# FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM AUDIT REPORT JAN. 1, 2016 - DEC. 31, 2020



**PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION** COMMONWEALTH OF MASSACHUSETTS

## TABLE OF CONTENTS

Letter from the Executive Director
Supplementary Information:
Schedule of Allocation of Investments Owned
Administration of the System 4
Board Regulations 4
Actuarial Valuation and Assumptions 5
Membership Exhibit
Leased Premises
Independent Audit Reports:
Roselli, Clark & Associates, Year Ended December 31, 2020 8
Roselli, Clark & Associates, Year Ended December 31, 2019
Roselli, Clark & Associates, Year Ended December 31, 201865
Roselli, Clark & Associates, Year Ended December 31, 2017
Roselli, Clark & Associates, Year Ended December 31, 2016 125

# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., Chair

JOHN W. PARSONS, ESQ., Executive Director

Auditor DIANA DIZOGLIO | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES J. GUIDO | RICHARD MACKINNON, JR. | JENNIFER F. SULLIVAN, ESQ.

December 22, 2023

The Public Employee Retirement Administration Commission (PERAC) has completed a review of the audits of the Falmouth Retirement System conducted by the firm of Roselli, Clark & Associates, Certified Public Accountants (RCA). RCA 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 RCA. 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 RCA 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 Falmouth 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



Falmouth Audit Report December 22, 2023 Page 2

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.

We commend the Falmouth Retirement Board for the exemplary operation of the system.

It should be noted that the financial statements included in this audit report were based on the work performed by RCA 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 Roselli, Clark & Associates who conducted these examinations, and the PERAC examiners who conducted limited procedures to supplement the field work and express my appreciation to the Falmouth Retirement Board and staff for their courtesy and cooperation.

Sincerely, hnow

John W. Parsons, Esq. Executive Director

## SUPPLEMENTARY INFORMATION

## SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

## (percentages by category)

	AS OF DECEMBER 31, 2020			
	PERCENTA			
		OF TOTAL		
	MARKET VALUE	ASSETS		
Cash	\$3,300,451	1.93%		
Pooled Domestic Equity Funds	74,174,157	43.36%		
Pooled International Equity Funds	21,670,645	12.67%		
Pooled Domestic Fixed Income Funds	29,289,383	17.12%		
Pooled Alternative Investment Funds	8,536,165	4.99%		
Pooled Real Estate Funds	18,593,380	10.87%		
Hedge Funds	<u>15,511,689</u>	<u>9.07%</u>		
Grand Total	<u>\$171,075,871</u>	<u>100.00</u> %		

For the year ending December 31, 2020, the rate of return for the investments of the Falmouth Retirement System was 10.36%. For the ten-year period ending December 31, 2020, the rate of return for the investments of the Falmouth Retirement System averaged 8.73%. 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 Falmouth Retirement System was 8.99%.

The composite rate of return for all retirement systems for the year ending December 31, 2020 was 12.80%. For the ten-year period ending December 31, 2020, the composite rate of return for the investments of all retirement systems averaged 8.93%. 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:	Victoria Rose		
Appointed Member:	Paul Slivinski	Serves until a successo	r is appointed
Elected Member:	Scott Starbard	Term Expires:	10/30/2025
Elected Member:	Craig O'Malley	Term Expires:	05/25/2026
Appointed Member:	Ellen Philbin, Chairperson	Term Expires:	06/30/2024

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 Falmouth Retirement Board has adopted Supplemental Regulations which are available on the PERAC website at <u>https://mass.gov/Falmouth-retirement-board-regulations.</u>

## **ACTUARIAL VALUATION AND ASSUMPTIONS**

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

The actuarial liability for active members was	\$106,661,414
The actuarial liability for vested terminated members was	3,826,524
The actuarial liability for non-vested terminated members was	1,020,802
The actuarial liability for retired members was	141,594,440
The total actuarial liability was	\$253,103,180
System assets as of that date were (actuarial value)	180,452,796
The unfunded actuarial liability was	\$ <u>72,650,384</u>
The ratio of system's assets to total actuarial liability was	71.3%
As of that date the total covered employee payroll was	\$35,707,978

The normal cost for employees on that date was	9.0% of payroll
The normal cost for the employer including expenses was	10.7% of payroll

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

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

### 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	\$180,452,796	\$253,103,180	\$72,650,384	71.3%	\$35,707,978	203.5%
1/1/2020	\$151,747,766	\$226,312,683	\$74,564,917	67.1%	\$32,168,104	231.8%
1/1/2018	\$138,384,451	\$213,484,710	\$75,100,259	64.8%	\$29,951,403	250.7%
1/1/2016	\$118,988,731	\$190,442,350	\$71,453,619	62.5%	\$28,416,969	251.4%
1/1/2014	\$101,194,876	\$169,215,558	\$68,020,682	59.8%	\$27,477,612	247.5%

## MEMBERSHIP EXHIBIT

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Retirement in Past Years										
Superannuation	14	19	24	14	21	25	19	19	13	22
Ordinary Disability	0	0	0	0	0	0	0	0	0	0
Accidental Disability	4	0	2	1	0	0	2	0	0	1
T otal Retirements	18	19	26	15	21	25	21	19	13	23
Total Retirees, Beneficiaries										
and Survivors	342	349	369	370	378	388	393	402	415	426
Total Active Members	579	581	576	577	573	581	573	570	581	609
Pension Payments										
Superannuation	\$5,016,208	\$5,313,326	\$5,754,817	\$6,059,330	\$6,475,050	\$7,040,421	\$7,236,242	\$7,431,724	\$7,808,537	\$8,271,021
Survivor/Beneficiary Payments	255,600	283,791	317,966	333,189	303,181	309,394	380,232	436,144	499,179	471,254
Ordinary Disability	51,181	70,630	71,710	72,790	74,278	67,105	56,930	57,770	58,610	59,450
Accidental Disability	1,234,489	1,294,753	1,289,034	1,312,894	1,336,222	1,301,452	1,421,422	1,363,760	1,278,572	1,285,951
Other	304,281	315,535	368,158	386,617	440,475	<u>427,992</u>	554,793	683,546	583,404	716,180
Total Payments for Year	\$ <u>6,861,759</u>	\$ <u>7,278,035</u>	\$ <u>7,801,686</u>	\$ <u>8,164,820</u>	\$8,629,207	\$ <u>9,146,364</u>	\$ <u>9,649,620</u>	\$ <u>9,972,945</u>	\$ <u>10,228,302</u>	\$ <u>10,803,855</u>

## LEASED PREMISES

The Falmouth Retirement Board leases approximately 2,200 square feet of space for its offices located at 80 Davis Straits in Falmouth. They signed an initial 10-year lease term which expired October 31, 2023. The Board has renewed the lease for an additional 10-year term. The landlord is Merchant's Wharf Trust, Centerville LLC Trustee.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2020:

For the year ending:	<u>Annual Rent</u>
2021	\$40,973.20
2022	41,814.60
2023	41,821.26
2024	41,854.56
2025	42,028.08
2026	42 <i>,</i> 895.68
2027	43,074.42
2028	43,968.12
2029	44,152.20
2030	45,072.60
2031	45,262.22
2032	38,508.60

Total future minimum lease payments required <u>\$511,425.54</u>

Note: A \$3,000 security deposit and last month's rent were paid to the landlord in 2013.





Basic Financial Statements and Supplementary Information

Year Ended December 31, 2020

# TABLE OF CONTENTSDECEMBER 31, 2020

	Page(s)
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
BASIC FINANCIAL STATEMENTS:	
Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position Notes to Basic Financial Statements	7 8 9 - 17
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED:	
Schedule of Changes in Net Pension Liability and Related Ratios Schedule of Contributions Schedule of Investment Returns Notes to Required Supplementary Information	18 19 19 20
OTHER REPORTS:	
Independent Auditors' Report on Audit of Specific Elements, Accounts and Items of Financial Statements	21 – 22
Pension Plan Schedules: Schedule of Employer Allocations Schedule of Pension Amounts by Employer Notes to Pension Plan Schedules	23 24 25



## Roselli, Clark & Associates

**CERTIFIED PUBLIC ACCOUNTANTS** 

500 West Cummings Park Suite 4900 Woburn, MA 01801 Telephone: (781) 933-0073

www.roselliclark.com

#### INDEPENDENT AUDITORS' REPORT

To the Falmouth Retirement Board Falmouth Contributory Retirement System Falmouth, Massachusetts

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

#### Management's Responsibility for the Financial Statements

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 and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. 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 auditors consider 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 opinions.

Falmouth Contributory Retirement System

Page 1 of 25

#### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System as of December 31, 2020, and the respective changes in financial 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, and the schedules listed under the required supplementary information section listed in the 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 sufficient evidence to express an opinion or provide any assurance.

Jssociates-

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts May 20, 2021

Page 2 of 25

#### MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Falmouth Contributory Retirement System's (the "System") financial performance provides an overview of the System's financial activities for the calendar year ended December 31, 2020. You should read it in conjunction with the basic financial statements, footnotes and required supplementary information that follows this discussion.

#### **Financial Highlights**

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The System's actuary estimates that the System is approximately 73% funded at December 31, 2020.

The System's fiduciary net position increased nearly \$14.4 million in 2020 to approximately \$171.0 million. Current year additions of nearly \$28.2 million exceeded deductions of approximately \$13.8 million. The current year increase in fiduciary net position was approximately \$8.6 million lower than the prior year. The System's investment performance for 2020, net of investment management fees, was nearly 9.7% versus 17.5% in 2019. The 2020 net investment return for the System exceeded its long-term expected discount rate, which is currently 7.25%.

#### **Overview of the Financial Statements**

The basic financial statements are comprised of the Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, Notes to Financial Statements and Required Supplementary Information. The basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP; specifically, GASB Statement No. 67, *Financial Reporting for Pension Plans.* 

The Statement of Fiduciary Net Position reports the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position restricted for pensions. This statement reflects the System's investments at fair value, as well as cash, receivables and other assets and liabilities. Over time, the increase or decrease in fiduciary net position serves as a useful indicator of the System's financial health and condition.

The Statement of Changes in Fiduciary Net Position reports additions to and deductions from the System during the year. This statement reflects contributions by members and participating employers along with deductions for retirement benefits, refunds, withdrawals and administrative expenses. Investment income, including realized and unrealized gains/losses, during the year is also presented.

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

This report also includes Required Supplementary Information following the Notes to the Financial Statements that consist of the schedules of changes in net pension liability and related ratios, investment returns and contributions and the notes to the schedule of contributions.

Falmouth Contributory Retirement System

Page 3 of 25

#### **Financial Analysis**

The condensed comparative Statements of Net Position for the two most recent years are as follows:

	Decem	iber 31,	Dollar	Percent
	2020	2019	Change	Change
Assets:				
Cash and cash equivalents	\$ 3,300,451	\$ 1,503,604	\$ 1,796,847	119.5%
Investments	167,775,420	155,194,687	12,580,733	8.1%
Receivables and other assets	7,037	1,661	5,376	323.7%
Total Assets	171,082,908	156,699,952	14,382,956	9.2%
Liabilities	43,011	40,721	2,290	5.6%
Fiduciary Net Position	\$171,039,897	\$156,659,231	\$ 14,380,666	9.2%

Total assets at December 31, 2020 approximated \$171.1 million and principally consisted of investments recorded at fair value. Total asset increased by approximately \$14.4 million in 2020, which was due primarily to a positive investment portfolio performance of nearly 9.7%. Receivables and liabilities are not material to the System at either December 31, 2020 or 2019.

The condensed comparative Statements of Changes in Fiduciary Net Position for the two most recent years are as follows:

	Year Ended I	December 31,	Dollar	Percent
	2020	2019	Change	Change
Additions:				
Contributions	\$ 13,089,576	\$ 12,905,888	\$ 183,688	1.4%
Investment income, net	15,093,563	23,305,416	(8,211,853)	-35.2%
Total Additions	28,183,139	36,211,304	(8,028,165)	-22.2%
Deductions:				
Benefits and refunds to Plan members	13,467,698	12,868,328	599,370	4.7%
Administrative and other expenses	334,775	340,946	(6,171)	-1.8%
Total Deductions	13,802,473	13,209,274	593,199	4.5%
Change in Fiduciary Net Position	<u>\$ 14,380,666</u>	\$ 23,002,030	<u>\$ (8,621,364</u> )	-37.5%

Fiduciary net position increased nearly \$14.4 million in 2020, primarily as a result of net investment earnings of approximately \$15.1 million for the year.

Contributions to the System's Fiduciary Net Position primarily include employer and employee contributions in addition to transfers from other retirement systems. Contributions for 2020 totaled nearly \$13.1 million versus \$12.9 million in 2019.

Employer contributions represent the largest source of System contributions. In 2020, employer contributions totaled approximately \$9.2 million, or 70%, of total contributions. Employer contributions are actuarially determined. Employee contributions totaled approximately \$3.3 million in 2020, which was approximately \$134,000, or 4%, greater than the prior year. This increase was due primarily to an increase in the number of active members within the System coupled with the effect of normal pay raises.

Falmouth Contributory Retirement System

Page 4 of 25

Other contributions decreased approximately \$495,000 year-over-year. This decrease was due primarily to an approximate \$439,000 decrease in membership transfers from other Massachusetts public pension systems, which is a function of timing and employment trends/movements.

Investment income is presented net of associated investment management expenses. In 2020, the System reported nearly \$15.1 million in net investment income versus \$23.3 million in 2019. The System's money-weighted rates of return for 2020 and 2019 were approximately 9.7% and 17.5%, respectively.

Deductions to the System's Fiduciary Net Position primarily include pension benefits to members and beneficiaries, refunds to inactive members, transfers and reimbursements to other Massachusetts public retirement systems and administrative expenses. Total deductions in 2020 were approximately \$593,000, or 4%, greater than 2019 total deductions.

Pension benefits to members and beneficiaries represents the largest deduction from Fiduciary Net Position for the System. Pension benefits to members and beneficiaries represented over 92% and 91% of total 2020 and 2019 deductions, respectively. Pension benefits to members and beneficiaries increased approximately \$669,000, or 6%, in 2020. This increase was due to a greater average number of beneficiaries paid year-over-year coupled with the normal annual cost-of-living adjustments paid by the System.

The increase in pension benefits to members and beneficiaries was offset by an approximate \$70,000 decrease in transfers and reimbursements to other Massachusetts public retirement systems, which is a function of timing and employment trends/movements.

Administrative expenses were relatively consistent year-over-year.

#### **Overall Financial Position**

The System's positive investment performance in 2020 permitted it to maintain an approximate 73% funded ratio at December 31, 2020. The System's 30-year investment return as published by PERAC significantly exceeds the discount rate used by the System in its actuarial studies. Provided the System continues to garner strong investment performances, it is possible that the System will achieve fully funded status on or before the expected date of December 31, 2033 included in the latest actuarial valuation.

The System maintains a large portion of its investments in pooled funds. Approximately 32% of these funds invest in private equity, hedge funds or real estate. The determination of the value of these investments is very subjective and the ultimate amount of gains and losses in some of these funds will not be determined until the underlying assets (i.e., the real estate or stock in the private companies) are sold. Furthermore, these types of investments are not as liquid as investments in savings accounts, money markets, certificates of deposits, government securities or debt and equity securities in publicly-held U.S. corporations. You should refer to Notes 2 and 4 to these financial statements.

Although the System has been successful in garnering the yields necessary to achieve fully funded status in the required time frame, the System (like so many other institutional investors) has experienced a great deal of volatility in its investments. Management believes that the volatility in the worldwide markets may continue for the foreseeable future, particularly as U.S. and global governments and markets address the COVID-19 pandemic. Accordingly, management intends to actively monitor the System's investment positions to best maximize returns while mitigating risk as best as it can.

Falmouth Contributory Retirement System

Page 5 of 25

#### Contacting the System's Financial Management Personnel

This discussion and analysis is designed to provide the Falmouth Retirement Board, its membership, taxpayers, investors and creditors with a general overview of the System's financial results and to demonstrate the System's accountability for the funding it receives. If you have any questions about this report or need additional financial information, contact the Falmouth Retirement Board at 80 Davis Straits, Suite 102, Falmouth, MA 02540.

Falmouth Contributory Retirement System

Page 6 of 25

#### STATEMENT OF FIDUCIARY NET POSITION DECEMBER 31, 2020

Assets:		
Cash and cash equivalents	\$	3,300,451
Investments:		
Mutual funds		114,324,122
Private equity funds		16,746,660
Real estate funds		14,213,676
PRIT		22,490,962
Total investments		167,775,420
Member contributions receivable		7,037
Total Assets		171,082,908
Liabilities:		
Accounts payable and accrued expenses		43,011
Net Position Restricted for Pensions	<u>\$</u>	171,039,897

See accompanying notes to basic financial statements.

Falmouth Contributory Retirement System

Page 7 of 25

#### STATEMENT OF CHANGES IN FIDUCIARY NET POSITION YEAR ENDED DECEMBER 31, 2020

Additions:	
Employer contributions	\$ 9,165,711
Employee contributions	3,308,371
Other contributions	609,814
Total contributions	13,083,896
Investment income:	
Interest and dividends	1,643,459
Net appreciation in fair value of investments	15,450,526
Less investment management fees	(2,000,422)
Total net investment income	15,093,563
Other income	5,680
Total Additions	28,183,139
Deductions:	
Benefits and refunds to Plan members:	
Benefits to retirees and survivors	12,712,687
Member refunds	213,392
Transfers and reimbursements to other systems	541,619
Administrative expenses:	,
Operations payroll and related personnel costs	195,770
Other	139,005
Total Deductions	13,802,473
Change in Net Position	14,380,666
Net Position Restricted for Pensions:	
Beginning of the year	156,659,231
End of the year	<u>\$ 171,039,897</u>

See accompanying notes to basic financial statements.

Falmouth Contributory Retirement System

Page 8 of 25

#### NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020

#### 1. DESCRIPTION OF THE PLAN

*General* – The Falmouth Contributory Retirement System (the "System") is a cost-sharing, multiple employer defined benefit pension plan established and administered by the Falmouth Retirement Board under the provisions of Chapter 32 of the Massachusetts General Laws ("MGL") to provide pension benefits for participants. The System is a component unit of the Town of Falmouth. The Town of Falmouth (the "Town") and the Falmouth Housing Authority (the "FHA") contribute to the System.

Employees of the Town (with the exception of teachers and certain administrative personnel employed by the School Department who participate in a separate plan) and the FHA are covered by the System. Participation in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

At December 31, 2020, membership in the System consisted of:

Retirees and beneficiaries currently receiving benefits	426
Active plan members	609
Inactive plan members	180
Total	<u>1.215</u>

*Plan Benefits* – Massachusetts contributory retirement system benefits are uniform from one public pension system to another. For employees with service dates beginning before April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three-year average annual rate of regular compensation. For those employees who began their service on or after April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive five-year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and group classification.

The retirement allowance consists of two parts – an annuity and a pension. Participants' accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement benefit and the annuity is the pension.

Participants who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees may be entitled to receive interest, which has accrued on those contributions. A vested employee who has not reached their eligible retirement age and elects to leave their accumulated total deductions on deposit may apply for benefits upon reaching their eligible retirement age.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Falmouth Contributory Retirement System

Page 9 of 25

*Retirement Requirements* – In order to receive retirement benefits, participants must meet one of the following two categories:

- Normal Retirement Generally, normal retirement occurs between ages 65 and 67. However, most participants with a hire date before April 2, 2012, may retire after twenty years of creditable service or at any time after attaining age 55. For most participants hired on or after April 2, 2012, they must attain the age of 60 before they can retire. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years of creditable service in order to retire at age 55 or 60, as applicable. Participants become vested after ten years of creditable service. Benefits commencing before age 65 are generally provided at a reduced rate. However, members working in certain occupations may retire with full benefits earlier than age 65.
- 2) Disability Retirements The System provides for both an ordinary and accidental disability retirement. An ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. An accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of their duty.

The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of creditable service, average compensation and veteran status. In addition, certain provisions are in place relative to death benefits for beneficiaries of employees who die in active service.

*Public Availability of Financial Statements* – The Falmouth Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Falmouth Retirement Board, 80 Davis Straits, Suite 102, Falmouth, Massachusetts 02540.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** – The financial statements of the System have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America, or GAAP. Employer contributions are recognized when due and the employer is legally required to provide the contributions. Member contributions are recognized in the period in which the contributions are due. Investment income is recognized in the period earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the pension plan.

*Use of Estimates* – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents* – Cash and cash equivalents include cash on hand, demand deposits and short-term holdings with original maturities of three months or less from the date of acquisition.

Falmouth Contributory Retirement System

Page 10 of 25

*Investments* – The carrying amounts of the System's investments approximate their fair value. When actively quoted observable prices are not available, the System generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- Level 1 Inputs are quoted prices in active markets for identical investments at the measurement date.
- Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3 Inputs reflect the System's best estimate of what market participants would use in pricing the investment at the measurement date.

The remaining investments not categorized under the fair value hierarchy are shown at net asset value ("NAV"). These are investments in non-governmental entities for which a readily determinable fair value is not available, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

#### 3. SYSTEM ADMINISTRATION

The System is administered by a five-person Board consisting of the Town Accountant (or similar position), two members elected by the participants in or retired from the service of the System, one member appointed by the Town's Board of Selectmen and one member appointed by the other members of the Board.

At December 31, 2020, the Board was comprised as follows:

		<u>Term Expires</u>
Ex-Officio Member:	Ms. Jennifer P. Mullen, Town Finance Director	No Specified Date
Appointed Member:	Mr. Paul J. Slivinski	June 30, 2021
Elected Member:	Mr. Russell R. Ferreira (Chairman)	October 30, 2022
Elected Member:	Mr. Craig B. O'Malley	May 25, 2023
Fifth Member (non-member):	Ms. Ellen K. Philbin	June 30, 2021

The Board is required to meet at least once a month and keep a record of its proceedings. The Board annually submits a financial statement of condition for the System with the Commissioner of the Massachusetts Public Employee Retirement Administration Commission, or PERAC. All retirement allowances are approved by the Board. Expenses incurred by the System must be approved by at least two members of the Board.

Falmouth Contributory Retirement System

Page 11 of 25

#### 4. DEPOSITS AND INVESTMENTS

MGL and PERAC regulations require the System to invest funds only in preapproved investment instruments, which include, but are not necessarily limited to, bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, certain corporate bonds and equities and investment pools.

*Custodial Credit Risk: Deposits* – Deposits are subject to the risk of bank failure. The System may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The System's policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation insurance coverage for the first \$250,000 of deposits held at each financial institution. All of the System's bank deposits were fully insured at December 31, 2020.

*Investment Policy* – The investment of the System's funds is the responsibility of the Board. The Board manages its investments using an investment policy, which was updated in September 2019. The investment objective is to fully fund the System by generating sufficient long-term, inflation-adjusted capital appreciation while providing sufficient liquidity to meet short-term withdrawal requirements. The Board seeks to generate long-term investment performance that meets or exceeds actuarially-targeted rates of return (currently at 7.25%). Furthermore, the Board establishes investment benchmarks by asset class to compare its actual performance against.

The System's investment policy requires diversification within its investment portfolio. The System's portfolio target weights and the long-term expected rates of return for each of these asset classes were as follows:

	_	Long-Term
	Target	Expected
Asset Class	Policy Range	Rate of Return
Domestic equity	33.0% to 43.0%	7.6% to 10.1%
International equity	10.0% to 20.0%	7.6%
Fixed income	14.5% to 24.5%	2.6% to 8.7%
Real Estate/ Real Assets	7.5% to 12.5%	7.5%
Private equity	5.0% to 10.0%	13.1%
Hedge funds	7.5% to 12.5%	7.3%
Cash	0.0% to 3.0%	nil

*Custodial Credit Risk: Investments* – Custodial credit risk for investments is the risk that in the event of a failure of the counterparty the System will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The System's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the System. At December 31, 2020, the System was not exposed to custodial credit risk on its investments.

*Foreign Currency Risk: Investments* – Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit. The System did not directly hold any investments denominated in foreign currency at December 31, 2020.

Falmouth Contributory Retirement System

Page 12 of 25

Fair Value Measurements: Investments – The following table presents the System's investments
carried at fair value on a recurring basis at December 31, 2020:

	December 31,	Fair Va	lue Measuremen	ts Using
Investments by Fair Value Level	2020	Level 1	Level 2	Level 3
Mutual funds:				
Domestic fixed income mutual funds	\$ 29,289,383	\$ 29,289,383	\$ -	\$-
Domestic equity mutual funds	74,174,157	74,174,157	-	-
International equity mutual funds	10,860,582	10,860,582		
Total investments by fair value level	114,324,122	\$ 114,324,122	\$ -	\$ -
Investments measured at NAV:				
Private equity funds	16,746,660			
Real estate funds	14,213,676			
PRIT funds	22,490,962			
Total investments measured at the NAV	53,451,298			
Total investments measured at fair value	\$ 167,775,420			
Investments Measured at NAV		Unfunded		
By Asset Class	Fair Value	Commitments		

invesiments ivicasured at INA v		Offunded
By Asset Class	Fair Value Commitm	
Private equity funds Real estate funds	\$ 16,746,660 14,213,676	2,620,000
PRIT funds	22,490,962	4,966,423
	\$ 53,451,298	<u>\$ 8,966,588</u>

Investments measured at NAV include comingled/pooled funds in private equity or venture funds, real estate and investments in the State Treasurer investment pool, or PRIT.

