.

Concentration of Credit Risk

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

All of the System's investments are in the PRIT fund.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the System's investments to market interest rate fluctuations is not applicable.

Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The System does not have polices for foreign currency risk.

Fair Value

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – Inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.
- Level 3 – Unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

The net asset value (NAV) per share is the amount of net assets attributable to each share of capital stock outstanding at the close of the period. Investments measured at the NAV for fair value are not subject to level classification.

The System has the following fair value measurements as of December 31, 2020:

Investments measured at the net asset value (NAV):	
State Investment Pool (PRIT)	$ 78,276,094
Total	$ 78,276,094

Description	Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
State Investment Pool (PRIT)	$ 78,276,094	$ -	Monthly	30 days

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5. Accounts Receivable

The accounts receivable balance represents primarily comprises plan member contributions not received until after December 31, 2020.

6. Contingencies

COVID-19

The COVID-19 outbreak in the United States (and across the globe) has resulted in economic uncertainties. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on individuals served by the System, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

Outstanding Legal Issues

There are various pending claims arising in the ordinary course of operations; however, management believes that the probable liability resulting from such claims and litigation would not materially affect the System's financial position.

7. Subsequent Events

Management has evaluated subsequent events through November 19, 2021 which is the date the financial statements were available to be issued.

8. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2020.

Net Pension Liability of Employers

The components of the net pension liability of the participating employers at December 31, 2020 were as follows (in thousands):

Total pension liability	$ 93,886
Plan fiduciary net position	78,728
Employers' net pension liability	$ 15,158
Plan fiduciary net position as a percentage of total pension liability	83.9%

Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation Date	January 1, 2020
Actuarial cost method	Entry Age Normal Cost
Remaining amortization period	13 years as of July 1, 2021
Actuarial assumptions:	
Investment rate of return	7.15%
Projected salary increases:	
Group 1 and 2	4.25%
Fire	4.75%
Police	4.75%
Inflation rate	Not explicitly assumed
Post-retirement cost-of-living adjustment	3% of first $14,000

Actuarial valuations of the ongoing Systems involve estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future.

Mortality rates were based on the following:

- Pre-retirement rates reflect the RP-2014 Blue Collar Employees table projected generationally with Scale MP-2018 (gender distinct).
- Post-retirement rates reflect the RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2018 (gender distinct).
- For disabled retirees, the rates reflect the RP-2014 Blue Collar Healthy Annuitant table set forward 1 year projected generationally with Scale MP-2018 (gender distinct).

Target Allocations

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of long-term expected real rate of return for each major asset class included in the System's targeted asset allocation as of December 31, 2020, are summarized in the following table.

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
US Equity	21.20%	6.40%
Int'L Equities	11.80%	6.60%
Emerging Int'l Equities	5.00%	8.40%
Hedged Equity	1.00%	5.70%
Core Bonds	7.00%	2.70%
Short-Term Fixed Income	1.00%	2.90%
20+ Yr. Treasury STRIPS	3.00%	1.70%
Tips	4.00%	2.10%
Value-Added Fixed Income	8.00%	6.20%
Private Equity	14.00%	10.20%
Real Estate	10.00%	6.00%
Timberland	4.00%	6.60%
Portfolio Completions (PCS)	10.00%	5.20%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the Board's funding policy, which establishes the contractually required rates by Statute. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Discount Rate

The following presents the net pension liability of the participating employers calculated using the discount rate of 7.15%, as well as what the participating employers' net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate (in thousands):

Year End	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Discount (8.15%)
December 31, 2019	$ 25,757	$ 15,158	$ 6,172

Deferred Outflows/Inflows of Resources

The following schedule reflects the deferred outflows/inflows of resources for the System for the year ended December 31, 2020 (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 1,446	$ 352
Changes of assumptions	1,605	-
Net difference between projected and actual investment earnings on pension plan investments	-	4,533
Changes in proportion and differences between employer contributions and proportionate	258	258
Total	$ 3,309	$ 5,143

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The following summarizes changes in deferred outflows/inflows, excluding employer-specific amounts (in thousands):

	Measurement Year	Amortization Period	Beginning Balance on Prior Measurement Period Deferrals	Current Measurement Period Additions	Amortization of Amounts Recognized in Current Period Pension Expense	End of Year Balance
Deferred Outflows of Resources:						
Difference between expected and actual experience	2019	5.15	$ 1,905	$ -	$ 459	$ 1,446
Change in assumptions	2019	5.15	1,099	-	265	834
	2017	5.10	1,098	-	522	576
	2016	5.30	848	-	653	195
Changes in proportion and differences between employer contributions and proportionate share of contributions	2020	5.15	-	32	6	26
	2019	5.15	162	-	39	123
	2018	5.10	115	-	37	78
	2017	5.10	54	-	25	29
	2016	5.30	9	-	7	2
Total Deferred Outflows of Resources			5,290	32	2,013	3,309
Deferred (Inflows) of Resources:						
Difference between expected and actual experience	2017	5.10	600	-	286	314
	2016	5.30	166	-	128	38
Net Differences between projected and actual earnings on pension plan investments	2020	5.00	-	3,402	680	2,722
	2019	5.00	4,290	-	1,072	3,218
	2018	5.00	(3,641)	-	(1,214)	(2,427)
	2017	5.00	2,041	-	1,021	1,020
	2016	5.00	(21)	-	(21)	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2020	5.15	-	32	6	26
	2019	5.15	162	-	39	123
	2018	5.10	115	-	37	78
	2017	5.10	54	-	25	29
	2016	5.30	9	-	7	2
Total Deferred (Inflows) of Resources			3,775	3,434	2,066	5,143
Total Collective Deferred (Inflows) Outflows of Resources			$ 1,515	$ (3,402)	$ (53)	$ (1,834)

The following schedule reflects the amortization of the balance of deferred outflows/(inflows) of resources (in thousands):

Fiscal Year*	Total
2022	$ (442)
2023	210
2024	(1,027)
2025	(575)
Total	$ (1,834)

**Presented by member unit(s) fiscal year to fairly present the fiduciary impact of related deferred outflows/(inflows) in the fiscal year effecting the member unit.*

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FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

Required Supplementary Information
Schedule of Changes in the Net Pension Liability
(in thousands)
(Unaudited)

	2020	2019	2018	2017	2016	2015	2014
Total Pension Liability							
Service cost	$ 2,161	1,969	$ 1,884	$ 1,752	$ 1,677	$ 1,532	$ 1,466
Interest on unfunded liability - time value of money	6,441	6,039	5,827	5,710	5,235	5,184	4,976
Changes of benefit terms	-	-	-	-	797	-	-
Differences between expected and actual experience	-	2,365	-	(1,458)	(678)	-	-
Changes of assumptions	-	1,364	-	2,664	3,460	-	-
Benefit payments, including refunds of member contributions	(5,281)	(4,995)	(4,752)	(4,373)	(4,087)	(3,810)	(3,841)
Net change in total pension liability	3,321	6,742	2,959	4,295	6,404	2,906	2,601
Total pension liability - beginning	90,565	83,823	80,864	76,569	70,165	67,259	64,658
Total pension liability - ending (a)	93,886	90,565	83,823	80,864	76,569	70,165	67,259
Plan Fiduciary Net Position *							
Contributions - employer	3,534	3,367	3,213	3,065	2,981	2,800	2,651
Contributions - member	1,305	1,183	1,316	1,259	787	1,062	895
Net investment income	8,447	9,808	(1,485)	9,174	3,706	304	3,585
Benefit payments, including refunds of member contributions	(5,281)	(4,995)	(4,752)	(4,373)	(4,087)	(3,810)	(3,841)
Administrative expense	(114)	(113)	(101)	(94)	(93)	(86)	(84)
Other	-	2	15	10	-	-	6
Net change in plan fiduciary net position	7,891	9,252	(1,794)	9,041	3,294	270	3,212
Plan fiduciary net position - beginning	70,837	61,585	63,379	54,338	51,044	50,774	47,562
Plan fiduciary net position - ending (b)	78,728	70,837	61,585	63,379	54,338	51,044	50,774
Net pension liability (asset) - ending (a-b)	$ 15,158	19,728	$ 22,238	$ 17,485	$ 22,231	$ 19,121	$ 16,485

* May reflect certain rounding and immaterial classification differences from page 7

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

Required Supplementary Information
Schedules of Net Pension Liability, Contributions, and Investment Returns
(In thousands)
(Unaudited)

Schedule of Net Pension Liability

	2020	2019	2018	2017	2016	2015	2014
Total pension liability	$ 93,886	90,565	$ 83,823	$ 80,864	$ 76,569	$ 76,569	$ 67,259
Plan fiduciary net position	78,728	70,837	61,585	63,379	54,338	54,338	50,774
Net pension liability (asset)	$ 15,158	19,728	$ 22,238	$ 17,485	$ 22,231	$ 22,231	$ 16,485
Plan fiduciary net position as a percentage of the total pension liability	83.9%	78.2%	73.5%	78.4%	71.0%	71.0%	75.5%
Covered payroll	$ 13,033	13,033	$ 11,771	$ 11,771	$ 11,126	$ 10,564	$ 10,564
Participating employer net pension liability (asset) as a percentage of covered payroll	116.3%	151.4%	188.9%	148.5%	199.8%	210.4%	156.0%

Schedule of Contributions

	2020	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 3,516	3,348	$ 3,189	$ 3,037	$ 2,892	$ 2,755	$ 2,623
Contributions in relation to the actuarially determined contribution	(3,516)	(3,348)	(3,189)	(3,037)	(2,952)	(2,772)	(2,623)
Contribution deficiency (excess)	$ -	-	$ -	$ -	$ (60)	$ (17)	$ -
Covered payroll	$ 13,033	13,033	$ 11,771	$ 11,771	$ 11,126	$ 10,564	$ 10,564
Contributions as a percentage of covered payroll	27.0%	25.7%	27.1%	25.8%	26.5%	26.2%	24.8%

Schedule of Investment Returns
Year Ended December 31

	2020	2019	2018	2017	2016	2015	2014
Annual money weighted rate of return, net of investment expense	12.07%	16.15%	-2.37%	17.15%	7.47%	0.60%	7.61%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

MELANSON

INDEPENDENT AUDITORS' REPORT

To the Honorable Fairhaven Contributory Retirement Board
Retirement Contributory Retirement System
Town of Fairhaven, Massachusetts

Report on Schedules

We have audited the accompanying schedule of employer allocations of the Fairhaven Contributory Retirement System as of and for the year ended December 31, 2020. We have also audited the total for all entities of net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified totals) included in the accompanying schedule of pension amounts by employer of the Fairhaven Contributory Retirement System as of and for the year ended December 31, 2020.

Management's Responsibility for the Schedules

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

Auditors' Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and specified totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and specified totals included in the schedule of pension amounts by employer, whether due to fraud

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or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and specified totals included in the schedule of pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and specified totals included in the schedule of pension amounts by employer.

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

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for the Fairhaven Contributory Retirement System as of and for the year ended December 31, 2020, in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use

Our report is intended solely for the information and use of Fairhaven Contributory Retirement System management, the Retirement Board, System employers and their auditors as of and for the year ended December 31, 2020 and is not intended to be and should not be used by anyone other than these specified parties.

Melanson

Andover, Massachusetts
November 19, 2021

FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Employer Allocations

Employer		FY 2021 Actual Employer Contributions	Allocation Percentage
Town of Fairhaven:			
Governmental Activities	$	3,004,138	85.45%
Water Fund		133,631	3.80%
Sewer Fund		250,575	7.13%
Fairhaven Housing Authority		127,265	3.62%
Total	$	3,515,609	100.00%

See actuarial assumptions in the Fairhaven Contributory Retirement System audited financial statements.

