

**FAIRMONT POLICEMEN'S
RELIEF ASSOCIATION**

*December 31, 2006
Actuarial Valuation*

June, 2007

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

December 31, 2006 Actuarial Valuation

Table of Contents

	<u>Page</u>
<u>Introduction</u>	
Introduction and actuarial certification.....	1
Summary of results.....	3
<u>Valuation data - plan assets and members</u>	
Actuarial value of assets.....	4
Summary of member data.....	5
Summary of changes in membership.....	6
<u>Valuation results - actuarial values</u>	
Actuarial values used to determine contribution.....	7
Present value of amortization payments.....	8
Changes in the unfunded actuarial accrued liability.....	9
<u>Accounting basis results - GASB disclosure information</u>	
Statement of plan net assets - market value.....	10
Statement of changes in plan net assets.....	11
Schedule of funding progress.....	12
Schedule of employer contributions.....	13
<u>Historical tables</u>	
Historical funding ratio schedule.....	14
History of employer contributions.....	15
Comparative schedule of active members.....	16
Comparative schedule of inactive members.....	17
<u>Supplementary information</u>	
Actuarial assumptions and methods.....	18
Summary of plan provisions.....	19

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION
December 31, 2006 Actuarial Valuation

Introduction

Purpose

This report presents the results of the December 31, 2006 valuation and benefit study for the Fairmont Policemen's Relief Association. Its primary purposes are:

- to determine the funded status as of December 31, 2006,
- to determine the amortization payment for 2006, and
- to present information required to be disclosed under General Accounting Standards Board Statement No. 25 (GASB 25) as of December 31, 2006.

Sources of Data

The Relief Association supplied December 31, 2006 census data for all members. Roessler, Nuss & Co., P.A. provided audited asset data for the Special Fund. We have relied on this data in preparing this report.

Changes from the Previous Valuation

The prior actuarial valuation of the plan was prepared as of December 31, 2005. The actuarial assumptions and methods used to prepare this report are the same as those used in the 2005 report. The annual benefit value per unit increased from \$770.77 on December 31, 2005 to \$789.29 on December 31, 2006, a 2.40% increase, 1.10% less than the assumed increase of 3.5%.

Summary of Valuation Results

The market value of assets increased from \$6,732,970 to \$7,192,518. The actuarial value of assets, which is based on book value, increased from \$6,480,110 to \$6,709,629 as of December 31, 2006. The investment return on the actuarial value of assets was about 11.14%, more than the assumed 5% rate set by statute.

The funded status of the plan increased from 83.8% on December 31, 2005 to 85.1% on December 31, 2006. The increase was generated principally by the increase in assets. The amortization payment has decreased from \$336,725 last year, to \$328,444 this year.

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION
December 31, 2006 Actuarial Valuation

Introduction (continued)

Actuarial Certification

We certify that the actuarial valuation has been prepared in accordance with Minnesota Statutes §356.20-.23 and §69.77 as they relate to local police department relief associations in general and the Fairmont Policemen's Relief Association in particular.

Respectfully submitted,



Paul D. Krueger, JD, EA
Consulting Actuary



Mark D. Meyer, JD, FSA
Consulting Actuary

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

3

December 31, 2006 Actuarial Valuation

Summary of Results

	<u>December 31, 2005</u>	<u>December 31, 2006</u>
<u>A. Membership data*</u>		
1. Liability Duration		
a. Average annuity factor	13.8	13.8
b. Average life expectancy	13.5	12.9
2. Number of members		
a. Retirees	10	10
b. Surviving spouses	4	4
c. Total	14	14
<u>B. Amortization payments</u>		
1. Unfunded actuarial accrued liability	1,253,709	1,172,531
2. Amortization payment	336,725	328,444
<u>C. Value of plan assets</u>		
	<u>December 31, 2005</u>	<u>December 31, 2006</u>
1. Market value	6,732,970	7,192,518
2. Actuarial value (for calculating contributions)	6,480,110	6,709,629
3. Investment return on actuarial value of assets	3.62%	11.14%
<u>D. Benefit liabilities</u>		
1. Present value of future benefits	7,733,819	7,882,160
2. Actuarial accrued liability	7,733,819	7,882,160
<u>E. Funded status</u>		
1. Actuarial value of assets as a % of liabilities	83.8%	85.1%
2. Market value of assets as a % of liabilities	87.1%	91.3%

*This is a closed group, all members have retired, so there are only retirees and beneficiaries.

