SOUTHBRIDGE CONTRIBUTORY RETIREMENT SYSTEM
(a Component Unit of the Town of Southbridge, 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

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

SOUTHBRIDGE CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Southbridge, Massachusetts)

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ROSELLI, CLARK & ASSOCIATES
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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Southbridge Contributory Retirement System (the "System"), a component unit of the Town of Southbridge, 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 Auditing 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 auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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 in the accompanying 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 15, 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
May 15, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Southbridge 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 nearly 60% funded at December 31, 2018.

The System's money-weighted return on investments, net of investment management fees, was approximately -2.4% 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 7.35% per annum). It's important to note that the U.S. equity markets rebounded significantly in the first calendar quarter of 2019, which was erased nearly all of the fourth calendar quarter of 2018's losses.

This negative return on investments was the primary contributor to the approximate $1.0 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 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.

Financial Analysis

Fiduciary Net Position

The System's total assets as of December 31, 2018, approximated $52.7 million and principally consisted of investments recorded at fair value. Total assets decreased over $3.0 million year-over-year. This decrease was due almost entirely to the negative return reported in 2018 by the System's investments.

	December 31, 2018	December 31, 2017
Assets:		
Cash and cash equivalents	$ 135,132	$ 133,439
Investments, at fair value	52,578,865	55,597,809
Receivables and other assets	3,262	3,004
Total Assets	52,717,259	55,734,252
Liabilities	-	-
Fiduciary Net Position	$ 52,717,259	$ 53,734,252

Change in Fiduciary Net Position

Contributions decreased approximately $215,000 year-over-year as the Town did not make any additional contributions to the System above and beyond its actuarially determined required contribution. The negative annual investment return in 2018 resulted in negative net investment income of over $1.3 million. The 2018 net investment return was -2.4% versus a 17.2% net return in 2017.

Deductions for benefits and refunds to Plan members increased over $322,000 year-over-year, primality as a result of a $233,000 increase in member transfers out of the System.

	Year Ended December 31, 2018	Year Ended December 31, 2017
Additions:		
Contributions	$ 5,709,651	$ 5,924,868
Investment income, net	(1,306,678)	7,708,353
Total Additions	4,402,973	13,633,221
Deductions:		
Benefits and refunds to Plan members	5,269,023	4,946,807
Administrative and other expenses	150,943	151,631
Total Deductions	5,419,966	5,098,438
Change in Fiduciary Net Position	$ (1,016,993)	$ 8,534,783

Additions – The amount needed to finance pension benefits is accumulated through the collection of employers and employees' contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 Cost of Living Adjustments and through earnings on investments. Employer contributions in 2018 of approximately $4.0 million represented over 70% of total contributions. Employer contributions are determined by actuarial valuation. Employer and employee contributions decreased approximately $166,000 year-over-year. For several years, the Town dedicated $750,000 annually in hosting fee monies it received from a landfill operator to additional contributions to the System. This hosting relationship terminated prior to 2018 and the Town did not make any such supplemental contribution; the Town made a $375,000 contribution in 2017.

As previously noted, the money-weighted rate of return, net of investment expense, was approximately -2.4% in 2018 versus 17.2% in 2017. This caused to 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 and refund payments to Plan members in 2018 were approximately $5.3 million, which was nearly 7% higher than the prior year. The increase in 2018 was due primarily to the timing of member transfers out of the System and into another Massachusetts public retirement system.

Administrative and other expenses, which primarily consist of System operations payroll, board stipends, legal, and service provider costs were consistent year-over-year.

Overall Financial Position

The System's actuarially estimated funding ratio decreased from approximately 63% at December 31, 2017 to 60% at December 31, 2018 as a result of the System's negative net investment return in 2018 and the decision to reduce the long-term expected rate of investment return, which is commonly referred to as the discount rate, from 7.5% to 7.35% per annum.

U.S. equity markets rebounded significantly in the first calendar quarter of 2019, erasing virtually all the 2018 investment losses incurred by the System, which if that trend continues for the duration of 2019, will have a positive impact to the System's funding ratio at December 31, 2019. The decrease in the discount rate is a common trend in public pension systems. Management does not expect that its discount rate will be reduced significantly in future actuarial studies.

