

**WEST SPRINGFIELD, MASSACHUSETTS  
CONTRIBUTORY RETIREMENT SYSTEM**

(A Component Unit of the Town of  
West Springfield, Massachusetts)

Financial Statements,  
Required Supplementary Information,  
and Other Information

For the Year Ended December 31, 2017

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**Additional Offices:**

Nashua, NH  
Manchester, NH  
Andover, MA  
Ellsworth, ME

## INDEPENDENT AUDITORS' REPORT

To the Retirement System Board  
Town of West Springfield, Massachusetts

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

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

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

### **Auditors' Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's

preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.

Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

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

## **Other Matters**

### *Required Supplementary Information*

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

*Melanson Heath*

October 24, 2018

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the West Springfield Contributory Retirement System (the System), we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2017.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

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

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

### **B. FINANCIAL HIGHLIGHTS**

- The System's total net position available for benefits were \$117,918,618 at December 31, 2017, which is a change of \$17,805,132, in comparison to the prior year.
- Employer and employee contributions to the plan were \$9,244,030 which represents a \$238,381 increase over the preceding year. The employer share of contributions represents 68.6% of the total contributions.
- Benefits paid to plan participants were \$10,088,429. At December 31, 2017, there were 385 retirees and beneficiaries in receipt of pension benefits.

### C. FINANCIAL STATEMENT ANALYSIS

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

	<u>2017</u>	<u>2016</u>
Assets		
Cash and receivables	\$ 3,284	\$ 4,065
Investments	<u>114,676</u>	<u>96,086</u>
Total assets	117,960	100,151
Liabilities		
Accounts payable	<u>41</u>	<u>38</u>
Net position	<u>\$ 117,919</u>	<u>\$ 100,113</u>

	<u>2017</u>	<u>2016</u>
Additions		
Contributions	\$ 9,759	\$ 9,529
Investment income, net	<u>19,175</u>	<u>(432)</u>
Total additions	28,934	9,097
Deductions		
Benefit payments	10,088	9,527
Other	<u>1,040</u>	<u>507</u>
Total deductions	<u>11,128</u>	<u>10,034</u>
Change in net position	17,806	(937)
Net position - beginning of year	<u>100,113</u>	<u>101,050</u>
Net position - end of year	<u>\$ 117,919</u>	<u>\$ 100,113</u>

The System's total assets as of December 31, 2017 were \$117,959,741 and were mostly comprised of cash and investments. Total assets increased \$17,807,871 or 17.78% from the prior year primarily due to an increase in investment value.

The System was 65.64% funded based on its actuarial valuation of January 1, 2016 (rolled forward to December 31, 2017) with 17 years remaining in its amortization period.

The amount needed to finance benefits is accumulated through the collection of employers' and employee's contributions, reimbursements from the Common-

wealth of Massachusetts for pre-1998 COLA and through earnings on investments. Contributions and net investment gain for calendar year 2017 resulted in a net gain of \$28,934,366. Employer's contributions increased by \$265,728. The System had net investment gain of \$19,174,939 in 2017, versus a loss of \$(431,585) in 2016.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions, and the costs of administering the System. Total deductions for 2017 were \$11,129,234, which represents an increase of 10.9% over deductions of \$10,034,082 in 2016. The payment of pension benefits increased by \$561,566 or 5.9% over the previous year.

### **REQUESTS FOR INFORMATION**

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

Mr. James Lovotti, Retirement Director  
West Springfield Contributory Retirement System  
26 Central Street, 3<sup>rd</sup> Floor  
West Springfield, Massachusetts 01089

**TOWN OF WEST SPRINGFIELD, MASSACHUSETTS  
CONTRIBUTORY RETIREMENT SYSTEM**

(A Component Unit of the Town of West Springfield, Massachusetts)

Statement of Fiduciary Net Position

December 31, 2017

**Assets**

Cash and short-term investments	\$ 843,524
Investments	114,676,480
Accounts receivable	<u>2,439,737</u>
Total Assets	<u>\$ 117,959,741</u>

