

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS AND REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2017

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Financial Statements

December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Trustees of
Weymouth Contributory Retirement System
Weymouth, Massachusetts

Report on the Financial Statements

We have audited the accompanying statement of fiduciary net position of the Weymouth Contributory Retirement System as of December 31, 2017, the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements.

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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Schedule of Changes in the Net Pension Liability and Related Ratios; Schedule of Contributions; the Schedule of Investment Return; and the notes to the required supplementary information be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the 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's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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 November 19, 2018 on our consideration of the Weymouth Contributory Retirement System's internal control over financial reporting and on 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* and should be considered in assessing the results of our audit.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

November 19, 2018

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Statement of Fiduciary Net Position

December 31, 2017

Assets:

Cash and equivalents	\$ 4,427,094
Receivables	451,510
Investments, at fair value	<u>195,167,352</u>

Total Assets 200,045,956

Liabilities:

Accounts payable	193,583
Investment purchases payable	<u>565,660</u>

Total Liabilities 759,243

Fiduciary Net Position - Restricted for Pension Benefits \$ 199,286,713

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

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2017

Additions:

Contributions:

Employer	\$ 10,860,658
Plan members	4,015,204
Reimbursements from other systems	832,919
Commonwealth of Massachusetts (COLA)	198,929
Worker's Compensation Settlements	<u>10,000</u>

Total Contributions 15,917,710

Investment Income, net:

Total investment income	29,486,842
Investment expense	<u>(1,101,361)</u>

Investment Income, net: 28,385,481

Total Additions 44,303,191

Deductions:

Benefits	18,255,293
Reimbursements to other systems	870,697
Administrative costs	514,942
Refunds	<u>438,868</u>

Total Deductions 20,079,800

Increase in Fiduciary Net Position 24,223,391

Fiduciary Net Position, Beginning of Year 175,063,322

Fiduciary Net Position End of Year \$ 199,286,713

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

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Notes to the Financial Statements

December 31, 2017

Note 1 - **Summary of Plan Information and Provisions**

Plan Description

The Weymouth Contributory Retirement System (the "System") is a multi-employer cost-sharing defined-benefit pension plan established for the employees of the Town of Weymouth, with the exception of school department employees who serve in a teaching capacity, and the Weymouth Housing Authority. The System provides for retirement, disability and death benefits to System members and their beneficiaries.

The Weymouth Contributory Retirement System is an integral part of the general purpose financial statements of the Town of Weymouth (the "Town"). The System serves as an investment and administrative agent for the Town of Weymouth with respect to its pension plan.

Management of the System is vested in the Weymouth Contributory Retirement System's Board of Trustees (the "Board"), which consists of five members - two elected by System members, two appointed by the Board, and one ex-officio member. Cost-of-living adjustments ("COLA") are provided at the discretion of the Board.

The System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Law ("MGL"). The Public Employee Retirement Administration Commission ("PERAC") is the state agency responsible for oversight of the Commonwealth of Massachusetts' (the "Commonwealth") public retirement systems.

Massachusetts Contributory Retirement System benefits are uniform from system to system, with certain exceptions such as cost of living adjustments which can be adopted by local Boards at their discretion. The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or if greater, during the last five years, whether or not consecutive, preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, veteran status, cost of living adjustments and group classification. There are three classes of membership in the System:

- Group 1 – General employees including clerical, administrative, technical and all other employees not otherwise classified.
- Group 2 – Certain specified hazardous duty positions.
- Group 4 – Police, firefighters, and other specified hazardous positions.

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Notes to the Financial Statements - Continued

December 31, 2017

Note 1 - **Summary of Plan Information and Provisions - Continued**

Plan Description - continued

Members normally become vested after ten years of creditable service. However, if hired prior to 1978 a superannuation retirement allowance may be received at age 55 with no vesting requirement. If hired after January 1, 1978 and before April 2, 2012, a superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching age 55 with ten years of service. A person who became a member after April 2, 2012 is eligible for a superannuation retirement allowance upon reaching age 60 with ten years of service if in Group 1, 55 years of age with ten years of service if in Group 2 or age 55 in Group 4.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and the interest generated constitute the annuity. The differential between the total retirement benefit and the annuity is the pension.

Active members contribute between 5% and 11% of their gross regular compensation. The rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the PERAC actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's laws during those years are borne by the Commonwealth and are deposited into the Pension Fund. Cost-of-living adjustments granted after 1997 must be approved by the System and all costs are borne by the System.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of the current year pension assessment. MGL Chapter 32 requires that systems be on an actuarially determined funding schedule that is fully funded by 2040. Under the current funding schedule, the System will be fully funded by 2033.