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

December 31, 2006 Actuarial Valuation

Funding Basis

Actuarial Value of Assets

A. Unrealized gain

Year Ending December 31:	Market Value	Book Value	Unrealized Gain (Market - Book)
2003	6,569,640	6,305,960	263,680
2004	6,737,834	6,287,748	450,086
2005	6,732,970	6,353,680	379,290
2006	7,192,518	6,468,184	724,334

December 31, 2005 December 31, 2006

B. Actuarial value of assets

1. Book value	6,353,680	6,468,184
2. One-third of unrealized gain	<u>126,430</u>	<u>241,445</u>
3. Actuarial value (1. + 2.)	\$6,480,110	\$6,709,629

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

December 31, 2006 Actuarial Valuation

Summary of Member Data

December 31, 2005 December 31, 2006

A. Retirees

1. Age & service	10	10
2. Total annual benefits	\$434,714	\$445,160
3. Average annual benefit	\$43,471	\$44,516
4. Average age	66.4	67.4

B. Beneficiaries

1. Surviving spouses	4	4
2. Total annual benefits	\$107,908	\$110,501
3. Average annual benefit	\$26,977	\$27,625
4. Average age	74.0	75.0

C. Total number of members (A.1. + B.1.)

14	14
----	----

This is a closed group, all members have retired, so there are only retirees and beneficiaries.

December 31, 2006 Actuarial Valuation

Summary of Changes in Membership

	<u>Retirees</u>	<u>Beneficiaries</u>	<u>Total</u>
<i><u>A. Number of members on December 31, 2005</u></i>	10	4	14
<i><u>B. Changes in membership</u></i>			
1. Deaths			0
2. Corrections			0
3. Total changes	0	0	0
<i><u>C. Number of members on December 31, 2006</u></i>	10	4	14

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

December 31, 2006 Actuarial Valuation

Funding Basis

Actuarial Values Used to Determine Contribution

December 31, 2005 December 31, 2006

A. Actuarial present value of projected benefits (the value of all future benefits to be paid to the current group of members)

1. Active members	\$0	\$0
2. Vested terminated members	0	0
3. Retired members	6,604,495	6,775,123
4. Spouses and children receiving benefits	1,129,324	1,107,037
5. Disabled members receiving benefits	0	0
6. Total present value of projected benefits	7,733,819	7,882,160

B. Actuarial accrued liability (the cost allocated to all prior years)

1. Active members	\$0	\$0
2. Vested terminated members	0	0
3. Retired members	6,604,495	6,775,123
4. Spouses and children receiving benefits	1,129,324	1,107,037
5. Disabled members receiving benefits	0	0
6. Total actuarial accrued liability	7,733,819	7,882,160

C. Unfunded actuarial accrued liability

1. Total actuarial accrued liability (A.7.)	\$7,733,819	\$7,882,160
2. Actuarial value of assets	6,480,110	6,709,629
3. Unfunded actuarial accrued liability (1. - 2.)	1,253,709	1,172,531
4. Funded status (2. / 3.)	83.8%	85.1%

D. Development of municipal contribution payable:

	2007	2008
1. Unfunded actuarial accrued liability (UAL) (C.3.)	1,253,709	1,172,531
2. Amortization payment to fund plan by 12/31/2010 (see page 8)	336,725	328,444
3. Expected administrative expense	29,128	23,189
4. Municipal contribution (3. + 4.)	365,853	351,633

E. Key economic assumptions

1. Funding interest rate	5.00%	5.00%
2. Annual benefit increase rate	3.50%	3.50%

This is a closed group, all members have retired, so there is no normal cost.

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

December 31, 2006 Actuarial Valuation

Present Value of Amortization Payments

<u>Payment Date</u>	<u>Amortization Payment</u>	<u>Present Value Dec 31, 2006</u>	<u>Amortization Based on Valuation Dec 31:</u>
12/31/2007	\$336,725	\$320,690	2005
12/31/2008	328,444	297,908	2006
12/31/2009	328,444	283,722	2006
12/31/2010	328,444	270,211	2006
	Total	\$1,172,531	

Interest for present value: 5.0%

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

9

December 31, 2006 Actuarial Valuation

Changes in the Unfunded Actuarial Accrued Liability

A. Liability gain or loss for the year ending on December 31, 2006

1. Expected actuarial accrued liability (AAL)	
a. AAL as of December 31, 2005	\$7,733,819
b. Normal cost as of December 31, 2005	0
c. Interest to December 31, 2006 on the AAL and normal cost	386,691
d. Expected benefit payments for the year (excluding post-retirement benefits)	(555,660)
e. Interest on benefit payments (1/2 year)	(13,892)
f. Expected AAL on December 31, 2006 (sum of a. through e.)	7,550,958
2. Actual AAL on December 31, 2006	
a. Before any assumption or plan changes	7,966,645
b. After assumption changes, but before any unit value changes	7,966,645
c. After assumption and unit value changes	7,882,160
3. Liability (gain) or loss	
a. Due to plan experience different from that expected (2a. - 1f.)	415,687
b. Due to changes in actuarial assumptions (2b. - 2a.)	0
c. Due to changes in unit value (2c. - 2b.)	(84,485)
d. Total (a. + b. + c.)	331,202