**Liabilities and Net Position**

Accounts payable	\$ <u>41,123</u>
Total Liabilities	41,123
Net position restricted for pensions	<u>117,918,618</u>
Total Liabilities and Net Position	<u>\$ 117,959,741</u>

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



**TOWN OF WEST SPRINGFIELD, MASSACHUSETTS  
CONTRIBUTORY RETIREMENT SYSTEM**

(A Component Unit of the Town of West Springfield, Massachusetts)

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2017

**Additions**

Contributions:

Employers	\$ 6,699,817
Plan members	2,544,213
Other systems and Commonwealth of Massachusetts	428,296
Other	<u>87,101</u>

Total contributions 9,759,427

Investment income:

Appreciation in fair value of investments	19,515,828
Less: management fees	<u>(340,889)</u>

Net investment gain 19,174,939

Total additions 28,934,366

**Deductions**

Benefit payments to plan members and beneficiaries	10,088,429
Refunds to plan members	384,201
Transfers to other systems	404,106
Administrative expenses	<u>252,498</u>

Total deductions 11,129,234

Net increase 17,805,132

**Net position restricted for pensions**

Beginning of year 100,113,486

End of year \$ 117,918,618

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

# WEST SPRINGFIELD CONTRIBUTORY RETIREMENT SYSTEM

## Notes to Financial Statements

### 1. Description of Plan

The System is a defined cost sharing, multiple employer public employee retirement system (PERS) of 2-member units, except school department employees who serve in a teaching capacity. The pensions of such employees are administered by the Massachusetts Teachers' Retirement Board. Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions.

Membership of the plan consisted of the following at December 31, 2017:

Inactive employees or beneficiaries currently receiving benefits	385
Inactive employees entitled to a return of contributions	142
Active plan members	<u>592</u>
Total	<u>1,119</u>
Number of participating employers	2

### Participant Contributions

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

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

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

## Employer Contributions

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

## Participant Retirement Benefits

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

If a participant was a member prior to April 1, 2012, a retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left member employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

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

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

## Participant Refunds

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

## **2. Nature of Operations and Summary of Significant Accounting Policies**

### *Nature of Operations*

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

### *Summary of Significant Accounting Policies*

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

### Basis of Accounting

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

### Investments

#### *Investment Policy*

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

### *Rate of Return*

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 19.52%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### **3. Cash and Short-Term Investments**

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

As of December 31, 2017, \$541,184 of the System's bank balance of \$1,281,694 was exposed to custodial credit risk as uninsured, uncollateralized, and/or collateral held by the pledging bank's trust department not in the System's name. The uninsured cash balance can fluctuate based on the timing of deposits its made to the investment account and when investments can be purchased.

### **4. Investments**

#### *A. Credit Risk*

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

Presented below is the actual rating as of year-end for each investment type (in thousands):

Investment Type	Amount	Exempt From Disclosure	AAA	Rating as of Year End					Not Rated
				AA1/AA2 AA3	A1/A2/A3	BAA1/BAA2 BAA3	CAA		
U.S. Treasuries	\$ 11,205	\$ -	\$ 11,205	\$ -	\$ -	\$ -	\$ -	\$ -	
Federal securities	1,342	-	1,342	-	-	-	-	-	
Asset backed securities	4,480	-	3,239	151	1,046	-	44	-	
Foreign government bonds	390	-	-	-	390	-	-	-	
Municipal bonds	1,990	-	-	1,990	-	-	-	-	
Collateralized mortgage obligations	5	-	5	-	-	-	-	-	
Corporate bonds	19,096	-	646	414	6,016	12,020	-	-	
Equity investments	71,031	-	1,439	10,249	21,395	26,415	-	11,533	
Mutual funds	2,214	2,214	-	-	-	-	-	-	
Other investments	2,923	2,923	-	-	-	-	-	-	
<b>Total</b>	<b>\$ 114,676</b>	<b>\$ 5,137</b>	<b>\$ 17,876</b>	<b>\$ 12,804</b>	<b>\$ 28,847</b>	<b>\$ 38,435</b>	<b>\$ 44</b>	<b>\$ 11,533</b>	

### B. Custodial Credit Risk

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

All the System’s investments of \$114,676,480 were exposed to custodial credit risk as uninsured and/or uncollateralized.