The System's adopted funded schedule is based on an expected fully funded date of December 31, 2033. To meet this schedule, the System's investment will need to keep pace with the long-term expected rate of return, currently assumed to be 7.35%. The System believes that its investments can, over the long-term, achieve this target. However, should the System be unable to meet this long-term investment return target, the System may need to lower the discount rate it uses in future actuarial studies. By lowering the discount rate, it will be unlikely the System can achieve a fully-funded status by 2033 without significant increases in employer contributions.

Contacting the System's Financial Management Personnel

Our discussion and analysis is designed to provide the Southbridge Retirement Board, our 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 Retirement Board at 41 Elm Street, Southbridge, Massachusetts 01550.

SOUTHBRIDGE CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Southbridge, Massachusetts)

STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2018

Assets:		
Cash and cash equivalents	$	135,132
Investment in PRIT		52,578,865
Receivables		3,262
Total Assets		52,717,259
Liabilities:		
Accounts payable and accrued expenses		-
Total Liabilities		-
Net Position Restricted for Pensions	$	52,717,259

See accompanying notes to basic financial statements.

SOUTHBRIDGE CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Southbridge, Massachusetts)

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

Additions:	
Employer contributions	$ 4,009,904
Employee contributions	1,559,829
Other contributions	136,368
Total contributions	5,706,101
Investment income:	
Interest and dividends	1,476,708
Net depreciation in fair value of investments	(2,499,071)
Less investment management fees	(284,315)
Total net investment income	(1,306,678)
Other income	3,550
Total Additions	4,402,973
Deductions:	
Benefits and refunds to Plan members:	
Benefits to retirees and survivors	4,381,813
Member refunds	209,292
Transfers and reimbursements to other systems	677,918
Administrative expenses:	
Operations payroll and related personnel costs	81,193
Other	69,750
Total Deductions	5,419,966
Net Change in Net Position	(1,016,993)
Net Position Restricted for Pensions:	
Beginning of the year	53,734,252
End of the year	$ 52,717,259

See accompanying notes to basic financial statements.

1. DESCRIPTION OF THE PLAN

General – The Southbridge Contributory Retirement System (the "System") is a multiple employer defined benefit pension plan established and administered by the Southbridge 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 Southbridge, Massachusetts (the "Town"). The Town, the Southern Worcester County Regional Vocational School District (the "District") and the Southbridge Housing Authority (the "Authority") contribute to the System.

Employees of the Town (with the exception of teachers and certain administrative personnel employed by its school department and the District who participate in a separate plan), the Authority and certain administrative personnel of the District 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	181
Active plan members	466
Inactive plan members	92
Total	739

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 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.

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 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.

Disability Retirements **–** 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 Southbridge 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 Southbridge Retirement Board, 41 Elm Street, Southbridge, Massachusetts 01550.

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.

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.

All of the System's investments are invested with the State Treasurer investment pool administered by the Commonwealth of Massachusetts' Pension Reserve Investment Management Board, or PRIM. The specific investment held by the System is the PRIT General Allocation Fund, which consists of a diverse set of investments that includes domestic and international equities and fixed income securities, private debt, private equity, venture, timber 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 General Allocation 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 General Allocation Fund at any time with less than thirty days' notice. Distributions from the PRIT Absolute Fund are received regularly monthly and 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, 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 and accounts payable 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, and statutory or contractual requirements. Contributions appropriated by the Town and the Authority 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.

3. SYSTEM ADMINISTRATION

The System is administered by a five-person Board consisting of the Town Accountant, two members who are elected by the participants in or retired from the service of the System, one member appointed by the Town Manager and one member appointed by the other members of the Board.

At the time of this report, the Board was comprised as follows:

		Term Expires
Ex-Officio Member:	Ms. Karen Harnois (Town Accountant)	No specified date
Appointed Member:	Ms. Melinda Ernst-Fournier	No specified date
Elected Member:	Mr. James Philbrook	December 31, 2021
Elected Member:	Ms. Julie Pena (Chairperson)	July 20, 2020
Board Appointed Member:	Ms. Pamela Leduc	March 1, 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 and submitted to a PERAC actuary for verification prior to payments being made. Expenses incurred by the System must be approved by a majority of the Board.