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FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Pension Amounts by Employer
As of and for the Year Ended December 31, 2020
(in thousands)

	Town of Fairhaven				
Net Pension Liability*	Governmental Activities	Water Fund	Sewer Fund	Fairhaven Housing Authority	Total
Beginning net pension liability	$ 16,840	$ 754	$ 1,426	$ 708	$ 19,728
Ending net pension liability	$ 12,952	$ 576	$ 1,081	$ 549	$ 15,158
Deferred Outflows of Resources					
Difference between expected and actual experience	$ 1,236	$ 55	$ 103	$ 52	$ 1,446
Changes of assumptions	1,372	61	114	58	1,605
Changes in proportion and differences between employer contributions and proportionate share of contributions	147	39	-	72	258
Total Deferred Outflows of Resources	$ 2,755	$ 155	$ 217	$ 182	$ 3,309
Deferred Inflows of Resources					
Net difference between projected and actual investment earnings on pension plan investments	$ 3,874	$ 172	$ 323	$ 164	$ 4,533
Difference between expected and actual experience	301	13	25	13	352
Changes in proportion and differences between employer contributions and proportionate share of contributions	61	126	63	8	258
Total Deferred Inflows of Resources	$ 4,236	$ 311	$ 411	$ 185	$ 5,143
Pension Expense					
Proportionate share of pension expense	$ 1,976	$ 88	$ 165	$ 84	$ 2,313
Proportion changes and differences between employer contributions and proportionate share recognized as expense	33	(15)	(34)	16	-
Total Pension Expense	$ 2,009	$ 73	$ 131	$ 100	$ 2,313
Contributions					
Actuarially determined contribution	$ 3,004	$ 134	$ 251	$ 127	$ 3,516
Contributions made	(3,004)	(134)	(251)	(127)	(3,516)
Contribution deficiency/(excess)	$ -	$ -	$ -	$ -	$ -
Contributions as a percentage of covered payroll	27.0%	26.9%	26.6%	27.1%	27.0%
Deferred Outflows/(Inflows) Recognized in Future Pension Expense					
June 30, 2022	$ (348)	$ (35)	$ (64)	$ 5	$ (442)
June 30, 2023	192	(15)	(2)	35	210
June 30, 2024	(843)	(76)	(79)	(29)	(1,027)
June 30, 2025	(483)	(30)	(47)	(15)	(575)
June 30, 2026	1	-	(2)	1	-
Total Deferred Outflows/(Inflows) Recognized in Future Pension Expense	$ (1,481)	$ (156)	$ (194)	$ (3)	$ (1,834)
Discount Rate Sensitivity					
1% decrease (6.25%)	$ 22,010	$ 979	$ 1,836	$ 932	$ 25,757
Current discount rate (7.25%)	$ 12,952	$ 576	$ 1,081	$ 549	$ 15,158
1% increase (8.25)	$ 5,274	$ 235	$ 440	$ 223	$ 6,172
Covered Payroll	$ 11,125	$ 498	$ 942	$ 468	$ 13,033

*Present value of all future ERI payments was removed from the Net Pension Liability, with the remainder then being allocated using the same employer percentages as the non-ERI portion of the FY2021 appropriation. The Net Pension Liability for any employers with ERI payments are then increased by the present value of those payments.

See actuarial assumptions in the Fairhaven Contributory Retirement System audited financial statements.

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FAIRHAVEN
CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of
Fairhaven, Massachusetts)

Financial Statements,
Required Supplementary Information,
and Other Information

For the Year Ended December 31, 2019

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MELANSON

INDEPENDENT AUDITORS' REPORT

To the Honorable Fairhaven Contributory Retirement Board
Fairhaven Contributory Retirement System
Town of Fairhaven, Massachusetts

We have audited the accompanying financial statements of the Fairhaven Contributory Retirement System (the System), a component unit of the Town of Fairhaven, Massachusetts, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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Greenfield, Massachusetts
Ellsworth, Maine

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evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Fairhaven Contributory Retirement System as of December 31, 2019, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in the Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns, listed in the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson

Andover, Massachusetts
November 5, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Fairhaven Contributory Retirement System (the System), we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2019.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements comprise two components: (1) fund financial statements and (2) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

The Statement of Fiduciary Net Position presents information on the System's assets and liabilities and the resulting net position held in trust restricted for pension benefits. This statement reflects the System's investments at fair value, as well as cash, receivables, and liabilities.

The Statement of Changes in Fiduciary Net Position presents information showing how the System's net position restricted for pensions changed during the year ended December 31, 2019. It reflects contributions by members and participating employers, investment activity, along with deductions for retirement benefits, refunds, transfers, and administrative expenses.

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

The Required Supplementary Information includes this Management's Discussion and Analysis the Schedule of Changes in the Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns.

Financial Highlights

- The System's total net position restricted for pensions was $70,837,274 at December 31, 2019, which is an increase of $9,252,585, in comparison to the prior year.
- Employer and employee contributions to the plan were $4,749,590, which represents a $101,355 increase over the prior year. The employer share of contributions represents 68.4% of the total contributions made to the System.

- Benefits paid to plan participants increased by $243,196 or 5.1%, totaling $4,979,438. At December 31, 2019, there were 197 retirees and beneficiaries in receipt of pension benefits.
- The System's funded ratio (based on the System's GASB 68 valuation) as of December 31, 2019 was 78.2%.

Financial Statement Analysis

The following is a summary of financial statement data for the current and prior fiscal years:

FIDUCIARY NET POSITION

	2019	2018
Assets		
Cash and receivables	$ 496	$ 529
Investments	70,341	61,056
Total assets	70,837	61,585
Net Position		
Restricted for pensions	$ 70,837	$ 61,585

The Systems total assets as of December 31, 2019 were $70,837,274 and comprised mostly cash and investments. Total assets increased $9,252,585 or 15.0% from the prior year primarily due to an increase in investment value.

CHANGES IN FIDUCIARY NET POSITION

	2019	2018
Additions		
Contributions	$ 4,897	$ 4,817
Investment income, net	9,811	(1,484)
Total additions	14,708	3,333
Deductions		
Benefit payments	4,980	4,736
Other	476	391
Total deductions	5,456	5,127
Changes in net position	9,252	(1,794)
Net Position Restricted for Pensions		
Beginning of year	61,585	63,379
End of year	$ 70,837	$ 61,585

The System was 73.3% funded based on its actuarial funding valuation of January 1, 2020 with 14 years remaining in its amortization period from July 1, 2020.

The amount needed to finance benefits is accumulated through the collection of employers' and employees' contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 COLA and through earnings on investments. Contributions and net investment loss for calendar year 2019 resulted in a net gain of $14,707,719. Employers' contributions increased by $159,438, or 5.0% in the calendar year 2019. The System had net investment gain of $9,811,049 versus a loss of $(1,484,419) in 2018, primarily due to investment results being approximately $5,363,000 greater than expected in calendar year 2019.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds and transfers of member contributions, reimbursement payments in accordance with Massachusetts General Law, Chapter 32, Section 3(8)c, more commonly referred to as 3(8)c reimbursements, and the costs of administering the System. Total deductions for calendar year 2019 were $5,455,134 which represents an increase of $328,021 or 6.4% over deductions of $5,127,113 in 2018. The payment of pension benefits increased by $243,196 or 5.1% over the previous year.

Requests for Information

This financial report is designed to provide a general overview of the Fairhaven Contributory Retirement System's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to:

Ms. Mary Sturgeon

Fairhaven Contributory Retirement System

40 Center Street

Fairhaven, MA 02719

FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Fairhaven, Massachusetts)
Statement of Fiduciary Net Position
December 31, 2019

Assets		
Cash and short-term investments	$	386,135
Investments:		
PRIT		70,340,991
Accounts receivable		110,148
Total assets	$	70,837,274
Net Position		
Restricted for pensions	$	70,837,274
Total net position	$	70,837,274

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

FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Fairhaven, Massachusetts)
Statement of Changes in Fiduciary Net Position
For the Year Ended December 31, 2019

Additions:	
Contributions:	
Employers	$ 3,348,199
Plan members	1,401,391
Other systems and Commonwealth of Massachusetts	128,480
Other	18,600
Total contributions	4,896,670
Investment income (loss):	
Depreciation in fair value of investments	10,151,125
Less: management fees	(340,076)
Net investment income	9,811,049
Total additions	14,707,719
Deductions:	
Benefit payments to plan members and beneficiaries	4,979,438
Refunds to plan members	143,671
Transfers to other systems	218,550
Administrative expenses	113,475
Total deductions	5,455,134
Net increase	9,252,585
Net position restricted for pensions:	
Beginning of year	61,584,689
End of year	$ 70,837,274

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

1. Description of Plan

Substantially all employees of the Town of Fairhaven (except teachers and administrators under contract employed by the School Department) and Fairhaven Housing Authority are members of the Fairhaven Contributory Retirement System (the System), a cost sharing, multiple employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages, and benefits paid. The Fairhaven Contributory Retirement Board does not have the authority to amend benefit provisions.

Membership of the plan consisted of the following at January 1, 2020 (the latest actuarial valuation):

Retirees and beneficiaries receiving benefits	197
Inactive members entitled to a return of employee contributions/Terminated plan members entitled to but not yet receiving benefits	53
Inactive members with a vested right to a deferred or immediate benefit	8
Active plan members	250
Total	508
Number of participating employers	2

Participant Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of $30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
July 1, 1996 - Present	9%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6.00% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

- 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.

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4 have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and

2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

Methods of Payment
A member may elect to receive his or her retirement allowance in one of three forms of payment as follows:

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the members 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 has not remarried, 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" to Option A) 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" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

Participant Refunds
Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3.00%.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations
The System is a member of the Massachusetts Contributory Retirement Systems and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the Town, the System is included as a

pension trust fund in the Town's basic financial systems. The System is governed by a five-member board. The five members include two appointed by the town, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of PERAC.

Summary of Significant Accounting Policies
The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2019 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting
The System follows accounting policies mandated by the Commonwealth of Massachusetts. The accounting records are maintained on the accrual basis of accounting. Contributions from the Town of Fairhaven and Fairhaven Housing Authority employees are recognized as revenue in the period in which employees provide services to the respective member unit.

Investments
Investment Policy
Investments are reported at fair value in accordance with PERAC requirements. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

Rate of Return
For the year ended December 31, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 16.15%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested throughout the year.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned. Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The System does not have a deposit policy for custodial credit risk.

As of December 31, 2019, $33,984 of the System's bank balance of $485,810 was exposed to custodial credit risk as uninsured or uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

4. Investments

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

All of the System's investments are reported at fair value* and comprise shares in the PRIT fund, which is exempt from credit risk disclosure.

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts general law, chapter 32, section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts general law, chapter 30B.*

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System's investment policy manages custodial credit risk through diversification and the "prudent person" principles outlined in PERAC guidelines.

The System's investments of $70,340,991 comprise pooled investment funds, which are exempt from custodial credit risk.

Concentration of Credit Risk

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

All of the System's investments are in the PRIT fund.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the System's investments to market interest rate fluctuations is not applicable as all the System's investments are immediately liquid.

Foreign Currency Risk
Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The System does not have polices for foreign currency risk.

Fair Value
The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – Inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.
- Level 3 – Unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

The net asset value (NAV) per share is the amount of net assets attributable to each share of capital stock outstanding at the close of the period. Investments measured at the NAV for fair value are not subject to level classification.

The System has the following fair value measurements as of December 31, 2019:

Investments measured at the net asset value (NAV):	
State Investment Pool (PRIT)	$ 70,340,991
Total	$ 70,340,991

Description	Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
State Investment Pool (PRIT)	$ 70,340,991	$ -	Monthly	30 days

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5. Accounts Receivable

The accounts receivable balance represents primarily comprises plan member contributions not received until after December 31, 2019.