### C. Concentration of Credit Risk

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund. The System’s investment policy limits the amount the System may invest in any one issuer to 5%.

The System does not have an investment in one issuer greater than 5% of total investments.

### D. Interest Rate Risk

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

Information about the sensitivity of the fair values of the System's investments to market interest rate fluctuations is as follows (in thousands):

<u>Investment Type</u>	<u>Amount</u>	<u>Investment Maturities (in Years)</u>				<u>N/A</u>
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>	
U.S. Treasuries	\$ 11,205	\$ 5,000	\$ 98	\$ 3,759	\$ 2,348	\$ -
Federal securities	1,342	-	-	-	1,342	-
Asset backed securities	4,480	201	1,496	1,740	1,043	-
Foreign government bonds	390	-	196	194	-	-
Municipal bonds	1,990	-	-	-	1,990	-
Collateralized mortgage obligations	5	-	-	-	5	-
Corporate bonds	19,096	-	5,696	10,184	3,216	-
Equity investments	71,031	-	-	-	-	71,031
Mutual funds	2,214	-	-	-	-	2,214
Other investments	2,923	-	-	-	-	2,923
<b>Total</b>	<b>\$ 114,676</b>	<b>\$ 5,201</b>	<b>\$ 7,486</b>	<b>\$ 15,877</b>	<b>\$ 9,944</b>	<b>\$ 76,168</b>

#### E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The System does not have policies for foreign currency risk, nor does it have any foreign investments.

#### F. Fair Value

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

The System has the following investments as of December 31, 2017 (in thousands):

Description	Value	Fair Value Measurements Using:		
		Quoted prices in active markets for assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:				
Debt securities:				
U.S. Treasuries	\$ 11,205	\$ -	\$ 11,205	\$ -
Federal securities	1,342	-	1,342	-
Asset backed securities	4,480	-	4,480	-
Foreign government bonds	390	-	390	-
Municipal bonds	1,990	-	1,990	-
Collateralized mortgage obligations	5	-	5	-
Corporate bonds	19,096	-	19,096	-
Equity securities:				
Equity investments	71,031	71,031	-	-
Mutual funds	2,214	2,214	-	-
Other investments	2,923	2,923	-	-
Total	\$ 114,676			

## 5. Accounts Receivable

Annually the Public Employee Retirement Administration (PERAC) determines the amount of employer contributions (pension appropriations) to be made to the System. The accounts receivable balance primarily represents legal amounts due from employers for pension appropriation not received until after December 31, 2017.

## 6. Accounts Payable

This balance primarily represents payment for December 2017 investment fees paid after December 31, 2017.

## 7. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2016, and rolled forward to December 31, 2017.

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



A. Net Pension Liability of Employers

Total pension liability	\$ 179,634,974
Plan fiduciary net position	<u>(117,918,618)</u>
Employers' net pension liability	<u>\$ 61,716,356</u>

Plan fiduciary net position as a percentage of total pension liability 65.64%

B. Actuarial Assumptions

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

Valuation Date	1/1/2016
Actuarial cost method	Entry Age Normal Cost
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.00%
Inflation	2.75% per year
Post-retirement cost-of-living adjustment	3% on first \$13,000

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

Mortality rates were based on RP-2000 projected from the year 2000 Generational Mortality, Scale BB. For members retired under an accidental disability (job related), 40% of deaths are assumed to be from the same cause as the disability. Disabled mortality RP-2000 table projected from the year 2000 with Generational Mortality, Scale BB, set forward 2 years.