4. DEPOSITS AND INVESTMENTS

Massachusetts General Laws Chapter 32 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.

***Investment Policy* –** The Board is responsible for the establishing and amending investment policy decisions. The Board adopted the investment policy used by PRIM as all of its investments are invested with PRIM.

According to its investment policy, PRIM's overall objective is to achieve the highest level of investment performance that is compatible with its risk tolerance and prudent investment practices. PRIM maintains a long-term perspective in formulating and implementing its investment policies and evaluating its investment performance. PRIM seeks to generate long-term investment performance that meets or exceeds actuarially-targeted rates of return (currently at 7.35%). PRIM establishes investment benchmarks by asset class to compare its actual performance against. Finally, PRIM compares its investment performance against the investment performance of other large public and private pension plans with the goal to be in the top 50% of this universe.

At December 31, 2018, all of the System's investments are held in the custody of PRIM within their PRIT General Allocation Fund. The PRIT General Allocation Fund is comprised of a diverse set of investments accounts. The PRIT General Allocation Fund's target weights and the long-term expected rates of return for each of these asset classes were as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equities	13.0%	7.62%
International equities	13.0%	7.80%
Emerging markets equities	5.0%	9.31%
Hedged equities	8.0%	6.89%
Core fixed income	15.0%	3.50% to 4.37%
Value-added fixed income	8.0%	7.58%
Private equity	13.0%	11.15%
Real estate	10.0%	6.43%
Timberland	4.0%	7.00%
PCS/hedge funds	11.0%	6.76%

Actual asset allocations at December 31, 2018 were within the acceptable deviations from the target allocations illustrated above, as set forth under PRIM's investment policy.

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 -2.4%.

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 and the Depositors Insurance Fund for amounts in excess of $250,000. At December 31, 2018, all of the System's bank deposits were fully insured.

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 such funds in highly liquid bank accounts; thereby, allowing for timely re-allocation of such holdings 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 –The System did not hold any specific security denominated in a foreign currency at December 31, 2018.

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 Investor Services, Inc. and Standard and Poor's Financial Services, LLC. The System does voluntarily self-impose certain investment restrictions; however, those can be changed at the Board's discretion. The System maintains a significant portion (over 99%) of its monetary assets as investment holdings.

The System's pooled investment with PRIT was not subject to credit quality ratings from leading credit rating agencies. At December 31, 2018, uninsured short-term investment funds with fair values of $90,650 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.

Concentration of Credit Risk: Investments – All of the System's investments are with the PRIM General Allocation Account at December 31, 2018.

5. FUNDING POLICY

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 9%. In addition, employees hired on or after January 1, 1979 contribute an additional 2% on earnings in excess of $30,000.

Employer Contributions (Funding) – 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 $4,009,904 were made in 2018, which was the annual required contribution. Employer contributions as a percentage of covered payroll was approximately 25% in 2018.

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 2018 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.

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 amortizes the unfunded actuarial accrued liability to $0 by December 31, 2033.

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

Total pension liability	$ 88,445
Plan fiduciary net position	52,717
Net pension liability	$ 35,728
Plan fiduciary net position as a percentage of total pension liability	59.6%

The total pension liability was determined by an actuarial valuation as of January 1, 2018. The significant actuarial assumptions used in the January 1, 2018 report were as follows:

Actuarial cost method:	Entry age normal
Investment rate of return:	7.35% per year, net of expenses (previously 7.50%)
Projected salary increases:	Select and ultimate by job group; ultimate rates of 4.25% for group 1 and 4.75% for group 4
Cost of living adjustments:	3% on the first $12,000 of benefits
Pre-retirement mortality:	The RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct). The total normal cost is then increased by 1.5% and the actuarial liability by 0.75% to reflect the anticipated impact of the assumption change after the completion of the local system retiree mortality study.
Post-retirement mortality:	The RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct). The total normal cost is then increased by 1.5% and the actuarial liability by 0.75% to reflect the anticipated impact of the assumption change after the completion of the local system retiree mortality study.
Disabled life mortality:	The RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2012 (gender distinct). The actuarial liability is then increased by 0.75% to reflect the anticipated impact of the assumption change after the completion of the local system retiree mortality study.