Private equity and real estate holdings generally include investments in which the System is a general partner in a private equity, venture capital fund or similar investment vehicle. The value of these investments are recorded at values determined in good faith by the general partners of the private equity and venture capital firms after consideration of pertinent information, including current financial position and operative results, price-earnings multiples and available market prices of similar companies' securities, the nature of the securities, marketability, restrictions on disposition and other appropriation and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot reasonably be determined until individual securities are liquidated. In addition, fair values of real estate funds are generally based on independent, third-party appraisals. By their very nature, these investments are illiquid and typically cannot be resold or redeemed. Distributions from each fund will be received as the underlying investments are liquidated. It is expected that the underlying assets for the funds will be liquidated over an average of ten years.

PRIT is administered by the Commonwealth of Massachusetts' Pension Reserve Investment Management Board. The specific investments held by the System include the PRIT Hedge Fund, PRIT Private Equity Fund and PRIT Real Estate Fund, each of which consists of a diverse set of investments that include private equity, venture capital and real estate. The determination of the fair value of these investments is very subjective and the period-end values are reported to the System as NAV. Investments in the PRIT funds are more liquid than investments in private equity and real

Falmouth Contributory Retirement System

Page 13 of 25

estate holdings, but generally cannot be resold to third parties. The System may liquidate its investment in the PRIT funds at any time with less than thirty days notice. Distributions from the PRIT funds may be received regularly and, upon receipt, are deposited into an accompanying short-term cash investment account.

Because of the inherent uncertainty of valuations used in many of the System's investments measured at NAV, estimated values may differ significantly from the values that would have been used had a readily available market for positions in privately held companies or the real estate existed at December 31, 2020. These differences could have a material effect on the System's financial statements.

*Concentration of Credit Risk: Investments* – The following investments held by the System at December 31, 2020 represent approximately 65.7% of the System's total investments:

Rhumbline Russell 1000 Funds	13.8%
SSGA Passive Bond Market Index SL Fund	13.4%
Aristotle Capital Small Cap Equity Fund	11.8%
LMCG Mid-Cap Core Fund	11.0%
PRIT Hedge Fund	9.2%
Dimensional Fund Advisors International Core Equity Portfolio	6.5%
HGK Trinity Street International Equity Fund GP, LLC	6.4%

*Interest Rate Risk: Investments* – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The System does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk: Investments* – This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. As previously noted, MGL and PERAC have enacted regulations to reduce this risk. In evaluating its credit risk, the System relies on credit ratings assigned by nationally recognized credit rating agencies like Moody's Investors Services and Standard and Poor's Financial Services. The System does voluntarily self-impose certain investment restrictions; however, those can be changed at the Board's discretion. None of the System's investments were subject to credit quality ratings from leading credit rating agencies.

At December 31, 2020, uninsured short-term investment funds with fair values of \$3,245,533 were reported as cash equivalents. These funds represent temporary holdings of excess cash resources. The System intends to reinvest these amounts in less than one year. Accordingly, the fair values of these amounts have been classified as cash equivalents in these financial statements.

*Rate of Return* – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested. The 2020 money-weighted rate of return was approximately 9.65%.

Falmouth Contributory Retirement System

Page 14 of 25

#### 5. FUNDING

*Employer Contributions* – Under MGL, participating employers are assessed their share of the total retirement cost based on an independent actuarial study. Employer contributions totaled \$9,165,711 in 2020.

*Employee Contributions* – Employee contribution rates vary based on when an employee commenced their creditable service. Active members contribute 5%, 7%, 8% or 9% of their gross regular compensation depending on when their creditable service commenced. Employees hired on or after January 1, 1979 contribute an additional 2% of their regular gross compensation over \$30,000.

*Cost of Living Adjustments* – Cost-of-living adjustments granted between 1981 and 1997 and any increase in other pension benefits imposed by the Commonwealth of Massachusetts during those years are the financial responsibility of the Commonwealth. The Commonwealth is expected to continue funding the cost-of-living amounts granted over this period for the duration of their selected retirement option. Cost-of-living adjustments granted after 1997 must be approved and funded by the System. Cost-of-living adjustments cannot exceed the greater of the CPI or 3%. The System approved a 3% cost-of-living adjustment on the first \$14,000 of pension benefits.

#### 6. NET PENSION LIABILITY

The System is statutorily required to adopt the funding schedule that will fully amortize the unfunded actuarial accrued liability by June 30, 2040. As of the latest actuarial valuation, the System has selected a funding schedule that fully amortizes the unfunded actuarial accrued liability by June 30, 2034.

The components of the System's net pension liability at December 31, 2020 (dollar amounts in thousands) were as follows:

Total pension liability	\$ 234,768
Plan fiduciary net position	 171,040
Net pension liability	\$ 63,728
Plan fiduciary net position as a	
percentage of total pension liability	72.9%

The total pension liability was determined by an actuarial valuation as of January 1, 2020 and rolled forward to December 31, 2020. The significant actuarial assumptions used in the actuarial valuation report were as follows:

Actuarial cost method:	Individual entry age normal
Amortization method:	Top payments increase 6.31% per year until FY 2032 with a final amortization payment in FY 2033 (formerly 5.86%).
Remaining amortization period:	12 years from July 1, 2021
Asset valuation method:	Market value
Investment rate of return:	7.25% per annum
Projected salary increases:	Service based table with ultimate ranges of 4.25%, and 4.75% for groups 1 and 4, respectively

Falmouth Contributory Retirement System

Page 15 of 25

Cost of living adjustments: Mortality rates:	3% on the first \$14,000 of benefits. 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).
Disabled life mortality:	For disabled retirees, the mortality rate is assumed to be in accordance with RP-2014 Blue Collar Health Annuitant Table set forward one year and projected generationally with Scale MP-2018 (gender distinct).

*Discount Rate* – The discount rate used to measure the total pension liability was 7.25%. The projection of eash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all 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.

*Expected Real Rate of Return* – The long-term expected rate of return on System investments was determined using a building-block method in which best-estimate ranges of expected future 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 rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the System's target allocation as of December 31, 2020 are summarized in the investment policy table in Note 4.

*Sensitivity Analysis* – The following illustrates the net position liability at December 31, 2020 calculated using the current discount rate of 7.25%, as well as the projection of what the net position liability would be if it were calculated using a discount rate that is 1.0% lower or higher than the current rate (dollar amounts in thousands):

Current		Net Pension Liability At								
Discount Rate	_19	1% Decrease		urrent Rate	1% Increase					
7.25%	\$	90,011	\$	63,728	\$	41,442				

#### Falmouth Contributory Retirement System

Page 16 of 25

#### 7. LEGALLY REQUIRED RESERVE ACCOUNTS

Net position restricted for pensions at December 31, 2020 were comprised of the following legally required reserves:

Description	An	nount	Purpose
Annuity Savings Fund	\$	34,873,852	Active members' contribution balance
Annuity Reserve Fund		11,167,183	Retirement members' contribution balance
Military Service Fund		10,314	Members' contributions while on military leave
Pension Fund		9,244,022	Amounts appropriated to fund future retirement
Pension Reserve Fund		115,744,526	Remaining net position
Total	\$	171,039,897	

#### 8. COMMITMENTS AND CONTINGENCIES

*General* – The System is subject to a variety of claims that arise from time to time in the ordinary course of business. Although management of the System currently believes that resolving claims against the System, individually or in aggregate, will not have a material adverse impact on the System's financial position or its results of operations, these matters are subject to inherent uncertainties and management's views of these matters may change in the future.

*Facility Lease* – In 2013, the System entered into a ten-year, non-cancellable facility lease with a third party for its office. Future minimum annual rental expense obligations due under this facility lease, which includes rent and common area maintenance fees, as are as follows:

Calendar Year	Lease ayments
2021 2022 2023	\$ 41,323 42,165 32,762
2025	\$ 116,250

*COVID-19* – The COVID-19 pandemic has resulted in global economic slowdowns and disruptions that have and could continue to affect U.S. and global markets and economies. The System's ability to meet its long-term investment return objectives and targets is highly dependent on these markets and economies. The global response to the COVID-19 pandemic is beyond the System's control and the likelihood and extent of further market volatility cannot be predicted.

\* \* \* \* \* \*

Falmouth Contributory Retirement System

Page 17 of 25

#### REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED

## SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS (dollar amounts are in thousands)

		(												
	_	2020	_	2019	_	2018	_	2017	_	2016	_	2015	_	2014
Total pension liability:														
Service cost	\$	5,034	\$	5,044	\$	4,827	\$	4,433	\$	4,242	\$	4,015	\$	3,842
Interest		16,609		15,991		14,841		14,772		13,692		13,578		13,035
Changes in benefit terms		-		-		2,300		-		-		-		-
Differences between expected and actual experience Changes in assumptions		(5,491) 1,000		-		(1,072) 6,870		-		(1,237) 8,600		-		-
Benefit payments, including refunds		(12,885)		(12,111)		(12,123)		(11,599)		(10,561)		(10,364)		(9,730)
.,	_		-		-		-		-		-		-	
Net change in total pension liability	_	4,267	_	8,924	_	15,643	_	7,606	_	14,736	_	7,229	_	7,147
Total pension liability - beginning of year	_	230,501	_	221,577	_	205,934	_	198,328	_	183,592	_	176,363	_	169,216
Total pension liability - end of year (a)	\$	234,768	\$	230,501	\$	221,577	\$	205,934	\$	198,328	\$	183,592	\$	176,363
Plan fiduciary net position:	\$	9.166		8,622	s	8,110		7.661		7,296	\$	6.949		6,618
Contributions - employer Contributions - employee	3	9,166 3,308	3	8,622 3,174	3	3,014	3	3,010	3	2,902	3	6,949 2,801	3	2,768
Contributions - nonemployee contributing entities		5,508 610		1,105		5,014 815		5,010		837		2,801		543
Net investment income		15,094		23,305		(9,499)		18,635		10,545		138		7,139
Benefit payments, including refunds		(13,468)		(12,868)		(12,829)		(12,338)		(11,422)		(10,713)		(10,155)
Administrative expenses		(335)		(341)		(328)		(319)		(295)		(298)		(284)
Other	_	6	_	5	_		_	11	_	5	_	4	_	21
Net change in plan fiduciary net position	_	14,381	_	23,002	_	(10,717)	_	17,324	_	9,868	_	(813)	_	6,650
Plan fiduciary net position - beginning of year	_	156,659	_	133,657	_	144,374	_	127,050	_	117,182	_	117,995	_	111,345
Plan fiduciary net position - end of year (b)	\$	171,040	\$	156,659	\$	133,657	\$	144,374	\$	127,050	\$	117,182	\$	117,995
Net pension liability - end of year (a) - (b)	\$	63,728	\$	73,842	\$	87,920	\$	61,560	\$	71,278	\$	66,410	\$	58,368
Plan fiduciary net position as a percentage of the total pension liability		72.85%		67.96%		60.32%		70.11%		64.06%		63.83%		66.90%
Covered payroll	\$	32,168	\$	29,951	\$	29,951	\$	28,417	\$	28,417	\$	27,478	\$	27,478
Net pension liability as a percentage of covered payroll		198.11%		246.54%		293.55%		216.63%		250.83%		241.68%		212.42%

These schedules are presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

Falmouth Contributory Retirement System

Page 18 of 25

#### **REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED**

#### SCHEDULE OF CONTRIBUTIONS

(dollar amounts are in thousands)

			Contr	ibutions in					
			Relat	ion to the					
	Ac	tuarially	Act	uarially	Contri	bution			Contributions as a
For Fiscal Year	Det	ermined	Det	ermined	Defic	iency			Percentage of
Ended June 30,	Con	tribution	Con	tribution	(Exc	ess)	Cove	ered Payroll	Covered Payroll
2020	\$	9,166	\$	9,166	\$	-	\$	32,168	28.5%
2019		8,662		8,662		-		29,951	28.9%
2018		8,110		8,110		-		29,951	27.1%
2017		7,661		7,661		-		28,417	27.0%
2016		7,296		7,296		-		28,417	25.7%
2015		6,949		6,949		-		27,478	25.3%
2014		6,618		6,618		-		27,478	24.1%

#### SCHEDULE OF INVESTMENT RETURNS

	Annual Money-
For Fiscal Year	Weighted Rate of
Ended June 30,	Return *
2020	9.65%
2019	17.46%
2018	-6.63%
2017	14.87%
2016	9.11%
2015	33.00%
2014	6.56%
2013	19.18%
2012	12.93%

\* Net of investment expenses.

These schedules are presented to illustrate the requirement to show information for ten years. However, until a full ten-tear trend is completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

Falmouth Contributory Retirement System

Page 19 of 25

# NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020

#### A. CHANGES OF BENEFIT TERMS

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the System's benefit terms in 2020.

#### B. SIGNIFICANT ACTUARIAL ASSUMPTIONS AND METHODS

The significant actuarial assumptions used in the most current actuarial valuation report included:

Actuarial cost method:	Individual entry age normal
Amortization method:	Top payments increase 6.31% per year until FY 2032 with a final amortization payment in FY 2033 (formerly 5.86%).
Remaining amortization period:	12 years from July 1, 2021
Asset valuation method:	Market value
Investment rate of return:	7.25% per annum
Projected salary increases:	Service based table with ultimate ranges of 4.25%, and 4.75% for groups 1 and 4, respectively
Cost of living adjustments:	3% on the first \$14,000 of benefits.
Mortality rates:	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).
Disabled life mortality:	For disabled retirees, the mortality rate is assumed to be in accordance with RP-2014 Blue Collar Health Annuitant Table set forward one year and projected generationally with Scale MP-2018 (gender distinct).

#### C. CHANGES IN ACTUARIAL ASSUMPTIONS

In 2020, the System modified a number of actuarial assumptions from those used in its previous valuation. The most significant changes were to actuarial mortality tables.

Falmouth Contributory Retirement System

Page 20 of 25



## Roselli, Clark & Associates

**CERTIFIED PUBLIC ACCOUNTANTS** 

500 West Cummings Park Suite 4900 Woburn, MA 01801 Telephone: (781) 933-0073

www.roselliclark.com

#### INDEPENDENT AUDITORS' REPORT ON AUDIT OF SPECIFIC ELEMENTS, ACCOUNTS AND ITEMS OF FINANCIAL STATEMENTS

To the Falmouth Retirement Board Falmouth Contributory Retirement System Falmouth, Massachusetts

We have audited the accompanying schedule of employer allocations of the Falmouth Contributory Retirement System (the "System"), a component unit of the Town of Falmouth, Massachusetts, as of and for the year ended December 31, 2020. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources and total pension expense included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended December 31, 2020, and the related notes thereto.

#### 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 financial statements 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 and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. 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 schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified column totals included in the schedule of renormal mounts by employer. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column 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.

Falmouth Contributory Retirement System

Page 21 of 25

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 of the System as of and for the year ended December 31, 2020, in accordance with accounting principles generally accepted in the United States of America.

#### **Other Matters**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the System as of and for the year ended December 31, 2020 and our report thereon, dated May 20, 2021, expressed an unmodified opinion on those financial statements.

Tssociates-

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts May 20, 2021

Page 22 of 25

#### SCHEDULE OF EMPLOYER ALLOCATIONS YEAR ENDED DECEMBER 31, 2020

Employer	Actual Employer Contributions	Employer Allocation Percentage		
Town of Falmouth Falmouth Housing Authority	\$ 8,952,150 213,561	97.7% 2.3%		
Total	\$ 9,165,711	100.0%		

See notes to schedule of employer allocation and schedule of pension amounts by employer.

Falmouth Contributory Retirement System

Page 23 of 25

#### SCHEDULE OF PENSION AMOUNTS BY EMPLOYER YEAR ENDED DECEMBER 31, 2020

	Town of almouth	Falmouth Housing Authority	Total
Net pension liability \$	62,262,256	\$ 1,465,744	\$ 63,728,000
Deferred outflows of resources: Changes of assumptions \$ Changes in proportion and differences between employer	4,244,088	\$ 99,912	\$ 4,344,000
contributions and proportionate share of contributions	181,000		181,000
Total deferred outflows of resources	4,425,088	\$ 99,912	\$ 4,525,000
Deferred inflows of resources: Differences between actual and expected experience \$ Net difference between projected and actual investment earnings on pension plan investments	4,824,426 4,920,172	\$ 113,574 115,828	\$ 4,938,000 5,036,000
Changes in proportion and differences between employer contributions and proportionate share of contributions		181,000	181,000
Total deferred inflows of resources	9,744,598	\$ 410,402	\$ 10,155,000
Pension expense (income): Proportionate share of plan pension expense \$ Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions	7,043,888	\$ 165,823 (54,936)	\$ 7,209,711
Total employer pension expense (income) \$	7,098,824	\$ 110,887	\$ 7,209,711

See notes to schedule of employer allocation and schedule of pension amounts by employer.

Falmouth Contributory Retirement System

Page 24 of 25

#### NOTES TO PENSION PLAN SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020

#### A. INTRODUCTION

GASB Statement No. 68, Accounting and Financial Reporting for Pensions, establishes financial reporting requirements for governments that provide employees with pension benefits. GASB 68 requires employers to recognize a net pension liability or net pension asset as employees earn pension benefits. Employers participating in the Falmouth Contributory Retirement System (the "Retirement System") will recognize their proportionate share of the collective pension amounts for all benefits provided by the Retirement System.

#### B. METHOD OF PROPORTIONATE SHARE ALLOCATION

The basis for the proportionate share allocation by employer as found in the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer is consistent with the manner in which employer contributions to the Retirement System are determined. The net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense is based upon actual historical employer contributions to the Retirement System from the census data submitted to the Retirement System for pay periods ending December 31, 2020.

#### C. EXPECTED FUTURE AMORTIZATION OF DEFERRED BALANCES

The following table summarizes the expected amortization of the deferred outflows of resources and inflows of resources into pension expense:

Measurement Period Ended December 31,	Town of Falmouth	Falmouth Housing Authority	Total
2021	\$ (466,189)	\$ (90,811)	\$ (557,000)
2022	766,279	(39,279)	727,000
2023	(3,997,550)	(152,450)	(4,150,000)
2024	(1,622,050)	(27,950)	(1,650,000)
	\$ (5,319,510)	\$ (310,490)	<u>\$ (5,630,000)</u>

Page 25 of 25
# Roselli, Clark & Associates Certified Public Accountants



### FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM (a Component Unit of the Town of Falmouth, Massachusetts)

Report on Examination of Basic Financial Statements and Additional Information

Year Ended December 31, 2019

Report on Internal Control and Compliance Year Ended December 31, 2019

# TABLE OF CONTENTSDECEMBER 31, 2019

	Page(s)
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-6
BASIC FINANCIAL STATEMENTS:	
Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position Notes to Basic Financial Statements	7 8 9 – 18
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED:	
Schedule of Changes in Net Pension Liability and Related Ratios Schedule of Contributions Schedule of Investment Returns Notes to Required Supplementary Information	19 20 20 21
OTHER REPORTS:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22 – 23
Independent Auditors' Report on Audit of Specific Elements, Accounts and Items of Financial Statements	24 – 25
Pension Plan Schedules: Schedule of Employer Allocations Schedule of Pension Amounts by Employer Notes to Pension Plan Schedules	26 27 28



## Roselli, Clark & Associates

**CERTIFIED PUBLIC ACCOUNTANTS** 

500 West Cummings Park Suite 4900 Woburn, MA 01801 Telephone: (781) 933-0073

www.roselliclark.com

### INDEPENDENT AUDITORS' REPORT

To the Falmouth Retirement Board Falmouth Contributory Retirement System Falmouth, Massachusetts

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

### Management's Responsibility for the Financial Statements

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 and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. 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 auditors consider 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 opinions.

Falmouth Contributory Retirement System

Page 1 of 28

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System as of December 31, 2019, and the respective changes in financial 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, and the schedules listed under the required supplementary information section listed in the 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 sufficient evidence to express an opinion or provide any assurance.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 27, 2020 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts May 27, 2020

Falmouth Contributory Retirement System

Page 2 of 28

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Falmouth Contributory Retirement System's (the "System") financial performance provides an overview of the System's financial activities for the calendar year ended December 31, 2019. You should read it in conjunction with the basic financial statements, footnotes and required supplementary information that follows this discussion.

### **Financial Highlights**

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The System's actuary estimates that the System is approximately 68% funded at December 31, 2019.

The System's fiduciary net position increased over \$23.0 million in 2019 to approximately \$156.7 million. Current year additions of over \$36.2 million exceeded deductions of approximately \$13.2 million. The current year increase in fiduciary net position was far more favorable that the prior year's reported decrease of approximately \$10.7 million. The System's investment performance for 2019, net of investment management fees, was nearly 17.5% versus -6.6% in 2018. The 2019 net investment return for the System exceeded its long-term expected discount rate, which is currently 7.25%.

The benchmark U.S. equity indices are down significantly in the first quarter of 2020. The volatility in U.S. markets is historic and primarily due to the COVID-19 pandemic, which sparked liquidations of equities and debt securities causing market prices of nearly all investment securities to plummet. Additionally, declining worldwide oil prices have further exacerbated the situation. The System's next completed actuarial valuation will be based on the market value of its investments at December 31, 2019, which excludes the first quarter of 2020's investment results; however, there may be pressures to reduce the System's current discount rate in future actuarial valuations if this global market correction continues.

### **Overview of the Financial Statements**

The basic financial statements are comprised of the Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, Notes to Financial Statements and Required Supplementary Information. The basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP; specifically, GASB Statement No. 67, *Financial Reporting for Pension Plans*.

The Statement of Fiduciary Net Position reports the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position restricted for pensions. This statement reflects the System's investments at fair value, as well as eash, receivables and other assets and liabilities. Over time, the increase or decrease in fiduciary net position serves as a useful indicator of the System's financial health and condition.

The Statement of Changes in Fiduciary Net Position reports additions to and deductions from the System during the year. This statement reflects contributions by members and participating employers along with deductions for retirement benefits, refunds, withdrawals and administrative expenses. Investment income, including realized and unrealized gains/losses, during the year is also presented.

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

Falmouth Contributory Retirement System

Page 3 of 28

This report also includes Required Supplementary Information following the Notes to the Financial Statements that consist of the schedules of changes in net pension liability and related ratios, investment returns and contributions and the notes to the schedule of contributions.

### **Financial Analysis**

The condensed comparative Statements of Net Position for the two most recent years are as follows:

	December 31,		Dollar	Percent
	2019	2018	Change	Change
Assets:				
Cash and cash equivalents	\$ 1,503,604	\$ 5,115,455	\$ (3,611,851)	-70.6%
Investments	155,194,687	128,690,170	26,504,517	20.6%
Receivables and other assets	1,661		1,661	100.0%
Total Assets	156,699,952	133,805,625	22,894,327	17.1%
Liabilities	40,721	148,424	(107,703)	-72.6%
Fiduciary Net Position	\$156,659,231	\$133,657,201	\$ 23,002,030	17.2%

Total assets at December 31, 2019 approximated \$156.7 million and principally consisted of investments recorded at fair value. Total asset increased by approximately \$22.9 million in 2019, which was due primarily to a positive investment portfolio performance of nearly 17.5%. Receivables and liabilities are not material to the System at either December 31, 2019 or 2018.

The condensed comparative Statements of Changes in Fiduciary Net Position for the two most recent years are as follows:

	Year Ended December 31,		Dollar	Percent	
	2019	2018	Change	Change	
Additions:					
Contributions	\$ 12,905,888	\$ 11,938,989	\$ 966,899	8.1%	
Investment income, net	23,305,416	(9,499,155)	32,804,571	345.3%	
Total Additions	36,211,304	2,439,834	33,771,470	1384.2%	
Deductions:					
Benefits and refunds to Plan members	12,868,328	12,828,702	39,626	0.3%	
Administrative and other expenses	340,946	327,808	13,138	4.0%	
Total Deductions	13,209,274	13,156,510	52,764	0.4%	
Change in Fiduciary Net Position	\$ 23,002,030	<u>\$ (10,716,676</u> )	\$ 33,718,706	314.6%	

Fiduciary net position increased over \$23.0 million in 2019, primarily as a result of net investment earnings of approximately \$23.3 million for the year.

Falmouth Contributory Retirement System

Page 4 of 28

Contributions to the System's Fiduciary Net Position primarily include employer and employee contributions in addition to transfers from other retirement systems. Contributions for 2019 totaled over \$12.9 million versus \$11.9 million in 2018.