C. Target Allocations

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

included in the System's targeted asset allocation as of December 31, 2017, are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
US Equities	55.00%	4.47%
International Equities	10.00%	4.66%
Emerging Equities	3.00%	6.12%
Fixed Income	30.00%	0.73%
Timberland	<u>2.00%</u>	3.16%
Total	<u>100.00%</u>	

*D. Discount Rate*

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the Board's funding policy, which establishes the contractually required rates by Statute. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*E. Sensitivity of Discount Rate*

The following presents the net pension liability of the participating employers calculated using the discount rate of 7.75%, as well as what the participating employers' net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Net pension liability	\$82,151,824	\$61,716,356	\$45,804,873

*F. Deferred Outflows/Inflows of Resources*

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 3,063,289
Changes of assumptions	1,544,604	-
Net difference between projected and actual earnings on pension plan investments	-	1,692,443
Changes in proportion and differences between contributions and proportionate share of contributions	<u>289,084</u>	<u>289,084</u>
Total	<u>\$ 1,833,688</u>	<u>\$ 5,044,816</u>

The following summarizes changes in deferred outflows/inflows of resources:

	<u>Measurement Year</u>	<u>Amortization Period</u>	<u>Beginning Balance on Prior Measurement Period Deferrals</u>	<u>Current Measurement Period Additions</u>	<u>Amortization of Amounts Recognized in Current Period Pension Expense</u>	<u>End of Year Balance</u>
<u>Deferred Outflows of Resources:</u>						
Change in assumptions	2016	6.0	1,930,756	-	(386,152)	1,544,604
Changes in proportion and differences between contributions and proportionate share of contributions:	2017	6.0	-	16,331	(2,722)	13,609
	2016	6.0	330,826	-	(66,165)	264,661
	2015	5.9	<u>14,607</u>	<u>-</u>	<u>(3,793)</u>	<u>10,814</u>
Total Deferred Outflows of Resources			2,276,189	16,331	(458,832)	1,833,688
<u>Deferred (Inflows) of Resources:</u>						
Difference between expected and actual experience	2016	6.0	\$ (3,829,112)	\$ -	\$ 765,823	\$ (3,063,289)
Net difference between projected and actual earning on pension plan investments:	2017	5.0	-	(11,597,778)	2,319,556	(9,278,222)
	2016	5.0	6,507,598	-	(1,626,900)	4,880,698
	2015	5.0	5,267,420	-	(1,755,806)	3,511,614
	2014	5.0	(1,613,064)	-	806,531	(806,533)
Changes in proportion and differences between contributions and proportionate share of contributions:	2017	6.0	-	(16,331)	2,722	(13,609)
	2016	6.0	(330,826)	-	66,165	(264,661)
	2015	5.9	<u>(14,607)</u>	<u>-</u>	<u>3,793</u>	<u>(10,814)</u>
Total Deferred (Inflows) of Resources			<u>5,987,409</u>	<u>(11,614,109)</u>	<u>581,884</u>	<u>(5,044,816)</u>
Total Collective Deferred Outflows (Inflows) of Resources			<u>\$ 8,263,598</u>	<u>\$ (11,597,778)</u>	<u>\$ 123,052</u>	<u>\$ (3,211,128)</u>

The following schedule reflects the amortization of the balance of deferred outflows/inflows of resources:

Year ended June 30:

2019	\$ (123,052)
2020	683,479
2021	(1,072,327)
2022	<u>(2,699,228)</u>
Total	\$ <u>(3,211,128)</u>

## **8. Contingencies**

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

**TOWN OF WEST SPRINGFIELD, MASSACHUSETTS  
CONTRIBUTORY RETIREMENT SYSTEM**

Schedule of Changes in the Net Pension Liability

(Amounts expressed in thousands)