Discount Rate – The discount rate used to measure the total pension liability in the January 1, 2018 actuarial valuation report was 7.35%, which represents a decrease from the previous discount rate of 7.50%. 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 real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real 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 7.4%, 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 (6.35%) and 1.0% higher (8.35%) that the current rate (dollar amounts in thousands):

	1% Decrease (6.35%)	Current Discount (7.35%)	1% Increase (8.35%)
Net pension liability	$ 45,752	$ 35,728	$ 27,232

7. NET POSITION RESTRICTED FOR PENSIONS

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

Description	Amount	Purpose
Annuity Savings Fund	$ 14,675,187	Active members' contribution balance
Annuity Reserve Fund	3,724,339	Retired members' contribution balance
Pension Fund	3,140,825	Amounts appropriated to fund future retirement
Pension Reserve Fund	31,176,908	Remaining net assets
	$ 52,717,259	

8. COMMITMENTS AND CONTINGENCIES

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.

SOUTHBRIDGE CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Southbridge, Massachusetts)

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	$ 2,483	$ 2,294	$ 2,195	$ 2,157	$ 2,064
Interest	6,224	6,003	5,569	5,502	5,239
Differences between expected and actual experience	-	(873)	(1,074)	-	-
Changes in assumptions	-	1,925	3,850	-	-
Benefit payments, including refunds	(4,927)	(4,861)	(4,848)	(4,032)	(3,950)
Net change in total pension liability	3,780	4,488	5,692	3,627	3,353
Total pension liability - beginning of year	84,665	80,177	74,485	70,858	67,505
Total pension liability - end of year (a)	$ 88,445	$ 84,665	$ 80,177	$ 74,485	$ 70,858
Plan fiduciary net position:					
Contributions - employer	$ 4,010	$ 4,175	$ 4,353	$ 4,181	$ 4,018
Contributions - employee	1,560	1,664	1,208	1,236	1,284
Contributions - nonemployer contributing entities	136	-	-	-	-
Net investment income	(1,307)	7,708	3,064	334	2,681
Benefit payments, including refunds	(5,269)	(4,861)	(4,848)	(4,032)	(3,950)
Administrative expenses	(151)	(131)	(153)	(118)	(141)
Other	4	-	-	-	7
Net change in plan fiduciary net position	(1,017)	8,555	3,624	1,601	3,899
Plan fiduciary net position - beginning of year	53,734	45,179	41,555	39,954	36,055
Plan fiduciary net position - end of year (b)	$ 52,717	$ 53,734	$ 45,179	$ 41,555	$ 39,954
Net pension liability - end of year (a) - (b)	$ 35,728	$ 30,931	$ 34,998	$ 32,930	$ 30,904
Plan fiduciary net position as a percentage of the total pension liability	59.60%	63.47%	56.35%	55.79%	56.39%
Covered payroll	$ 15,885	$ 15,885	$ 14,859	$ 14,954	$ 14,954
Net pension liability as a percentage of covered payroll	224.92%	194.72%	235.53%	220.21%	206.66%

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.

SCHEDULE OF CONTRIBUTIONS

(dollar amounts are in thousands)

	2018	2017	2016	2015	2014
Actuarially-determined contribution	$ 4,010	$ 3,800	$ 3,603	$ 3,431	$ 3,268
Contributions in relation to the actuarially-determined contribution	4,010	4,175	4,353	4,181	4,018
Contribution deficiency (excess)	$ -	$ (375)	$ (750)	$ (750)	$ (750)
Covered payroll	$ 15,885	$ 15,885	$ 14,859	$ 14,954	$ 14,954
Contribution as a percentage of covered payroll	25.24%	26.28%	29.30%	27.96%	26.87%

SCHEDULE OF INVESTMENT RETURNS

	2018	2017	2016	2015	2014
Annual money-weighted rate of return, net of investment expense	-2.45%	17.18%	7.41%	0.83%	7.50%

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.

A. CHANGES OF BENEFIT TERMS

The Southbridge Contributory Retirement System (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 2018.