Employer contributions represent the largest source of System contributions. In 2019, employer contributions totaled approximately \$8.6 million, or 67%, of total contributions. Employer contributions are actuarially determined. Employee contributions totaled approximately \$3.2 million in 2019, which was approximately \$136,000, or 5%, greater than the prior year. This increase was due primarily to an increase in the number of active members within the System coupled with the effect of normal pay raises.

Other contributions increased nearly \$352,000 year-over-year. This increase was due primarily to a nearly \$248,000 increase in membership transfers from other Massachusetts public pension systems, which is a function of timing and employment trends/movements.

Investment income is presented net of associated investment management expenses. In 2019, the System reported over \$23.3 million in net investment income versus a loss of approximately \$9.5 million in 2018. The System's money-weighted rates of return for 2019 and 2018 were approximately 17.5% and -6.6%, respectively.

Deductions to the System's Fiduciary Net Position primarily include pension benefits to members and beneficiaries, refunds to inactive members, transfers and reimbursements to other Massachusetts public retirement systems and administrative expenses. Total deductions in 2019 were relatively consistent with total 2018 deductions.

Pension benefits to members and beneficiaries represents the largest deduction from Fiduciary Net Position for the System. Pension benefits to members and beneficiaries represented over 91% and 88% of total 2019 and 2018 deductions, respectively. Pension benefits to members and beneficiaries increased approximately \$526,000, or 5%, in 2019. This increase was due to a greater average number of beneficiaries paid year-over-year coupled with the normal annual cost-of-living adjustments paid by the System.

The increase in pension benefits to members and beneficiaries was offset by an approximate \$487,000 decrease in transfers and reimbursements to other Massachusetts public retirement systems, which is a function of timing and employment trends/movements.

Administrative expenses were relatively consistent year-over-year.

### **Overall Financial Position**

The System's positive investment performance in 2019 permitted it to maintain an approximate 68% funded ratio at December 31, 2019. The System's 30-year investment return as published by PERAC significantly exceeds the discount rate used by the System in its actuarial studies. Provided the System continues to garner strong investment performances, it is possible that the System will achieve fully funded status on or before the expected date included in latest actuarial valuation of December 31, 2033.

The System maintains a large portion of its investments in pooled funds. Approximately 32% of these funds invest in private equity, hedge funds or real estate. The determination of the value of these investments is very subjective and the ultimate amount of gains and losses in some of these funds will not be determined until the underlying assets (i.e., the real estate or stock in the private companies) are sold. Furthermore, these types of investments are not as liquid as investments in savings accounts, money markets, certificates of deposits, government securities or debt and equity securities in publicly-held U.S. corporations. You should refer to Notes 2 and 4 to these financial statements.

Falmouth Contributory Retirement System

Page 5 of 28

Although the System has been successful in garnering the yields necessary to achieve fully funded status in the required time frame, the System (like so many other institutional investors) has experienced a great deal of volatility in its investments. Management believes that the volatility in the worldwide markets may continue for the foreseeable future. Accordingly, management intends to actively monitor the System's investment positions to best maximize returns while mitigating risk as best as it can.

### Contacting the System's Financial Management Personnel

This discussion and analysis is designed to provide the Falmouth Retirement Board, its membership, taxpayers, investors and creditors with a general overview of the System's financial results and to demonstrate the System's accountability for the funding it receives. If you have any questions about this report or need additional financial information, contact the Falmouth Retirement Board at 80 Davis Straits, Suite 102, Falmouth, MA 02540.

Falmouth Contributory Retirement System

Page 6 of 28

# FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM

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

### STATEMENT OF FIDUCIARY NET POSITION DECEMBER 31, 2019

Assets:		
Cash and cash equivalents	\$	1,503,604
Investments:		
Mutual funds		105,627,348
Private equity funds		16,909,318
Real estate funds		12,086,208
PRIT		20,571,813
Total investments	_	155,194,687
Member contributions receivable	_	1,661
Total Assets		156,699,952
Liabilities:		
Accounts payable and accrued expenses		40,721
Net Position Restricted for Pensions	\$	156,659,231

See accompanying notes to basic financial statements.

Falmouth Contributory Retirement System

Page 7 of 28

### STATEMENT OF CHANGES IN FIDUCIARY NET POSITION YEAR ENDED DECEMBER 31, 2019

Additions:	
Employer contributions	\$ 8,621,683
Employee contributions	3,173,956
Other contributions	1,105,195
Total contributions	12,900,834
Investment income:	
Interest and dividends	1,314,306
Net appreciation in fair value of investments	23,013,631
Less investment management fees	(1,022,521)
Total net investment income	23,305,416
Other income	5,054
Total Additions	36,211,304
Deductions:	
Benefits and refunds to Plan members:	
Benefits to retirees and survivors	12,043,669
Member refunds	173,170
Transfers and reimbursements to other systems	651,489
Administrative expenses:	
Operations payroll and related personnel costs	180,630
Other	160,316
Total Deductions	13,209,274
Change in Net Position	23,002,030
Net Position Restricted for Pensions:	
Beginning of the year	133,657,201
End of the year	\$ 156,659,231

See accompanying notes to basic financial statements.

Falmouth Contributory Retirement System

Page 8 of 28

### NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

### 1. DESCRIPTION OF THE PLAN

*General* – The Falmouth Contributory Retirement System (the "System") is a cost-sharing, multiple employer defined benefit pension plan established and administered by the Falmouth Retirement Board under the provisions of Chapter 32 of the Massachusetts General Laws ("MGL") to provide pension benefits for participants. The System is a component unit of the Town of Falmouth. The Town of Falmouth (the "Town") and the Falmouth Housing Authority (the "FHA") contribute to the System.

Employees of the Town (with the exception of teachers and certain administrative personnel employed by the School Department who participate in a separate plan) and the FHA are covered by the System. Participation in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

At December 31, 2019, membership in the System consisted of:

Retirees and beneficiaries currently receiving benefits	415
Active plan members	581
Inactive plan members	167
Total	<u>1,163</u>

*Plan Benefits* – Massachusetts contributory retirement system benefits are uniform from one public pension system to another. For employees with service dates beginning before April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three-year average annual rate of regular compensation. For those employees who began their service on or after April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive five-year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and group classification.

The retirement allowance consists of two parts – an annuity and a pension. Participants' accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement benefit and the annuity is the pension.

Participants who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees may be entitled to receive interest, which has accrued on those contributions. A vested employee who has not reached their eligible retirement age and elects to leave their accumulated total deductions on deposit may apply for benefits upon reaching their eligible retirement age.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Falmouth Contributory Retirement System

Page 9 of 28

*Retirement Requirements* – In order to receive retirement benefits, participants must meet one of the following two categories:

- Normal Retirement Generally, normal retirement occurs between ages 65 and 67. However, most participants with a hire date before April 2, 2012, may retire after twenty years of creditable service or at any time after attaining age 55. For most participants hired on or after April 2, 2012, they must attain the age of 60 before they can retire. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55 or 60, as applicable. Participants become vested after ten years of creditable service. Benefits commencing before age 65 are generally provided at a reduced rate. However, members working in certain occupations may retire with full benefits earlier than age 65.
- 2) Disability Retirements The System provides for both an ordinary and accidental disability retirement. An ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. An accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of their duty.

The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of creditable service, average compensation and veteran status. In addition, certain provisions are in place relative to death benefits for beneficiaries of employees who die in active service.

*Public Availability of Financial Statements* – The Falmouth Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Falmouth Retirement Board, 80 Davis Straits, Suite 102, Falmouth, Massachusetts 02540.

### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** – The financial statements of the System have been prepared on the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer is legally required to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the pension plan.

*Use of Estimates* – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents* – Cash and cash equivalents include cash on hand, demand deposits and short-term holdings with original maturities of three months or less from the date of acquisition.

Falmouth Contributory Retirement System

Page 10 of 28

*Investments* – The carrying amounts of the System's investments approximate their fair value. When actively quoted observable prices are not available, the System generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- Level 1 Inputs are quoted prices in active markets for identical investments at the measurement date.
- Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3 Inputs reflect the System's best estimate of what market participants would use in pricing the investment at the measurement date.

The remaining investments not categorized under the fair value hierarchy are shown at net asset value ("NAV"). These are investments in non-governmental entities for which a readily determinable fair value is not available, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

The following table presents the fair value of the System's investments by type as of December 31, 2019:

	December 31,	Fair Value Measurements Using		
Investments by Fair Value Level	2019	Level 1	Level 2	Level 3
Mutual funds:				
Domestic fixed income mutual funds	\$ 30,211,977	\$ 30,211,977	\$ -	\$
Domestic equity mutual funds	61,392,130	61,392,130	-	
International equity mutual funds	14,023,241	14,023,241		·
Total investments by fair value level	105,627,348	\$ 105,627,348	\$ -	\$
Investments measured at NAV:				
Private equity funds	16,909,318			
Real estate funds	12,086,208			
PRIT funds	20,571,813			
Total investments measured at the NAV	49,567,339			
Total investments measured at fair value	\$155,194,687			
Investments Measured at NAV		Unfunded		
By Asset Class	Fair Value	Commitment	ts	
Private equity funds	\$ 16,909,318	3 \$ 1,597,20	)4	
Real estate funds	12,086,208	3 120,00	0	
PRIT funds	20,571,813	6,769,44	9	
	\$ 49,567,339	9 \$ 8,486,65	53	

Falmouth Contributory Retirement System

Page 11 of 28

Investments measured at NAV include comingled/pooled funds in private equity or venture funds, real estate and investments in the State Treasurer investment pool, or PRIT.

Private equity and real estate holdings generally include investments in which the System is a general partner in a private equity, venture capital fund or similar investment vehicle. The value of these investments are recorded at values determined in good faith by the general partners of the private equity and venture capital firms after consideration of pertinent information, including current financial position and operative results, price-earnings multiples and available market prices of similar companies' securities, the nature of the securities, marketability, restrictions on disposition and other appropriation and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot reasonably be determined until individual securities are liquidated. In addition, fair values of real estate funds are generally based on independent, third-party appraisals. By their very nature, these investments are illiquid and typically cannot be resold or redeemed. Distributions from each fund will be received as the underlying investments are liquidated. It is expected that the underlying assets for the funds will be liquidated over an average of ten years.

PRIT is administered by the Commonwealth of Massachusetts' Pension Reserve Investment Management Board. The specific investments held by the System include the PRIT Hedge Fund, PRIT Private Equity Fund and PRIT Real Estate Fund, each of which consists of a diverse set of investments that include private equity, venture capital and real estate. The determination of the fair value of these investments is very subjective and the period-end values are reported to the System as NAV. Investments in the PRIT funds are more liquid than investments in private equity and real estate holdings, but generally cannot be resold to third parties. The System may liquidate its investment in the PRIT funds at any time with less than thirty days' notice. Distributions from the PRIT funds may be received regularly and, upon receipt, are deposited into an accompanying shortterm cash investment account.

Because of the inherent uncertainty of valuations used in many of the System's investments measured at NAV, estimated values may differ significantly from the values that would have been used had a readily available market for positions in privately held companies or the real estate existed at December 31, 2019. These differences could have a material adverse effect on the System's financial statements.

### 3. SYSTEM ADMINISTRATION

The System is administered by a five-person Board consisting of the Town Accountant (or similar position), two members elected by the participants in or retired from the service of the System, one member appointed by the Town's Board of Selectmen and one member appointed by the other members of the Board.

At December 31, 2019, the Board was comprised as follows:

		<u>Term Expires</u>
Ex-Officio Member:	Ms. Jennifer P. Mullen, Town Finance Director	No Specified Date
Appointed Member:	Mr. Paul J. Slivinski	June 30, 2021
Elected Member:	Mr. Russell R. Ferreira (Chairman)	October 30, 2022
Elected Member:	Mr. Craig B. O'Malley	May 25, 2020
Fifth Member (non-member):	Ms. Ellen K. Philbin	June 30, 2021

Falmouth Contributory Retirement System

Page 12 of 28

The Board is required to meet at least once a month and keep a record of its proceedings. The Board annually submits a financial statement of condition for the System with the Commissioner of the Massachusetts Public Employee Retirement Administration Commission, or PERAC. All retirement allowances are approved by the Board. Expenses incurred by the System must be approved by at least two members of the Board.

### 4. DEPOSITS AND INVESTMENTS

MGL and PERAC regulations require the System to invest funds only in preapproved investment instruments, which include, but are not necessarily limited to, bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, certain corporate bonds and equities and investment pools.

*Custodial Credit Risk: Deposits* – Deposits are subject to the risk of bank failure. The System may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The System's policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation insurance coverage for the first \$250,000 of deposits held at each financial institution. At December 31, 2019, the System had bank deposits of \$30,068 exposed to custodial credit risk because it was uninsured and uncollateralized.

*Investment Policy* – The investment of the System's funds is the responsibility of the Board. The Board manages its investments using an investment policy, which was updated in September 2019. The investment objective is to fully fund the System by generating sufficient long-term, inflation-adjusted capital appreciation while providing sufficient liquidity to meet short-term withdrawal requirements. The Board seeks to generate long-term investment performance that meets or exceeds actuarially-targeted rates of return (currently at 7.25%). Furthermore, the Board establishes investment benchmarks by asset class to compare its actual performance against.

The System's investment policy requires diversification within its investment portfolio. The System's portfolio target weights and the long-term expected rates of return for each of these assets classes were as follows:

		Long-Term
	Target	Expected
Asset Class	Policy Range	Rate of Return
Domestic equity	33.0% to 43.0%	7.6% to 10.1%
International equity	10.0% to 20.0%	7.6%
Fixed income	14.5% to 24.5%	2.6% to 8.7%
Real Estate/ Real Assets	7.5% to 12.5%	7.5%
Private equity	5.0% to 10.0%	13.1%
Hedge funds	7.5% to 12.5%	7.3%
Cash	0.0% to 3.0%	nil

*Investment Management* – Wainwright Investment Counsel ("Wainwright") provided investment advisory services to the System throughout all of 2019. The System's advisory agreement with Wainwright is set to expire on December 31, 2025.

Falmouth Contributory Retirement System

Page 13 of 28

At December 31, 2019, the System had contracted with the following firms to serve as investment	
managers:	

Investment Advisor	Investment Type
Aristotle Capital Boston, LLC	Small Cap Domestic Equity
Dimensional Fund Advisors	International Equity
Hamilton Lane Advisors, LLC	Private Equity
H.G.K. Asset Management, Inc.	International Equity
Lexington Partners, Inc.	Private Equity
LMCG Investments, LLC	Mid-Cap Domestic and International Equity
Lord Abbett & Company, LLC	Fixed Income
Mesirow Financial Services, Inc.	Private Equity
Metropolitan Real Estate Partners	Real Estate
P.R.I.M. Board	Real Estate, Private Equity and Hedge Funds
Principal Global Investors, LLC	Real Estate
RhumbLine Advisers	Domestic Equity
Siguler Guff & Company, LLC	Private Equity
State Street Global Advisors	Fixed Income
TerraCap Management, LLC	Real Estate

*Custody of Investments* – Peoples United Bank ("PUB") is the custodian of the System's investment portfolio. PUB held all System investment securities at December 31, 2019 and provided investment transaction and reporting services throughout all 2019.

*Rate of Return* – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested. The 2019 money-weighted rate of return was approximately 17.5%.

*Custodial Credit Risk: Investments* – Custodial credit risk for investments is the risk that in the event of a failure of the counterparty the System will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The System's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the System. At December 31, 2019, the System was not exposed to custodial credit risk on its investments.

*Foreign Currency Risk: Investments* – Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit. The System did not directly hold any investments denominated in foreign currency at December 31, 2019.

*Concentration of Credit Risk: Investments* – The following investments held by the System at December 31, 2019 represent approximately 70.8% of the System's total investments:

SSGA Passive Bond Market Index SL Fund	15.4%
Rhumbline Russell 1000 Funds	12.5%
LMCG Mid-Cap Core Fund	10.1%
Aristotle Capital Small Cap Equity Fund	10.1%
PRIT Hedge Fund	9.9%
HGK Trinity Street International Equity Fund GP, LLC	7.0%
Dimensional Fund Advisors International Core Equity Portfolio	5.8%

Falmouth Contributory Retirement System

Page 14 of 28

*Interest Rate Risk: Investments* – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The System does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Securities Credit Risk: Investments – In the case of investments, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. As previously noted, MGL and PERAC have enacted regulations to reduce this risk. In evaluating its credit risk, the System relies on credit ratings assigned by nationally recognized credit rating agencies like Moody's Investors Services and Standard and Poor's Financial Services. The System does voluntarily self-impose certain investment restrictions; however, those can be changed at the Board's discretion. The System does maintain a significant portion (approximately 99%) of its monetary assets as investment holdings.

None of the System's investments were subject to credit quality ratings from leading credit rating agencies. At December 31, 2019, uninsured short-term investment funds with fair values of \$1,433,778 were reported as cash equivalents. These funds represent temporary holdings of excess cash resources. The System intends to reinvest these amounts in less than one year. Accordingly, the fair values of these amounts have been classified as cash equivalents in these financial statements.

### 5. FUNDING

*Employer Contributions* – Under MGL, participating employers are assessed their share of the total retirement cost based on an independent actuarial study. Employer contributions totaled \$8,621,683 in 2019.

*Employee Contributions* – Employee contribution rates vary based on when an employee commenced their creditable service. Active members contribute 5%, 7%, 8% or 9% of their gross regular compensation depending on when their creditable service commenced. Employees hired on or before January 1, 1979 contribute an additional 2% of their regular gross compensation over \$30,000.

*Cost of Living Adjustments* – Cost-of-living adjustments granted between 1981 and 1997 and any increase in other pension benefits imposed by the Commonwealth of Massachusetts during those years are the financial responsibility of the Commonwealth. The Commonwealth is expected to continue funding the cost-of-living amounts granted over this period for the duration of their selected retirement option. Cost-of-living adjustments granted after 1997 must be approved and funded by the System. Cost-of-living adjustments cannot exceed the greater of CPI or 3%. The System approved a 3% cost-of-living adjustment on the first \$14,000 of pension benefits.

### 6. NET PENSION LIABILITY

The System is statutorily required to adopt the funding schedule that will fully amortize the unfunded actuarial accrued liability by June 30, 2040. As of the latest actuarial valuation, the System has selected a funding schedule that fully amortizes the unfunded actuarial accrued liability by June 30, 2034.

Falmouth Contributory Retirement System

Page 15 of 28

The components of the System's net pension liability at December 31, 2019 (dollar amounts in thousands) were as follows:

Total pension liability Plan fiduciary net position	\$ 230,501 156,659
Net pension liability	\$ 73,842
Plan fiduciary net position as a percentage of total pension liability	68.0%

The total pension liability was determined by an actuarial valuation as of January 1, 2018 and rolled forward to December 31, 2019. The significant actuarial assumptions used in the actuarial valuation report were as follows:

Actuarial cost method:	Individual entry age normal
Amortization method:	Top payments increase 6.31% per year until FY 2032 with a final amortization payment in FY 2033 (formerly 5.86%).
Remaining amortization period:	13 years
Asset valuation method:	Market value
Investment rate of return:	7.25% per annum
Projected salary increases:	Service based table with ultimate ranges of 4.25%, and 4.75% for groups 1 and 4, respectively
Cost of living adjustments:	3% on the first \$14,000 of benefits.
Mortality rates:	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).
Disabled life mortality:	For disabled retirees, the mortality rate is assumed to be in accordance with RP-2000 Health Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct).

*Discount Rate* – The discount rate used to measure the total pension liability was 7.25%. The projection of eash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all 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.

*Expected Real Rate of Return* – The long-term expected rate of return on System investments was determined using a building-block method in which best-estimate ranges of expected future 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 rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in

Falmouth Contributory Retirement System

Page 16 of 28

the System's target allocation as of December 31, 2019 are summarized in the investment policy table in Note 4.

Sensitivity Analysis – The following illustrates the net position liability at December 31, 2019 calculated using the current discount rate of 7.25%, as well as the projection of what the net position liability would be if it were calculated using a discount rate that is 1.0% lower or higher than the current rate (dollar amounts in thousands):

Current		Ne	t Per	Pension Liability At					
Discount Rate	_1%	1% Decrease		urrent Rate	1% Increase				
7.25%	\$	99,411	\$	73,842	\$	52,202			

### 7. LEGALLY REQUIRED RESERVE ACCOUNTS

Net position restricted for pensions at December 31, 2019 were comprised of the following legally required reserves:

Description	Amount	Purpose
Annuity Savings Fund	\$ 34,264,375	Active members' contribution balance
Annuity Reserve Fund	10,583,761	Retired members' contribution balance
Military Service Fund	10,304	Members' contributions while on military leave
Pension Fund	9,504,173	Amounts appropriated to fund future retirement
Pension Reserve Fund	102,296,618	Remaining net assets
Total	<u>\$ 156,659,231</u>	

### 8. COMMITMENTS AND CONTINGENCIES

*Facility Lease* – In 2013, the System entered into a ten-year, non-cancellable facility lease with a third party for its office. Future minimum annual rental expense obligations due under this facility lease, which includes rent and common area maintenance fees, as are as follows:

Calendar Year	Lease Payments		
2020		41,155	
2021	-	41,323	
2022		42,165	
2023		32,762	
	\$	157,405	

*General* – The System is subject to a variety of claims that arise from time to time in the ordinary course of business. Although management of the System currently believes that resolving claims against the System, individually or in aggregate, will not have a material adverse impact on the System's financial position or its results of operations, these matters are subject to inherent uncertainties and management's views of these matters may change in the future.

Falmouth Contributory Retirement System

Page 17 of 28

### 9. SUBSEQUENT EVENT

In March 2020, the World Health Organization declared the breakout of the novel coronavirus COVID-19 as a pandemic. Subsequent to this declaration, worldwide bond and equity markets experienced significant volatility. Substantial liquidation of investments caused market prices for virtually all investment classes to decline significantly. While the System expects this matter to negatively impact its Fiduciary Net Position, the ultimate financial impact cannot be reasonably estimated at this time.

\* \* \* \* \* \*

Falmouth Contributory Retirement System

Page 18 of 28

### **REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED**

# SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS (dollar amounts are in thousands)

	_	2019	_	2018		2017	_	2016	_	2015	_	2014
Total pension liability: Service cost Interest Changes in benefit terms Differences between expected and actual experience	\$	5,044 15,991 -	\$	4,827 14,841 2,300 (1,072)	\$	4,433 14,772	\$	4,242 13,692 (1,237)	\$	4,015 13,578	\$	3,842 13,035
Changes in assumptions Benefit payments, including refunds		(12,111)		6,870 (12,123)		(11,599)		8,600 (10,561)		(10,364)	_	(9,730)
Net change in total pension liability	_	8,924		15,643		7,606		14,736		7,229	_	7,147
Total pension liability - beginning of year	_	221,577		205,934	_	198,328		183,592		176,363		169,216
Total pension liability - end of year (a)	\$	230,501	\$	221,577	\$	205,934	\$	198,328	\$	183,592	\$	176,363
Plan fiduciary net position: Contributions - employer Contributions - employee Contributions - nonemployer contributing entities Net investment income Benefit payments, including refunds Administrative expenses Other Net change in plan fiduciary net position	\$	8,622 3,174 1,105 23,305 (12,868) (341) 5 23,002	\$	8,110 3,014 815 (9,499) (12,829) (328) - (10,717)	\$	7,661 3,010 664 18,635 (12,338) (319) <u>11</u> 17,324	\$	7,296 2,902 837 10,545 (11,422) (295) 5 9,868	\$	6,949 2,801 306 138 (10,713) (298) <u>4</u> (813)	\$	6,618 2,768 543 7,139 (10,155) (284) <u>21</u> 6,650
Plan fiduciary net position - beginning of year	_	133,657		144,374	_	127,050		117,182	_	117,995	_	111,345
Plan fiduciary net position - end of year (b)	\$	156,659	\$	133,657	\$	144,374	\$	127,050	\$	117,182	\$	117,995
Net pension liability - end of year (a) - (b)	\$	73,842	\$	87,920	\$	61,560	\$	71,278	\$	66,410	\$	58,368
Plan fiduciary net position as a percentage of the total pension liability		67.96%		60.32%		70.11%		64.06%		63.83%		66.90%
Covered payroll	\$	29,951	\$	29,951	\$	28,417	\$	28,417	\$	27,478	\$	27,478
Net pension liability as a percentage of covered payroll		246.54%		293.55%		216.63%		250.83%		241.68%		212.42%

These schedules are presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

Falmouth Contributory Retirement System

Page 19 of 28

### REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED

### SCHEDULE OF CONTRIBUTIONS (dollar amounts are in thousands) 2019 2018 2017 2016 2015 2014 Actuarially-determined contribution \$ 8,622 \$ 8,110 \$ 7,661 \$ 7,296 \$ 6,949 \$ 6,618 Contributions in relation to the actuarially-7,661 7,296 determined contribution 8,622 8,110 6,949 6,618 Contribution deficiency (excess) - \$ - \$ - \$ \$ - \$ - \$ -Covered payroll 29,951 \$ 29,951 \$ 28,417 \$ 28,417 \$ 27,478 \$ 27,478 \$ 28.79% Contribution as a percentage of covered payroll 27.08% 26.96% 25.67% 25.29% 24.08%

### SCHEDULE OF INVESTMENT RETURNS

	2019	2018	2017	2016	2015
Annual money-weighted rate of return, net of investment expense	17.46%	-6.63%	14.87%	9.11%	33.00%
	2014	2013	2012		
Annual money-weighted rate of return, net of investment expense	6.56%	19.18%	12.93%		

These schedules are presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

Falmouth Contributory Retirement System

Page 20 of 28

# NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

### A. CHANGES OF BENEFIT TERMS

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the System's benefit terms in 2019.