6. Contingencies

COVID-19

The COVID-19 outbreak in the United States (and across the globe) has resulted in economic uncertainties. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on individuals served by the System, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

Outstanding Legal Issues

There are various pending claims arising in the ordinary course of operations; however, management believes that the probable liability resulting from such claims and litigation would not materially affect the System's financial position.

7. Subsequent Events

Management has evaluated subsequent events through November 5, 2020 which is the date the financial statements were available to be issued.

8. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2020.

Net Pension Liability of Employers

The components of the net pension liability of the participating employers at December 31, 2019 were as follows (in thousands):

Total pension liability	$ 90,565
Plan fiduciary net position	(70,837)
Employers' net pension liability	$ 19,728
Plan fiduciary net position as a percentage of total pension liability	78.2%

Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation Date	January 1, 2020
Actuarial cost method	Entry Age Normal Cost
Remaining amortization period	14 years as of July 1, 2020
Actuarial assumptions:	
Investment rate of return	7.15% (previously 7.25%)
Projected salary increases:	
Group 1 and 2	4.25%
Fire	4.75%
Police	4.75%
Inflation rate	Not explicitly assumed
Post-retirement cost-of-living adjustment	3% of first $14,000

Actuarial valuations of the ongoing Systems involve estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future.

Mortality rates were based on the following:

- Pre-retirement rates reflect the RP-2014 Blue Collar Employees table projected generationally with Scale MP-2018 (gender distinct).
- Post-retirement rates reflect the RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2018 (gender distinct).
- For disabled retirees, the rates reflect the RP-2014 Blue Collar Healthy Annuitant table set forward 1 year projected generationally with Scale MP-2018 (gender distinct).

Target Allocations

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of long-term expected real rate of return for each major asset class included in the System's targeted asset allocation as of December 31, 2019, are summarized in the following table.

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
US Equity	13.00%	7.62%
Int'L Equities	13.00%	7.80%
Emerging Int'l Equities	5.00%	9.31%
Hedged Equity	8.00%	6.89%
Core Bonds	6.00%	4.37%
Short-Term Fixed Income	2.00%	4.01%
20+ Yr. Treasury STRIPS	3.00%	3.50%
Tips	4.00%	4.00%
Value-Added Fixed Income	8.00%	7.58%
Private Equity	13.00%	11.15%
Real Estate	10.00%	6.43%
Timberland	4.00%	7.00%
Portfolio Completions (PCS)	11.00%	6.76%
Total	100.00%	

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the Board's funding policy, which establishes the contractually required rates by Statute. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Discount Rate

The following presents the net pension liability of the participating employers calculated using the discount rate of 7.15%, as well as what the participating employers' net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15%) or 1 percentage-point higher (8.15%) than the current rate (in thousands):

Year End	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Discount (8.15%)
December 31, 2019	$ 29,952	$ 19,728	$ 11,078

Deferred Outflows/Inflows of Resources

The following schedule reflects the deferred outflows/(inflows) of resources for the System for the year ended December 31, 2019 (in thousands):

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Differences between expected and actual experience	$ 1,905	$ (766)
Changes of assumptions	3,045	-
Net difference between projected and actual investment earnings on pension plan investments	-	(2,669)
Changes in proportion and differences between employer contributions and proportionate	340	(340)
Total	$ 5,290	$ (3,775)

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The following summarizes changes in deferred outflows/(inflows), excluding employer-specific amounts (in thousands):

	Measurement Year	Amortization Period	Beginning Balance on Prior Measurement Period Deferrals	Current Measurement Period Additions	Amortization of Amounts Recognized in Current Period Pension Expense	End of Year Balance
Deferred Outflows of Resources:						
Difference between expected and actual experience	2019	5.15	$ -	$ 2,365	$ 460	$ 1,905
Change in assumptions	2019	5.15	-	1,364	265	1,099
	2017	5.10	1,620	-	522	1,098
	2016	5.30	1,501	-	653	848
Changes in proportion and differences between employer contributions and proportionate share of contributions	2019	5.15	-	201	39	162
	2018	5.10	152	-	37	115
	2017	5.10	79	-	25	54
	2016	5.30	16	-	7	9
	2015	5.00	15	-	15	-
Total Deferred Outflows of Resources			3,383	3,930	2,023	5,290
Deferred (Inflows) of Resources:						
Difference between expected and actual experience	2017	5.10	(886)	-	(286)	(600)
	2016	5.30	(294)	-	(128)	(166)
Net Differences between projected and actual earnings on pension plan investments	2019	5.00	-	(5,363)	(1,073)	(4,290)
	2018	5.00	4,855	-	1,214	3,641
	2017	5.00	(3,062)	-	(1,021)	(2,041)
	2016	5.00	42	-	21	21
	2015	5.00	726	-	726	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2019	5.15	-	(201)	(39)	(162)
	2018	5.10	(152)	-	(37)	(115)
	2017	5.10	(79)	-	(25)	(54)
	2016	5.30	(16)	-	(7)	(9)
	2015	5.00	(15)	-	(15)	-
Total Deferred (Inflows) of Resources			1,119	(5,564)	(670)	(3,775)
Total Collective Deferred (Inflows) Outflows of Resources			$ 4,502	$ (1,634)	$ 1,353	$ 1,515

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The following schedule reflects the amortization of the balance of deferred outflows/(inflows) of resources (in thousands):

Fiscal Year*		Total
2020		$ 627
2021		238
2022		890
2023		(347)
2024		107
	Total	$ 1,515

**Presented by member unit(s) fiscal year to fairly present the fiduciary impact of related deferred outflows/(inflows) in the fiscal year effecting the member unit.*

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FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Changes in the Net Pension Liability
(in thousands)
(Unaudited)

	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	$ 1,969	$ 1,884	$ 1,752	$ 1,677	$ 1,532	$ 1,466
Interest on unfunded liability - time value of money	6,039	5,827	5,710	5,235	5,184	4,976
Changes of benefit terms	-	-	-	797	-	-
Differences between expected and actual experience	2,365	-	(1,458)	(678)	-	-
Changes of assumptions	1,364	-	2,664	3,460	-	-
Benefit payments, including refunds of member contributions	(4,995)	(4,752)	(4,373)	(4,087)	(3,810)	(3,841)
Net change in total pension liability	6,742	2,959	4,295	6,404	2,906	2,601
Total pension liability - beginning	83,823	80,864	76,569	70,165	67,259	64,658
Total pension liability - ending (a)	90,565	83,823	80,864	76,569	70,165	67,259
Plan Fiduciary Net Position *						
Contributions - employer	3,367	3,213	3,065	2,981	2,800	2,651
Contributions - member	1,183	1,316	1,259	787	1,062	895
Net investment income	9,808	(1,485)	9,174	3,706	304	3,585
Benefit payments, including refunds of member contributions	(4,995)	(4,752)	(4,373)	(4,087)	(3,810)	(3,841)
Administrative expense	(113)	(101)	(94)	(93)	(86)	(84)
Other	2	15	10	-	-	6
Net change in plan fiduciary net position	9,252	(1,794)	9,041	3,294	270	3,212
Plan fiduciary net position - beginning	61,585	63,379	54,338	51,044	50,774	47,562
Plan fiduciary net position - ending (b)	70,837	61,585	63,379	54,338	51,044	50,774
Net pension liability (asset) - ending (a-b)	$ 19,728	$ 22,238	$ 17,485	$ 22,231	$ 19,121	$ 16,485

* May reflect certain rounding and immaterial classification differences from page 7

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

Schedules of Net Pension Liability, Contributions, and Investment Returns
(in thousands)
(Unaudited)

Schedule of Net Pension Liability

	2019	2018	2017	2016	2015	2014
Total pension liability	$ 90,565	$ 83,823	$ 80,864	$ 76,569	$ 76,569	$ 67,259
Plan fiduciary net position	70,837	61,585	63,379	54,338	54,338	50,774
Net pension liability (asset)	$ 19,728	$ 22,238	$ 17,485	$ 22,231	$ 22,231	$ 16,485
Plan fiduciary net position as a percentage of the total pension liability	78.2%	73.5%	78.4%	71.0%	71.0%	75.5%
Covered payroll	$ 13,033	$ 11,771	$ 11,771	$ 11,126	$ 10,564	$ 10,564
Participating employer net pension liability (asset) as a percentage of covered payroll	151.4%	188.9%	148.5%	199.8%	210.4%	156.0%

Schedule of Contributions

	2019	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 3,348	$ 3,189	$ 3,037	$ 2,892	$ 2,755	$ 2,623
Contributions in relation to the actuarially determined contribution	(3,348)	(3,189)	(3,037)	(2,952)	(2,772)	(2,623)
Contribution deficiency (excess)	$ -	$ -	$ -	$ (60)	$ (17)	$ -
Covered payroll	$ 13,033	$ 11,771	$ 11,771	$ 11,126	$ 10,564	$ 10,564
Contributions as a percentage of covered payroll	25.7%	27.1%	25.8%	26.5%	26.2%	24.8%

Schedule of Investment Returns
Year Ended December 31

	2019	2018	2017	2016	2015	2014
Annual money weighted rate of return, net of investment expense	16.15%	-2.37%	17.15%	7.47%	0.60%	7.61%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

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INDEPENDENT AUDITORS' REPORT

To the Honorable Fairhaven Contributory Retirement Board
Retirement Contributory Retirement System
Town of Fairhaven, Massachusetts

Report on Schedules

We have audited the accompanying schedule of employer allocations of the Fairhaven Contributory Retirement System as of and for the year ended December 31, 2019. We have also audited the total for all entities of net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified totals) included in the accompanying schedule of pension amounts by employer of the Fairhaven Contributory Retirement System as of and for the year ended December 31, 2019.

Management's Responsibility for the Schedules

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

Auditors' Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and specified totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and

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specified totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and specified totals included in the schedule of pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and specified totals included in the schedule of pension amounts by employer.

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

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for the Fairhaven Contributory Retirement System as of and for the year ended December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use

Our report is intended solely for the information and use of Fairhaven Contributory Retirement System management, the Retirement Board, System employers and their auditors as of and for the year ended December 31, 2019 and is not intended to be and should not be used by anyone other than these specified parties.

Melanson

Andover, Massachusetts
November 5, 2020

FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Employer Allocations

Employer	FY 2020 Actual Employer Contributions	Allocation Percentage
Town of Fairhaven:		
Governmental Activities	$ 2,857,952	85.36%
Water Fund	128,000	3.82%
Sewer Fund	242,047	7.23%
Fairhaven Housing Authority	120,200	3.59%
Total	$ 3,348,199	100.00%

See actuarial assumptions in the Fairhaven Contributory Retirement System audited financial statements.

FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

Schedule Of Pension Amounts By Employer
As of and for the year ended December 31, 2019
(in thousands)

	Town of Fairhaven			Fairhaven	
Net Pension Liability*	Governmental Activities	Water Fund	Sewer Fund	Housing Authority	Total
Beginning net pension liability	$ 18,846	$ 1,001	$ 1,610	$ 781	$ 22,238
Ending net pension liability	$ 16,840	$ 754	$ 1,426	$ 708	$ 19,728
Deferred Outflows of Resources					
Difference between expected and actual experiance	$ 1,626	$ 73	$ 138	$ 68	$ 1,905
Changes of assumptions	2,600	116	220	109	3,045
Changes in proportion and differences between employer contributions and proportionate share of contributions	184	63	-	93	340
Total Deferred Outflows of Resources	$ 4,410	$ 252	$ 358	$ 270	$ 5,290
Deferred Inflows of Resources					
Net difference between projected and actual investment earnings on pension plan investments	$ 2,278	$ 102	$ 193	$ 96	$ 2,669
Difference between expected and actual experience	655	29	55	27	766
Changes in proportion and differences between employer contributions and proportionate share of contributions	89	160	70	21	340
Total Deferred Inflows of Resources	$ 3,022	$ 291	$ 318	$ 144	$ 3,775
Pension Expense					
Proportionate share of pension expense	$ 3,281	$ 147	$ 278	$ 138	$ 3,844
Proportion changes and differences between employer contributions and proportionate share recognized as expense	17	(6)	(21)	10	-
Total Pension Expense	$ 3,298	$ 141	$ 257	$ 148	$ 3,844
Contributions					
Actuarially determined contribution	$ 2,858	$ 128	$ 242	$ 120	$ 3,348
Contributions made	(2,858)	(128)	(242)	(120)	(3,348)
Contribution deficiency/(excess)	$ -	$ -	$ -	$ -	$ -
Contributions as a percentage of covered payroll	25.7%	25.7%	25.7%	25.6%	25.7%
Deferred Outflows/(Inflows) Recognized in Future Pension Expense					
June 30, 2021	$ 559	$ 14	$ 17	$ 37	$ 627
June 30, 2022	228	(7)	(11)	28	238
June 30, 2023	762	18	52	58	890
June 30, 2024	(262)	(51)	(27)	(7)	(347)
June 30, 2025	101	(13)	9	10	107
Total Deferred Outflows/(Inflows) Recognized in Future Pension Expense	$ 1,388	$ (39)	$ 40	$ 126	$ 1,515
Discount Rate Sensitivity					
1% decrease (6.25%)	$ 25,567	$ 1,144	$ 2,166	$ 1,075	$ 29,952
Current discount rate (7.25%)	$ 16,840	$ 754	$ 1,426	$ 708	$ 19,728
1% increase (8.25)	$ 9,456	$ 423	$ 801	$ 398	$ 11,078
Covered Payroll	$ 11,125	$ 498	$ 942	$ 468	$ 13,033

*Present value of all future ERI payments was removed from the Net Pension Liability, with the remainder then being allocated using the same employer percentages as the non-ERI portion of the FY2019 appropriation. The Net Pension Liability for any employers with ERI payments are then increased by the present value of those payments.

See actuarial assumptions in the Fairhaven Contributory Retirement System audited financial statements.

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FAIRHAVEN
CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of
Fairhaven, Massachusetts)

Financial Statements,
Required Supplementary Information,
and Other Information

For the Year Ended December 31, 2018

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INDEPENDENT AUDITORS' REPORT

To the Honorable Fairhaven Contributory Retirement Board
Fairhaven Contributory Retirement System
Town of Fairhaven, Massachusetts

We have audited the accompanying financial statements of the Fairhaven Contributory Retirement System (the System), a component unit of the Town of Fairhaven, Massachusetts, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Fairhaven Contributory Retirement System as of December 31, 2018, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in the Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns, listed in the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson Heath

June 12, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Fairhaven Contributory Retirement System (the System), we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2018.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements comprise two components: (1) fund financial statements and (2) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

The Statement of Fiduciary Net Position presents information on the System's assets and liabilities and the resulting net position held in trust restricted for pension benefits. This statement reflects the System's investments at fair value, as well as cash, receivables, and liabilities.

The Statement of Changes in Fiduciary Net Position presents information showing how the System's net position restricted for pensions changed during the year ended December 31, 2018. It reflects contributions by members and participating employers, investment activity, along with deductions for retirement benefits, refunds, transfers, and administrative expenses.

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

The Required Supplementary Information includes this Management's Discussion and Analysis the Schedule of Changes in the Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns.

B. FINANCIAL HIGHLIGHTS

- The System's total net position restricted for pensions was $61,584,689 at December 31, 2018, which is a decrease of $(1,794,194), in comparison to the prior year.
- Employer and employee contributions to the plan were $4,648,235, which represents a $262,197 increase over the prior year. The employer share of contributions represents 66.2% of the total contributions made to the System.

- Benefits paid to plan participants increased by $335,105 or 7.6%, totaling $4,736,242. At December 31, 2018, there were 185 retirees and beneficiaries in receipt of pension benefits.
- The System's funded ratio (based on the System's GASB 68 valuation) as of December 31, 2018 was 73.5%.

C. FINANCIAL STATEMENT ANALYSIS

The following is a summary of financial statement data for the current and prior fiscal years:

FIDUCIARY NET POSITION

	2018	2017
Assets		
Cash and receivables	$ 529	$ 316
Investments	61,056	63,063
Total assets	61,585	63,379
Net Position		
Restricted for pensions	$ 61,585	$ 63,379

The Systems total assets as of December 31, 2018 were $61,584,689 and comprised mostly cash and investments. Total assets decreased $(1,794,194) or (2.8)% from the prior year primarily due to a decrease in investment value.

CHANGES IN FIDUCIARY NET POSITION

	2018	2017
Additions		
Contributions	$ 4,817	$ 4,545
Investment income, net	(1,484)	9,184
Total additions	3,333	13,729
Deductions		
Benefit payments	4,736	4,401
Other	391	287
Total deductions	5,127	4,688
Changes in net position	(1,794)	9,041
Net Position Restricted for Pensions		
Beginning of year	63,379	54,338
End of year	$ 61,585	$ 63,379

The System was 72.9% funded based on its actuarial funding valuation of January 1, 2018 with 12 years remaining in its amortization period from July 1, 2019.

The amount needed to finance benefits is accumulated through the collection of employers' and employees' contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 COLA and through earnings on investments. Contributions and net investment loss for calendar year 2018 resulted in a net gain of $3,332,919. Employers' contributions increased by $151,846, or 5.0% in the calendar year 2018. The System had net investment loss of $(1,484,419) versus a gain of $9,183,880 in 2017, primarily due to investment results being approximately $6,069,000 less than expected in calendar year 2018.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds and transfers of member contributions, reimbursement payments in accordance with Massachusetts General Law, Chapter 32, Section 3(8)c, more commonly referred to as 3(8)c reimbursements, and the costs of administering the System. Total deductions for calendar year 2018 were $5,127,113 which represents an increase of $439,697 or 9.4% over deductions of $4,687,416 in 2017. The payment of pension benefits increased by $335,105 or 7.6% over the previous year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Fairhaven Contributory Retirement System's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to:

Ms. Mary Sturgeon

Fairhaven Contributory Retirement System

40 Center Street

Fairhaven, MA 02719

FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Fairhaven, Massachusetts)

Statement of Fiduciary Net Position

December 31, 2018

Assets		
Cash and short-term investments	$	424,440
Investments		61,055,589
Accounts receivable		104,659
Total assets	$	61,584,689
Net Position		
Restricted for pensions	$	61,584,689
Total net position	$	61,584,689

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

FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Fairhaven, Massachusetts)

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2018

Additions:	
Contributions:	
Employers	$ 3,188,761
Plan members	1,459,474
Other systems and Commonwealth of Massachusetts	130,750
Other	38,353
Total contributions	4,817,338
Investment income (loss):	
Depreciation in fair value of investments	(1,150,497)
Less: management fees	(333,922)
Net investment loss	(1,484,419)
Total additions	3,332,919
Deductions:	
Benefit payments to plan members and beneficiaries	4,736,242
Refunds to plan members	146,545
Transfers to other systems	143,697
Administrative expenses	100,629
Total deductions	5,127,113
Net decrease	(1,794,194)
Net position restricted for pensions:	
Beginning of year	63,378,883
End of year	$ 61,584,689

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

FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

Notes to Financial Statements

1. Description of Plan

Substantially all employees of the Town of Fairhaven (except teachers and administrators under contract employed by the School Department) and Fairhaven Housing Authority are members of the Fairhaven Contributory Retirement System (the System), a cost sharing, multiple employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages, and benefits paid. The Fairhaven Contributory Retirement Board does not have the authority to amend benefit provisions.

Membership of the plan consisted of the following at January 1, 2018 (the latest actuarial valuation):

Retirees and beneficiaries receiving benefits	185
Inactive members entitled to a return of employee contributions/Terminated plan members entitled to but not yet receiving benefits	50
Inactive members with a vested right to a deferred or immediate benefit	9
Active plan members	251
Total	495
Number of participating employers	2

Participant Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of $30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
July 1, 1996 - Present	9%

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For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6.00% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

- 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.

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4 have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

Methods of Payment

A member may elect to receive his or her retirement allowance in one of three forms of payment as follows:

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the members 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 has not remarried, 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 predeceases the retiree, the benefit payable increases (or "pops up" to Option A) 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" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3.00%.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The System is a member of the Massachusetts Contributory Retirement Systems and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the Town, the System is included as a pension trust fund in the Town's basic financial systems. The System is governed by a five-member board. The five members include two appointed by the town, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of PERAC.

Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2018 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting

The System follows accounting policies mandated by the Commonwealth of Massachusetts. The accounting records are maintained on the accrual basis of accounting. Contributions from the Town of Fairhaven and Fairhaven Housing Authority employees are recognized as revenue in the period in which employees provide services to the respective member unit.

Investments

Investment Policy

Investments are reported at fair value in accordance with PERAC requirements. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

Rate of Return

For the year ended December 31, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was (2.37)%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested throughout the year.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned. Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The System does not have a deposit policy for custodial credit risk.

As of December 31, 2018, $130,151 of the System's bank balance of $630,371 was exposed to custodial credit risk as uninsured or uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

All of the System's investments are reported at fair value* and comprise shares in the PRIT fund, which is exempt from credit risk disclosure.

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts general law, chapter 32, section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts general law, chapter 30B.*

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System's investment policy manages custodial credit risk through diversification and the "prudent person" principles outlined in PERAC guidelines.

The System's investments of $61,055,589 comprise pooled investment funds, which are exempt from custodial credit risk.

C. *Concentration of Credit Risk*

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

All of the System's investments are in the PRIT fund.

D. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the System's investments to market interest rate fluctuations is not applicable as all the System's investments are immediately liquid.

E. *Foreign Currency Risk*

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The System does not have polices for foreign currency risk.

F. *Fair Value*

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – Inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.

- Level 3 – Unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

The net asset value (NAV) per share is the amount of net assets attributable to each share of capital stock outstanding at the close of the period. Investments measured at the NAV for fair value are not subject to level classification.

The System has the following fair value measurements as of December 31, 2018:

Investments measured at the net asset value (NAV):	
State Investment Pool (PRIT)	$ 61,055,589
Total	$ 61,055,589

Description	Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
State Investment Pool (PRIT)	$ 61,055,589	$ -	Monthly	30 days

5. Accounts Receivable

The accounts receivable balance represents primarily comprises plan member contributions not received until after December 31, 2018.

6. Contingencies

There are various pending claims arising in the ordinary course of operations; however, management believes that the probable liability resulting from such claims and litigation would not materially affect the System's financial position.

7. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2018 and rolled forward to December 31, 2018.

A. *Net Pension Liability of Employers*

The components of the net pension liability of the participating employers at December 31, 2018 were as follows (in thousands):

Total pension liability	$ 83,823
Plan fiduciary net position	(61,585)
Employers' net pension liability	$ 22,238
Plan fiduciary net position as a percentage of total pension liability	73.5%

B. *Actuarial Assumptions*

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation Date	January 1, 2018
Actuarial cost method	Entry Age Normal Cost
Remaining amortization period	13 years as opf July 1, 2018
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases:	
Group 1 and 2	4.25%
Fire	4.75%
Police	4.75%
Inflation rate	Not explicitly assumed
Post-retirement cost-of-living adjustment	3% of first $14,000

Actuarial valuations of the ongoing Systems involve estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision, as actual results are compared with past expectations and new estimates are made about the future.