Members who become permanently and totally disabled may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status and group classification.

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Notes to the Financial Statements - Continued

December 31, 2017

Note 1 - **Summary of Plan Information and Provisions - Continued**

Plan Description - continued

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions.

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

Membership

Membership in the System is mandatory immediately upon the commencement of employment for all non-teaching, permanent, full-time employees. Part-time, provisional, temporary, seasonal, or intermittent employees who are regularly employed for an average of at least 20 hours per week, minimum of 520 hours and have completed six months of service must also become members of the System.

The following is a summary of the System's membership data at December 31, 2017:

Retired Plan members and beneficiaries currently receiving benefits	626
Inactive Plan members entitled to but not yet receiving benefits	163
Fully vested, active Plan members	<u>858</u>
Total Members	<u>1,647</u>

Note 2 - **Summary of Significant Accounting Policies**

Basis of Accounting

The System maintains accounting records and operates under the regulations set forth by the General Laws of the Commonwealth of Massachusetts, Chapter 32. The accompanying financial statements of the System have been prepared in accordance with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Notes to the Financial Statements - Continued

December 31, 2017

Note 2 - **Summary of Significant Accounting Policies - Continued**

Basis of Accounting - Continued

The System is a special-purpose government engaged only in fiduciary activities. Accordingly, the financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, additions are recorded when earned and deductions are recorded when the liabilities are incurred.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions about future events. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as reported amounts of revenues and expenses during the reporting period. Management evaluates the estimates and assumptions on an ongoing basis using historical experience and other factors that management believes to be reasonable under the circumstances. Adjustments to estimates and assumptions are made as facts and circumstances require. As future events and their effects cannot be determined with certainty, actual results may differ from the estimates used in preparing the accompanying financial statements. Significant estimates and assumptions are required as part of determining the value of accounts receivable, and determining actuarial valuations and discounts rates used to determine the total pension liability.

Methods Used to Value Investments

Investments are reported at fair value. Fair value is determined by the quoted market price at the close of business on December 31, 2017. Purchases and sales of mutual funds are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded when declared.

Cash and Equivalents

Cash and equivalents are reported at principal balance. Interest income from these investments is recorded as earned. Investments with original maturities of three months or less are considered cash equivalents.

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Notes to the Financial Statements - Continued

December 31, 2017

Note 2 - **Summary of Significant Accounting Policies - Continued**

Receivables

Receivables consist mainly of member contributions, pension fund appropriations, miscellaneous prepaid expenses and interest accrued on investments. As of December 31, 2017, management has determined that an allowance for doubtful accounts was not required.

Investment Policy

The System's policy in regard to the allocation of invested assets is established and may be amended by a majority vote of the Board's members. It is the policy of the Board to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes. The System's investment policy discourages the use of cash equivalents, except for liquidity purposes, and aims to refrain from dramatically shifting asset class allocations over short time spans.

Fair Value Hierarchy

The fair value hierarchy categorizes inputs to valuation techniques used to measure fair value into three levels. Level 1 inputs are quoted market prices for identical assets or liabilities in active markets that a government can access at the measurement date. Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for an asset or liability, directly or indirectly. Level 3 inputs are unobservable inputs. The highest priority is assigned to Level 1 inputs and the lowest to Level 3 inputs. If the fair value is measured using inputs from more than one level of the hierarchy, the measurement is considered to be based on the lowest priority input level that is significant to the entire measurement. Valuation techniques used should maximize the use of the observable inputs and minimize the use of unobservable inputs.

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for assets at fair value on a recurring basis.

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Notes to the Financial Statements - Continued

December 31, 2017

Note 2 - **Summary of Significant Accounting Policies - Continued**

Fair Value Hierarchy - continued

Corporate Bonds: Valued at the current available closing price reported or based on values obtained on comparable securities of issuers with similar credit ratings.

U.S. Government Bonds: Valued at the current available closing price reported or based on values obtained on comparable securities of issuers with similar credit ratings.

Equity Securities and Mutual Funds: Value based on quoted prices in active markets of similar instruments.

Real Estate: Value is provided by a secondary vendor.

Commingled Funds: Value based on the valuation cycle.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the System believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine if the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Related Party Investments

The Weymouth Contributory Retirement System, as of December 31, 2017, held no securities issued by the Town or other related parties.