### B. SIGNIFICANT ACTUARIAL ASSUMPTIONS AND METHODS

The significant actuarial assumptions used in the January 1, 2018 report were as follows:

Actuarial cost method:	Individual entry age normal
Amortization method:	Top payments increase 6.31% per year until FY 2032 with a final amortization payment in FY 2033 (formerly 5.86%).
Remaining amortization period:	14 years
Asset valuation method:	Market value
Investment rate of return:	7.25% per annum (formerly 7.5%)
Projected salary increases:	Service based table with ultimate ranges of 4.25%, and 4.75% for groups 1 and 4, respectively
Cost of living adjustments:	3% on the first \$14,000 of benefits.
Mortality rates:	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).
Disabled life mortality:	For disabled retirees, the mortality rate is assumed to be in accordance with RP-2000 Health Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct).

Falmouth Contributory Retirement System

Page 21 of 28



# Roselli, Clark & Associates

**CERTIFIED PUBLIC ACCOUNTANTS** 

500 West Cummings Park Suite 4900 Woburn, MA 01801 Telephone: (781) 933-0073

www.roselliclark.com

### INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Falmouth Retirement Board Falmouth Contributory Retirement System Falmouth, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Falmouth Contributory Retirement System (the "System"), a component unit of the Town of Falmouth, Massachusetts, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated May 27, 2020.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Falmouth Contributory Retirement System

Page 22 of 28

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts May 27, 2020

Page 23 of 28



# Roselli, Clark & Associates

**CERTIFIED PUBLIC ACCOUNTANTS** 

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

### INDEPENDENT AUDITORS' REPORT ON AUDIT OF SPECIFIC ELEMENTS, ACCOUNTS AND ITEMS OF FINANCIAL STATEMENTS

To the Falmouth Retirement Board Falmouth Contributory Retirement System Falmouth, Massachusetts

We have audited the accompanying schedule of employer allocations of the Falmouth Contributory Retirement System (the "System"), a component unit of the Town of Falmouth, Massachusetts, as of and for the year ended December 31, 2019. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources and total pension expense included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended December 31, 2019, and the related notes thereto.

### 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 financial statements 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 and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. 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 schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column totals included in the schedule of the schedule of employer allocations and the specified column 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.

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

Falmouth Contributory Retirement System

Page 24 of 28

### 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 of the System as of and for the year ended December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the System as of and for the year ended December 31, 2019 and our report thereon, dated May 27, 2020, expressed an unmodified opinion on those financial statements.

Issociates-

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts May 27, 2020

Falmouth Contributory Retirement System

Page 25 of 28

### Actual Employer Allocation Employer Employer Contributions Percentage Town of Falmouth \$ 8,431,144 97.8% Falmouth Housing Authority 190,539 2.2% Total 8,621,683 100.0% \$

### SCHEDULE OF EMPLOYER ALLOCATIONS YEAR ENDED DECEMBER 31, 2019

See notes to schedule of employer allocation and schedule of pension amounts by employer.

Falmouth Contributory Retirement System

Page 26 of 28

### SCHEDULE OF PENSION AMOUNTS BY EMPLOYER YEAR ENDED DECEMBER 31, 2019

	Town of Falmouth	Falmouth Housing Authority	Total
Net pension liability	\$ 72,217,476	\$ 1,624,524	\$ 73,842,000
Deferred outflows of resources: Changes of assumptions Changes in proportion and differences between employer	\$ 6,314,946	\$ 142,054	\$ 6,457,000
contributions and proportionate share of contributions	310,000		310,000
Total deferred outflows of resources	\$ 6,624,946	\$ 142,054	\$ 6,767,000
Deferred inflows of resources: Differences between actual and expected experience Net difference between projected and actual investment earnings	\$ 958,440	\$ 21,560	\$ 980,000
on pension plan investments Changes in proportion and differences between employer contributions and proportionate share of contributions	2,884,122	64,878 310,000	2,949,000 310,000
Total deferred inflows of resources	\$ 3,842,562	\$ 396,438	\$ 4,239,000
Pension expense (income): Proportionate share of plan pension expense Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions	\$ 11,256,464 125,274	\$ 253,219 (125,274)	\$ 11,509,683
* *			
Total employer pension expense (income)	<u>\$ 11,381,738</u>	<u>\$ 127,945</u>	\$ 11,509,683

See notes to schedule of employer allocation and schedule of pension amounts by employer.

Falmouth Contributory Retirement System

Page 27 of 28

### NOTES TO PENSION PLAN SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

### A. INTRODUCTION

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes financial reporting requirements for governments that provide employees with pension benefits. GASB 68 requires employers to recognize a net pension liability or net pension asset as employees earn pension benefits. Employers participating in the Falmouth Contributory Retirement System (the "Retirement System") will recognize their proportionate share of the collective pension amounts for all benefits provided by the Retirement System.

### B. METHOD OF PROPORTIONATE SHARE ALLOCATION

The basis for the proportionate share allocation by employer as found in the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer is consistent with the manner in which employer contributions to the Retirement System are determined. The net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense is based upon actual historical employer contributions to the Retirement System from the census data submitted to the Retirement System for pay periods ending December 31, 2019.

### C. EXPECTED FUTURE AMORTIZATION OF DEFERRED BALANCES

The following table summarizes the expected amortization of the deferred outflows of resources and inflows of resources into pension expense:

Measurement Period Ended December 31:	Town of Falmouth	Falmouth Housing Authority	Total
2020	\$ 1,610,768	\$ (54,768)	\$ 1,556,000
2021	1,158,932	(64,932)	1,094,000
2022	2,390,684	(12,684)	2,378,000
2023	<u>(2,378,000)</u>	(122,000)	<u>(2,500,000)</u>
	\$ 2,782,384	\$ (254,384)	\$ 2,528,000

Page 28 of 28

# ROSELLI, CLARK & ASSOCIATES Certified Public Accountants



### FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM (a Component Unit of the Town of Falmouth, Massachusetts)

Report on Examination of Basic Financial Statements and Additional Information

Year Ended December 31, 2018

Report on Internal Control and Compliance Year Ended December 31, 2018

# TABLE OF CONTENTSDECEMBER 31, 2018

	Page(s)
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 – 5
BASIC FINANCIAL STATEMENTS:	
Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position Notes to Basic Financial Statements	6 7 8 – 18
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED:	
Schedule of Changes in Net Pension Liability and Related Ratios Schedule of Contributions Schedule of Investment Returns Notes to Required Supplementary Information	19 20 20 21
OTHER REPORTS:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22 - 23
Independent Auditors' Report on Audit of Specific Elements, Accounts and Items of Financial Statements	24 – 25
Pension Plan Schedules: Schedule of Employer Allocations Schedule of Pension Amounts by Employer Notes to Pension Plan Schedules	26 27 28



## Roselli, Clark & Associates

**CERTIFIED PUBLIC ACCOUNTANTS** 

500 West Cummings Park Suite 4900 Woburn, MA 01801 Telephone: (781) 933-0073

www.roselliclark.com

### INDEPENDENT AUDITORS' REPORT

To the Falmouth Retirement Board Falmouth Contributory Retirement System Falmouth, Massachusetts

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

### Management's Responsibility for the Financial Statements

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 and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. 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 auditors consider 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 opinions.

Falmouth Contributory Retirement System

Page 1 of 28

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System as of December 31, 2018, and the respective changes in financial 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, and the schedules listed under the required supplementary information section listed in the 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 sufficient evidence to express an opinion or provide any assurance.

### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 27, 2019 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Roselli. Clark & Associates

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts June 27, 2019

Falmouth Contributory Retirement System

Page 2 of 28

### MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Falmouth Contributory Retirement System's (the "System") financial performance provides an overview of the System's financial activities for the calendar year ended December 31, 2018. You should read it in conjunction with the basic financial statements, footnotes and required supplementary information that follows this discussion.

### **Financial Highlights**

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The System's actuary estimates that the System is approximately 60% funded at December 31, 2018.

The System's money-weighted return on investments, net of investment management fees, was approximately -6.6% in 2018. The negative return on investments in 2018 was due primarily to a significant decline in the U.S. equity markets in the fourth calendar quarter of 2018. Prior to the fourth calendar quarter, the U.S. equity markets were on track to meet or exceed the System's targeted annual investment return (currently 7.25% per annum). It's important to note that the U.S. equity markets rebounded significantly in the first calendar quarter of 2019, which erased nearly all of the fourth calendar quarter of 2018's losses.

This negative return on investments was the primary contributor to the over \$10.7 million decrease in the System's fiduciary net position in 2018.

### **Overview of the Financial Statements**

This discussion and analysis is intended as an introduction to the System's basic financial statements. The basic financial statements are comprised of a Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, Notes to Financial Statements and Required Supplementary Information.

Statement of Fiduciary Net Position – presents information on the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position restricted for pensions. This statement reflects the System's investments at fair value, as well as cash, receivables and other assets and liabilities. Over time, the increase or decrease in fiduciary net position serves as a useful indicator of the System's financial health and condition.

Statement of Changes in Fiduciary Net Position – presents information showing how the System's fiduciary net position changed during the year. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds, withdrawals and administrative expenses. Investment income, including realized and unrealized gains and losses on pooled investments, during the year is also presented.

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

*Required Supplementary Information* – includes this management's discussion and analysis and various unaudited schedules.

Falmouth Contributory Retirement System

Page 3 of 28

### **Financial Analysis**

### Fiduciary Net Position

The System's total assets as of December 31, 2018 approximated \$133.7 million and principally consisted of investments recorded at fair value. Total assets decreased by over \$10.7 million, or 7.4%, from the prior year due primarily to the decline in investment balances year-over-year. System liabilities are consistent year-over-year.

	December 31,				
	2018	2017			
Assets:					
Cash and cash equivalents	\$ 5,115,455	\$ 6,510,212			
Investments	128,690,170	138,031,994			
Total Assets	133,805,625	144,542,206			
Liabilities	148,424	168,329			
Fiduciary Net Position	\$ 133,657,201	<u>\$ 144,373,877</u>			

### **Change in Fiduciary Net Position**

Net investment income decreased over \$28.1 million in 2018 as a result of the 2018 negative investment return of 6.6% versus a 14.9% positive return in 2017. This decline in investments was the primary contributor to the over \$10.7 million negative change in fiduciary net position in 2018.

	Year Ended December 31,
	2018 2017
Additions:	
Contributions	\$ 11,938,989 \$ 11,345,322
Investment income, net	(9,499,155) 18,635,453
Total Additions	2,439,834 29,980,775
Deductions:	
Benefits and refunds to Plan members	12,828,702 12,338,483
Administrative and other expenses	327,808 318,827
Total Deductions	13,156,510 12,657,310
Change in Fiduciary Net Position	<u>\$ (10,716,676)</u> <u>\$ 17,323,465</u>

*Additions* – The amount needed to finance pension benefits is accumulated through the collection of employer and employee contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 Cost of Living Adjustments and through earnings on investments. In 2018, contributions increased nearly \$0.6 million to approximately \$11.9 million. Employer contributions represent approximately \$8.1 million, or approximately 68% of total contributions. Employer contributions are actuarially determined.

Falmouth Contributory Retirement System

Page 4 of 28
As previously noted, the money-weighted rate of return, net of investment expense, was approximately -6.6% in 2018 versus 14.9% in 2017. This caused the significant decrease in net investment income year-over-year.

**Deductions** – The primary deductions for the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions and the costs of administering the system. Benefit payments represented approximately 97% of total 2018 and 2017 deductions. Benefit payments increased nearly \$0.5 million, or 4.0%, year-over-year. This increase was due primarily to an increase in the number of retirees.

The remaining 2018 administrative and other expenses approximated \$328,000, which was consistent with the prior year.

#### **Overall Financial Position**

The System's actuarial estimate of its funded status as of December 31, 2018 was approximately 60% versus approximately 70% at December 31, 2017. This significant decrease was attributable to a number of factors including a 0.25% decrease in the discount rate used by the actuary in estimating the total pension liability, changes to benefit terms in the current year as well as a \$10.7 million decrease in fiduciary net position year-over-year.

U.S equity markets rebounded significantly in the first calendar quarter of 2019. The System has recouped all its 2018 investment losses by March 31, 2019.

The System maintains a large portion of its investments in pooled funds. Approximately 28% of these funds invest in private equity, hedge funds or real estate. The determination of the value of these investments is very subjective and the ultimate amount of gains and losses in some of these funds will not be determined until the underlying assets (i.e., the real estate or stock in the private companies) are sold. Furthermore, these types of investments are not as liquid as investments in savings accounts, money markets, certificates of deposits, government securities or debt and equity securities in publicly-held U.S. corporations. You should refer to Notes 2 and 4 to these financial statements.

The composition of the System's investment portfolio makes it difficult to compare it to typical market indices like the Dow Jones Industrial Average or the S&P 500. Therefore, an internal benchmark is needed that contemplates returns in the U.S. and international equity markets, real estate markets and private equity/venture capital funds.

Although the System has been successful in garnering the yields necessary to achieve fully funded status in the required time frame, the System (like so many other institutional investors) has experienced a great deal of volatility in its investments. Management believes that the volatility in the worldwide markets may continue for the foreseeable future. Accordingly, management intends to actively monitor the System's investment positions to best maximize returns while mitigating risk as best as it can.

#### **Contacting the System's Financial Management Personnel**

This discussion and analysis is designed to provide the Falmouth Retirement Board, its membership, taxpayers, investors and creditors with a general overview of the System's financial results and to demonstrate the System's accountability for the funding it receives. If you have any questions about this report or need additional financial information, contact the Falmouth Retirement Board at 80 Davis Straits, Suite 102, Falmouth, MA 02540.

Falmouth Contributory Retirement System

Page 5 of 28

DECEMBER 31, 2018		
Assets:		
Cash and cash equivalents	\$	5,115,455
Investments:		
Equity securities		23,512,754
Mutual funds		66,342,449
PRIT		18,506,557
Private equity funds		13,937,248
Real estate funds	_	6,391,162
Total Assets	_	133,805,625
Liabilities:		
Accounts payable and accrued expenses		101,128
Open trades		47,296
•		<u>,</u> _
Total Liabilities		148,424
Net Position Restricted for Pensions	\$	133,657,201

STATEMENT OF FIDUCIARY NET POSITION

See accompanying notes to basic financial statements.

\_

Falmouth Contributory Retirement System

Page 6 of 28

#### STATEMENT OF CHANGES IN FIDUCIARY NET POSITION YEAR ENDED DECEMBER 31, 2018

Additions:	
Employer contributions	\$ 8,109,945
Employee contributions	3,014,532
Other contributions	814,512
Total contributions	11,938,989
Investment income:	
Interest and dividends	2,473,984
Net depreciation in fair value of investments	(10,956,224)
Less investment management fees	(1,016,915)
Total net investment income	(9,499,155)
Total Additions	2,439,834
Deductions:	
Benefits and refunds to Plan members:	
Benefits to retirees and survivors	11,517,253
Member refunds	546,310
Transfers and reimbursements to other systems	765,139
Administrative expenses:	
Operations payroll and related personnel costs	173,054
Other	154,754
Total Deductions	13,156,510
Net Change in Net Position	(10,716,676)
Net Position Restricted for Pensions:	
Beginning of the year	144,373,877
End of the year	\$ 133,657,201

See accompanying notes to basic financial statements.

Falmouth Contributory Retirement System

Page 7 of 28

#### NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

#### 1. DESCRIPTION OF THE PLAN

*General* – The Falmouth Contributory Retirement System (the "System") is a multiple employer defined benefit pension plan established and administered by the Falmouth Retirement Board under the provisions of Chapter 32 of the Massachusetts General Laws to provide pension benefits for participants. The System is a component unit of the Town of Falmouth. The Town of Falmouth (the "Town") and the Falmouth Housing Authority (the "FHA") contribute to the System.

Employees of the Town (with the exception of teachers and certain administrative personnel employed by the School Department who participate in a separate plan) and the FHA are covered by the System. Participation in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

At December 31, 2018, membership in the System consisted of:

Retirees and beneficiaries currently receiving benefits	402
Active plan members	570
Inactive plan members	142
Total	<u>1,114</u>

*Plan Benefits* – Massachusetts contributory retirement system benefits are uniform from one retirement system to another. For employees with service dates beginning before April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three-year average annual rate of regular compensation. For those employees who began their service on or after April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive five-year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and group classification.

The retirement allowance consists of two parts – an annuity and a pension. Participants' accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement benefit and the annuity is the pension.

Participants who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees may be entitled to receive interest, which has accrued on those contributions. A vested employee who has not reached their eligible retirement age and elects to leave their accumulated total deductions on deposit may apply for benefits upon reaching their eligible retirement age.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Falmouth Contributory Retirement System

Page 8 of 28

*Retirement Requirements* – In order to receive retirement benefits, participants must meet one of the following two categories:

<u>Normal Retirement</u> – Generally, normal retirement occurs between ages 65 and 67. However, most participants with a hire date before April 2, 2012, may retire after twenty years of service or at any time after attaining age 55. For most participants hired on or after April 2, 2012, they must attain the age of 60 before they can retire. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55 or 60, as applicable. Participants become vested after ten years of creditable service. Benefits commencing before age 65 are generally provided at a reduced rate. However, members working in certain occupations may retire with full benefits earlier than age 65.

Participants who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 may request a refund of their accumulated total contributions. In addition, depending on the number of years of creditable service, these employees may be entitled to interest that has accrued on their contributions. A vested employee under the age of 55 who elects to leave their accumulated contributions on deposit may apply for pension benefits upon reaching their eligible retirement age.

<u>Disability Retirements</u> – The System provides for both an ordinary disability retirement, where a participant is permanently incapacitated from a cause unrelated to employment, and an accidental disability retirement, where the disability is the result of an injury or illness received or aggravated in the performance of one's duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status. In addition, certain provisions are in place relative to death benefits for beneficiaries of employees who die in active service.

*Public Availability of Financial Statements* – The Falmouth Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Falmouth Retirement Board, 80 Davis Straits, Suite 102, Falmouth, Massachusetts 02540.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** – The financial statements of the System have been prepared on the accrual basis of accounting. The accounting records of the System are maintained on a calendar-year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission ("PERAC") and Massachusetts law.

*Estimates* – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents* – Cash and cash equivalents include cash on hand, demand deposits and short-term holdings with original maturities of three months or less from the date of acquisition.

Falmouth Contributory Retirement System

Page 9 of 28

*Investments* – The carrying amounts of the System's investments approximate their fair value. When actively quoted observable prices are not available, the System generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- Level 1 Inputs are quoted prices in active markets for identical investments at the measurement date.
- Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3 Inputs reflect the System's best estimate of what market participants would use in pricing the investment at the measurement date.

The remaining investments not categorized under the fair value hierarchy are shown at net asset value ("NAV"). These are investments in non-governmental entities for which a readily determinable fair value is not available, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

The following table presents the fair value of the System's investments by type as of December 31, 2018:

	December 31,	Fair Value Measurements Using
	2018	Level 1 Level 2 Level 3
Investments by fair value level		
Equity securities	\$ 23,512,754	4 \$ 23,512,754 \$ - \$ -
Mutual funds:		
Domestic fixed income mutual funds	22,916,040	) 22,916,040
Domestic equity mutual funds	25,517,107	7 25,517,107
International equity mutual funds	11,539,768	3 11,539,768
Total investments by fair value level	83,485,669	2 <u>\$ 83,485,669</u> <u>\$ -</u>
Investments measured at NAV		
Private equity funds	13,937,248	3
Real estate funds	12,760,696	5
PRIT funds	18,506,557	7
Total investments measured at the NAV	45,204,501	<u> </u>
Total investments measured at fair value	<u>\$ 128,690,170</u>	2

Equity securities, domestic fixed income funds and mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities.

Falmouth Contributory Retirement System

Page 10 of 28

Investments Measured at NAV		Unfunded			
By Asset Class		Fair Value		Commitments	
Private equity funds	\$	13,937,248	\$	3,363,216	
Real estate funds		12,760,696		120,000	
PRIT funds	_	18,506,557		4,652,854	
	\$	45,204,501	\$	8,136,070	

Investments measured at NAV include comingled/pooled funds in private equity or venture funds, real estate and investments in the State Treasurer investment pool, or PRIT.

Private equity and real estate holdings generally include investments in which the System is a general partner in a private equity, venture capital fund or similar investment vehicle. The value of these investments are recorded at values determined in good faith by the general partners of the private equity and venture capital firms after consideration of pertinent information, including current financial position and operative results, price-earnings multiples and available market prices of similar companies' securities, the nature of the securities, marketability, restrictions on disposition and other appropriation and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot reasonably be determined until individual securities are liquidated. In addition, fair values of real estate funds are generally based on independent, third-party appraisals. By their very nature, these investments are illiquid and typically cannot be resold or redeemed. Distributions from each fund will be received as the underlying investments are liquidated. It is expected that the underlying assets for the funds will be liquidated over an average of ten years.

PRIT is administered by the Commonwealth of Massachusetts' Pension Reserve Investment Management Board. The specific investments held by the System include the PRIT Hedge Fund, PRIT Private Equity Fund and PRIT Real Estate Fund, each of which consists of a diverse set of investments that include private equity, venture capital and real estate. The determination of the fair value of these investments is very subjective and the period-end values are reported to the System as NAV. Investments in the PRIT funds are more liquid than investments in private equity and real estate holdings, but generally cannot be resold to third parties. The System may liquidate its investment in the PRIT funds at any time with less than thirty days' notice. Distributions from the PRIT funds may be received regularly and, upon receipt, are deposited into an accompanying shortterm cash investment account.

Because of the inherent uncertainty of valuations used in many of the System's investments measured at NAV, estimated values may differ significantly from the values that would have been used had a readily available market for positions in privately held companies or the real estate existed at December 31, 2018. These differences could have a material adverse effect on the System's financial statements.

*Fair Value of Financial Instruments* – The carrying amounts of cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued expenses approximate their fair value due to the relatively short-term maturities.

*Revenue Recognition* – Contributions are recognized as additions in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Contributions appropriated by the Town and FHA are on a fiscal-year basis. Investment purchases and sales are recorded on their trade dates. Interest and dividends are recorded when earned. Investment income is allocated to the various funds on the basis of a rate determined annually by PERAC.

Falmouth Contributory Retirement System

Page 11 of 28

*Derivatives* – The System may invest in derivative products, mainly currency hedges, to minimize the currency risk on international investments. The System's investments are managed by independent, professional money managers whose investment performance is subject to periodic review. At December 31, 2018, the System maintained investments with a number of private equity and hedge fund managers totaling approximately \$18.5 million, a portion of which may include derivative products at the discretion of these managers.

#### 3. SYSTEM ADMINISTRATION

The System is administered by a five-person Board consisting of the Town Accountant (or similar position), two members elected by the participants in or retired from the service of the System, one member appointed by the Town's Board of Selectmen and one member appointed by the other members of the Board.

At December 31, 2018, the Board was comprised as follows:

<u>Term Expires</u>

Ex-Officio Member:	Ms. Jennifer P. Petit, Town Finance Director	No Specified Date
Appointed Member:	Mr. Paul J. Slivinski	No Specified Date
Elected Member:	Mr. Russell R. Ferreira (Chairman)	October 30, 2019
Elected Member:	Mr. Craig B. O'Malley	May 25, 2020
Fifth Member (non-member):	Ms. Ellen K. Philbin	June 30, 2021

The Board is required to meet at least once a month and keep a record of its proceedings. The Board annually submits a financial statement of condition for the System with the Commissioner of PERAC. All retirement allowances are approved by the Board. Expenses incurred by the System must be approved by at least two members of the Board.

#### 4. DEPOSITS AND INVESTMENTS

Massachusetts General Laws Chapter 32 and PERAC regulations require the System to invest funds only in pre-approved investment instruments, which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, certain corporate bonds and equities and investment pools.