Mortality rates were based on the following:

- Pre-retirement rates reflect the RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct).
- Post-retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).

- For disabled retirees, the rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2012 (gender distinct).

C. *Target Allocations*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of long-term expected real rate of return for each major asset class included in the System's targeted asset allocation as of December 31, 2018, are summarized in the following table.

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
US Equity	17.50%	7.62%
Int'L Equities	15.50%	7.80%
Emerging Int'l Equities	6.00%	9.31%
Core Bonds	5.00%	4.37%
20+ Yr. Treasury STRIPS	2.00%	3.50%
Tips	5.00%	4.00%
Value-Added Fixed Income	10.00%	7.58%
Private Equity	12.00%	11.15%
Real Estate	10.00%	6.59%
Timberland	4.00%	7.00%
Portfolio Completions (PCS)	13.00%	6.83%
Total	100.00%	

D. *Discount Rate*

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the Board's funding policy, which establishes the contractually required rates by Statute. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

E. Sensitivity of Discount Rate

The following presents the net pension liability of the participating employers calculated using the discount rate of 7.25%, as well as what the participating employers' net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.25%) or 1 percentage-point higher (8.25%) than the current rate (in thousands):

Year End	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Discount (8.25%)
December 31, 2018	$ 31,785	$ 22,238	$ 14,147

F. Deferred Outflows/Inflows of Resources

The following schedule reflects the deferred outflows/(inflows) of resources for the System for the year ended December 31, 2018 (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,180
Changes of assumptions	3,121	-
Net difference between projected and actual investment earnings on pension plan investments	2,561	-
Changes in proportion and differences between employer contributions and proportionate	262	262
Total	$ 5,944	$ 1,442

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The following summarizes changes in deferred outflows/(inflows), excluding employer-specific amounts (in thousands):

	Measurement Year	Amortization Period	Beginning Balance on Prior Measurement Period Deferrals	Current Measurement Period Additions	Amortization of Amounts Recognized in Current Period Pension Expense	End of Year Balance
Deferred Outflows of Resources:						
Change in assumptions	2017	5.1	$ 2,142	$ -	$ 522	$ 1,620
	2016	5.3	2,154	-	653	1,501
Net Differences between projected and actual earnings on pension plan investments	2018	5.0	-	6,069	1,214	4,855
	2017	5.0	(4,083)	-	(1,021)	(3,062)
	2016	5.0	64	-	22	42
	2015	5.0	1,452	-	726	726
	2014	5.0	18	-	18	-
Changes in proportion and	2018	5.1	-	189	37	152
	2017	5.1	104	-	25	79
	2016	5.3	23	-	7	16
	2015	5.0	31	-	16	15
	2014	5.0	25	-	25	-
Total Deferred Outflows of Resources			1,930	6,258	2,244	5,944
Deferred (Inflows) of Resources:						
Difference between expected and	2017	5.1	1,172	-	286	886
	2016	5.3	422	-	128	294
Changes in proportion and differences between employer contributions and proportionate share of contributions	2018	5.1	-	189	37	152
	2017	5.1	104	-	25	79
	2016	5.3	23	-	7	16
	2015	5.0	31	-	16	15
	2014	5.0	25	-	25	-
Total Deferred (Inflows) of Resources			1,777	189	524	1,442
Total Collective Deferred (Inflows) Outflows of Resources			$ 153	$ 6,069	$ 1,720	$ 4,502

The following schedule reflects the amortization of the balance of deferred outflows/(inflows) of resources (in thousands):

Fiscal Year*	Total
2019	$ 1,702
2020	976
2021	587
2022	1,237
Total	$ 4,502

*Presented by member unit(s) fiscal year to fairly present the fiduciary impact of related deferred outflows/(inflows) in the fiscal year effecting the member unit.

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FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Changes in the Net Pension Liability

(In thousands)

(Unaudited)

	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	$ 1884	$ 1,752	$ 1,677	$ 1,532	$ 1,466
Interest on unfunded liability - time value of money	5827	5,710	5,235	5,184	4,976
Changes of benefit terms	-	-	797	-	-
Differences between expected and actual experience	-	(1,458)	(678)	-	-
Changes of assumptions	-	2,664	3,460	-	-
Benefit payments, including refunds of member contributions	(4,752)	(4,373)	(4,087)	(3,810)	(3,841)
Net change in total pension liability	2,959	4,295	6,404	2,906	2,601
Total pension liability - beginning	80,864	76,569	70,165	67,259	64,658
Total pension liability - ending (a)	83,823	80,864	76,569	70,165	67,259
Plan Fiduciary Net Position					
Contributions - employer	3,213	3,065	2,981	2,800	2,651
Contributions - member	1,316	1,259	787	1,062	895
Net investment income	(1,485)	9,174	3,706	304	3,585
Benefit payments, including refunds of member contributions	(4,752)	(4,373)	(4,087)	(3,810)	(3,841)
Administrative expense	(101)	(94)	(93)	(86)	(84)
Other	15	10	-	-	6
Net change in plan fiduciary net position	(1,794)	9,041	3,294	270	3,212
Plan fiduciary net position - beginning	63,379	54,338	51,044	50,774	47,562
Plan fiduciary net position - ending (b)	61,585	63,379	54,338	51,044	50,774
Net pension liability (asset) - ending (a-b)	$ 22,238	$ 17,485	$ 22,231	$ 19,121	$ 16,485

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

Schedules of Net Pension Liability, Contributions, and Investment Returns

(in thousands)

(Unaudited)

Schedule of Net Pension Liability

	2018	2017	2016	2015	2014
Total pension liability	$ 83,823	$ 80,864	$ 76,569	$ 76,569	$ 67,259
Plan fiduciary net position	61,585	63,379	54,338	54,338	50,774
Net pension liability (asset)	$ 22,238	$ 17,485	$ 22,231	$ 22,231	$ 16,485
Plan fiduciary net position as a percentage of the total pension liability	73.5%	78.4%	71.0%	71.0%	75.5%
Covered payroll	$ 11,771	$ 11,771	$ 11,126	$ 10,564	$ 10,564
Participating employer net pension liability (asset) as a percentage of covered payroll	188.9%	148.5%	199.8%	210.4%	156.0%

Schedule of Contributions

	2018	2017	2016	2015	2014
Actuarially determined contribution	$ 3,189	$ 3,037	$ 2,892	$ 2,755	$ 2,623
Contributions in relation to the actuarially determined contribution	(3,189)	(3,037)	(2,952)	(2,772)	(2,623)
Contribution deficiency (excess)	$ -	$ -	$ (60)	$ (17)	$ -
Covered payroll	$ 11,771	$ 11,771	$ 11,126	$ 10,564	$ 10,564
Contributions as a percentage of covered payroll	27.1%	25.8%	26.5%	26.2%	24.8%

Schedule of Investment Returns

Year Ended December 31

	2018	2017	2016	2015	2014
Annual money weighted rate of return, net of investment expense	-2.37%	17.15%	7.47%	0.60%	7.61%

Schedules are intended to show information for 10 years.
Additional years will be displayed as they become available.

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Independent Auditors' Report

To the Honorable Fairhaven Contributory Retirement Board
Retirement Contributory Retirement System
Town of Fairhaven, Massachusetts

Report on Schedules

We have audited the accompanying schedule of employer allocations of the Fairhaven Contributory Retirement System as of and for the year ended December 31, 2018. We have also audited the total for all entities of net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified totals) included in the accompanying schedule of pension amounts by employer of the Fairhaven Contributory Retirement System as of and for the year ended December 31, 2018.

Management's Responsibility for the Schedules

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

Auditors' Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer are free from material misstatement.

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

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

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for the Fairhaven Contributory Retirement System as of and for the year ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use

Our report is intended solely for the information and use of Fairhaven Contributory Retirement System management, the Retirement Board, System employers and their auditors as of and for the year ended December 31, 2018 and is not intended to be and should not be used by anyone other than these specified parties.

Melanson Heath

June 12, 2019

FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

SCHEDULE OF EMPLOYER ALLOCATIONS

Employer		FY 2019 Actual Employer Contributions	Allocation Percentage
Town of Fairhaven:			
Governmental Activities		$ 2,640,800	84.75%
Water Fund		140,305	4.50%
Sewer Fund		225,639	7.24%
Fairhaven Housing Authority		109,376	3.51%
	Subtotal excluding ERI	3,116,120	100.00%
Town of Fairhaven - ERI		72,641	
Total		$ 3,188,761	

See actuarial assumptions in the Fairhaven Contributory Retirement System audited financial statements

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FAIRHAVEN CONTRIBUTORY RETIREMENT SYSTEM

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

As of and for the year ended December 31, 2018

(in thousands)

	Town of Fairhaven				
Net Pension Liability*	Governmental Acitvities	Water Fund	Sewer Fund	Fairhaven Housing Authority	Total
Beginning net pension liability	$ 14,916	$ 741	$ 1,296	$ 532	$ 17,485
Ending net pension liability	$ 18,846	$ 1,001	$ 1,610	$ 781	$ 22,238
Deferred Outflows of Resources					
Net difference between projected and actual investment earnings on pension plan investments	$ 2,171	$ 115	$ 185	$ 90	$ 2,581
Changes of assumptions	2,645	140	226	110	3,121
Changes in proportion and differences between employer contributions and proportionate share of contributions	62	95	7	98	262
Total Deferred Outflows of Resources	$ 4,878	$ 350	$ 418	$ 298	$ 5,944
Deferred Inflows of Resources					
Difference between expected and actual experience	$ 1,001	$ 53	$ 85	$ 41	$ 1,180
Changes in proportion and differences between employer contributions and proportionate share of contributions	128	-	95	39	262
Total Deferred Inflows of Resources	$ 1,129	$ 53	$ 180	$ 80	$ 1,442
Pension Expense					
Proportionate share of pension expense	$ 3,064	$ 163	$ 262	$ 127	$ 3,616
Proportion changes and differences between employer contributions and proportionate share recognized as expense	(34)	20	(17)	31	-
Total Pension Expense	$ 3,030	$ 183	$ 245	$ 158	$ 3,616
Contributions					
Actuarially determined contribution	$ 2,714	$ 140	$ 226	$ 109	$ 3,189
Contributions made	(2,714)	(140)	(226)	(109)	(3,189)
Contribution deficiency/(excess)	$ -	$ -	$ -	$ -	$ -
Contributions as a percentage of covered payroll	27.2%	26.4%	26.5%	26.4%	27.1%
Deferred Outflows/(Inflows) Recognized in Future Pension Expense					
June 30, 2020	$ 1,424	$ 109	$ 103	$ 66	$ 1,702
June 30, 2021	820	68	43	45	976
June 30, 2022	487	47	16	37	587
June 30, 2023	1,021	71	77	68	1,237
June 30, 2024	(3)	2	(1)	2	-
Total Deferred Outflows/(Inflows) Recognized in Future Pension Expense	$ 3,749	$ 297	$ 238	$ 218	$ 4,502
Discount Rate Sensitivity					
1% decrease (6.25%)	$ 26,938	$ 1,430	$ 2,301	$ 1,116	$ 31,785
Current discount rate (7.25%)	$ 18,846	$ 1,001	$ 1,610	$ 781	$ 22,238
1% increase (8.25)	$ 11,989	$ 637	$ 1,024	$ 497	$ 14,147
Covered Payroll	$ 9,976	$ 530	$ 852	$ 413	$ 11,771

*Present value of all future ERI payments was removed from the Net Pension Liability, with the remainder then being allocated using the same employer percentages as the non-ERI portion of the FY2018 appropriation. The Net Pension Liability for any employers with ERI payments are then increased by the present value of those payments.