B. Asset gain or loss for the year ending on December 31, 2006

1. Expected actuarial value of assets	
a. Actuarial value of assets on December 31, 2005	6,480,110
b. Actual benefit payments and expenses for the year	(573,315)
c. Contributions for the year	336,725
d. Expected return on assets	318,091
e. Expected actuarial value of assets on December 31, 2006 (sum of a. through d.)	6,561,611
2. Actual actuarial value of assets on December 31, 2006	6,709,629
3. Asset (gain) or loss (1e. - 2.)	(148,018)

C. Changes in the unfunded AAL

1. Expected unfunded AAL on December 31, 2006	989,347
2. Changes	
a. Actuarial (gain) or loss other than change in unit value	267,669
b. Change in unit value different from expected	(84,485)
c. Changes in actuarial methods and assumptions	0
d. Total change	
3. Unfunded AAL on December 31, 2006	1,172,531

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

10

December 31, 2006 Actuarial Valuation

Accounting Basis

Statement of Plan Net Assets - Market Value

	<u>December 31, 2005</u>	<u>December 31, 2006</u>
<u>A. Assets</u>		
1. Cash	\$0	\$0
2. Short-term investments	0	0
3. Total	0	0
<u>B. Receivables</u>		
1. Accrued interest	5,223	5,448
2. Distributions	7	0
3. Accrued contributions	0	0
4. Total	5,230	5,448
<u>C. Accounts payable</u>		
	0	0
<u>D. Investments, at fair value</u>		
1. Money market	155,808	270,094
2. Mutual funds	3,317,464	3,498,330
3. Asset and mortgage backed securities	1,149,873	1,000,417
4. Municipal Bonds	0	20,590
5. Unit trusts	937,599	1,090,315
6. Corporate bonds	72,475	74,686
7. Government securities	1,082,036	1,222,793
8. GNMA mortgage certificate	10,475	7,771
9. Limited partnerships	2,010	2,074
10. Total	6,727,740	7,187,070
<u>E. Net assets held in trust for pension benefits</u>		
	6,732,970	7,192,518

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

11

December 31, 2006 Actuarial Valuation

Accounting Basis

Statement of Changes in Plan Net Assets

	<u>December 31, 2005</u>	<u>December 31, 2006</u>
<u>A. Additions</u>		
1. Contributions		
a. Employer	\$323,808	\$336,725
b. Plan members	0	0
c. Total	323,808	336,725
2. Investment income		
a. Interest and dividends	315,438	412,178
b. Partnership income	0	64
c. Realized gain (loss)	(14,826)	(14,384)
d. Change in unrealized appreciation (depreciation)	<u>(70,789)</u>	<u>298,280</u>
e. Total	229,823	696,138
3. Total additions	553,631	1,032,863
<u>B. Deductions</u>		
1. Service pensions	413,790	429,436
2. Survivors pensions	104,644	109,556
3. Distributions to members	11,918	11,918
4. Professional services	15,896	9,695
5. Salaries	6,750	11,728
6. Other expenses	<u>5,497</u>	<u>982</u>
7. Total deductions	558,495	573,315
<u>C. Net increase</u>	(4,864)	459,548
<u>D. Adjustments</u>	0	0
<u>E. Net assets held in special fund</u>		
1. Beginning of year	\$6,737,834	\$6,732,970
2. End of year	\$6,732,970	\$7,192,518
<u>F. Investment return</u>		
1. Market value of assets	3.47%	10.52%
2. Actuarial value of assets	3.62%	11.14%

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION

12

*December 31, 2006 Actuarial Valuation**Accounting Basis***Schedule of Funding Progress***(Dollar amounts in thousands)*