*Investment Policy* – The investment of the System's funds is the responsibility of the Board. The Board manages its investments using a March 2016 investment policy. The investment objective is to fully fund the System by generating sufficient long-term, inflation-adjusted capital appreciation while providing sufficient liquidity to meet short-term withdrawal requirements. The Board seeks to generate long-term investment performance that meets or exceeds actuarially-targeted rates of returm (currently at 7.25%). Furthermore, the Board establishes investment benchmarks by asset class to compare its actual performance against.

Falmouth Contributory Retirement System

Page 12 of 28

The System's investment policy requires diversification within its investment portfolio. The System's portfolio target weights and the long-term expected rates of return for each of these assets classes were as follows:

		Long-Term
	Target	Expected
Asset Class	Policy Range	Rate of Return
Domestic equity	33.0% to 43.0%	7.6% to 10.1%
International equity	10.0% to 20.0%	7.6%
Fixed income	14.5% to 24.5%	2.6% to 8.7%
Real Estate/ Real Assets	7.5% to 12.5%	7.5%
Private equity	5.0% to 10.0%	13.1%
Hedge funds	7.5% to 12.5%	7.3%
Cash	0.0% to 3.0%	nil

*Investment Management* – Wainwright Investment Counsel ("Wainwright") provided investment advisory services to the System throughout all of 2018. The System's advisory agreement with Wainwright is set to expire on December 31, 2025.

At December 31, 2018, the System had contracted with the following firms to serve as investment managers:

Investment Advisor	Investment Type
Dimensional Fund Advisors	International Equity and Real Estate
Earnest Partners	Equities
Hamilton Lane Partners	Private Equity
H.G.K. Asset Management, Inc.	International Equity
LMCG Investments, LLC	Mid-Cap Domestic and International Equity
Lexington Partners, Inc.	Private Equity
Mesirow Financial Services, Inc.	Private Equity
Metropolitan Real Estate Partners	Real Estate
P.R.I.M. Board	Real Estate, Private Equity and Hedge Funds
Principal Global Investors, LLC	Real Estate
RhumbLine Advisers	Domestic Equity – Russell 1000
Seizert Capital Partners	Mid-Cap Domestic Equity
Siguler Guff & Company, LLC	Private Equity
State Street Global Advisors	Fixed Income

*Rate of Return* – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The 2018 money-weighted rate of return was approximately -6.6%.

*Custody of Investments* – The System used State Street Bank and Trust as the custodian of the System's investment portfolio through November 2018. Effective December 1, 2018, People's United Bank was engaged as the custodian of the System's investment portfolio and held the investment securities of the system at December 31, 2018.

Falmouth Contributory Retirement System

Page 13 of 28

*Custodial Credit Risk: Deposits* – Deposits are subject to the risk of bank failure. The System may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The System's policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation insurance coverage for the first \$250,000 of deposits held at each financial institution. At December 31, 2018, \$38,678 of the System's cash deposits were uninsured

*Custodial Credit Risk: Investments* – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The System's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the System. At December 31, 2018, the System was not exposed to custodial credit risk on its investments.

*Interest Rate Risk: Deposits* – This is the risk that fair value losses may arise due to increasing interest rates. Such risk is reduced by the fact that the System maintains its excess funds in highly liquid bank accounts; thereby, allowing for timely reallocation should the need arise.

*Interest Rate Risk: Investments* – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The System does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Foreign Currency Risk: Deposits and Investments* – Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit. The System did not directly hold any investments denominated in foreign currency at December 31, 2018.

Securities Credit Risk: Investments – In the case of investments, there is the risk that an invested party will be unable to fulfill its obligations, such as to provide required payments to investors, to meet current or future performance expectations, to abide by industry regulations and proper operational practices, ceasing to exist, or filing for bankruptcy. In those instances, the System may not be able to recover the full amount of its principal investment and/or investment earnings. As previously noted, PERAC and Massachusetts statutory regulations have been enacted to reduce this risk. In evaluating its credit risk, the System relies on credit ratings assigned by Moody's Investors Services and Standard and Poor's Financial Services. The System does voluntarily self-impose certain investment restrictions; however, those can be changed at the Board's discretion. The System does maintain a significant portion (approximately 96%) of its monetary assets as investment holdings.

None of the System's investments were subject to credit quality ratings from leading credit rating agencies. At December 31, 2018, uninsured short-term investment funds with fair values of \$5,025,626 were reported as cash equivalents. These funds represent temporary holdings of excess cash resources. The System intends to reinvest these amounts in less than one year. Accordingly, the fair values of these amounts have been classified as cash equivalents in these financial statements.

Falmouth Contributory Retirement System

Page 14 of 28

*Concentration of Credit Risk: Investments* – The following investments held by the System at December 31, 2018 represent approximately 59.1% of the System's total investments:

SSGA Passive Bond Market Index SL Fund	15.7%
Rhumbline Russell 1000 Funds	12.4%
PRIT Hedge Fund	11.1%
LMCG Mid-Cap Core Fund	7.5%
HGK Trinity Street International Equity Fund GP, LLC	6.7%
Dimensional Fund Advisors International Core Equity Portfolio	5.7%

#### 5. FUNDING POLICY

GAAP requires that the annual minimum provision for pension costs should include normal cost, interest on unfunded past service cost liability, and amortization of unfunded vested benefits, based on an acceptable actuarial cost method. Chapter 32 of the Massachusetts General Laws governs the contributions of retirement system members and their employers.

*Employee Contributions* – Employees whose creditable service began prior to January 1, 1975, contribute 5% of their regular compensation; those whose service date is subsequent to January 1, 1975, and prior to January 1, 1984, contribute 7%; those whose service date is subsequent to January 1, 1984, and prior to July 1, 1996, contribute 8%, and those whose service date is subsequent to July 1, 1996, contribute 8%, and those whose service date is subsequent to July 1, 1996, contribute 9%. In addition, employees hired on or after January 1, 1979 contribute an additional 2% on regular compensation in excess of \$30,000.

*Employer Contributions* – Under the provisions of Chapter 32 of the Massachusetts General Laws, participating employers are assessed their share of the total retirement cost based on independent actuarial study.

Employer contributions of \$8,109,945 were made in 2018 in accordance with the funding policy. Employer contributions as a percentage of covered payroll was approximately 27% in 2018.

*Cost of Living Adjustment* – Through 1998, the Massachusetts Legislature was able to grant cost-ofliving adjustments, or COLA's, to benefits being paid to retirees. These increases were expressed as a percentage of the retiree's allowance subject to a maximum dollar increase. All COLA's granted from 1982 through June 30, 1998, are reimbursed to the System by the Commonwealth of Massachusetts since the Commonwealth was financially responsible for COLA adjustments during this time frame; any COLA's granted thereafter by the Board are required to be funded by the System directly. A COLA may be approved in excess of the Consumer Price Index, or CPI, but for 2018 is not to exceed 3% annually on the first \$14,000 of a retirement allowance. The System has historically approved a COLA annually, usually at the maximum 3% rate.

The Commonwealth is expected to continue funding the cost-of-living amounts granted to retirees prior to 1998 for the duration of their selected retirement option.

Falmouth Contributory Retirement System

Page 15 of 28

#### 6. ACTUARIAL VALUATION

The System is statutorily required to adopt the funding schedule that will fully amortize the unfunded actuarial accrued liability by June 30, 2040. As of the latest actuarial valuation, the System has selected a funding schedule that fully amortizes the unfunded actuarial accrued liability by June 30, 2034.

The components of the System's net pension liability at December 31, 2018 (dollar amounts in thousands) were as follows:

Total pension liability	\$ 221,577
Plan fiduciary net position	 133,657
Net pension liability	\$ 87,920
Plan fiduciary net position as a percentage of	
total pension liability	60.3%

The total pension liability was determined by an actuarial valuation as of January 1, 2018 and updated to roll forward to December 31, 2018. The significant actuarial assumptions used in the January 1, 2018 report were as follows:

Actuarial cost method:	Individual entry age normal
Amortization method:	Top payments increase 6.31% per year until FY 2032 with a final amortization payment in FY 2033 (formerly 5.86%).
Remaining amortization period:	14 years
Asset valuation method:	Market value
Investment rate of return:	7.25% per annum (formerly 7.5%)
Projected salary increases:	Service based table with ultimate ranges of 4.25%, and 4.75% for groups 1 and 4, respectively
Cost of living adjustments:	3% on the first \$14,000 of benefits.
Mortality rates:	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).
Disabled life mortality:	For disabled retirees, the mortality rate is assumed to be in accordance with RP-2000 Health Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct).

Falmouth Contributory Retirement System

Page 16 of 28

**Discount Rate** – The discount rate used to measure the total pension liability in the January 1, 2018 actuarial valuation report was 7.25%, which was a reduction from the previous discount rate of 7.5%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all 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.

*Expected Real Rate of Return* – The long-term expected rate of return on System investments was determined using a building-block method in which best-estimate ranges of expected future 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 rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the System's target allocation as of December 31, 2018 are summarized in the investment policy table in Note 4.

*Sensitivity Analysis* – The following illustrates the net position liability at December 31, 2018 calculated using the current discount rate of 7.25%, as well as the projection of what the net position liability would be if it were calculated using a discount rate that is 1.0% lower (6.25%) and 1.0% higher (8.25%) than the current rate (dollar amounts in thousands):

		Current				
	1% Decrease (6.25%)		Discount (7.25%)		1% Increase (8.25%)	
Net pension liability	\$	112,499	\$	87,920	\$	67,071

#### 7. NET POSITION RESTRICTED FOR PENSIONS

Net position restricted for pensions, as of December 31, 2018, were comprised of five funds:

Description	Amount	Purpose
Annuity Savings Fund	\$ 32,063,377	Active members' contribution balance
Annuity Reserve Fund	11,258,163	Retired members' contribution balance
		Members' contributions account while on
Military Service Fund	10,294	military leave
Pension Fund	8,872,973	Amounts appropriated to fund future retirement
Pension Reserve Fund	81,452,394	Remaining net assets
Total	<u>\$ 133,657,201</u>	

Falmouth Contributory Retirement System

Page 17 of 28

#### 8. COMMITMENTS AND CONTINGENCIES

*Facility Lease* – In 2013, the System entered into a ten-year, non-cancellable facility lease with a third party for its office. Future minimum annual rental expense obligations due under this facility lease, which includes rent and common area maintenance fees, as are as follows:

Calendar Year	P	Lease ayments
2019	\$	40,339
2020		41,155
2021		41,323
2022		42,165
2023		32,762
	<u>\$</u>	197,744

*General* – The System is subject to a variety of claims that arise from time to time in the ordinary course of business. Although management of the System currently believes that resolving claims against the System, individually or in aggregate, will not have a material adverse impact on the System's financial position or its results of operations, these matters are subject to inherent uncertainties and management's views of these matters may change in the future.

\* \* \* \* \* \*

Falmouth Contributory Retirement System

Page 18 of 28

#### **REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED**

### SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

(dollar amounts are in thousands)

	 2018		2017	 2016		2015		2014
Total pension liability: Service cost	\$ 4,827	\$	4,433	\$ 4,242	\$	4,015	\$	3,842
Interest	14,841		14,772	13,692		13,578		13,035
Changes in benefit terms	2,300		-	-		-		-
Differences between expected and actual experience	(1,072)		-	(1,237) 8,600		-		-
Changes in assumptions Benefit payments, including refunds	6,870 (12,123)		(11,599)	8,600 (10,561)		(10,364)		(9,730)
Net change in total pension liability	 15,643	_	7,606	 14,736	_	7,229		7,147
Total pension liability - beginning of year	 205,934	_	198,328	 183,592	_	176,363		169,216
	 /			 		<u>,</u> _		/
Total pension liability - end of year (a)	\$ 221,577	\$	205,934	\$ 198,328	\$	183,592	\$	176,363
Plan fiduciary net position:								
Contributions - employer	\$ 8,110	\$	7,661	\$ 7,296	\$	6,949	\$	6,618
Contributions - employee Contributions - nonemployer contributing entities	3,014 815		3,010 664	2,902 837		2,801 306		2,768 543
Net investment income	(9,499)		18,635	10,545		138		7,139
Benefit payments, including refunds	(12,829)		(12,338)	(11,422)		(10,713)		(10,155)
Administrative expenses	(328)		(319)	(295)		(298)		(284)
Other	 -		11	 5		4		21
Net change in plan fiduciary net position	 (10,717)		17,324	 9,868	_	(813)		6,650
Plan fiduciary net position - beginning of year	 144,374		127,050	 117,182	_	117,995		111,345
Plan fiduciary net position - end of year (b)	\$ 133,657	\$	144,374	\$ 127,050	\$	117,182	\$	117,995
Net pension liability - end of year (a) - (b)	\$ 87,920	\$	61,560	\$ 71,278	<u>\$</u>	66,410	<u>s</u>	58,368
Plan fiduciary net position as a percentage of the total pension liability	60.32%		70.11%	64.06%		63.83%		66.90%
Covered payroll	\$ 29,951	\$	28,417	\$ 28,417	\$	27,478	\$	27,478
Net pension liability as a percentage of covered payroll	293.55%		216.63%	250.83%		241.68%		212.42%

These schedules are presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

Falmouth Contributory Retirement System

Page 19 of 28

#### **REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED**

#### SCHEDULE OF CONTRIBUTIONS (dollar amounts are in thousands) 2018 2017 2016 2015 2014 7,661 \$ Actuarially-determined contribution s 8,110 \$ 7,296 \$ 6,949 \$ 6,618 Contributions in relation to the actuarially-7,296 6,949 determined contribution 8,110 7,661 6,618 Contribution deficiency (excess) - \$ - \$ \$ - \$ - \$ -Covered payroll 29,951 \$ 28,417 \$ 28,417 \$ 27,478 \$ 27,478 \$ Contribution as a percentage of covered payroll 27.08% 26.96% 25.67% 25.29% 24.08%

#### SCHEDULE OF INVESTMENT RETURNS

	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	-6.63%	14.87%	9.11%	33.00%	6.56%
	2013	2012			
Annual money-weighted rate of return, net of investment expense	19.18%	12.93%			

These schedules are presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

Falmouth Contributory Retirement System

Page 20 of 28

#### NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

#### A. CHANGES OF BENEFIT TERMS

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. In 2018, the System changed its COLA base from \$12,000 to \$14,000.

#### B. SIGNIFICANT ACTUARIAL ASSUMPTIONS AND METHODS

The significant actuarial assumptions used in the January 1, 2018 report were as follows:

Actuarial cost method:	Individual entry age normal
Amortization method:	Top payments increase 6.31% per year until FY 2032 with a final amortization payment in FY 2033 (formerly 5.86%).
Remaining amortization period:	14 years
Asset valuation method:	Market value
Investment rate of return:	7.25% per annum (formerly 7.5%)
Projected salary increases:	Service based table with ultimate ranges of 4.25%, and 4.75% for groups 1 and 4, respectively
Cost of living adjustments:	3% on the first \$14,000 of benefits.
Mortality rates:	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).
Disabled life mortality:	For disabled retirees, the mortality rate is assumed to be in accordance with RP-2000 Health Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct).

#### C. CHANGES IN ACTUARIAL ASSUMPTIONS

In 2018, the System modified a number of actuarial assumptions from those used in its previous valuation. The most significant change was a decrease in the discount rate from 7.5% to 7.25%.

Falmouth Contributory Retirement System

Page 21 of 28



### Roselli, Clark & Associates

**CERTIFIED PUBLIC ACCOUNTANTS** 

500 West Cummings Park Suite 4900 Woburn, MA 01801 Telephone: (781) 933-0073

www.roselliclark.com

#### INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Falmouth Retirement Board Falmouth Contributory Retirement System Falmouth, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Falmouth Contributory Retirement System (the "System"), a component unit of the Town of Falmouth, Massachusetts, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated June 27, 2019.

#### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Falmouth Contributory Retirement System

Page 22 of 28

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roselli, Clark & Associates

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts June 27, 2019

Page 23 of 28



### Roselli, Clark & Associates

**CERTIFIED PUBLIC ACCOUNTANTS** 

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

#### INDEPENDENT AUDITORS' REPORT ON AUDIT OF SPECIFIC ELEMENTS, ACCOUNTS AND ITEMS OF FINANCIAL STATEMENTS

To the Falmouth Retirement Board Falmouth Contributory Retirement System Falmouth, Massachusetts

We have audited the accompanying schedule of employer allocations of the Falmouth Contributory Retirement System (the "System"), a component unit of the Town of Falmouth, Massachusetts, as of and for the year ended December 31, 2018. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources and total pension expense included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended December 31, 2018, and the related notes thereto.

#### 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 financial statements 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 and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. 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 schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column totals included in the schedule of the schedule of employer allocations and the specified column 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.

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

Falmouth Contributory Retirement System

Page 24 of 28

#### 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 of the System as of and for the year ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

#### **Other Matters**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the System as of and for the year ended December 31, 2018 and our report thereon, dated June 27, 2019, expressed an unmodified opinion on those financial statements.

Roselli, Clark & Associates

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts June 27, 2019

Falmouth Contributory Retirement System

Page 25 of 28

#### SCHEDULE OF EMPLOYER ALLOCATIONS YEAR ENDED DECEMBER 31, 2018

Dollar amounts are in thousands

	Actual		Employer	
	En	nployer	Allocation	
Employer	Cont	ributions	Percentage	
Town of Falmouth Falmouth Housing Authority	\$	7,890 220	97.3% 2.7%	
Total	\$	8,110	100.0%	

See notes to schedule of employer allocation and schedule of pension amounts by employer.

Falmouth Contributory Retirement System

Page 26 of 28

#### SCHEDULE OF PENSION AMOUNTS BY EMPLOYER YEAR ENDED DECEMBER 31, 2018

	Town of Falmouth	Falmouth Housing Authority	Total
Net pension liability	\$ 85,546,160	\$ 2,373,840	\$ 87,920,000
Deferred outflows of resources: Differences between actual and expected experience Net difference between projected and actual investment earnings	\$ -	\$ -	\$ -
Changes of assumptions Changes in proportion and differences between employer contributions and proportionate share of contributions	11,226,474 9,117,983 94,000	311,526 253,017	11,538,000 9,371,000 94,000
Total deferred outflows of resources	<u>\$ 20,438,457</u>	\$ 564,543	<u>\$ 21,003,000</u>
Deferred inflows of resources: Differences between actual and expected experience Changes of assumptions Changes in proportion and differences between employer contributions and proportionate share of contributions	\$    1,376,795 -	\$ 38,205 - 94,000	\$ 1,415,000 - 94,000
Total deferred inflows of resources	\$ 1,376,795	\$ 132,205	\$ 1,509,000
Pension expense (income): Proportionate share of plan pension expense Net amortization of deferred amounts from changes in proportion and differences between employer contributions and	\$ 14,704,889 45,000	\$ 408,056	\$ 15,112,945
proportionate share of contributions Total employer pension expense (income)	45,000 \$ 14,749,889	(45,000) \$ 363,056	<u> </u>

See notes to schedule of employer allocation and schedule of pension amounts by employer.

Falmouth Contributory Retirement System

Page 27 of 28

#### NOTES TO PENSION PLAN SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2018

#### A. INTRODUCTION

GASB Statement No, 68, *Accounting and Financial Reporting for Pensions*, establishes financial reporting requirements for governments that provide employees with pension benefits. GASB 68 requires employers to recognize a net pension liability or net pension asset as employees earn pension benefits. Employers participating in the Falmouth Contributory Retirement System (the "Retirement System") will recognize their proportionate share of the collective pension amounts for all benefits provided by the Retirement System.

#### **B. METHOD OF PROPORTIONATE SHARE ALLOCATION**

The basis for the proportionate share allocation by employer as found in the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer is consistent with the manner in which employer contributions to the Retirement System are determined. The net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense is based upon actual historical employer contributions to the Retirement System from the census data submitted to the Retirement System for pay periods ending December 31, 2018.

#### C. EXPECTED FUTURE AMORTIZATION OF DEFERRED BALANCES

The following table summarizes the expected amortization of the deferred outflows of resources and inflows of resources into pension expense:

Measurement Period Ended December 31:	Town of Falmouth	Falmouth Housing Authority	Total
2019	\$ 5,957,002	\$ 116,998	\$ 6,074,000
2020	4,187,467	91,533	4,279,000
2021	3,736,941	80,059	3,817,000
2022	4,962,300	137,700	5,100,000
2023	217,952	6,048	224,000
	\$ 19,061,662	\$ 432,338	\$ 19,494,000

Page 28 of 28

Report on Examination of Basic Financial Statements And Additional Information Year Ended December 31, 2017

Report on Compliance and Internal Control Year Ended December 31, 2017

# TABLE OF CONTENTSDECEMBER 31, 2017

	Page(s)
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-5
BASIC FINANCIAL STATEMENTS:	
Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position Notes to Basic Financial Statements	6 7 8 – 18
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED:	
Schedule of Changes in Net Pension Liability and Related Ratios Schedule of Contributions Schedule of Investment Returns Notes to Required Supplementary Information	19 20 20 21
OTHER REPORTS:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22 – 23
Independent Auditors' Report on Audit of Specific Elements, Accounts and Items of Financial Statements	24 – 25
Pension Plan Schedules: Schedule of Employer Allocations Schedule of Pension Amounts by Employer Notes to Pension Plan Schedules	26 27 28



### Roselli, Clark & Associates

**CERTIFIED PUBLIC ACCOUNTANTS** 

500 West Cummings Park Suite 4900 Woburn, MA 01801 Telephone: (781) 933-0073

www.roselliclark.com

#### INDEPENDENT AUDITORS' REPORT

To the Falmouth Retirement Board Falmouth Contributory Retirement System Falmouth, Massachusetts

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

#### Management's Responsibility for the Financial Statements

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 and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. 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 auditors consider 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 opinions.

Falmouth Contributory Retirement System

Page 1 of 28

#### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System as of December 31, 2017, and the respective changes in financial 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, and the schedules of changes in net pension liability and related ratios, contributions and investment returns as listed in the 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 sufficient evidence to express an opinion or provide any assurance.

#### Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 1, 2018 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Roselli, Clark & Associates

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts June 1, 2018

Falmouth Contributory Retirement System

Page 2 of 28

#### MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Falmouth Contributory Retirement System's (the "System") financial performance provides an overview of the System's financial activities for the calendar year ended December 31, 2017. You should read it in conjunction with the basic financial statements, footnotes and required supplementary information that follows this discussion.

#### **Financial Highlights**

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The System's actuary estimates that the System is approximately 70% funded at December 31, 2017.

The System's fiduciary net position increased over \$17.3 million in 2017 versus an increase of approximately \$9.9 million in 2016. The System's investments performed well in 2017. Net of investment management fees, the System's investment return was nearly 15% in 2017 versus a 9% return in 2016.

#### **Overview of the Financial Statements**

This discussion and analysis is intended as an introduction to the System's basic financial statements. The basic financial statements are comprised of a Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, Notes to Financial Statements and Required Supplementary Information.

Statement of Fiduciary Net Position – presents information on the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position restricted for pensions. This statement reflects the System's investments at fair value, as well as cash, receivables and other assets and liabilities. Over time, the increase or decrease in fiduciary net position serves as a useful indicator of the System's financial health and condition.

Statement of Changes in Fiduciary Net Position – presents information showing how the System's fiduciary net position changed during the year. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds, withdrawals and administrative expenses. Investment income, including realized and unrealized gains on pooled investments, during the year is also presented.

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

*Required Supplementary Information* – includes this management's discussion and analysis and various unaudited schedules.

Falmouth Contributory Retirement System

Page 3 of 28

#### **Financial Analysis**

#### Fiduciary Net Position

The System's total assets as of December 31, 2017 approximated \$144.4 million and principally consisted of investments recorded at fair value. Total assets increased by over \$17.3 million. This increase was primarily due to the appreciation in investments.

	December 31,			
		2017		2016
Assets				
Cash and cash equivalents	\$	6,510,212	\$	1,692,136
Investments		138,031,994		121,818,629
Receivables and other current assets				3,648,316
Total Assets		144,542,206		127,159,081
Total Liabilities		168,329		108,669
Net Position Restricted for Pensions	\$	144,373,877	\$	127,050,412

#### **Change in Fiduciary Net Position**

The System's net position increased by nearly \$17.3 million in 2017. This increase was due primarily to the \$18.6 million in investment earnings in 2017.

	Year Ending December 31,		
	2017	2016	
Additions			
Contributions	\$ 11,334,675	\$ 11,035,172	
Investment earnings, net of management fees	18,635,453	10,544,632	
Other income	10,647	5,727	
Total Additions	29,980,775	21,585,531	
Deductions			
Benefits and refunds to Plan members	12,338,483	11,421,881	
Administrative and other expenses	318,827	294,975	
Total Deductions	12,657,310	11,716,856	
Net Increase in Net Position	\$ 17,323,465	\$ 9,868,675	

Additions – The amount needed to finance pension benefits is accumulated through the collection of employer and employee contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 Cost of Living Adjustments and through earnings on investments. In 2017, contributions increased nearly \$0.3 million to approximately \$11.3 million. Employer contributions represent approximately \$7.6 million, or approximately 68% of total contributions. Employer contributions are actuarially determined.