See actuarial assumptions in the Town of Fairhaven, Massachusetts (Contributory Retirement System) audited financial statements.

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FAIRHAVEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of
Fairhaven, Massachusetts)

Financial Statements,
Required Supplementary Information,
and Other Information

For the Year Ended December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Retirement System Board
Town of Fairhaven, Massachusetts

We have audited the accompanying financial statements of the Fairhaven, Massachusetts Contributory Retirement System (the System), a component unit of the Town of Fairhaven, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of December 31, 2017, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United State of America require that the Management's Discussion and Analysis and the Schedules of Changes in the Net Pension Liability, of Net Pension Liability, of Contributions, and of Investment Returns, listed in the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson Heath

February 13, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Fairhaven Contributory Retirement System, we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2017. Unless otherwise noted, all amounts in the Management's Discussion and Analysis are expressed in thousands.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements comprise two components: (1) fund financial statements and (2) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

The Statement of Fiduciary Net Position Available for Benefits presents information on the System's assets and liabilities and the resulting net position held in trust for pension benefits. This statement reflects the System's investments at fair value, as well as cash, receivables and other assets and liabilities.

The Statement of Changes in Fiduciary Net Position Available for Benefits presents information showing how the System's net position available for benefits changed during the year ended December 31, 2017. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds and transfers, and administrative expenses. Investment income during the period is also presented showing income from investing.

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

The Required Supplemental Information includes this management's discussion and analysis and Schedules of Changes in the Net Pension Liability, of Net Pension Liability, of Contributions, and of Investment Returns.

B. FINANCIAL HIGHLIGHTS

- The System's total net position available for benefits were $63,378,883 at December 31, 2017, which is an increase of $9,041,283, in comparison to the prior year.

- Employer and employee contributions to the plan were $4,386,038 which represents a $392,239 increase over the preceding year. The employer share of contributions represents 66.8% of the total contributions.
- Benefits paid to plan participants were $4,401,137. At December 31, 2017, there were 185 retirees and beneficiaries in receipt of pension benefits.
- The System's funded ratio as of the January 1, 2018 actuarial report was 78.4%.

C. FINANCIAL STATEMENT ANALYSIS

The following is a summary of financial statement data for the current and prior fiscal years.

FIDUCIARY NET POSITION

	2017	2016
Assets		
Cash and receivables	$ 316	$ 796
Investments	63,063	53,542
Total assets	63,379	54,338
Net Position	$ 63,379	$ 54,338

CHANGES IN FIDUCIARY NET POSITION

	2017	2016
Additions		
Contributions	$ 4,545	$ 4,141
Investment income, net	9,184	3,706
Total Additions	13,729	7,847
Deductions		
Benefit payments	4,401	4,107
Other	287	446
Total Deductions	4,688	4,553
Changes in net position	9,041	3,294
Net position - beginning of year	54,338	51,044
Net position - end of year	$ 63,379	$ 54,338

The System's total assets as of December 31, 2017 were $63,378,883 and mostly comprised cash and investments. Total assets increased $9,041,283 or 16.6% from the prior year primarily due to an increase in investment value.

The System was 78.4% funded based on its actuarial valuation of January 1, 2018 with 13 years remaining in its amortization period from July 1, 2018.

The amount needed to finance benefits is accumulated through the collection of employers' and employees' contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 COLA and through earnings on investments. Contributions and net investment gain for calendar year 2017 resulted in a net gain of $13,728,699. Employer's contributions increased by $84,615. The System had net investment gain of $9,183,880 versus a gain of $3,705,654 in 2016.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions, and the costs of administering the System. Total deductions for 2017 were $4,687,416 which represents an increase of 3.0% over deductions of $4,552,794 in 2016. The payment of pension benefits increased by $293,795 or 7.2% over the previous year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Fairhaven, Contributory Retirement System's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to:

Ms. Mary Sturgeon
Fairhaven Contributory Retirement System
40 Center Street
Fairhaven, MA 02719

TOWN OF FAIRHAVEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Fairhaven, Massachusetts)

Statement of Fiduciary Net Position

December 31, 2017

ASSETS	
Cash and short-term investments	$ 177,869
Investments - PRIT	63,062,783
Accounts receivable	138,231
Total Assets	$ 63,378,883
NET POSITION	
Net position restricted for pensions	$ 63,378,883
Total Net Position	$ 63,378,883

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

TOWN OF FAIRHAVEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Fairhaven, Massachusetts)

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2017

Additions:	
Contributions:	
Employers	$ 3,036,915
Plan members	1,349,123
Other systems and Commonwealth of Massachusetts	130,608
Other	28,173
Total contributions	4,544,819
Investment income:	
Appreciation in fair value of investments	9,489,750
Less: management fees	(305,870)
Net investment gain	9,183,880
Total additions	13,728,699
Deductions:	
Benefit payments to plan members and beneficiaries	4,401,137
Refunds to plan members	102,080
Transfers to other systems	89,910
Administrative expenses	94,289
Total deductions	4,687,416
Net increase	9,041,283
Net position restricted for pensions:	
Beginning of year	54,337,600
End of year	$ 63,378,883

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

1. Description of Plan

Substantially all employees of the Town of Fairhaven (except teachers and administrators under contract employed by the School Department) and Fairhaven Housing Authority are members of the Fairhaven Contributory Retirement System (the System), a cost sharing, multiple employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions.

Membership of the plan consisted of the following at January 1, 2018 (the latest actuarial valuation):

Retirees and beneficiaries receiving benefits	185
Inactive members entitled to a return of employee contributions	50
Inactive members with a vested right to a deferred or immediate benefit	9
Active plan members	251
Total	495
Number of participating employers	2

Participant Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of $30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The System is a member of the Massachusetts Contributory Retirement Systems and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the Town, the System is included as a pension trust fund in the Town's basic financial systems. The system is governed by a five-member board. The five members include two appointed by the town, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of the Public Employee Retirement Administration Commission.

Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2017 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting

The System follows accounting policies mandated by the Commonwealth of Massachusetts. The accounting records are maintained on the accrual basis of accounting. Contributions from the Member's employees are recognized as revenue in the period in which employees provide services to the Member unit.

Investments

Investment Policy

Investments are reported at fair value in accordance with PERAC requirements. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 17.15%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned. Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The System does not have a deposit policy for custodial credit risk.

As of December 31, 2017, none of the System's bank balance of $329,977 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

All of the System's investments are reported at fair value* and comprise shares in the PRIT fund, which is exempt from credit risk disclosure.

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts general law, chapter 32, section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts general law, chapter 30B.*

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System's investment policy manages custodial credit risk through diversification and the "prudent person" principles outlined in PERAC guidelines.

The System's investments of $63,062,783 comprise pooled investment funds, which are exempt from custodial credit risk.

C. *Concentration of Credit Risk*

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

All of the System's investments are in the PRIT fund.

D. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the System's investments to market interest rate fluctuations is not applicable as all the System's investments are immediately liquid.

E. *Foreign Currency Risk*

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The System does not have polices for foreign currency risk.

F. *Fair Value*

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The System has the following fair value measurements as of December 31, 2017:

Investments measured at the net asset value (NAV):	
External investment pool	$ 63,062,783
Total	$ 63,062,783

Description	Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
External investment pool	$ 63,062,783	$ -	Monthly	30 days

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5. Accounts Receivable

The accounts receivable balance represents primarily comprises plan member contributions not received until after December 31, 2017.

6. Contingencies

There are various pending claims arising in the ordinary course of operations; however, management believes that the probable liability resulting from such claims and litigation would not materially affect the System's financial position.

7. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2018.

The components of the net pension liability of the participating employers at December 31, 2017 were as follows:

A. *Net Pension Liability of Employers*

Total pension liability	$ 80,864
Plan fiduciary net position	(63,379)
Employers' net pension liability	$ 17,485
Plan fiduciary net position as a percentage of total pension liability	78.4%

B. *Actuarial Assumptions*

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation Date	January 1, 2018
Actuarial cost method	Entry Age Normal Cost
Actuarial assumptions:	
Investment rate of return	7.25%
Projected salary increases	4.25% for Group 1 and 4.75% for Group 4
Inflation rate	Not explicitly assumed
Post-retirement cost-of-living adjustment	3% of first $14,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Mortality rates were based on:

- Pre-retirement rates reflect the RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct).
- Post-retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).
- For disabled retirees, the rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2012 (gender distinct).

Difference between expected and actual experience

Since the last valuation, there was a gain in plan liabilities of approximately $2.2 million (the actuarial liability was less than expected). This gain is primarily due to salary increases for continuing active members increasing less than assumed (average pay increased 3.9% per year for continuing actives).

Changes of Assumptions

Investment rate of return was reduced from 7.50% in 2016 to 7.25% in 2017. This had the effect of increasing total pension liability by $2.06 million.

While the mortality tables did not change, the actuarial liability was increased by 0.75% to reflect the anticipated impact of the assumption change to be made after the local system retiree mortality study is completed. This had the effect of increasing the total pension liability by $600,000.

C. *Target Allocations*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of long-term expected real rate of return for each major asset class included in the System's targeted asset allocation as of December 31, 2017, are summarized in the following table.

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Large Cap Equities	14.50%	7.50%
Small/Mid Cap Equities	3.50%	7.75%
Int'l Equities	16.00%	7.80%
Emerging Int'l Equities	6.00%	9.30%
Core Bonds	5.00%	3.75%
20+ Yr. Treasury STRIPS	2.00%	3.50%
TIPS	5.00%	3.75%
High-Yield Bonds	1.50%	5.50%
Bank Loans	2.50%	5.50%
EMD (External)	1.00%	5.00%
EMD (Local Currency)	0.00%	6.50%
Distressed Debt	3.00%	8.80%
Other Credit Opportunities	2.00%	6.50%
Private Equity	11.00%	9.50%
Real Estate	10.00%	6.70%
Timberland	4.00%	6.25%
Hedge Funds & Portfolio Completion	13.00%	6.40%
Total	100.00%	

D. *Discount Rate*

The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the Board's funding policy, which establishes the contractually required rates by Statute. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

E. *Sensitivity of Discount Rate*

The following presents the net pension liability of the participating employers calculated using the discount rate of 7.25%, as well as what the participating employers' net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.25%) or 1 percentage-point higher (8.25%) than the current rate (in thousands):

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Discount (8.25%)
Participating employers' net pension liability	$ 26,695	$ 17,485	$ 9,680

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F. Deferred Outflows/Inflows of Resources

The following schedule reflects the deferred outflows/inflows of resources for the System for the year ended December 31, 2017 (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 1,594
Changes of assumptions	4,296	-
Net difference between projected and actual earnings on pension plan investments	-	2,549
Total	$ 4,296	$ 4,143

The following summarizes changes in deferred outflows/inflows, excluding employer-specific amounts (in thousands):

	Measurement Year	Amortization Period	Beginning Balance on Prior Measurement Period Deferrals	Current Measurement Period Additions	Amortization of Amounts Recognized in Current Period Pension Expense	End of Year Balance
Deferred (Inflows) of Resources:						
Difference between expected and actual experience	2016	5.3	$ 550	$ -	$ 128	$ 422
	2017	5.1	-	1,458	286	1,172
Net Differences between projected and actual earnings on pension plan investments	2014	5.0	(35)	-	(17)	(18)
	2015	5.0	(2,178)	-	(726)	(1,452)
	2016	5.0	(86)	-	(22)	(64)
	2017	5.0	-	5,104	1,021	4,083
Total Deferred (Inflows) of Resources			(1,749)	6,562	670	4,143
Deferred Outflows of Resources:						
Change in assumptions	2016	5.3	2,807	-	653	2,154
	2017	5.1	-	2,664	522	2,142
Total Deferred Outflows of Resources			2,807	2,664	1,175	4,296
Total Collective Deferred (Inflows) Outflows of Resources			$ 4,556	$ (3,898)	$ 505	$ 153