Administrative Costs

Administrative costs are financed through investment income from the System.

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Notes to the Financial Statements - Continued

December 31, 2017

Note 2 - **Summary of Significant Accounting Policies – Continued**

New Accounting Pronouncements

GASB Statement 84 - *Fiduciary Activities* is effective for reporting periods beginning after December 15, 2018. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 85 - *Omnibus 2017* is effective for periods beginning after June 15, 2017. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Management has not completed its review of the requirements of this standard and its applicability.

GASB Statement 87 - *Leases* is effective for periods beginning after December 15, 2019. The objective of this Statement is better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Management has not completed its review of the requirements of this standard and its applicability.

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Notes to the Financial Statements - Continued

December 31, 2017

Note 3 - **Cash Deposits with Financial Institutions**

Custodial credit risk is associated with the failure of a depository financial institution. In the event of a depository financial institution's failure, the System would not be able to recover its balance in excess of amounts insured by the Federal Deposit Insurance Corporation ("FDIC") and other third-party insurance. The System's policy is to mitigate as much custodial risk associated with its cash assets as possible. Deposits in the bank in excess of the insured amounts are uninsured and uncollateralized. Deposits with financial institutions are included as cash and equivalents in the Statement of Fiduciary Net Position. At December 31, 2017, cash at the financial institution was insured by FDIC up to \$250,000. Management monitors the financial condition of the banking institution, along with its cash balances to keep this potential risk to a minimum.

Deposits are carried at cost and reflect the following at December 31, 2017:

	Statement of Fiduciary Net Position <u>Carrying Amount</u>	<u>Bank Balance</u>
Cash Reports:		
Insured	\$ 500,000	\$ 500,000
Uninsured	<u>3,927,094</u>	<u>4,276,955</u>
	<u>\$ 4,427,094</u>	<u>\$ 4,776,955</u>

Note 4 - **Receivables**

At December 31, 2017, receivables to the System are as follows:

Interest due and accrued	\$ 126,208
Pension fund appropriations	144,376
Due from Commonwealth – COLA	96,318
Other	<u>84,608</u>
Total	<u>\$ 451,510</u>

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Notes to the Financial Statements - Continued

December 31, 2017

Note 5 - **Investments**

The System's investments at December 31, 2017 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
<u>Debt Securities</u>					
Corporate bonds	\$ 9,841,565	\$ 240,885	\$1,558,635	\$3,805,559	\$ 4,236,486
U.S. Government agencies	<u>11,792,868</u>	<u>479,621</u>	<u>332,694</u>	<u>312,265</u>	<u>10,668,288</u>
	21,634,433	<u>\$ 720,506</u>	<u>\$1,891,329</u>	<u>\$4,117,824</u>	<u>\$14,904,774</u>
<u>Other Investments</u>					
Commingled funds	89,735,200				
Equities	42,378,957				
Mutual funds	16,808,407				
Real estate	<u>24,610,355</u>				
Total Investments	<u>\$195,167,352</u>				

The risk categories for the debt securities held by the System at December 31, 2017 are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Rating</u>							<u>Unrated</u>
		<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>CCC and Below</u>	
<u>Debt securities</u>									
Corporate Bonds	\$ 9,841,565	\$ 757,024	\$501,486	\$1,662,566	\$4,871,207	\$614,617	\$123,106	\$72,814	\$ 1,238,745
U.S. Government agencies	<u>11,792,868</u>	-	-	-	-	-	-	-	<u>11,792,868</u>
Total	<u>\$21,634,433</u>	<u>\$ 757,024</u>	<u>\$501,486</u>	<u>\$1,662,566</u>	<u>\$4,871,207</u>	<u>\$614,617</u>	<u>\$123,106</u>	<u>\$72,814</u>	<u>\$13,031,613</u>

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Notes to the Financial Statements - Continued

December 31, 2017

Note 5 - **Investments - Continued**

Fair Market Value of Investments

The investments of the System are valued at fair value on a recurring basis. Investments as of December 31, 2017 are summarized in the fair value hierarchy as follows