Falmouth Contributory Retirement System

Page 4 of 28

The System's investment return, net of investment management fees, approached 15% in 2017, which significantly exceeded its target return of 7.5% and the prior year return of approximately 9%. The strong performance in 2017 was reflective of a worldwide resurgence in equity markets.

**Deductions** – The primary deductions for the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions and the costs of administering the system. Benefit payments represented approximately 97% of total 2017 and 2016 deductions. Benefit payments increased over \$0.9 million, or 8.0%, year-over-year. This increase was due primarily to an increase in the number of retirees.

The remaining 2017 administrative and other expenses approximated \$319,000, which was consistent with the prior year.

#### **Overall Financial Position**

The System has produced investment returns in excess of the 7.5% long-term discount rate used by the System's actuary in determining its net pension liability for four of the past six years. The return realized in 2017 was nearly double this targeted return. The System's strong investment performance has resulted in an estimated funded ratio of over 70% at December 31, 2017.

The System maintains a large portion of its investments in pooled funds. Approximately 14% of these funds invest in private companies or real estate. The determination of the value of these investments is very subjective and the ultimate amount of gains and losses in some of these funds will not be determined until the underlying assets (i.e., the real estate or stock in the private companies) are sold. Furthermore, these types of investments are not as liquid as investments in savings accounts, money markets, certificates of deposits, government securities or debt and equity securities in publicly-held U.S. corporations. You should refer to Notes 2 and 4 to these financial statements.

The composition of the Plan's investment portfolio makes it difficult to compare it to typical market indices like the Dow Jones Industrial Average or the S&P 500. Therefore, an internal benchmark is needed that contemplates returns in the U.S. and international equity markets, real estate markets and private equity/venture capital funds.

Although the System has been successful in garnering the yields necessary to achieve fully funded status in the required time frame, the System (like so many other institutional investors) has experienced a great deal of volatility in its investments. Management believes that the volatility in the worldwide markets may continue for the foreseeable future. Accordingly, management intends to actively monitor the System's investment positions to best maximize returns while mitigating risk as best as it can.

#### Contacting the System's Financial Management Personnel

This discussion and analysis is designed to provide the Falmouth Retirement Board, its membership, taxpayers, investors and creditors with a general overview of the System's financial results and to demonstrate the System's accountability for the funding it receives. If you have any questions about this report or need additional financial information, contact the Falmouth Retirement Board at 80 Davis Straits, Suite 102, Falmouth, MA 02540.

Falmouth Contributory Retirement System

Page 5 of 28

## STATEMENT OF FIDUCIARY NET POSITION DECEMBER 31, 2017

ASSETS Cash and cash equivalents Investments	\$ 6,510,212 138,031,994
Total assets	144,542,206
DEFERRED OUTFLOWS OF RESOURCES	
LIABILITIES Accounts payable and accrued expenses	168,329
Total liabilities	168,329
DEFERRED INFLOWS OF RESOURCES	
NET POSITION RESTRICTED FOR PENSIONS	\$ 144,373,877

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

Falmouth Contributory Retirement System

Page 6 of 28

### STATEMENT OF CHANGES IN FIDUCIARY NET POSITION YEAR ENDED DECEMBER 31, 2017

#### ADDITIONS

Contributions:	
	¢ 7.601.010
Employer contributions – appropriations	\$ 7,661,010 2,000,502
Employee contributions – member deductions and payments	3,009,593
Transfers from other systems	330,058
Reimbursements from other systems	296,877
Receipts from the Commonwealth of Massachusetts	37,137
Total contributions	11,334,675
Investment income:	
Interest and dividend income	1,597,322
Net appreciation in fair value of investments	18,071,024
Less management fees	(1,032,893)
Net investment income	18,635,453
Other income	10,647
Total additions	29,980,775
DEDUCTIONS	
Benefits, transfers of, and refunds to members:	
Benefit payments	11,356,790
Member refunds	197,506
Transfers to other systems	405,099
Reimbursements to other systems	379,088
Administrative expenses:	
System operations payroll	169,378
Other administrative expenses	149,449
Total deductions	12,657,310
NET INCREASE IN NET POSITION	17,323,465
NET POSITION RESTRICTED FOR PENSIONS	
Beginning of year	127,050,412
End of year	\$ 144,373,877

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

Falmouth Contributory Retirement System

Page 7 of 28

#### NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

#### 1. DESCRIPTION OF THE PLAN

*General* – The Falmouth Contributory Retirement System (the "System") is a multiple employer defined benefit pension plan established and administered by the Falmouth Retirement Board under the provisions of Chapter 32 of the Massachusetts General Laws to provide pension benefits for participants. The System is a component unit of the Town of Falmouth. The Town of Falmouth (the "Town") and the Falmouth Housing Authority (the "FHA") contribute to the System.

Employees of the Town (with the exception of teachers and certain administrative personnel employed by the School Department who participate in a separate plan) and the FHA are covered by the System. Participation in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

At December 31, 2017, membership in the System consisted of:

Retirees and beneficiaries currently receiving benefits	393
Active plan members	573
Inactive plan members	141
Total	<u>1,107</u>

*Plan Benefits* – Massachusetts contributory retirement system benefits are uniform from one retirement system to another. For employees with service dates beginning before April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three-year average annual rate of regular compensation. For those employees who began their service on or after April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive five-year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and group classification.

The retirement allowance consists of two parts – an annuity and a pension. Participants' accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement benefit and annuity is the pension.

Participants who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees may be entitled to receive interest, which has accrued on those contributions. A vested employee who has not reached their eligible retirement age and elects to leave their accumulation on deposit may apply for benefits upon reaching their eligible retirement age.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Falmouth Contributory Retirement System

Page 8 of 28

*Retirement Requirements* – In order to receive retirement benefits, participants must meet one of the following two categories:

<u>Normal Retirement</u> – Generally, normal retirement occurs between ages 65 and 67. However, most participants with a hire date before April 2, 2012, may retire after twenty years of service or at any time after attaining age 55. For most participants hired on or after April 2, 2012, they must attain the age of 60 before they can retire. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55 or 60, as applicable. Participants become vested after ten years of service. Benefits commencing before age 65 are generally provided at a reduced rate. However, members working in certain occupations may retire with full benefits earlier than age 65.

Participants who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 may request a refund of their accumulated total contributions. In addition, depending on the number of years of creditable service, these employees may be entitled to interest that has accrued on their contributions. A vested employee under the age of 55 who elects to leave their accumulated contributions on deposit may apply for pension benefits upon reaching their eligible retirement age.

<u>Disability Retirements</u> – The System provides for both an ordinary disability retirement, where a participant is permanently incapacitated from a cause unrelated to employment, and an accidental disability retirement, where the disability is the result of an injury or illness received or aggravated in the performance of one's duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status. In addition, certain provisions are in place relative to death benefits for beneficiaries of employees who die in active service.

*Public Availability of Financial Statements* – The Falmouth Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Falmouth Retirement Board, 80 Davis Straits, Suite 102, Falmouth, Massachusetts 02540.

#### 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** – The financial statements of the System have been prepared on the accrual basis of accounting. The accounting records of the System are maintained on a calendar-year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission ("PERAC") and Massachusetts law.

*Estimates* – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents* – Cash and cash equivalents include cash on hand, demand deposits and short-term holdings with original maturities of three months or less from the date of acquisition.

Falmouth Contributory Retirement System

Page 9 of 28

*Investments* – The carrying amounts of the System's investments approximate their fair value. When actively quoted observable prices are not available, the System generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- Level 1 Inputs are quoted prices in active markets for identical investments at the measurement date.
- Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3 Inputs reflect the System's best estimate of what market participants would use in pricing the investment at the measurement date.

The remaining investments not categorized under the fair value hierarchy are shown at net asset value ("NAV"). These are investments in non-governmental entities for which a readily determinable fair value is not available, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

The following table presents the fair value of the System's investments by type as of December 31, 2017:

	December 31,			Fair Value Measurements Using					
	2017		Level 1		Level 2		_	Level 3	
Investments by fair value level									
Equity securities	\$	28,186,125	\$	28, 186, 125	\$	-	\$	-	
Mutual funds:									
Domestic fixed income mutual funds		21,455,469		21,455,469		-		-	
Domestic equity mutual funds		28,933,546		28,933,546		-		-	
International equity mutual funds		15,106,333		15,106,333		-		-	
Real estate mutual funds		6,645,546		6,645,546		-	_		
Total investments by fair value level		100,327,019	\$	100,327,019	\$		\$		
Investments measured at the net asset value (NAV)									
Private equity funds		14,513,050							
Real estate funds		4,997,523							
PRIT funds		18,194,402							
Total investments measured at the NAV		37,704,975							
Total investments measured at fair value	\$	138,031,994							

Equity securities, domestic fixed income funds and mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities.

Falmouth Contributory Retirement System

Page 10 of 28
Investments Measured at NAV				Unfunded			
By Asset Class		Fair Value	Co	ommitments			
Private equity funds	\$	14,513,050	\$	5,324,303			
Real estate funds		4,997,523		120,000			
PRIT funds		18,194,402		-			
	\$	37,704,975	\$	5,444,303			

Investments measured at NAV include comingled/pooled funds in private equity or venture funds, real estate and investments in the State Treasurer investment pool.

Private equity and real estate holdings generally include investments in which the System is a general partner in a private equity, venture capital fund or similar investment vehicle. The value of these investments are recorded at values determined in good faith by the general partners of the private equity and venture capital firms after consideration of pertinent information, including current financial position and operative results, price-earnings multiples and available market prices of similar companies' securities, the nature of the securities, marketability, restrictions on disposition and other appropriation and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot reasonably be determined until individual securities are liquidated. In addition, fair values of real estate funds are generally based on independent, third-party appraisals. By their very nature, these investments are illiquid and typically cannot be resold or redeemed. Distributions from each fund will be received as the underlying investments are liquidated. It is expected that the underlying assets for the funds will be liquidated over an average of ten years.

The State Treasurer investment pool, or PRIT, is administered by the Commonwealth of Massachusetts' Pension Reserve Investment Management Board. The specific investments held by the System include the PRIT Hedge Fund and PRIT Real Estate Fund, each of which consists of a diverse set of investments that include private equity, venture capital and real estate. The determination of the fair value of these investments is very subjective and the period-end values are reported to the System as NAV. Investments in the PRIT funds are more liquid than investments in private equity and real estate holdings, but generally cannot be resold to third parties. The System may liquidate its investment in the PRIT funds at any time with less than thirty days' notice. Distributions from the PRIT funds may be received regularly and, upon receipt, are deposited into an accompanying short-term cash investment account.

Because of the inherent uncertainty of valuations used in many of the System's investments measured at NAV, estimated values may differ significantly from the values that would have been used had a readily available market for positions in privately held companies or the real estate existed at December 31, 2017. These differences could have a material adverse effect on the System's financial statements.

*Fair Value of Financial Instruments* – The carrying amounts of cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued expenses approximate their fair value due to the relatively short-term maturities.

**Revenue Recognition** – Contributions are recognized as additions in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Contributions appropriated by the Town and FHA are on a fiscal-year basis. Investment purchases and sales are recorded on their trade dates. Interest and dividends are recorded when earned. Investment income is allocated to the various funds on the basis of a rate determined annually by PERAC.

Falmouth Contributory Retirement System

Page 11 of 28

*Derivatives* – The System may invest in derivative products, mainly currency hedges, to minimize the currency risk on international investments. The System's investments are managed by independent, professional money managers whose investment performance is subject to periodic review. At December 31, 2017, the System maintained investments with a number of private equity and hedge fund managers totaling approximately \$18.8 million, a portion of which may include derivative products at the discretion of these managers.

## 3. SYSTEM ADMINISTRATION

The System is administered by a five-person Board consisting of the Town Accountant (or similar position), two members elected by the participants in or retired from the service of the System, one member appointed by the Town's Board of Selectmen and one member appointed by the other members of the Board.

At December 31, 2017, the Board was comprised as follows:

		<u>Term Expires</u>
Ex-Officio Member:	Ms. Jennifer P. Petit, Town Finance Director	No Specified Date
Appointed Member:	Vacant	No Specified Date
Elected Member:	Mr. Russell R. Ferreira (Chairman)	October 30, 2019
Elected Member:	Mr. Craig B. O'Malley	May 25, 2020
Fifth Member (non-member):	Ms. Ellen K. Philbin	June 30, 2018

The Board is required to meet at least once a month and keep a record of its proceedings. The Board annually submits a financial statement of condition for the System with the Commissioner of PERAC. All retirement allowances are approved by the Board. Expenses incurred by the System must be approved by at least two members of the Board.

## 4. DEPOSITS AND INVESTMENTS

Massachusetts General Laws Chapter 32 and PERAC regulations require the System to invest funds only in pre-approved investment instruments, which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, certain corporate bonds and equities and investment pools.

*Investment Policy* – The investment of the System's funds is the responsibility of the Board. The Board manages its investments using a March 2016 investment policy. The investment objective is to fully fund the System by generating sufficient long-term, inflation-adjusted capital appreciation while providing sufficient liquidity to meet short-term withdrawal requirements. The Board seeks to generate long-term investment performance that meets or exceeds actuarially-targeted rates of returm (currently at 7.5%). Furthermore, the Board establishes investment benchmarks by asset class to compare its actual performance against.

Falmouth Contributory Retirement System

Page 12 of 28

The System's investment policy requires diversification within its investment portfolio. The System's portfolio target weights and the long-term expected rates of return for each of these assets classes were as follows:

		Long-Term
	Target	Expected
Asset Class	Policy Range	Rate of Return
Domestic equity	33.0% to 43.0%	7.6% to 10.1%
International equity	10.0% to 20.0%	7.6%
Fixed income	14.5% to 24.5%	2.6% to 8.7%
Real Estate/ Real Assets	7.5% to 12.5%	7.5%
Private equity	5.0% to 10.0%	13.1%
Hedge funds	7.5% to 12.5%	7.3%
Cash	0.0% to 3.0%	nil

*Investment Management* – Wainwright Investment Counsel ("Wainwright") provided investment advisory services to the System throughout all of 2017. The System's advisory agreement with Wainwright is set to expire on December 31, 2018.

At December 31, 2017, the System had contracted with the following firms to serve as investment managers:

Investment Advisor	Investment Type
Dimensional Fund Advisors	International Equity and Real Estate
Earnest Partners	Equities
Hamilton Lane Partners	Private Equity
H.G.K. Asset Management, Inc.	International Equity
Intercontinental Real Estate Corporation	Real Estate
INVESCO	Private Equity
LMCG Investments, LLC	Mid-Cap Domestic and International Equity
Lexington Partners, Inc.	Private Equity
Mesirow Financial Services, Inc.	Private Equity
Metropolitan Real Estate Partners	Real Estate
P.R.I.M. Board	Real Estate and Hedge Funds
Principal Global Investors, LLC	Real Estate
RhumbLine Advisers	Domestic Equity – Russell 1000
Seizert Capital Partners	Mid-Cap Domestic Equity
Siguler Guff & Company, LLC	Private Equity
State Street Global Advisors	Fixed Income

*Rate of Return* – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The 2017 money-weighted rate of return was approximately 14.87%.

*Custody of Investments* – State Street Bank and Trust is the custodian of the System's investment portfolio. State Street Bank and Trust held the investment securities of the system at December 31, 2017 and provided investment transaction and reporting services for all of 2017.

Falmouth Contributory Retirement System

Page 13 of 28

*Custodial Credit Risk: Deposits* – Deposits are subject to the risk of bank failure. The System may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The System's policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation insurance coverage for the first \$250,000 of deposits held at each financial institution. At December 31, 2017, \$97,567 of the System's cash deposits were uninsured; all of which was held with State Street Bank and Trust.

*Custodial Credit Risk: Investments* – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The System's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the System. At December 31, 2017, the System was not exposed to custodial credit risk on its investments.

*Interest Rate Risk: Deposits* – This is the risk that fair value losses may arise due to increasing interest rates. Such risk is reduced by the fact that the System maintains its excess funds in highly liquid bank accounts; thereby, allowing for timely reallocation should the need arise.

*Interest Rate Risk: Investments* – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The System does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Foreign Currency Risk: Deposits and Investments* – Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit. The System did not directly hold any investments denominated in foreign currency at December 31, 2017.

Securities Credit Risk: Investments – In the case of investments, there is the risk that an invested party will be unable to fulfill its obligations, such as to provide required payments to investors, to meet current or future performance expectations, to abide by industry regulations and proper operational practices, ceasing to exist, or filing for bankruptcy. In those instances, the System may not be able to recover the full amount of its principal investment and/or investment earnings. As previously noted, PERAC and Massachusetts statutory regulations have been enacted to reduce this risk. In evaluating its credit risk, the System relies on credit ratings assigned by Moody's Investors Services and Standard and Poor's Financial Services. The System does voluntarily self-impose certain investment restrictions; however, those can be changed at the Board's discretion. The System does maintain a significant portion (approximately 95%) of its monetary assets as investment holdings.

None of the System's investments were subject to credit quality ratings from leading credit rating agencies. At December 31, 2017, uninsured short-term investment funds with fair values of \$6,310,324 were reported as cash equivalents. These funds represent temporary holdings of excess cash resources. The System intends to reinvest these amounts in less than one year. Accordingly, the fair values of these amounts have been classified as cash equivalents in these financial statements.

Falmouth Contributory Retirement System

Page 14 of 28

*Concentration of Credit Risk: Investments* – The following investments held by the System at December 31, 2017 represent approximately 64.5% of the System's total investments:

SSGA Passive Bond Market Index SL Fund	13.5%
Rhumbline Russell 1000 Funds	12.9%
PRIT Hedge Fund	10.5%
LMCG Mid-Cap Core Fund	8.1%
HGK Trinity Street International Equity Fund GP, LLC	7.3%
Dimensional Fund Advisors International Core Equity Portfolio	7.2%
Dimensional Fund Advisors Global Real Estate Securities Portfolio	5.0%

## 5. FUNDING POLICY

GAAP requires that the annual minimum provision for pension costs should include normal cost, interest on unfunded past service cost liability, and amortization of unfunded vested benefits, based on an acceptable actuarial cost method. Chapter 32 of the Massachusetts General Laws governs the contributions of retirement system members and their employers.

*Employee Contributions* – Employees whose creditable service began prior to January 1, 1975, contribute 5% of their regular compensation; those whose service date is subsequent to January 1, 1975, and prior to January 1, 1984, contribute 7%; those whose service date is subsequent to January 1, 1984, and prior to July 1, 1996, contribute 8%, and those whose service date is subsequent to July 1, 1996, contribute 9%. In addition, employees hired on or after January 1, 1979 contribute an additional 2% on regular compensation in excess of \$30,000.

*Employer Contributions* – Under the provisions of Chapter 32 of the Massachusetts General Laws, participating employers are assessed their share of the total retirement cost based on independent actuarial study.

Employer contributions of \$7,661,010 were made in 2017 in accordance with the funding policy. Employer contributions as a percentage of covered payroll was approximately 27% in 2017.

*Cost of Living Adjustment (COLA)* – Through 1998, the Massachusetts Legislature was able to grant cost-of-living increases to benefits being paid to retirees. These increases were expressed as a percentage of the retiree's allowance subject to a maximum dollar increase. All COLA's granted from 1982 through June 30, 1998, are reimbursed to the System by the Commonwealth of Massachusetts since the Commonwealth was financially responsible for COLA adjustments during this time frame; any COLA's granted thereafter by the Board are required to be funded by the System directly. A COLA may be approved in excess of the Consumer Price Index, or CPI, but for 2017 is not to exceed 3% annually on the first \$14,000 of a retirement allowance. The System has historically approved a COLA annually, usually at the maximum 3% rate.

The Commonwealth is expected to continue funding the cost-of-living amounts granted to retirees prior to 1998 for the duration of their selected retirement option.

Falmouth Contributory Retirement System

Page 15 of 28

## 6. ACTUARIAL VALUATION

The System is statutorily required to adopt the funding schedule that will fully amortize the unfunded actuarial accrued liability by June 30, 2040. As of the latest actuarial valuation, the System has selected a funding schedule that fully amortizes the unfunded actuarial accrued liability by June 30, 2034.

The components of the System's net pension liability at December 31, 2017 (dollar amounts in thousands) were as follows:

Total pension liability Plan fiduciary net position	\$ 205,934 144,374
Net pension liability	\$ 61,560
Plan fiduciary net position as a percentage of total pension liability	70.1%

The total pension liability was determined by an actuarial valuation as of January 1, 2016 and updated to roll forward to December 31, 2017. The significant actuarial assumptions used in the January 1, 2016 report were as follows:

Actuarial cost method:	Individual entry age normal
Amortization method:	Top payments increase 5.86% per year until FY 2032 with a final amortization payment in FY 2033.
Remaining amortization period:	16 years
Asset valuation method:	Actuarial value, 5-year smoothing
Investment rate of return:	7.5% per annum
Projected salary increases:	Service based table with ultimate ranges of 4.25%, 4.50% and 4.75% for groups 1, 2 and 4, respectively
Cost of living adjustments:	3% on the first \$12,000 of benefits. The funding schedule reflects a \$14,000 COLA base.
Mortality rates:	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).
Disabled life mortality:	For disabled retirees, the mortality rate is assumed to be in accordance with RP-2000 Health Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct). It is assumed that 55% of pre-retirement deaths are job-related for group 1 and 2 members and 90% are job-related for group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the disability.

Falmouth Contributory Retirement System

Page 16 of 28

*Discount Rate* – The discount rate used to measure the total pension liability in the January 1, 2016 actuarial valuation report was 7.5%, which was a reduction from the previous discount rate of 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all 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.

*Expected Real Rate of Return* – The long-term expected rate of return on System investments was determined using a building-block method in which best-estimate ranges of expected future 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 rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the System's target allocation as of December 31, 2017 are summarized in the investment policy table in Note 4.

Sensitivity Analysis – The following illustrates the net position liability at December 31, 2017 calculated using the current discount rate of 7.5%, as well as the projection of what the net position liability would be if it were calculated using a discount rate that is 1.0% lower (6.5%) and 1.0% higher (8.5%) than the current rate (dollar amounts in thousands):

		(	Current	
	 Decrease (6.5%)	_	iscount (7.5%)	 6 Increase (8.5%)
Net pension liability	\$ 84,612	\$	61,560	\$ 42,023

## 7. NET POSITION RESTRICTED FOR PENSIONS

Net position restricted for pensions, as of December 31, 2017, were comprised of five funds:

Description	Amount	Purpose
Annuity Savings Fund	\$ 31,172,747	Active members' contribution balance
Annuity Reserve Fund	11,237,626	Retired members' contribution balance
		Members' contributions account while on
Military Service Fund	10,283	military leave
Pension Fund	8,886,506	Amounts appropriated to fund future retirement
Pension Reserve Fund	93,066,715	Remaining net assets
Total	<u>\$ 144,373,877</u>	

Falmouth Contributory Retirement System

Page 17 of 28

## 8. COMMITMENTS AND CONTINGENCIES

*Facility Lease* – In 2013, the System entered into a ten-year, non-cancellable facility lease with a third party for its office. Future minimum annual rental expense obligations due under this facility lease, which includes rent and common area maintenance fees, as are as follows:

0.1.1.X	D	Lease
Calendar Year	P	ayments
2018	\$	40,176
2019		40,339
2020		41,155
2021		41,323
2022		42,165
2023		32,762
	\$	237,920

*General* – The System is subject to a variety of claims that arise from time to time in the ordinary course of business. Although management of the System currently believes that resolving claims against the System, individually or in aggregate, will not have a material adverse impact on the System's financial position or its results of operations, these matters are subject to inherent uncertainties and management's views of these matters may change in the future.