As of December 31:	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
1993	\$4,570	\$5,781	\$1,211	79.1%	\$218	555.5%
1994	4,828	5,987	1,159	80.6%	223	519.7%
1995	5,274	6,066	792	86.9%	243	325.9%
1996	5,808	6,179	371	94.0%	200	185.5%
1997	6,516	6,164	(352)	105.7%	210	-167.6%
1998	6,355	6,835	480	93.0%	163	294.7%
1999	7,113	7,174	61	99.1%	118	407.0%
2000	7,170	7,245	75	99.0%	-	-
2001	6,960	7,573	613	91.9%	-	-
2002	6,431	7,831	1,400	82.1%	-	-
2003	6,431	7,831	1,400	82.1%	-	-
2004	6,438	7,910	1,472	81.4%	-	-
2005	6,480	7,734	1,254	83.8%	-	-
2006	6,710	7,882	1,173	85.1%	-	-

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION
December 31, 2006 Actuarial Valuation

Accounting Basis

Schedule of Employer Contributions

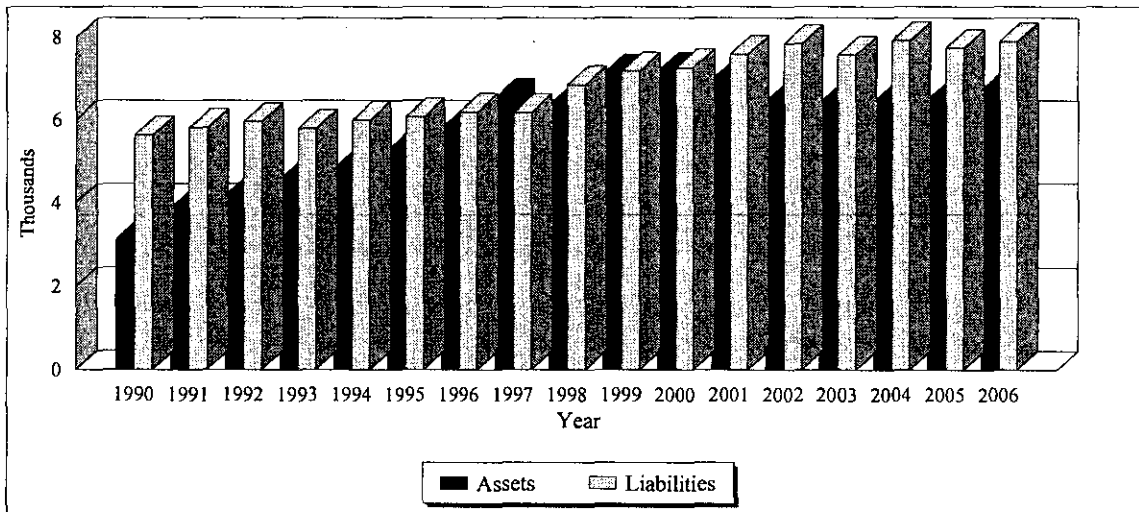
<u>Year Ended</u> <u>December 31:</u>	<u>Annual Employer</u> <u>Contributions</u>
1993	\$243,556
1994	243,726
1995	208,626
1996	163,177
1997	257,828
1998	5,829
1999	0
2000	7,529
2001	10,095
2002	90,321
2003	230,291
2004	218,835
2005	323,808
2006	336,725

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION
December 31, 2006 Actuarial Valuation

Historical Tables

Historical Funding Ratio Schedule
(Dollar amounts in thousands)

<u>As of December 31:</u>	<u>Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Percent Funded</u>
1990	\$5,627	\$3,137	55.7%
1991	5,803	3,874	66.8%
1992	5,952	4,179	70.2%
1993	5,781	4,570	79.1%
1994	5,987	4,828	80.6%
1995	6,066	5,274	86.9%
1996	6,179	5,808	94.0%
1997	6,164	6,516	105.7%
1998	6,835	6,355	93.0%
1999	7,174	7,113	99.1%
2000	7,245	7,170	99.0%
2001	7,573	6,960	91.9%
2002	7,831	6,431	82.1%
2003	7,560	6,394	84.6%
2004	7,910	6,438	81.4%
2005	7,734	6,480	83.8%
2006	7,882	6,710	85.1%



FAIRMONT POLICEMEN'S RELIEF ASSOCIATION
December 31, 2006 Actuarial Valuation

Historical Tables

History of Employer Contributions

<u>Valuation</u> <u>December 31:</u>	<u>Normal Cost</u> <u>as a Percent</u> <u>of Payroll</u>	<u>Amortization</u> <u>of Unfunded</u> <u>Actuarial</u> <u>Liability</u>
1990	36.40%	\$201,066
1991	36.26%	161,011
1992	35.13%	153,456
1993	35.13%	109,085
1994	35.24%	108,913
1995	35.51%	78,140
1996	35.54%	38,541
1997	36.49%	0
1998	37.21%	56,447
1999	-	7,529
2000	-	10,095
2001	-	90,321
2002	-	230,291
2003	-	218,835
2004	-	323,808
2005	-	336,725
2006	-	328,444