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>Debt Securities</u>				
Corporate bonds	\$ 9,841,565	\$ -	\$ 9,841,565	\$ -
U.S. Government agencies	<u>11,792,868</u>	<u>-</u>	<u>11,792,868</u>	<u>-</u>
Total Debt Securities	21,634,433	-	21,634,433	-
<u>Other Investments</u>				
Equities	42,378,957	9,119,060	-	33,259,897
Mutual funds	16,808,407	16,808,407	-	-
Real estate	<u>24,610,355</u>	<u>-</u>	<u>-</u>	<u>24,610,355</u>
Total Other Investments	<u>83,797,719</u>	<u>25,927,467</u>	<u>-</u>	<u>57,870,252</u>
Total Investments by Fair Value	<u>105,432,152</u>	<u>\$ 25,927,467</u>	<u>\$ 21,634,433</u>	<u>\$ 57,870,252</u>
<u>Investments at Net Asset Value</u>				
Commingled funds	<u>89,735,200</u>			
Total Investments	<u>\$ 195,167,352</u>			

Investment Risk

The System invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risks associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Notes to the Financial Statements - Continued

December 31, 2017

Note 5 - Investments - Continued

could materially affect account balances and the amounts reported in the statement of fiduciary net position.

Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on the System's investments, net of investment expense, was 16.42%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Deposit Risk

At December 31, 2017, the System's investment balances are each insured up to \$500,000 by Securities Investor Protection Corporation, "SIPC". The System's investments are held by Comerica Bank, an investment custodian, in the System's name.

Concentrations

As of December 31, 2017, the System did not hold investments in any one organization that represents 5 percent or more of the System's fiduciary net position.

Note 6 - Net Pension Liability

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of January 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00%
Salary increases	3.50% ultimate rate
Investment rate of return	7.75%

Mortality rates were based on the RP-2000 mortality table (sex-distinct) projected with generational mortality and Scale BB.

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Notes to the Financial Statements - Continued

December 31, 2017

Note 6 - **Net Pension Liability - Continued**

Net Pension Liability

The components of the net pension liability of the System at December 31, 2017 are as follows:

Total pension liability	\$ 292,964,226
Fiduciary net position	<u>(199,286,713)</u>
Net pension liability	<u>\$ 93,677,513</u>
 Fiduciary net position as a percentage of the total pension liability	 68.0%

Rate of Return

The long-term expected rate of return on the System's investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of 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 asset allocation as of December 31, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic large cap	34.00%	5.55%
International equity	17.50	5.55
Core fixed income	15.00	1.65
Real estate	10.00	4.20
Hedge funds	7.00	3.45
Domestic small cap	5.50	6.00
Private equity	5.00	7.05
Global bonds	5.00	1.85
Commodities	<u>1.00</u>	2.40
 Total Return	 <u>100.00%</u>	

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Notes to the Financial Statements - Continued

December 31, 2017

Note 6 - **Net Pension Liability - Continued**

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 Plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the difference between 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 members. Therefore, the long-term expected rate of return on the System's investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability as of December 31, 2017, calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease <u>(6.75%)</u>	Current Discount <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Net pension liability	\$ 125,739,584	\$ 93,677,513	\$ 71,371,488

Note 7 - **Lease Commitments**

The System occupies its office facilities under a lease agreement, expiring in May 2019. The lease requires monthly payments of \$1,620. Rent expense for the year ended December 31, 2017 was \$19,440. Future minimum lease payments subsequent to December 31, 2017 are as follows:

Years Ending <u>December 31,</u>	
2018	\$ 19,440
2019	<u>8,100</u>
Total	<u>\$ 27,540</u>

**REQUIRED SUPPLEMENTARY
INFORMATION**

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Changes in the Net Pension Liability and Related Ratios (Unaudited)

Last 10 Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Total Pension Liability:										
Service cost	\$ 5,403,712	\$ 5,183,417	\$ 4,937,049							
Interest	21,739,971	20,764,557	20,454,848							
Changes of benefit terms	-	-	-							
Differences between expected and actual experience	-	894,840	-							
Changes of assumptions	-	3,637,632	-							
Benefit payments, including refunds of member contributions	<u>(18,582,994)</u>	<u>(17,646,512)</u>	<u>(17,258,704)</u>							
Net Change in Total Pension Liability	8,560,689	12,833,934	8,133,193							
Total Pension Liability, Beginning of Year	<u>284,403,537</u>	<u>271,569,603</u>	<u>263,436,410</u>							
Total Pension Liability, End of Year	<u>\$ 292,964,226</u>	<u>\$ 284,403,537</u>	<u>\$ 271,569,603</u>							
Fiduciary Net Position:										
Contributions - employer	\$ 10,863,755	\$ 10,167,381	\$ 9,842,275							
Contributions - member	4,072,092	3,790,975	3,729,224							
Net investment income	28,266,383	11,102,628	126,163							
Benefit payments, including refunds of member contributions	(18,582,994)	(17,646,512)	(17,258,704)							
Administrative expense	<u>(395,845)</u>	<u>(386,989)</u>	<u>(370,804)</u>							
Net Change in Fiduciary Net Position	24,223,391	7,027,483	(3,931,846)							
Plan Fiduciary Net Position, Beginning of Year	<u>175,063,322</u>	<u>168,035,839</u>	<u>171,967,685</u>							
Fiduciary Net Position, End of Year	<u>\$ 199,286,713</u>	<u>\$ 175,063,322</u>	<u>\$ 168,035,839</u>							
Net Pension Liability, End of Year	<u>\$ 93,677,513</u>	<u>\$ 109,340,215</u>	<u>\$ 103,533,764</u>							
Fiduciary net position as a percentage of the total pension liability	68.0%	61.6%	61.9%							
Covered payroll	\$ 41,594,955	\$ 39,953,473	\$ 38,802,222							
Net pension liability as a percentage of covered payroll	225.2%	273.7%	266.8%							