The following schedule reflects the amortization of the balance of deferred outflows/inflows of resources, excluding employer-specific amounts, for the net difference between projected and actual investment earnings (in thousands):

Year ended June 30:		
2018		$ 505
2019		488
2020		(238)
2021		(627)
2022		25
	Total	$ 153

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TOWN OF FAIRHAVEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Changes in the Net Pension Liability

(in thousands)

(Unaudited)

	2017	2016	2015	2014
Total pension liability				
Service cost	$ 1,752	$ 1,677	$ 1,532	$ 1,466
Interest on unfunded liability - time value of $	5,710	5,235	5,184	4,976
Changes of benefit terms	-	797	-	-
Differences between expected and actual experience	(1,458)	(678)	-	-
Changes of assumptions	2,664	3,460	-	-
Benefit payments, including refunds of member contributions	(4,373)	(4,087)	(3,810)	(3,841)
Net change in total pension liability	4,295	6,404	2,906	2,601
Total pension liability - beginning	76,569	70,165	67,259	64,658
Total pension liability - ending (a)	80,864	76,569	70,165	67,259
Plan fiduciary net position				
Contributions - employer	3,065	2,981	2,800	2,651
Contributions - member	1,259	787	1,062	895
Net investment income	9,174	3,706	304	3,585
Benefit payments, including refunds of member contributions	(4,373)	(4,087)	(3,810)	(3,841)
Administrative expense	(94)	(93)	(86)	(84)
Other	10	-	-	6
Net change in plan fiduciary net position	9,041	3,294	270	3,212
Plan fiduciary net position - beginning	54,338	51,044	50,774	47,562
Plan fiduciary net position - ending (b)	63,379	54,338	51,044	50,774
Net pension liability (asset) - ending (a-b)	$ 17,485	$ 22,231	$ 19,121	$ 16,485

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

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TOWN OF FAIRHAVEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

Schedules of Net Pension Liability, Contributions, and Investment Returns

(in thousands)

(Unaudited)

Schedule of Net Pension Liability

	2017	2016	2015	2014
Total pension liability	$ 80,864	$ 76,569	$ 70,165	$ 67,259
Plan fiduciary net position	63,379	54,338	51,044	50,774
Net pension liability (asset)	$ 17,485	$ 22,231	$ 19,121	$ 16,485
Plan fiduciary net position as a percentage of the total pension liability	78.4%	71.0%	72.7%	75.5%
Covered payroll	$ 11,771	$ 11,126	$ 10,564	$ 10,564
Participating employer net pension liability (asset) as a percentage of covered payroll	148.5%	199.8%	181.0%	156.0%

Schedule of Contributions

	2017	2016	2015	2014
Actuarially determined contribution	$ 3,037	$ 2,892	$ 2,755	$ 2,623
Contributions in relation to the actuarially determined contribution	3,037	2,952	2,772	2,623
Contribution deficiency (excess)	$ -	$ (60)	$ (17)	$ -
Covered payroll	$ 11,771	$ 11,126	$ 10,564	$ 10,564
Contributions as a percentage of covered payroll	25.8%	26.5%	26.2%	24.8%

Schedule of Investment Returns
Year Ended December 31

	2017	2016	2015	2014
Annual money weighted rate of return, net of investment expense	17.15%	7.47%	0.60%	7.61%

Schedules are intended to show information for 10 years.
Additional years will be displayed as they become available.

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Independent Auditors' Report

To the Retirement System Board
Town of Fairhaven, Massachusetts

Report on Schedules

We have audited the accompanying schedule of employer allocations of the Fairhaven Contributory Retirement System as of and for the year December 31, 2017, and the related notes. We have also audited the columns titled net pension liability, total deferred outflows of resources excluding employer specific amounts, total deferred inflows of resources excluding employer specific amounts, and pension expense (specified column totals) included in the accompanying schedule of collective pension amounts of the Fairhaven Contributory Retirement System as of and for the year ended December 31, 2017.

Management's Responsibility for the Schedules

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

Auditors' Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of collective pension amounts based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified column totals included in the schedule of collective pension amounts are free from material misstatement.

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

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

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources excluding employer specific amounts, total deferred inflows of resources excluding employer specific amounts, and pension expense for the Fairhaven Contributory Retirement System as of and for the year ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use

Our report is intended solely for the information and use of Fairhaven Contributory Retirement System management, the Retirement Board, System employers and their auditors as of and for the year ended December 31, 2017 and is not intended to be and should not be used by anyone other than these specified parties.

Melanson Heath

February 13, 2019

TOWN OF FAIRHAVEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

SCHEDULE OF EMPLOYER ALLOCATIONS

Employer	FY 2018 Actual Employer Contributions	Employer Allocation Percentage
Town of Fairhaven	$ 2,874,160	96.96%
Fairhaven Housing Authority	90,114	3.04%
Subtotal excluding ERI	2,964,274	100.00%
Town of Fairhaven - ERI	72,641	
Total	$ 3,036,915	

See actuarial assumptions in the notes to the financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS

CONTRIBUTORY RETIREMENT SYSTEM

SCHEDULE OF COLLECTIVE PENSION AMOUNTS

As of and for the year ended December 31, 2017

	Deferred Outflows of Resources				Deferred Inflows of Resources				
Net Pension Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Total Deferred Outflows of Resources Excluding Employer Specific Amounts	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Total Deferred Inflows of Resources Excluding Employer Specific Amounts	Plan Pension Expense
$ 17,485	$ -	$ -	$ 4,298	$ 4,298	$ 1,594	$ 2,549	$ -	$ 4,143	$ 2,722

See actuarial assumptions in the notes to the financial statements.

FAIRHAVEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of
Fairhaven, Massachusetts)

Financial Statements,
Required Supplementary Information,
and Other Information

For the Year Ended December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Retirement System Board
Town of Fairhaven, Massachusetts

We have audited the accompanying financial statements of the Fairhaven, Massachusetts Contributory Retirement System (the System), a component unit of the Town of Fairhaven, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of December 31, 2016, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United State of America require that the Management's Discussion and Analysis and the Schedules of Changes in the Net Pension Liability, of Net Pension Liability, of Contributions, and of Investment Returns, listed in the foregoing table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the *Governmental Accounting Standards Board*, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson Heath

September 21, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Fairhaven Contributory Retirement System, we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2016. Unless otherwise noted, all amounts in the Management's Discussion and Analysis are expressed in thousands.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements comprise two components: (1) fund financial statements and (2) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

The Statement of Fiduciary Net Position Available for Benefits presents information on the System's assets and liabilities and the resulting net position held in trust for pension benefits. This statement reflects the System's investments at fair value, as well as cash, receivables and other assets and liabilities.

The Statement of Changes in Fiduciary Net Position Available for Benefits presents information showing how the System's net position available for benefits changed during the year ended December 31, 2016. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds and transfers, and administrative expenses. Investment income during the period is also presented showing income from investing.

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

The Required Supplemental Information includes this management's discussion and analysis and Schedules of Changes in the Net Pension Liability, of Net Pension Liability, of Contributions, and of Investment Returns.

B. FINANCIAL HIGHLIGHTS

- The System's total net position available for benefits were $54,337,600 at December 31, 2016, which is an increase of $3,293,995, in comparison to the prior year.

- Employer and employee contributions to the plan were $3,993,799 which represents a $139,806 increase over the preceding year. The employer share of contributions represents 71.3% of the total contributions.
- Benefits paid to plan participants were $4,107,342. At December 31, 2016, there were 181 retirees and beneficiaries in receipt of pension benefits.
- The System's funded ratio as of the January 1, 2016 actuarial report was 71.0%.

C. FINANCIAL STATEMENT ANALYSIS

The following is a summary of financial statement data for the current and prior fiscal years.

FIDUCIARY NET POSITION

	2016	2015
Assets		
Cash and receivables	$ 796	$ 1,066
Investments	53,542	49,978
Total assets	54,338	51,044
Net Position	$ 54,338	$ 51,044

CHANGES IN FIDUCIARY NET POSITION

	2016	2015
Additions		
Contributions	$ 4,141	$ 4,011
Investment Income, net	3,706	304
Total Additions	7,847	4,315
Deductions		
Benefit payments	4,107	3,901
Other	446	144
Total Deductions	4,553	4,045
Changes in net position	3,294	270
Net position - beginning of year	51,044	50,774
Net position - end of year	$ 54,338	$ 51,044

The System's total assets as of December 31, 2016 were $54,337,600 and mostly comprised cash and investments. Total assets increased $3,293,995 or 6.5% from the prior year primarily due to an increase in investment value.

The System was 71.0% funded based on its actuarial valuation of January 1, 2016 with 14 years remaining in its amortization period from July 1, 2017.

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The amount needed to finance benefits is accumulated through the collection of employers' and employees' contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 COLA and through earnings on investments. Contributions and net investment gain for calendar year 2016 resulted in a net gain of $7,846,789. Employer's contributions increased by $180,774. The System had net investment gain of $3,705,654 versus a gain of $303,918 in 2015.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions, and the costs of administering the System. Total deductions for 2016 were $4,552,794 which represents an increase of 12.5% over deductions of $4,045,342 in 2015. The payment of pension benefits increased by $206,817 or 5.3% over the previous year.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Fairhaven, Contributory Retirement System's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to:

Ms. Mary Sturgeon

Fairhaven Contributory Retirement System

40 Center Street

Fairhaven, MA 02719

TOWN OF FAIRHAVEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Fairhaven, Massachusetts)

Statement of Fiduciary Net Position

December 31, 2016

ASSETS		
Cash and short-term investments	$	682,903
Investments - PRIT		53,542,180
Accounts receivable		112,517
Total Assets	$	54,337,600
NET POSITION		
Net position restricted for pensions	$	54,337,600
Total Net Position	$	54,337,600

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

TOWN OF FAIRHAVEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Fairhaven, Massachusetts)

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2016

Additions:	
Contributions:	
Employers	$ 2,952,300
Plan members	1,041,499
Other systems and Commonwealth of Massachusetts	118,509
Other	28,827
Total contributions	4,141,135
Investment income:	
Appreciation in fair value of investments	3,982,054
Less: management fees	(276,400)
Net investment gain	3,705,654
Total additions	7,846,789
Deductions:	
Benefit payments to plan members and beneficiaries	4,107,342
Refunds to plan members	97,732
Transfers to other systems	254,556
Administrative expenses	93,164
Total deductions	4,552,794
Net increase (decrease)	3,293,995
Net position restricted for pensions:	
Beginning of year	51,043,605
End of year	$ 54,337,600

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

1. Description of Plan

Substantially all employees of the Town of Fairhaven (except teachers and administrators under contract employed by the School Department) and Fairhaven Housing Authority are members of the Fairhaven Contributory Retirement System (the System), a cost sharing, multiple employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions.

Membership of the plan consisted of the following at January 1, 2016 (the latest actuarial valuation):

Retirees and beneficiaries receiving benefits	181
Inactive members entitled to a return of employee contributions	52
Inactive members with a vested right to a deferred or immediate benefit	8
Active plan members	255
Total	496
Number of participating employers	2

Participant Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of $30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The System is a member of the Massachusetts Contributory Retirement Systems and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the Town, the System is included as a pension trust fund in the Town's basic financial systems. The system is governed by a five-member board. The five members include two appointed by the town, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of the Public Employee Retirement Administration Commission.

Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2016 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting

The System follows accounting policies mandated by the Commonwealth of Massachusetts. The accounting records are maintained on the accrual basis of accounting. Contributions from the Member's employees are recognized as revenue in the period in which employees provide services to the Member unit.