(Unaudited)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
<b>Total pension liability</b>			
Service cost	\$ 3,462	\$ 3,328	\$ 3,256
Interest on unfunded liability - time value of \$	13,295	12,962	12,638
Differences between expected and actual experience	-	(4,595)	-
Changes of assumptions	-	2,317	-
Benefit payments, including refunds of member contributions	<u>(10,408)</u>	<u>(9,296)</u>	<u>(9,079)</u>
Net change in total pension liability	6,349	4,716	6,815
Total pension liability - beginning	<u>173,286</u>	<u>168,570</u>	<u>161,755</u>
<b>Total pension liability - ending (a)</b>	<u>\$ 179,635</u>	<u>\$ 173,286</u>	<u>\$ 168,570</u>
<b>Plan fiduciary net position *</b>			
Contributions - employer	\$ 6,747	\$ 6,485	\$ 6,239
Contributions - member	2,544	2,572	2,388
Net investment income	19,142	(478)	(880)
Benefit payments, including refunds of member contributions	(10,408)	(9,296)	(9,079)
Administrative expense	<u>(219)</u>	<u>(220)</u>	<u>(203)</u>
Net change in plan fiduciary net position	17,806	(937)	(1,535)
Plan fiduciary net position - beginning	<u>100,113</u>	<u>101,050</u>	<u>102,585</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 117,919</u>	<u>\$ 100,113</u>	<u>\$ 101,050</u>
<b>Net pension liability (asset) - ending (a-b)</b>	<u>\$ 61,716</u>	<u>\$ 73,173</u>	<u>\$ 67,520</u>

\* Reflects certain classification differences from page 7

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

See Independent Auditors' Report.

**TOWN OF WEST SPRINGFIELD, MASSACHUSETTS  
CONTRIBUTORY RETIREMENT SYSTEM**

Schedules of Net Pension Liability, Contributions, and Investment Returns

(Amounts expressed in thousands)

(Unaudited)

<b>Schedule of Net Pension Liability</b>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability	\$ 179,635	\$ 173,286	\$ 168,570
Plan fiduciary net position	<u>(117,919)</u>	<u>(100,113)</u>	<u>(101,050)</u>
Net pension liability (asset)	<u>\$ 61,716</u>	<u>\$ 73,173</u>	<u>\$ 67,520</u>
 Plan fiduciary net position as a percentage of the total pension liability	 65.64%	 57.77%	 59.95%
 Calendar year covered payroll	 \$ 27,193	 \$ 26,147	 \$ 25,694
 Participating employer net pension liability (asset) as a percentage of covered payroll	 226.96%	 279.85%	 262.79%
 <b>Schedule of Contributions</b>	 <u>2017</u>	 <u>2016</u>	 <u>2015</u>
Actuarially determined contribution	\$ 6,700	\$ 6,434	\$ 6,187
Contributions in relation to the actuarially determined contribution	<u>(6,747)</u>	<u>(6,485)</u>	<u>(6,239)</u>
Contribution deficiency (excess)	<u>\$ (47)</u>	<u>\$ (51)</u>	<u>\$ (52)</u>
 Fiscal year covered payroll	 \$ 27,737	 \$ 26,670	 \$ 26,208
 Contributions as a percentage of covered payroll	 24.32%	 24.32%	 23.81%
 <b>Schedule of Investment Returns</b>			
<i>Year Ended December 31</i>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual money weighted rate of return, net of investment expense	19.52%	(0.46)%	0.87%

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

See Independent Auditors' Report.

## **GASB REPORTS**

## INDEPENDENT AUDITORS' REPORT

To the Retirement System Board  
Town of West Springfield, Massachusetts

### **Report on Schedules**

We have audited the accompanying Schedule of Employer Allocations of the West Springfield Contributory Retirement System as of and for the year ended December 31, 2017. We have also audited the total for all entities of the net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified totals) included in the accompanying Schedule of Pension Amounts by Employer of the West Springfield Contributory Retirement System as of and for the year ended December 31, 2017.