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION
December 31, 2006 Actuarial Valuation

Historical Tables

Comparative Schedule of Active Members

Valuation December 31:	Number of Active Members	Valuation Payroll	Averages			% Increase
			Age	Service	Pay	
1990	6	\$246,839	45.5	19.8	\$41,140	3.5%
1991	6	254,243	46.5	20.8	42,374	3.0%
1992	5	217,830	46.8	21.9	43,566	2.8%
1993	5	223,316	47.8	22.9	44,663	2.5%
1994	5	243,049	48.8	23.9	48,610	8.8%
1995	4	199,651	49.5	24.5	49,913	2.7%
1996	4	209,607	50.5	25.5	52,402	5.0%
1997	3	163,423	51.0	25.5	54,474	4.0%
1998	2	117,841	52.5	27.4	58,921	8.2%
1999	0	-	-	-	-	-
2000	0	-	-	-	-	-
2001	0	-	-	-	-	-
2002	0	-	-	-	-	-
2003	0	-	-	-	-	-
2004	0	-	-	-	-	-
2005	0	-	-	-	-	-
2006	0	-	-	-	-	-

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION
December 31, 2006 Actuarial Valuation

Historical Tables

Comparative Schedule of Inactive Members

As of <u>December 31:</u>	<u>Number of Retirees and Beneficiaries</u>			<u>Annual Benefits</u>	<u>Present Value of Benefits</u>
	<u>Added to Rolls</u>	<u>Removed from Rolls</u>	<u>On Valuation Date</u>		
1990				\$252,417	\$3,526,812
1991	0	0	14	261,491	3,521,472
1992	0	0	14	287,546	3,944,772
1993	1	0	15	250,879	3,611,904
1994	0	2	13	242,682	3,504,876
1995	0	1	12	264,009	3,954,504
1996	2	1	13	262,615	3,848,304
1997	0	1	12	286,633	4,302,888
1998	2	1	13	342,613	5,418,324
1999	1	0	14	444,729	7,174,075
2000	2	0	16	452,326	7,245,193
2001	0	1	15	463,261	7,573,377
2002	0	1	14	494,356	7,830,552
2003	0	0	14	494,954	7,560,132
2004	0	0	14	535,864	7,909,793
2005	0	0	14	542,622	7,733,819
2006	0	0	14	555,661	7,882,160

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION
December 31, 2006 Actuarial Valuation

Summary of Plan Provisions

- | | |
|---------------------------------|--|
| 1. Normal Retirement Benefit | 50% of "base pay" with 20 years of service, increased 2% per year up to a maximum of 60%. "Base pay" is the prevailing pay of a first class patrolman for the City of Fairmont. All members are now retired. Their benefit is the benefit they are currently receiving, adjusted by increases in base pay. |
| 2. Deferred Vested Benefit | None. All members are retired. |
| 3. Surviving Spouse's Benefit | Annual benefit equal to 35% of base pay. If surviving spouse married member after retirement, marriage must have occurred at least five years before member's death. |
| 4. Surviving Children's Benefit | Annual benefit equal to 6.25% of base pay per child, up to a maximum benefit of 25% of base pay if spouse is receiving benefits, or 50% if no spouse. Children are eligible until attainment of age 18. |
| 5. Member Contributions | None. There are no active members. |

FAIRMONT POLICEMEN'S RELIEF ASSOCIATION*December 31, 2006 Actuarial Valuation***Actuarial Methods and Assumptions**

- | | |
|---|---|
| 1. Mortality | The UP-1984 Mortality Table set forward 2 years for males and set back 3 years for females. |
| 2. Withdrawal, disability, retirement age | As of December 31, 1999, there are no active members, and the plan is closed to new members. |
| 3. Interest rate | 5% compounded annually. |
| 4. Cost-of-living adjustment | 3.5% annually. Benefits for members retiring as lieutenants remain level until they equal the benefits of a first class patrolman. |
| 5. Actuarial cost method | The Entry Age Normal Cost Method. Under this method, the normal cost for an individual member is the level annual dollar amount required, beginning on the date of joining the association, to accumulate the funds needed to pay the member's accrued benefits by their assumed retirement age. There is no normal cost for a member or beneficiary in pay status. The actuarial accrued liability is the accumulated value of these annual normal costs on a given date. For members or beneficiaries receiving monthly benefits, the accrued liability is the present value of future benefit payments. The normal cost and accrued liability for the plan is the total of these values for all members. |