Investments

Investment Policy

Investments are reported at fair value in accordance with PERAC requirements. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

Rate of Return

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 7.47%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned. Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The System does not have a deposit policy for custodial credit risk.

As of December 31, 2016, $381,075 of the System's bank balance of $783,373 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

4. Investments

A. *Credit Risk*

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets, is invested in any one security.

All of the System's investments are reported at fair value* and comprise shares in the PRIT fund, which is exempt from credit risk disclosure.

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts general law, chapter 32, section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts general law, chapter 30B.*

B. *Custodial Credit Risk*

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System's investment policy manages custodial credit risk through diversification and the "prudent person" principles outlined in PERAC guidelines.

The System's investments of $53,542,180 comprise pooled investment funds, which are exempt from custodial credit risk.

C. *Concentration of Credit Risk*

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

All of the System's investments are in the PRIT fund.

D. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The System does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the System's investments to market interest rate fluctuations is not applicable as all the System's investments are immediately liquid.

E. *Foreign Currency Risk*

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The System does not have polices for foreign currency risk.

F. *Fair Value*

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The System has the following fair value measurements as of December 31, 2016:

Investments measured at the net asset value (NAV):	
External investment pool	$ 53,542,180
Total	$ 53,542,180

Description	Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
External investment pool	$ 53,542,180	$ -	Monthly	30 days

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5. Accounts Receivable

The accounts receivable balance represents primarily comprises plan member contributions not received until after December 31, 2016.

6. Contingencies

There are various pending claims arising in the ordinary course of operations; however, management believes that the probable liability resulting from such claims and litigation would not materially affect the System's financial position.

7. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2016, and rolled forward to December 31, 2016.

The components of the net pension liability of the participating employers at December 31, 2016 were as follows:

A. *Net Pension Liability of Employers*

Total pension liability	$ 76,569
Plan fiduciary net position	(54,338)
Employers' net pension liability	$ 22,231
Plan fiduciary net position as a percentage of total pension liability	71.0%

B. *Actuarial Assumptions*

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation Date	January 1, 2016
Actuarial cost method	Entry Age Normal Cost
Actuarial assumptions:	
Investment rate of return	7.50%
Projected salary increases	4.25% for Group 1 and 4.75% for Group 4
Inflation rate	Not explicitly assumed
Post-retirement cost-of-living adjustment	3% of first $13,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Mortality rates were based on:

- Pre-retirement rates reflect the RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct).
- Post-retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).
- For disabled retirees, the rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2012 (gender distinct).

Changes of Benefit Terms

The provisions of Chapter 176 changed MGL Chapter 32 in several ways, including increasing normal retirement age from 65 to 67 and increasing the number of years for determining average compensation from 3 to 5 years. Since these changes affect members hired after April 1, 2012, the impact is more long-term, although in 2016 the effect was to reduce the total pension liability by $(360,000).

Cost of living adjustments (COLA) base was increased from $12,000 to $13,000 in the January 1, 2016 actuarial valuation. This had the effect of increasing total pension liability by $425,000.

Changes of Assumptions

Investment rate of return was reduced from 7.75% in 2015 to 7.50% in 2016 to more closely mirror a new 30-year study. This had the effect of increasing total pension liability by $1.9 million.

While the mortality tables did not change, the Scale was changed from AA to BB, along with other modifications to how the tables were used, to better reflect a general improvement in mortality. This had the effect of increasing the total pension liability by $1.56 million.

C. *Target Allocations*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of long-term expected real rate of return for each major asset class included in the System's targeted asset allocation as of December 31, 2016, are summarized in the following table.

Asset Class	Target Asset Allocation	Long-term Expected Real Rate of Return
Large Cap Equities	14.50%	7.50%
Small/Mid Cap Equities	3.50%	7.75%
Int'l Equities	16.00%	7.83%
Emerging Int'l Equities	6.00%	9.61%
Core Bonds	5.00%	4.00%
20+ Yr. Treasury STRIPS	5.00%	3.75%
TIPS	3.00%	3.75%
High-Yield Bonds	1.50%	5.75%
Bank Loans	1.50%	6.00%
EMD (External)	1.00%	5.75%
EMD (Local Currency)	2.00%	6.50%
Private Debt	4.00%	9.06%
Private Equity	10.00%	9.50%
Real Estate	10.00%	6.50%
Timberland	4.00%	6.00%
Hedge Funds & Portfolio Completion	13.00%	6.48%
Total	100.00%	

D. *Discount Rate*

The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the Board's funding policy, which establishes the contractually required rates by Statute. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

E. *Sensitivity of Discount Rate*

The following presents the net pension liability of the participating employers calculated using the discount rate of 7.50%, as well as what the participating employers' net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.50%) or 1 percentage-point higher (8.50%) than the current rate (in thousands):

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Discount (8.50%)
Participating employers' net pension liability	$ 31,062	$ 22,231	$ 14,765

F. *Deferred Outflows/Inflows of Resources*

The following schedule reflects the deferred outflows/inflows of resources for the System for the year ended December 31, 2016 (in thousands):

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 550
Changes of assumptions	2,807	-
Net difference between projected and actual earnings on pension plan investments	2,299	-
Total	$ 5,106	$ 550

The following summarizes changes in deferred outflows/inflows, excluding employer-specific amounts (in thousands):

	Measurement Year	Amortization Period	Beginning Balance on Prior Measurement Period Deferrals	Current Measurement Period Additions	Amortization of Amounts Recognized in Current Period Pension Expense	End of Year Balance
Deferred (Inflows) of Resources:						
Difference between expected and actual experience	2016	5.3	$ -	$ (678)	$ (128)	$ (550)
Total Deferred (Inflows) of Resources			-	(678)	(128)	(550)
Deferred Outflows of Resources:						
Change in assumptions	2016	5.3	$ -	$ 3,460	$ 653	$ 2,807
Net Differences between projected and actual earnings on pension plan investments	2014	5.0	52	-	17	35
	2015	5.0	2,904	-	726	2,178
	2016	5.0	-	107	21	86
Total Deferred Outflows of Resources			2,956	3,567	1,417	5,106
Total Collective Deferred (Inflows) Outflows of Resources			$ 2,956	$ 2,889	$ 1,289	$ 4,556

The following schedule reflects the amortization of the balance of deferred outflows/inflows of resources, excluding employer-specific amounts, for the net difference between projected and actual investment earnings (in thousands):

Year ended June 30:	
2018	$ 1,290
2019	1,290
2020	1,272
2021	546
2022	158
Total	$ 4,556

TOWN OF FAIRHAVEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Changes in the Net Pension Liability

(in thousands)

(Unaudited)

	2016	2015	2014
Total pension liability			
Service cost	$ 1,677	$ 1,532	$ 1,466
Interest on unfunded liability - time value of $	5,235	5,184	4,976
Changes of benefit terms	797	-	-
Differences between expected and actual experience	(678)	-	-
Changes of assumptions	3,460	-	-
Benefit payments, including refunds of member contributions	(4,087)	(3,810)	(3,841)
Net change in total pension liability	6,404	2,906	2,601
Total pension liability - beginning	70,165	67,259	64,658
Total pension liability - ending (a)	$ 76,569	$ 70,165	$ 67,259
Plan fiduciary net position			
Contributions - employer	$ 2,981	$ 2,800	$ 2,651
Contributions - member	787	1,062	895
Net investment income	3,706	304	3,585
Benefit payments, including refunds of member contributions	(4,087)	(3,810)	(3,841)
Administrative expense	(93)	(86)	(84)
Other	-	-	6
Net change in plan fiduciary net position	3,294	270	3,212
Plan fiduciary net position - beginning	51,044	50,774	47,562
Plan fiduciary net position - ending (b)	$ 54,338	$ 51,044	$ 50,774
Net pension liability (asset) - ending (a-b)	$ 22,231	$ 19,121	$ 16,485

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.

TOWN OF FAIRHAVEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

Schedules of Net Pension Liability, Contributions, and Investment Returns

(in thousands)

(Unaudited)

Schedule of Net Pension Liability

	2016	2015	2014
Total pension liability	$ 76,569	$ 70,165	$ 67,259
Plan fiduciary net position	54,338	51,044	50,774
Net pension liability (asset)	$ 22,231	$ 19,121	$ 16,485
Plan fiduciary net position as a percentage of the total pension liability	71.0%	72.7%	75.5%
Covered payroll	$ 11,126	$ 10,564	$ 10,564
Participating employer net pension liability (asset) as a percentage of covered payroll	199.8%	181.0%	156.0%

Schedule of Contributions

	2016	2015	2014
Actuarially determined contribution	$ 2,892	$ 2,755	$ 2,623
Contributions in relation to the actuarially determined contribution	2,952	2,772	2,623
Contribution deficiency (excess)	$ (60)	$ (17)	$ -
Covered payroll	$ 11,126	$ 10,564	$ 10,564
Contributions as a percentage of covered payroll	26.5%	26.2%	24.8%

Schedule of Investment Returns
Year Ended December 31

	2016	2015	2014
Annual money weighted rate of return, net of investment expense	7.47%	0.60%	7.61%

Schedules are intended to show information for 10 years.
Additional years will be displayed as they become available.

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Independent Auditors' Report

To the Retirement System Board
Town of Fairhaven, Massachusetts

Report on Schedules

We have audited the accompanying schedule of employer allocations of the Fairhaven Contributory Retirement System as of and for the year December 31, 2016, and the related notes. We have also audited the columns titled net pension liability, total deferred outflows of resources excluding employer specific amounts, total deferred inflows of resources excluding employer specific amounts, and pension expense (specified column totals) included in the accompanying schedule of collective pension amounts of the Fairhaven Contributory Retirement System as of and for the year ended December 31, 2016.

Management's Responsibility for the Schedules

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

Auditors' Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified column totals included in the schedule of collective pension amounts based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified column totals included in the schedule of collective pension amounts are free from material misstatement.

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

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

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources excluding employer specific amounts, total deferred inflows of resources excluding employer specific amounts, and pension expense for the Fairhaven Contributory Retirement System as of and for the year ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use

Our report is intended solely for the information and use of Fairhaven Contributory Retirement System management, the Retirement Board, System employers and their auditors as of and for the year ended December 31, 2016 and is not intended to be and should not be used by anyone other than these specified parties.

Melanson Heath

September 21, 2017

TOWN OF FAIRHAVEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

SCHEDULE OF EMPLOYER ALLOCATIONS

Employer	FY 2016 Actual Employer Contributions	Employer Allocation Percentage
Town of Fairhaven	$ 2,725,337	96.71%
Fairhaven Housing Authority	92,714	3.29%
Subtotal excluding ERI	2,818,051	100.00%
Town of Fairhaven - ERI	74,249	
Town of Fairhaven - Additional Contributions	60,000	
Total	$ 2,952,300	

See actuarial assumptions in the Town of Fairhaven, Massachusetts Contributory Retirement System audited financial statements.

TOWN OF FAIRHAVEN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

SCHEDULE OF COLLECTIVE PENSION AMOUNTS

As of and for the year ended December 31, 2016

	Deferred Outflows of Resources				Deferred Inflows of Resources			
Net Pension Liability	Differences Between Expected and Actual Experience	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Changes of Assumptions	Total Deferred Outflows of Resources Excluding Employer Specific Amounts	Differences Between Expected and Actual Experience	Changes of Assumptions	Total Deferred Inflows of Resources Excluding Employer Specific Amounts	Plan Pension Expense
$ 22,231	$ -	$ 2,299	$ 2,807	$ 5,106	$ 550	$ -	$ 550	$ 4,492

See actuarial assumptions in the Notes to Schedules.

COMMONWEALTH OF MASSACHUSETTS
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