### **Management's Responsibility for the Schedules**

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

### **Auditors' Responsibility**

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

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



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

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

### **Opinions**

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

### **Restriction on Use**

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

*Melanson Heath*

October 24, 2018

**TOWN OF WEST SPRINGFIELD, MASSACHUSETTS  
CONTRIBUTORY RETIREMENT SYSTEM**

SCHEDULE OF EMPLOYER ALLOCATIONS

Employer	FY 2018 Actual Employer <u>Contributions</u>	Employer Allocation <u>Percentage</u>
Town of West Springfield	\$ 6,419,926	97.77%
West Springfield Housing Authority	<u>146,430</u>	<u>2.23%</u>
Subtotal excluding ERI	6,566,356	100.00%
Town of West Springfield - ERI	127,524	
West Springfield Housing Authority - ERI	<u>5,937</u>	
Total	\$ <u><u>6,699,817</u></u>	

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

**TOWN OF WEST SPRINGFIELD, MASSACHUSETTS  
CONTRIBUTORY RETIREMENT SYSTEM**

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

As of and for the year ended December 31, 2017

	Town of West Springfield	West Springfield Housing Authority	Total
<b><u>Net Pension Liability *</u></b>			
Beginning net pension liability	\$ 71,516,213	\$ 1,656,531	\$ 73,172,744
Ending net pension liability	\$ 60,337,228	\$ 1,379,128	\$ 61,716,356
<b><u>Deferred Outflows of Resources</u></b>			
Changes of assumptions	\$ 1,510,088	\$ 34,516	\$ 1,544,604
Changes in proportion and differences between employer contributions and proportionate share of contributions	24,424	264,660	289,084
Total Deferred Outflows of Resources	<u>\$ 1,534,512</u>	<u>\$ 299,176</u>	<u>\$ 1,833,688</u>
<b><u>Deferred Inflows of Resources</u></b>			
Net difference between projected and actual investment earnings on pension plan investments	\$ 1,654,623	\$ 37,820	\$ 1,692,443
Difference between expected and actual experience	2,994,836	68,453	3,063,289
Changes in proportion and differences between employer contributions and proportionate share of contributions	264,661	24,423	289,084
Total Deferred Inflows of Resources	<u>\$ 4,914,120</u>	<u>\$ 130,696</u>	<u>\$ 5,044,816</u>
<b><u>Pension Expense</u></b>			
Proportionate share of pension expense	\$ 6,614,418	\$ 151,186	\$ 6,765,604
Proportion changes and differences between employer contributions and proportionate share recognized as expense	(59,650)	59,650	-
Total Pension Expense	<u>\$ 6,554,768</u>	<u>\$ 210,836</u>	<u>\$ 6,765,604</u>
<b><u>Contributions</u></b>			
Actuarially determined contribution	\$ 6,547,450	\$ 152,367	\$ 6,699,817
Contributions made	(6,593,842)	(153,425)	(6,747,267)
Contribution deficiency / (excess)	<u>\$ (46,392)</u>	<u>\$ (1,058)</u>	<u>\$ (47,450)</u>
Contributions as a percentage of covered payroll **	24.3%	24.2%	24.3%
<b><u>Deferred Outflows / (Inflows) Recognized in Future Pension Expense</u></b>			
June 30, 2019	\$ (179,953)	\$ 56,901	\$ (123,052)
June 30, 2020	608,555	74,924	683,479
June 30, 2021	(1,108,579)	36,252	(1,072,327)
June 30, 2022	(2,702,353)	3,125	(2,699,228)
June 30, 2023	2,722	(2,722)	-
Total Deferred Outflows / (Inflows) Recognized in Future Pension Expense	<u>\$ (3,379,608)</u>	<u>\$ 168,480</u>	<u>\$ (3,211,128)</u>
<b><u>Discount Rate Sensitivity</u></b>			
1% decrease (6.75%)	\$ 80,319,835	\$ 1,831,989	\$ 82,151,824
Current discount rate (7.75%)	\$ 60,337,228	\$ 1,379,128	\$ 61,716,356
1% increase (8.75)	\$ 44,783,423	\$ 1,021,450	\$ 45,804,873
Covered Payroll	\$ 26,572,279	\$ 621,099	\$ 27,193,378

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

\*\* Calculated using a covered payroll figure projected for fiscal year 2018.

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