B. SIGNIFICANT ACTUARIAL ASSUMPTIONS AND METHODS

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

Actuarial cost method:	Entry age normal
Investment rate of return:	7.35% per year, net of expenses (previously 7.50%)
Projected salary increases:	Select and ultimate by job group; ultimate rates of 4.25% for group 1 and 4.75% for group 4
Cost of living adjustments:	3% on the first $12,000 of benefits
Pre-retirement mortality:	The RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct). The total normal cost is then increased by 1.5% and the actuarial liability by 0.75% to reflect the anticipated impact of the assumption change after the completion of the local system retiree mortality study.
Post-retirement mortality:	The RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct). The total normal cost is then increased by 1.5% and the actuarial liability by 0.75% to reflect the anticipated impact of the assumption change after the completion of the local system retiree mortality study.
Disabled life mortality:	The RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2012 (gender distinct). The actuarial liability is then increased by 0.75% to reflect the anticipated impact of the assumption change after the completion of the local system retiree mortality study.

C. CHANGES TO ACTUARIAL ASSUMPTIONS AND METHODS

In 2018, the System decreased the discount rate used in its actuarial valuation to 7.35% from 7.50% per annum. Additionally, the mortality rates for pre-retirement and post-retirement and disabilities were modified.

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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 Southbridge Retirement Board
Southbridge Contributory Retirement System
Southbridge, 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 Southbridge Contributory Retirement System (the "System"), a component unit of the Town of Southbridge, 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 May 15, 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.

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
May 15, 2019

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

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

We have audited the accompanying schedule of employer allocations of the Southbridge Contributory Retirement System (the "System"), a component unit of the Town of Southbridge, 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 (specified column totals) 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 schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and 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 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.

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, 2016, and our report thereon, dated May 15, 2019, expressed an unmodified opinion on those financial statements.

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
May 15, 2019

SOUTHBRIDGE CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Southbridge, Massachusetts)

SCHEDULE OF EMPLOYER ALLOCATIONS
YEAR ENDED DECEMBER 31, 2018

Employer	Actual Employer Contributions	Employer Allocation Percentage
Town of Southbridge	$ 3,400,464	84.8%
S. Worcester County Regional Vocational School	519,080	12.9%
Southbridge Housing Authority	90,360	2.3%
Total	$ 4,009,904	100.0%

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

SOUTHBRIDGE CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Southbridge, Massachusetts)

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

	Town of Southbridge	S. Worcester County Regional Vocational School	Southbridge Housing Authority	Total
Net pension liability	$ 30,297,344	$ 4,608,912	$ 821,744	$ 35,728,000
Deferred outflows of resources:				
Differences between actual and expected experience	$ -	$ -	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	1,893,584	288,057	51,359	2,233,000
Changes of assumptions	2,621,168	398,739	71,093	3,091,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	72,000	71,000	143,000
Total deferred outflows of resources	$ 4,514,752	$ 758,796	$ 193,452	$ 5,467,000
Deferred inflows of resources:				
Differences between actual and expected experience	$ 908,208	$ 138,159	$ 24,633	$ 1,071,000
Changes of assumptions	-	-	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	143,000	-	-	143,000
Total deferred inflows of resources	$ 1,051,208	$ 138,159	$ 24,633	$ 1,214,000
Pension expense (income):				
Proportionate share of plan pension expense	$ 4,250,942	$ 646,665	$ 115,297	$ 5,012,904
Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions	(39,105)	35,889	3,216	-
Total employer pension expense (income)	$ 4,211,837	$ 682,554	$ 118,513	$ 5,012,904

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

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 Southbridge Contributory Retirement System (the "System") will recognize their proportionate share of the collective pension amounts for all benefits provided by the 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 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 System from the census data submitted to the 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 (benefit):

Measurement Period Ended December 31:	Town of Southbridge	S. Worcester Country Regional Vocational School	Southbridge Housing Authority	Total
2019	$ 1,187,816	$ 204,018	$ 50,166	$ 1,391,834
2020	710,240	131,520	38,240	841,760
2021	657,664	123,522	36,814	781,186
2022	907,824	161,577	43,599	1,069,401
	$ 3,463,544	$ 620,637	$ 168,819	$ 4,084,181