\* \* \* \* \* \*

Falmouth Contributory Retirement System

Page 18 of 28

## REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED YEARS ENDED DECEMBER 31, 2017

#### SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS (Dollar Amounts in Thousands)

	2017			2016		2015		2014
Total pension liability: Service cost	\$	4,433	\$	4,242	\$	4,015	\$	3,842
Interest	Э	4,433	Φ	4,242	Ф	4,013	Ф	3,842 13,035
Differences between expected and actual experience		1		(1,237)		- 15,570		-
Changes in assumptions		-		8,600		-		-
Benefit payments, including refunds of member contributions		(11,599)		(10,561)		(10,364)		(9,730)
Net change in total pension liability		7,606		14,736		7,229		7,147
Total pension liability - beginning of year		198,328		183,592		176,363		169,216
Total pension liability - end of year (a)	\$	205,934	\$	198,328	\$	183,592	\$	176,363
Plan fiduciary net position:								
Contributions - employer	\$	7,661	\$	7,296	\$	6,949	\$	6,618
Contributions - members		3,010		2,902		2,801		2,768
Contributions - nonemployer contributing entities		664		837		306		543
Net investment income		18,635		10,545		138		7,139
Benefit payments, including refunds of member contributions		(12,338)		(11,422)		(10,713)		(10,155)
Administrative expenses		(319)		(295)		(298)		(284)
Other		11		5		4		21
Net change in plan fiduciary net position		17,324		9,868		(813)		6,650
Plan fiduciary net position - beginning of year		127,050	_	117,182		117,995		111,345
Plan fiduciary net position - end of year (b)	\$	144,374	\$	127,050	\$	117,182	\$	117,995
Net pension liability - end of year (a) - (b)	\$	61,560	\$	71,278	\$	66,410	\$	58,368
Plan fiduciary net position as a percentage of the total								
pension liability		70.1%		64.1%		63.8%		66.9%
Covered-employee payroll	\$	28,417	\$	28,417	\$	27,478	\$	27,478
Net pension liability as a percentage of covered- employee payroll		216.6%		250.8%		241.7%		212.4%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

Falmouth Contributory Retirement System

Page 19 of 28

## REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED YEARS ENDED DECEMBER 31, 2017

sc		E OF CON Amounts in		BUTIONS usands)				
		2017		2016		2015	 2014	
Actuarially-determined contribution Contributions in relation to the actuarially- determined contribution	\$	7,661 7,661	\$	7,296 7,296	\$	6,949 6,949	\$ 6,618 6,618	
Contribution deficiency (excess)	\$	_	\$		\$	_	\$ _	
Covered-employee payroll	\$	28,417	\$	28,417	\$	27,478	\$ 27,478	
Contribution as a percentage of covered- employee payroll		27.0%		25.7%		25.3%	24.1%	
SCHE	DULE O	FINVEST	MEI	NT RETUR	<u>INS</u>		 	
		2017		2016		2015	 2014	2013
Annual money-weighted rate of return, net of investment expense	1	14.87%		9.11%		0.33%	6.56%	19.18%
		2012						
Annual money-weighted rate of return, net of investment expense	1	12.93%						

Note: These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See independent auditors' report.

Falmouth Contributory Retirement System

Page 20 of 28

# NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

## A. CHANGES OF BENEFIT TERMS

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the System's benefit terms in 2017.

## B. SIGNIFICANT ACTUARIAL ASSUMPTIONS AND METHODS

The significant actuarial assumptions used in the January 1, 2016 report were as follows:

Actuarial cost method:	Individual entry age normal
Amortization method:	Top payments increase 5.86% per year until FY 2032 with a final amortization payment in FY 2033.
Remaining amortization period:	16 years
Asset valuation method:	Actuarial value, 5-year smoothing
Investment rate of return:	7.5% per annum
Projected salary increases:	Service based table with ultimate ranges of 4.25%, 4.50% and 4.75% for groups 1, 2 and 4, respectively
Cost of living adjustments:	3% on the first \$12,000 of benefits. The funding schedule reflects a \$14,000 COLA base.
Mortality rates:	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).
Disabled life mortality:	For disabled retirees, the mortality rate is assumed to be in accordance with RP-2000 Health Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct). It is assumed that 55% of pre-retirement deaths are job-related for group 1 and 2 members and 90% are job-related for group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the disability.

Falmouth Contributory Retirement System

Page 21 of 28



## Roselli, Clark & Associates

**CERTIFIED PUBLIC ACCOUNTANTS** 

500 West Cummings Park Suite 4900 Woburn, MA 01801 Telephone: (781) 933-0073

www.roselliclark.com

## INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Falmouth Retirement Board Falmouth Contributory Retirement System Falmouth, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Falmouth Contributory Retirement System (the "System"), a component unit of the Town of Falmouth, Massachusetts, as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated June 1, 2018.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Falmouth Contributory Retirement System

Page 22 of 28

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roselli, Clark & Associates

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts June 1, 2018

Page 23 of 28



## Roselli, Clark & Associates

**CERTIFIED PUBLIC ACCOUNTANTS** 

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

# INDEPENDENT AUDITORS' REPORT ON AUDIT OF SPECIFIC ELEMENTS, ACCOUNTS AND ITEMS OF FINANCIAL STATEMENTS

To the Falmouth Retirement Board Falmouth Contributory Retirement System Falmouth, Massachusetts

We have audited the accompanying schedule of employer allocations of the Falmouth Contributory Retirement System (the "System"), a component unit of the Town of Falmouth, Massachusetts, as of and for the year ended December 31, 2017. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources and total pension expense included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended December 31, 2017, and the related notes thereto.

## 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 financial statements 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 and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. 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 schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column totals included in the schedule of the schedule of employer allocations and the specified column totals included in the schedule of the schedule of employer allocations and the specified column 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 the specified column 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.

Falmouth Contributory Retirement System

Page 24 of 28

## 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 of the System as of and for the year ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the System as of and for the year ended December 31, 2017 and our report thereon, dated June 1, 2018, expressed an unmodified opinion on those financial statements.

Roselli, Clark & Associates

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts June 1, 2018

Falmouth Contributory Retirement System

Page 25 of 28

## FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM

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

## SCHEDULE OF EMPLOYER ALLOCATIONS FOR THE YEAR ENDED DECEMBER 31, 2017

Employer	Actual Employer Contributions	Employer Allocation Percentage	
Town of Falmouth Falmouth Housing Authority	\$ 7,450,583 210,427	97.3% <u>2.7%</u>	
Total	\$ 7,661,010	<u>100.0%</u>	

See notes to schedule of employer allocations and schedule of pension amounts by employer.

Falmouth Contributory Retirement System

Page 26 of 28

## FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM

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

## SCHEDULE OF PENSION AMOUNTS BY EMPLOYER FOR THE YEAR ENDED DECEMBER **31**, 2017

Net pension liability \$ 59,897,880 \$ 1,662,120 \$ 61,560,00   Deferred outflows of resources: Differences between expected and actual experience \$ - \$ - \$	
Differences between expected and actual experience \$ - \$ - \$	)0
Net difference between projected and actual investment earnings on pension plan investments	-
Changes of assumptions5,268,795146,2055,415,00Changes in proportion and differences between employer	)0
contributions and proportionate share of contributions140,000140,000	)0
Total deferred outflows of resources   \$ 5,408,795   \$ 146,205   \$ 5,555,000	00
Deferred inflows of resources:	
Differences between expected and actual experience \$ 757,967 \$ 21,033 \$ 779,00	)()
Net difference between projected and actual investment earnings on pension plan investments   4,377,527   121,473   4,499,00	)0
Changes of assumptions Changes in proportion and differences between employer	-
contributions and proportionate share of contributions _ 140,000 140,00	)0
Total deferred inflows of resources   \$ 5,135,494   \$ 282,506   \$ 5,418,00	)0
Pension expense (income):	
Proportionate share of plan pension expense \$ 8,136,226 \$ 225,774 \$ 8,362,00 Net amortization of deterred amounts from changes in	)0
proportion and differences between employer contributions and proportionate share of contributions	_
Total employer pension expense \$ 8,183,226 \$ 178,774 \$ 8,362,00	)0

See notes to schedule of employer allocations and schedule of pension amounts by employer.

Falmouth Contributory Retirement System

Page 27 of 28

## NOTES TO PENSION PLAN SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2017

## A. INTRODUCTION

GASB Statement No, 68, *Accounting and Financial Reporting for Pensions*, establishes financial reporting requirements for governments that provide employees with pension benefits. GASB 68 requires employers to recognize a net pension liability or net pension asset as employees earn pension benefits. Employers participating in the Falmouth Contributory Retirement System (the "Retirement System") will recognize their proportionate share of the collective pension amounts for all benefits provided by the Retirement System.

## B. METHOD OF PROPORTIONATE SHARE ALLOCATION

The basis for the proportionate share allocation by employer as found in the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer is consistent with the manner in which employer contributions to the Retirement System are determined. The net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense is based upon actual historical employer contributions to the Retirement System from the census data submitted to the Retirement System for pay periods ending December 31, 2017.

## C. EXPECTED FUTURE AMORTIZATION OF DEFERRED BALANCES

The following table summarizes the expected amortization of the deferred outflows of resources and inflows of resources into pension expense:

Measurement Period		Town of		Falmouth Housing		
Ended December 31:		Falmouth	mouth Au		_	Total
2018	\$	1,280,764	\$	(12,764)	\$	1,268,000
2019		994,702		(20,702)		974,000
2020		(775,833)		(45,167)		(821,000)
2021	_	(1,226,332)		(57,668)		(1,284,000)
	\$	273,301	\$	(136,301)	\$	137,000

Page 28 of 28

Report on Examination of Basic Financial Statements And Additional Information Year Ended December 31, 2016

Report on Compliance and Internal Control Year Ended December 31, 2016

# TABLE OF CONTENTSDECEMBER 31, 2016

	Page(s)
INDEPENDENT AUDITORS' REPORT	1 - 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 – 5
BASIC FINANCIAL STATEMENTS:	
Statement of Fiduciary Net Position Statement of Changes in Fiduciary Net Position Notes to Basic Financial Statements	6 7 8 – 18
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED:	
Schedule of Changes in Net Pension Liability and Related Ratios Schedule of Contributions Schedule of Investment Returns Notes to Required Supplementary Information	$19 \\ 20 \\ 20 \\ 21 - 22$
OTHER REPORTS:	
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	23 - 24
Independent Auditors' Report on Audit of Specific Elements, Accounts and Items of Financial Statements	25 – 26
Pension Plan Schedules: Schedule of Employer Allocations Schedule of Pension Amounts by Employer Notes to Pension Plan Schedules	27 28 29



## Roselli, Clark & Associates

**CERTIFIED PUBLIC ACCOUNTANTS** 

500 West Cummings Park Suite 4900 Woburn, MA 01801 Telephone: (781) 933-0073

www.roselliclark.com

## INDEPENDENT AUDITORS' REPORT

To the Falmouth Retirement Board Falmouth Contributory Retirement System Falmouth, Massachusetts

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

## Management's Responsibility for the Financial Statements

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 and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. 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 auditors consider 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 opinions.

Falmouth Contributory Retirement System

Page 1 of 29

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System as of December 31, 2016, and the respective changes in financial 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, and the schedules of changes in net pension liability and related ratios, contributions and investment returns as listed in the 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 sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated June 7, 2017 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Poselli Clark & Associates

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts June 7, 2017

Falmouth Contributory Retirement System

Page 2 of 29

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Falmouth Contributory Retirement System's (the "System") financial performance provides an overview of the System's financial activities for the calendar year ended December 31, 2016. You should read it in conjunction with the basic financial statements, footnotes and required supplementary information that follows this discussion.

## **Financial Highlights**

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of January 1, 2016 (the latest available actuarial information date), the funded ratio was approximately 63% based on the actuarial value of assets at that date.

The System's fiduciary net position increased nearly \$9.9 million in 2016 versus a decrease of over \$0.8 million in 2015. This improvement was primarily attributable to a significant improvement in the investment return experienced by the System in 2016. The System's 2016 investment return, net of investment management fees, exceeded 9.1% in 2016, which was significantly greater than the 0.3% return in 2015. This return exceeded the 2016 return posted by the S&P 500 (8.7%), but was lower than the 2016 return of the Dow Jones Industrial Average (11.8%).

## **Overview of the Financial Statements**

This discussion and analysis is intended as an introduction to the System's basic financial statements. The basic financial statements are comprised of a Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, Notes to Financial Statements and Required Supplementary Information.

Statement of Fiduciary Net Position – presents information on the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position restricted for pensions. This statement reflects the System's investments at fair value, as well as cash, receivables and other assets and liabilities. Over time, the increase or decrease in fiduciary net position serves as a useful indicator of the System's financial health and condition.

Statement of Changes in Fiduciary Net Position – presents information showing how the System's fiduciary net position changed during the year. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds, withdrawals and administrative expenses. Investment income, including realized and unrealized gains on pooled investments, during the year is also presented.

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

*Required Supplementary Information* – includes this management's discussion and analysis and various unaudited schedules.

Falmouth Contributory Retirement System

Page 3 of 29

## **Financial Analysis**

## Fiduciary Net Position

The System's total assets as of December 31, 2016 approximated \$127.1 million and principally consisted of investments recorded at fair value. Total assets increased by nearly \$9.9 million. This increase was primarily due to the appreciation in investments.

	December 31,					
	2016	2015				
Assets						
Cash and cash equivalents	\$ 1,692,136	\$ 2,052,626				
Investments	121,818,629	111,751,241				
Receivables and other current assets	3,648,316	3,474,400				
Total Assets	127,159,081	117,278,267				
Total Liabilities	108,669	96,530				
Net Position Restricted for Pensions	<u>\$ 127,050,412</u>	<u>\$ 117,181,737</u>				

## **Change in Fiduciary Net Position**

The System's net position increased by nearly \$9.9 million in 2016. This increase was due primarily to the \$10.4 million increase in net investment income, offset by a \$0.7 million increase in benefit payments.

	Year Ending December 31,					
		2016		2015		
Additions						
Contributions	\$	11,035,172	\$	10,055,936		
Investment earnings, net of management fees		10,544,632		137,648		
Other income		5,727		4,206		
Total Additions		21,585,531		10,197,790		
Deductions						
Benefits and refunds to Plan members		11,421,881		10,713,380		
Administrative and other expenses		294,975		297,904		
Total Deductions		11,716,856		11,011,284		
Net Increase in Net Position	\$	9,868,675	\$	(813,494)		

Additions – The amount needed to finance pension benefits is accumulated through the collection of employer and employee contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 Cost of Living Adjustments and through earnings on investments. In 2016, contributions increased nearly \$1.0 million to approximately \$11.0 million. Employer contributions represent approximately \$7.3 million, or approximately 66%, of total contributions. Employer contributions are actuarially determined.

Falmouth Contributory Retirement System

Page 4 of 29

The System's investment return, net of investment management fees, exceeded 9.1% in 2016, which was significantly greater than the 0.3% return in 2015. This return exceeded the 2016 return posted by the S&P 500 (8.7%), but was lower than the 2016 return of the Dow Jones Industrial Average (11.8%).

**Deductions** – The primary deductions for the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions and the costs of administering the system. Benefit payments represented over 97% of total 2016 deductions. Benefit payments increased nearly \$0.7 million, or 6.6%, year-over-year. This increase was due primarily to an increase in the number of retirees.

The remaining 2016 administrative and other expenses approximated \$295,000, which was consistent with the prior year.

## **Overall Financial Position**

As of January 1, 2016 (the date of the latest available full actuarial study), the funded ratio was approximately 63% based on the actuarial value of the System's assets at that date. This actuarial study projects the System to be fully funded by 2033.

The System reported a 2016 money-weighted rate of return of approximately 9.1%, which far exceeded its prior year return of 0.3% as well as the 7.5% long-term discount rate used in the System's actuarial studies.

The System maintains a large portion of its investments in pooled funds. Some of these funds invest in private companies or real estate. The determination of the value of these investments is very subjective and the ultimate amount of gains and losses in some of these funds will not be determined until the underlying assets (i.e., the real estate or stock in the private companies) are sold. Furthermore, these types of investments are not as liquid as investments in savings accounts, money markets, certificates of deposits, government securities or debt and equity securities in publicly-held U.S. corporations. You should refer to Notes 2 and 4 to these financial statements.

The composition of the Plan's investment portfolio makes it difficult to compare it to typical market indices like the Dow Jones Industrial Average or the S&P 500. Therefore, an internal benchmark is needed that contemplates returns in the U.S. and international equity markets, real estate markets and private equity/venture capital funds.

Although the System has been successful in garnering the yields necessary to achieve fully funded status in the required time frame, the System (like so many other institutional investors) has experienced a great deal of volatility in its investments. Management believes that the volatility in the worldwide markets may continue for the foreseeable future. Accordingly, management intends to actively monitor the System's investment positions to best maximize returns while mitigating risk as best as it can.

## **Contacting the System's Financial Management Personnel**

This discussion and analysis is designed to provide the Falmouth Retirement Board, its membership, taxpayers, investors and creditors with a general overview of the System's financial results and to demonstrate the System's accountability for the funding it receives. If you have any questions about this report or need additional financial information, contact the Falmouth Retirement Board at 80 Davis Straits, Suite 102, Falmouth, MA 02540.

Falmouth Contributory Retirement System

Page 5 of 29

## FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM

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

# STATEMENT OF FIDUCIARY NET POSITION DECEMBER 31, 2016

ASSETS	
Cash and cash equivalents	\$ 1,692,136
Investments (Note 4)	121,818,629
Employer and employee contributions receivable	3,648,100
Other receivables	216
Total accounts receivable and other current assets	127,159,081
Total assets	127,159,081
DEFERRED OUTFLOWS OF RESOURCES	
LIABILITIES	
Accounts payable and accrued expenses	108,669
Total liabilities	108,669
DEFERRED INFLOWS OF RESOURCES	
NET POSITION RESTRICTED FOR PENSIONS	\$ 127,050,412

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

Falmouth Contributory Retirement System

Page 6 of 29

## STATEMENT OF CHANGES IN FIDUCIARY NET POSITION YEAR ENDED DECEMBER 31, 2016

## ADDITIONS

Contributions:	
Employer contributions – appropriations	\$ 7,296,200
Employee contributions – appropriations Employee contributions – member deductions and payments	2,902,265
Transfers from other systems	227,554
Reimbursements from other systems	494,895
Receipts from the Commonwealth of Massachusetts	114,258
Receipts nom die commonwealer of Massachuseus	114,250
Total contributions	11,035,172
Investment income:	
Interest and dividend income	1,793,912
Net appreciation in fair value of investments	9,612,567
Less management fees	(861,847)
Net investment income	10,544,632
Other income	5,727
Total additions	21,585,531
DEDUCTIONS	
Benefits, transfers of, and refunds to members:	
Benefit payments	10,771,992
Member refunds	143,100
Transfers to other systems	251,290
Reimbursements to other systems	255,499
Administrative expenses:	
System operations payroll	163,815
Other administrative expenses	131,160
Total deductions	11,716,856
NET INCREASE IN NET POSITION	9,868,675
NET POSITION RESTRICTED FOR PENSIONS	
Beginning of year	117,181,737
End of year	\$ 127,050,412

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

Falmouth Contributory Retirement System

Page 7 of 29

## NOTES TO THE FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

## 1. DESCRIPTION OF THE PLAN

*General* – The Falmouth Contributory Retirement System (the "System") is a multiple employer defined benefit pension plan established and administered by the Falmouth Retirement Board under the provisions of Chapter 32 of the Massachusetts General Laws to provide pension benefits for participants. The System is a component unit of the Town of Falmouth. The Town of Falmouth (the "Town") and the Falmouth Housing Authority (the "FHA") contribute to the System.

Employees of the Town (with the exception of teachers and certain administrative personnel employed by the School Department who participate in a separate plan) and the FHA are covered by the System. Participation in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

At December 31, 2016, membership in the System consisted of:

Retirees and beneficiaries currently receiving benefits	388
Active plan members	581
Inactive plan members	126
Total	<u>1.095</u>

*Plan Benefits* – Massachusetts contributory retirement system benefits are uniform from one retirement system to another. For employees with service dates beginning before April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three-year average annual rate of regular compensation. For those employees who began their service on or after April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive five-year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and group classification.

The retirement allowance consists of two parts – an annuity and a pension. Participants' accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement benefit and annuity is the pension.

Participants who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees may be entitled to receive interest, which has accrued on those contributions. A vested employee who has not reached their eligible retirement age and elects to leave his accumulation on deposit may apply for benefits upon reaching his eligible retirement age.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Falmouth Contributory Retirement System

Page 8 of 29

*Retirement Requirements* – In order to receive retirement benefits, participants must meet one of the following two categories:

<u>Normal Retirement</u> – Generally, normal retirement occurs between ages 65 and 67. However, most participants with a hire date before April 2, 2012, may retire after twenty years of service or at any time after attaining age 55. For most participants hired on or after April 2, 2012, they must attain the age of 60 before they can retire. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55 or 60, as applicable. Participants become vested after ten years of service. Benefits commencing before age 65 are generally provided at a reduced rate. However, members working in certain occupations may retire with full benefits earlier than age 65.

Participants who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 may request a refund of their accumulated total contributions. In addition, depending on the number of years of creditable service, these employees may be entitled to interest that has accrued on their contributions. A vested employee under the age of 55 who elects to leave his accumulated contributions on deposit may apply for pension benefits upon reaching his eligible retirement age.

<u>Disability Retirements</u> – The System provides for both an ordinary disability retirement, where a participant is permanently incapacitated from a cause unrelated to employment, and an accidental disability retirement, where the disability is the result of an injury or illness received or aggravated in the performance of one's duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status. In addition, certain provisions are in place relative to death benefits for beneficiaries of employees who die in active service.

*Public Availability of Financial Statements* – The Falmouth Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Falmouth Retirement Board, 80 Davis Straits, Suite 102, Falmouth, Massachusetts 02540.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** – The financial statements of the System have been prepared on the accrual basis of accounting. The accounting records of the System are maintained on a calendar-year basis in accordance with the standards and procedures established by Public Employee Retirement Administration Commission ("PERAC") and Massachusetts law.

*Estimates* – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Cash Equivalents* – Cash and cash equivalents include cash on hand, demand deposits and short-term holdings with original maturities of three months or less from the date of acquisition.

Falmouth Contributory Retirement System

Page 9 of 29

*Investments* – The carrying amounts of the System's investments approximate their fair value. When actively quoted observable prices are not available, the System generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- Level 1 Inputs are quoted prices in active markets for identical investments at the measurement date.
- Level 2 Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- Level 3 Inputs reflect the System's best estimate of what market participants would use in pricing the investment at the measurement date.

The remaining investments not categorized under the fair value hierarchy are shown at net asset value ("NAV"). These are investments in non-governmental entities for which a readily determinable fair value is not available, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

The following table presents the fair value of the System's investments by type as of December 31, 2016:

	December 31,			Fair Value Measurements Using						
		2016		Level 1		Level 2		Level 3		
Investments by fair value level										
Debt securities:										
Domestic fixed income funds	\$	20,648,969	\$	20,648,969	\$	-	\$	-		
International fixed income funds		2,789,782		-		2,789,782		-		
Equity securities		26,535,056		26,535,056		-		-		
Mutual funds:										
Domestic equity mutual funds		25,220,627		25,220,627		-		-		
International equity mutual funds		11,653,976		11,653,976		-		-		
Real estate mutual funds		6,085,461		6,085,461		-				
Total investments by fair value level		92,933,871	\$	90, 144, 089	\$	2,789,782	\$	-		
Investments measured at the net asset value (NAV)										
Private equity funds		12,102,733								
Real estate funds		5,113,698								
State Treasurer investment pool		11,668,327								
Total investments measured at the NAV		28,884,758								
Total investments measured at fair value	\$	121,818,629								

Equity securities, domestic fixed income funds and mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities. The international fixed income investments are classified in Level 2 based on the composition and fair value of underlying investments contained within these investments, which can be determined using inputs other than the quoted prices that are observable either directly or indirectly.

Falmouth Contributory Retirement System

Page 10 of 29

Investments Measured at NAV			Unfunded	
By Asset Class	 Fair Value	Commitment		
Private equity funds	\$ 12,102,733	\$	1,296,187	
Real estate funds	5,113,698		120,000	
State Treasurer investment pool	 11,668,327		-	
	\$ 28,884,758	\$	1,416,187	

Investments measured at NAV include comingled/pooled funds in private equity or venture funds, real estate and investments in the State Treasurer investment pool.

Private equity and real estate holdings generally include investments in which the System is a general partner in a private equity, venture capital fund or similar investment vehicle. The value of these investments are recorded at values determined in good faith by the general partners of the private equity and venture capital firms after consideration of pertinent information, including current financial position and operative results, price-earnings multiples and available market prices of similar companies' securities, the nature of the securities, marketability, restrictions on disposition and other appropriation and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot reasonably be determined until individual securities are liquidated. In addition, fair values of real estate funds are generally based on independent, third-party appraisals. By their very nature, these investments are illiquid and typically cannot be resold or redeemed. Distributions from each fund will be received as the underlying investments are liquidated. It is expected that the underlying assets for the funds will be liquidated over an average of ten years.

The State Treasurer investment pool is administered by the Commonwealth of Massachusetts' Pension Reserve Investment Management Board, or PRIM. The specific investment held by the System is the PRIT Absolute Fund, which consists of a diverse set of investments that includes private equity, venture and real estate investments. The determination of the fair value of these investments is very subjective and the period-end values are reported to the System as NAV. Investments in the PRIT Absolute Fund are more liquid than investments in private equity and real estate holdings, but generally cannot be resold to third parties. The System may liquidate its investment in the PRIT Absolute Fund at any time with less than thirty days' notice. Distributions from the PRIT Absolute Fund may be received regularly and, upon receipt, are deposited into an accompanying short-term cash investment account.

Because of the inherent uncertainty of valuations used in many of the System's investments measured at NAV, estimated values may differ significantly from the values that would have been used had a readily available market for positions in privately held companies or the real estate existed at December 31, 2016. These differences could have a material adverse effect on the System's financial statements.

*Fair Value of Financial Instruments* – The carrying amounts of cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued expenses approximate their fair value due to the relatively short-term maturities.

*Revenue Recognition* – Contributions are recognized as additions in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Contributions appropriated by the Town and FHA are on a fiscal-year basis. Investment purchases and sales are recorded on their trade dates. Interest and dividends are recorded when earned. Investment income is allocated to the various funds on the basis of a rate determined annually by PERAC.

Falmouth Contributory Retirement System

Page 11 of 29

*Derivatives* – The System may invest in derivative products, mainly currency hedges, to minimize the currency risk on international investments. The System's investments are managed by independent, professional money managers whose investment performance is subject to periodic review. At December 31, 2016, the System maintained investments with the PRIT Absolute Fund (see Notes 3 and 4) totaling approximately \$11.7 million, a portion of which may include derivative products at the discretion of the PRIT fund managers.

#### 3. SYSTEM ADMINISTRATION

The System is administered by a five-person Board consisting of the Town Accountant (or similar position), two members elected by the participants in or retired from the service of the System, one member appointed by the Town's Board of Selectmen and one member appointed by the other members of the Board.

At December 31, 2016, the Board was comprised as follows:

		<u>Term Expires</u>
Ex-Officio Member:	Ms. Jennifer P. Petit, Town Finance Director	No Specified Date
Appointed Member:	Mr. Gary W. Anderson	No Specified Date
Elected Member:	Mr. Russell R. Ferreira (Chairman)	October 30, 2019
Elected Member:	Mr. Paul D. Brodeur	December 3, 2017
Fifth Member (non-member):	Ms. Ellen K. Philbin	June 30, 2018

The Board is required to meet at least once a month and keep a record of its proceedings. The Board annually submits a financial statement of condition for the System with the Commissioner of PERAC. All retirement allowances are approved by the Board. Expenses incurred by the System must be approved by at least two members of the Board.

## 4. DEPOSITS AND INVESTMENTS

Massachusetts General Laws Chapter 32 and PERAC regulations require the System to invest funds only in pre-approved investment instruments, which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, certain corporate bonds and equities and investment pools.

*Investment Policy* – The investment of the System's funds is the responsibility of the Board. The Board adopted a revised investment policy statement in March 2016. The investment objective is to fully fund the System by generating sufficient long-term, inflation-adjusted capital appreciation while providing sufficient liquidity to meet short-term withdrawal requirements. The Board seeks to generate long-term investment performance that meets or exceeds actuarially-targeted rates of returm (currently at 7.5%). Furthermore, the Board establishes investment benchmarks by asset class to compare its actual performance against.

The System's investment policy requires diversification within its investment portfolio. Effective March 2016, the System's portfolio target weights and the long-term expected rates of return for each of these assets classes were as follows:

Falmouth Contributory Retirement System

Page 12 of 29

	Tarrat	Long-Term Expected
Asset Class	Target Policy Range	Rate of Return
15501 01055	1 oney Range	Rate of Retain
Domestic equity	33.0% to 43.0%	7.6% to 10.1%
International equity	10.0% to 20.0%	7.6%
Fixed income	14.5% to 24.5%	2.6% to 8.7%
Real Estate/ Real Assets	7.5% to 12.5%	7.5%
Private equity	5.0% to 10.0%	13.1%
Hedge funds	7.5% to 12.5%	7.3%
Cash	0.0% to 3.0%	nil

The revised investment policy in March 2016 replaced the existing investment policy, which was in effect since January 2010. The updated investment policy eliminated certain revenue enhancements permissible under the previous investment policy such as commission recapture and securities lending, neither of which were ever exercised by the System. In addition, the updated investment policy revised down in all cases the long-term expected rates of return for the asset classes listed above.

*Investment Management* – Wainwright Investment Counsel ("Wainwright") provided investment advisory services to the System throughout all of 2016. The System's advisory agreement with Wainwright is set to expire on December 31, 2018.

At December 31, 2016, the System had contracted with the following firms to serve as investment managers:

Investment Advisor	Investment Type
Baring Asset Management, Inc.	International Fixed Income
Dimensional Fund Advisors	International Equity and Real Estate
Earnest Partners	Equities
H.G.K. Asset Management, Inc.	International Equity
Intercontinental Real Estate Corporation	Real Estate
INVESCO	Private Equity
LMCG Investments, LLC	Mid-Cap Domestic and International Equity
Lexington Partners, Inc.	Private Equity
Mesirow Financial Services, Inc.	Private Equity
Metropolitan Real Estate Partners	Real Estate
P.R.I.M. Board	Various
Principal Global Investors, LLC	Real Estate
RhumbLine Advisers	Domestic Equity – Russell 1000
Seizert Capital Partners	Mid-Cap Domestic Equity
Siguler Guff & Company, LLC	Private Equity
State Street Global Advisors	Fixed Income

*Rate of Return* – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The 2016 money-weighted rate of return was approximately 9.11%.

*Custody of Investments* – State Street Bank and Trust is the custodian of the System's investment portfolio. State Street Bank and Trust held the investment securities of the system at December 31, 2016 and provided investment transaction and reporting services for all of 2016.

Falmouth Contributory Retirement System

Page 13 of 29

*Custodial Credit Risk: Deposits* – Deposits are subject to the risk of bank failure. The System may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The System's policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation insurance coverage for the first \$250,000 of deposits held at each financial institution. At December 31, 2016, \$296,969 of the System's cash deposits were uninsured; all of which was held with State Street Bank and Trust.

*Custodial Credit Risk: Investments* – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The System's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the System. At December 31, 2016, the System was not exposed to custodial credit risk on its investments.

*Interest Rate Risk: Deposits* – This is the risk that fair value losses may arise due to increasing interest rates. Such risk is reduced by the fact that the System maintains its excess funds in highly liquid bank accounts; thereby, allowing for timely reallocation should the need arise.

*Interest Rate Risk: Investments* – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The System does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Foreign Currency Risk: Deposits and Investments* – Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit. The System did not directly hold any investments denominated in foreign currency at December 31, 2016.

Securities Credit Risk: Investments – In the case of investments, there is the risk that in the event of an invested party will be unable to fulfill its obligations, such as to provide required payments to investors, to meet current or future performance expectations, to abide by industry regulations and proper operational practices, ceasing to exist, or filing for bankruptcy. In those instances, the System may not be able to recover the full amount of its principal investment and/or investment earnings. As previously noted, PERAC and Massachusetts statutory regulations have been enacted to reduce this risk. In evaluating its credit risk, the System relies on credit ratings assigned by Moody's Investors Services and Standard and Poor's Financial Services. The System does voluntarily self-impose certain investment restrictions; however, those can be changed at the Board's discretion. The System does maintain a significant portion (approximately 96%) of its monetary assets as investment holdings.

None of the System's investments were subject to credit quality ratings from leading credit rating agencies. At December 31, 2016, uninsured short-term investment funds with fair values of \$1,332,6858 were reported as cash equivalents. These funds represent temporary holdings of excess cash resources. The System intends to reinvest these amounts in less than one year. Accordingly, the fair values of these amounts have been classified as cash equivalents in these financial statements.

Falmouth Contributory Retirement System

Page 14 of 29

*Concentration of Credit Risk: Investments* – The following investments held by the System at December 31, 2016 represent approximately 62.7% of the System's total investments:

SSGA Passive Bond Market Index SL Fund	14.8%
Rhumbline Russell 1000 Funds	12.8%
PRIT Absolute Return Fund	9.6%
LMCG Mid-Cap Core Fund	7.9%
Dimensional Fund Advisors International Core Equity Portfolio	6.4%
HGK Trinity Street International Equity Fund GP, LLC	6.2%
Dimensional Fund Advisors Global Real Estate Securities Portfolio	5.0%

## 5. FUNDING POLICY

GAAP requires that the annual minimum provision for pension costs should include normal cost, interest on unfunded past service cost liability, and amortization of unfunded vested benefits, based on an acceptable actuarial cost method. Chapter 32 of the Massachusetts General Laws governs the contributions of retirement system members and their employers.

*Employee Contributions* – Employees whose creditable service began prior to January 1, 1975, contribute 5% of their base salary or wage; those whose service date is subsequent to January 1, 1975, and prior to January 1, 1984, contribute 7%; those whose service date is subsequent to January 1, 1984, and prior to July 1, 1996, contribute 8%, and those whose service date is subsequent to July 1, 1996, contribute 8%, and those whose service date is subsequent to July 1, 1996, contribute 9%. In addition, employees hired on or after January 1, 1979 contribute an additional 2% on regular compensation in excess of \$30,000.

*Employer Contributions* – Under the provisions of Chapter 32 of Massachusetts General Law, participating employers are assessed their share of the total retirement cost based on independent actuarial study.

Employer contributions of \$7,296,200 were made in 2016 in accordance with the funding policy. Employer contributions as a percentage of covered payroll was approximately 25.7% in 2016.

*Cost of Living Adjustment (COLA)* – Through 1998, the Massachusetts Legislature was able to grant cost-of-living increases to benefits being paid to retirees. These increases were expressed as a percentage of the retiree's allowance subject to a maximum dollar increase. All COLA's granted from 1982 through June 30, 1998, are reimbursed to the System by the Commonwealth of Massachusetts since the Commonwealth was financially responsible for COLA adjustments during this time frame; any COLA's granted thereafter by the Board are required to be funded by the System directly. A COLA may be approved in excess of the Consumer Price Index, or CPI, but for 2016 is not to exceed 3% annually on the first \$12,000 of a retirement allowance. The System has historically approved a COLA annually, usually at the maximum 3% rate.

The Commonwealth is expected to continue funding the cost-of-living amounts granted to retirees prior to 1998 for the duration of their selected retirement option.

Falmouth Contributory Retirement System

Page 15 of 29

## 6. ACTUARIAL VALUATION

The System is statutorily required to adopt the funding schedule that will fully amortize the unfunded actuarial accrued liability by June 30, 2040. As of the latest actuarial valuation, the System has selected a funding schedule that fully amortizes the unfunded actuarial accrued liability by June 30, 2034.

The components of the System's net pension liability at December 31, 2016 (dollar amounts in thousands) were as follows:

Total pension liability Plan fiduciary net position	\$ 198,328 127,050
Net pension liability	\$ 71,278
Plan fiduciary net position as a percentage of total pension liability	64.1%

The total pension liability was determined by an actuarial valuation as of January 1, 2016 and updated to roll forward to December 31, 2016. The significant actuarial assumptions used in the January 1, 2016 report were as follows:

Actuarial cost method:	Individual entry age normal
Amortization method:	Top payments increase 5.86% per year until FY 2032 with a final amortization payment in FY 2033.
Remaining amortization period:	16 years
Asset valuation method:	Actuarial value, 5-year smoothing
Investment rate of return:	7.5% per annum
Projected salary increases:	Service based table with ultimate ranges of 4.25%, 4.50% and 4.75% for groups 1, 2 and 4, respectively
Cost of living adjustments:	3% on the first \$12,000 of benefits. The funding schedule reflects a \$14,000 COLA base.
Mortality rates:	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).
Disabled life mortality:	For disabled retirees, the mortality rate is assumed to be in accordance with RP-2000 Health Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct). It is assumed that 55% of pre-retirement deaths are job-related for group 1 and 2 members and 90% are job-related for group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the disability.

Falmouth Contributory Retirement System

Page 16 of 29
*Discount Rate* – The discount rate used to measure the total pension liability in the January 1, 2016 actuarial valuation report was 7.5%, which was a reduction from the previous discount rate of 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all 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.

*Expected Real Rate of Return* – The long-term expected rate of return on System investments was determined using a building-block method in which best-estimate ranges of expected future 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 rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the System's target allocation as of December 31, 2016 are summarized in the investment policy table in Note 4.

Sensitivity Analysis – The following illustrates the net position liability at December 31, 2016 calculated using the current discount rate of 7.75%, as well as the projection of what the net position liability would be if it were calculated using a discount rate that is 1.0% lower (6.5%) and 1.0% higher (8.5%) than the current rate (dollar amounts in thousands):

	1%	1% Decrease		1% Decrease Discount		Discount		Increase
		(6.5%)	(	7.5%)	(8.5%)			
Net pension liability	\$	93,713	\$	71,278	\$	52,310		

### 7. NET POSITION RESTRICTED FOR PENSIONS

Net position restricted for pensions, as of December 31, 2016, were comprised of five funds:

Description	Amount	Purpose
Annuity Savings Fund	\$ 30,204,787	Active members' contribution balance
Annuity Reserve Fund	11,185,781	Retired members' contribution balance
·		Members' contributions account while on
Military Service Fund	10,273	military leave
Pension Fund	8,965,343	Amounts appropriated to fund future retirement
Pension Reserve Fund	76,684,228	Remaining net assets
Total	<u>\$ 127,050,412</u>	

Falmouth Contributory Retirement System

Page 17 of 29

## 8. COMMITMENTS AND CONTINGENCIES

*Facility Lease* – In 2013, the System entered into a ten-year, non-cancellable facility lease with a third party for its office. Future minimum annual rental expense obligations due under this facility lease, which includes rent and common area maintenance fees, as are as follows:

		Lease					
Calendar Year	P	ayments					
2017	\$	39,383					
2018		40,176					
2019		40,339					
2020		41,155					
2021		41,323					
2022		42,165					
2023		32,762					
	\$	277,303					

*General* – The System is subject to a variety of claims that arise from time to time in the ordinary course of business. Although management of the System currently believes that resolving claims against the System, individually or in aggregate, will not have a material adverse impact on the System's financial position or its results of operations, these matters are subject to inherent uncertainties and management's views of these matters may change in the future.

\* \* \* \* \* \*

Falmouth Contributory Retirement System

Page 18 of 29

# REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED YEARS ENDED DECEMBER 31, 2016

### SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

(Dollar Amounts in Thousands)

		2016	 2015	2014		
Total pension liability:						
Service cost	\$	4,242	\$ 4,015	\$	3,842	
Interest		13,692	13,578		13,035	
Differences between expected and actual experience		(1,237)	-		-	
Changes in assumptions		8,600	-		-	
Benefit payments, including refunds of member contributions		(10,561)	 (10,364)		(9,730)	
Net change in total pension liability		14,736	7,229		7,147	
Total pension liability - beginning of year	_	183,592	 176,363		169,216	
Total pension liability - end of year (a)	\$	198,328	\$ 183,592	\$	176,363	
Plan fiduciary net position:						
Contributions - employer	\$	7,296	\$ 6,949	\$	6,618	
Contributions - members		2,902	2,801		2,768	
Contributions - nonemployer contributing entities		837	306		543	
Net investment income		10,545	138		7,139	
Benefit payments, including refunds of member contributions		(11,422)	(10,713)		(10,155)	
Administrative expenses		(295)	(298)		(284)	
Other		5	 4		21	
Net change in plan fiduciary net position		9,868	(813)		6,650	
Plan fiduciary net position - beginning of year		117,182	 117,995		111,345	
Plan fiduciary net position - end of year (b)	\$	127,050	\$ 117,182	\$	117,995	
Net pension liability - end of year $(a)$ - $(b)$	\$	71,278	\$ 66,410	\$	58,368	
Plan fiduciary net position as a percentage of the total						
pension liability		64.1%	63.8%		66.9%	
Covered-employee payroll	\$	28,417	\$ 27,478	\$	27,478	
Net pension liability as a percentage of covered- employee payroll		250.8%	241.7%		212.4%	

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

Falmouth Contributory Retirement System

Page 19 of 29

# REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED YEARS ENDED DECEMBER 31, 2016

(D		ULE OF Controls of the second se		BUTION:	s			
		2016		2015		2014		
Actuarially-determined contribution Contributions in relation to the actuarially- determined contribution	\$	7,296 7,296	\$	6,949 6,949	\$	6,618 6,618		
Contribution deficiency (excess)	\$		\$		\$			
Covered-employee payroll	\$	28,417	\$	27,478	\$	27,478		
Contribution as a percentage of covered- employee payroll		25.7%		25.3%		24.1%		
<u>SC</u>	CHEDULI	OF INVE	STM	ENT RETU	<u>RNS</u>			
		2016		2015		2014	2013	2012

			2014	2015	2012
Annual money-weighted rate of return, net of					
Annual money-weighted rate of return, net of					
investment expense	9.11%	0 33%	6.56%	1918%	12.93%
in tosuntine superior	2.11/0	0.5570	012070	19.1070	12.5070

Note: These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See independent auditors' report.

Falmouth Contributory Retirement System

Page 20 of 29

# NOTES TO REQUIRED SUPPLEMENTARY INFORMATION AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

### A. CHANGES OF BENEFIT TERMS

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the System's benefit terms in 2016.

### B. SIGNIFICANT ACTUARIAL ASSUMPTIONS AND METHODS

The significant actuarial assumptions used in the January 1, 2016 report were as follows:

Actuarial cost method:	Individual entry age normal
Amortization method:	Top payments increase 5.86% per year until FY 2032 with a final amortization payment in FY 2033.
Remaining amortization period:	16 years
Asset valuation method:	Actuarial value, 5-year smoothing
Investment rate of return:	7.5% per annum
Projected salary increases:	Service based table with ultimate ranges of 4.25%, 4.50% and 4.75% for groups 1, 2 and 4, respectively
Cost of living adjustments:	3% on the first \$12,000 of benefits. The funding schedule reflects a \$14,000 COLA base.
Mortality rates:	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).
Disabled life mortality:	For disabled retirees, the mortality rate is assumed to be in accordance with RP-2000 Health Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct). It is assumed that 55% of pre-retirement deaths are job-related for group 1 and 2 members and 90% are job-related for group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the disability.

Falmouth Contributory Retirement System

Page 21 of 29

## C. CHANGES TO ACTUARIAL ASSUMPTIONS AND METHODS

In 2016, the System adopted a number of changes to its actuarial assumptions and methods. The most significant of these changes included (1) a decrease in the assumed investment rate of return, or discount rate, from 7.75% to 7.50% and (2) changes in mortality rate for pre-retirement, post-retirement and disabilities.

Falmouth Contributory Retirement System

Page 22 of 29



## Roselli, Clark & Associates

**CERTIFIED PUBLIC ACCOUNTANTS** 

500 West Cummings Park Suite 4900 Woburn, MA 01801 Telephone: (781) 933-0073

www.roselliclark.com

### INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Falmouth Retirement Board Falmouth Contributory Retirement System Falmouth, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Falmouth Contributory Retirement System (the "System"), a component unit of the Town of Falmouth, Massachusetts, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated June 7, 2017.

### Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Falmouth Contributory Retirement System

Page 23 of 29

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Roselli, Clark & Associates

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts June 7, 2017

Falmouth Contributory Retirement System

Page 24 of 29



# Roselli, Clark & Associates

**CERTIFIED PUBLIC ACCOUNTANTS** 

500 West Cummings Park Suite 4900 Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

# INDEPENDENT AUDITORS' REPORT ON AUDIT OF SPECIFIC ELEMENTS, ACCOUNTS AND ITEMS OF FINANCIAL STATEMENTS

To the Falmouth Retirement Board Falmouth Contributory Retirement System Falmouth, Massachusetts

We have audited the accompanying schedule of employer allocations of the Falmouth Contributory Retirement System (the "System"), a component unit of the Town of Falmouth, Massachusetts, as of and for the year ended December 31, 2016. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources and total pension expense included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended December 31, 2016, and the related notes thereto.

### 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 financial statements 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 and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. 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 schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column totals included in the schedule of employer allocations and the specified column totals included in the schedule of the schedule of employer allocations and the specified column 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.

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

Falmouth Contributory Retirement System

Page 25 of 29

### 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 of the System as of and for the year ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the System as of and for the year ended December 31, 2016, and our report thereon, dated June 7, 2017, expressed an unmodified opinion on those financial statements.

Roselli, Clark & Associates

Roselli, Clark & Associates Certified Public Accountants Woburn, Massachusetts June 7, 2017

Falmouth Contributory Retirement System

Page 26 of 29

## FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM

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

## SCHEDULE OF EMPLOYER ALLOCATIONS FOR THE YEAR ENDED DECEMBER 31, 2016

(Dollar Amounts in Thousands)

		Actual nployer	Employer Allocation
Employer	Con	tributions	Percentage
Town of Falmouth Falmouth Housing Authority	\$	7,082 214	97.1% <u>2.9%</u>
Total	\$	7,296	100.0%

See notes to schedule of employer allocations and schedule of pension amounts by employer.

Falmouth Contributory Retirement System

Page 27 of 29

## SCHEDULE OF PENSION AMOUNTS BY EMPLOYER FOR THE YEAR ENDED DECEMBER **31**, 2016

(Dollar Amounts in Thousands)

	Town of Falmouth		ulmouth ousing uthority	 Total
Net pension liability	\$ 69,211	\$	2,067	\$ 71,278
Deferred outflows of resources:				
Differences between expected and actual experience Net difference between projected and actual investment	\$ -	\$	-	\$ -
earnings on pension plan investments	4,420		131	4,551
Changes of assumptions Changes in proportion and differences between employer	6,804		203	7,007
contributions and proportionate share of contributions	 69		-	 69
Total deferred outflows of resources	\$ 11,293	\$	334	\$ 11,627
Deferred inflows of resources:				
Differences between expected and actual experience	\$ (979)	\$	(29)	\$ (1,008)
Changes of assumptions Changes in proportion and differences between employer	-		-	-
contributions and proportionate share of contributions	 -		(69)	 (69)
Total deterred inflows of resources	\$ (979)	\$	(98)	\$ (1,077)
Pension expense (income):				
Proportionate share of plan pension expense Net amortization of deferred amounts from changes in proportion and differences between employer contributions	\$ 9,402	\$	281	\$ 9,683
and proportionate share of contributions	 23		(23)	 -
Total employer pension expense	\$ 9,425	\$	258	\$ 9,683

See notes to schedule of employer allocations and schedule of pension amounts by employer.

Falmouth Contributory Retirement System

Page 28 of 29

### NOTES TO PENSION PLAN SCHEDULES AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

### A. INTRODUCTION

GASB Statement No, 68, *Accounting and Financial Reporting for Pensions*, establishes financial reporting requirements for governments that provide employees with pension benefits. GASB 68 requires employers to recognize a net pension liability or net pension asset as employees earn pension benefits. Employers participating in the Falmouth Contributory Retirement System (the "Retirement System") will recognize their proportionate share of the collective pension amounts for all benefits provided by the Retirement System.

### **B. METHOD OF PROPORTIONATE SHARE ALLOCATION**

The basis for the proportionate share allocation by employer as found in the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer is consistent with the manner in which employer contributions to the Retirement System are determined. The net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense is based upon actual historical employer contributions to the Retirement System from the census data submitted to the Retirement System for pay periods ending December 31, 2016.

### C. EXPECTED FUTURE AMORTIZATION OF DEFERRED BALANCES

The following table summarizes the expected amortization of the deferred outflows of resources and inflows of resources into pension expense.

			_	2019 mounts d	2020 s are in Thousar		2021 mds)		T	`otal	
Town of Falmouth											
Difference between projected and actual investment											
earnings on pension plan investments, net	\$	1,684	\$ 1,684	\$	1,398	\$	(346)	\$	-	\$	4,420
Changes of assumptions		1,547	1,547		1,547		1,547		616		6,804
Differences between expected and actual experience		(222)	(222)		(222)		(222)		(91)		(979)
Net effect of change in proportion of beginning reported balances		23	23		23		-		-		69
Falmouth Housing Authority											
Difference between projected and actual investment											
earnings on pension plan investments, net		50	50		41		(10)		-		131
Changes of assumptions		46	46		46		46		19		203
Differences between expected and actual experience		(7)	(7)		(7)		(7)		(1)		(29)
Net effect of change in proportion of beginning reported balances		(23)	(23)		(23)		-		-		(69)
Total											
Difference between projected and actual investment											
earnings on pension plan investments, net		1,734	1,734		1,439		(356)		-		4,551
Changes of assumptions		1,593	1,593		1,593		1,593		635		7,007
Differences between expected and actual experience		(229)	(229)		(229)		(229)		(92)		(1,008)
Net effect of change in proportion of beginning reported balances		-	-		-		-		-		-

Falmouth Contributory Retirement System

Page 29 of 29

COMMONWEALTH OF MASSACHUSETTS

Public Employee Retirement Administration CommissionFive Middlesex Avenue, Suite 304 | Somerville, MA 02145Phone: 617-666-4446 | Fax: 617-628-4002TTY: 617-591-8917 | Web: www.mass.gov/perac