(Historical information prior to implementation of GASB 67 is not required)

Note: Information is provided by the System's actuary.

See notes to Required Supplementary Information.

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Contributions (Unaudited)

Last 10 Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially determined contribution	\$ 10,863,755	\$ 10,167,381	\$ 9,834,951							
Contributions in relation to the actuarially determined contribution	<u>10,863,755</u>	<u>10,167,381</u>	<u>9,834,951</u>							
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>							
Covered payroll	\$ 41,594,955	\$ 39,953,473	\$ 38,802,222							
Contributions as a percentage of covered payroll	26.1%	25.4%	25.3%							

(Historical information prior to implementation of GASB 67 is not required)

Notes to Schedule

Methods and assumptions used to determine contribution rates:

Valuation date:	January 1, 2016
Actuarial cost method	Entry age normal
Amortization method	3.60% amortization increase
Remaining amortization period	18 years for the fresh start base
Asset valuation method	Market value adjusted by account payable and receivable
Salary increases	Groups 1 and 2: 5.80% first 7 years of service Group 4: Police: 8.50% first year of service, 6.50% next two years Fire: 8.50% first 6 years of service
	3.50% ultimate rate
Investment rate of return	7.75% per year
Cost of living adjustment	3% of \$12,000

See notes to Required Supplementary Information.

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Investment Returns (Unaudited)

Last 10 Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Annual money-weighted rate of return, net of investment expense	16.42%	6.52%	0.08%	(Historical information prior to implementation of GASB 67 is not required)						

See notes to Required Supplementary Information.

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Notes to the Required Supplementary Information (Unaudited)

December 31, 2017

Note 1 - **Changes in the Net Pension Liability and Related Ratios**

The Schedule of Changes in the Net Pension Liability and Related Ratios includes the detailed changes in the Systems' total pension liability, changes in the System's net position, and the ending net pension liability. It also demonstrates the plan's net position as a percentage of the total pension liability and the net pension liability as a percentage of covered payroll.

Note 2 - **Contributions**

Governmental employers are required to pay an annual appropriation as established by PERAC. The total appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the System's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The total appropriations are payable on July 1 and January 1. Employers may choose to pay the entire appropriation in July at a discounted rate.

Note 3 - **Money Weighted Rate of Return**

The money weighted rate of return is calculated as the internal rate of return on the System's investments, net of investment expense. A money weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. Inputs to the money weighted rate of return calculation are determined monthly.

Note 4 - **Changes of Assumptions**

None.

Note 5 - **Changes of Plan Provisions**

None.

SUPPLEMENTAL INFORMATION



INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTAL INFORMATION

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

We have audited the accompanying schedule of employer allocations of the Weymouth Contributory Retirement System (the "System") as of December 31, 2017 and for the year then ended, and the related notes to the schedule. We have also audited the total for all entities of the rows titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total employer pension expense (specific row totals) included in the accompanying schedule of pension amounts by employer of Weymouth Contributory Retirement System as of December 31, 2017 and for the year then ended, and the related notes to the schedule.

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 row 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 row 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 row 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 row 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 row 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 row 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 opinion.

Opinion

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

Report on Audited Financial Statements

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Weymouth Contributory Retirement System as of and for the year ended December 31, 2017, and our report thereon dated November 19, 2018, expressed as an unmodified opinion on those financial statements.

Restriction on Use

This report is intended solely for the information and use of the Weymouth Contributory Retirement System's management, the Weymouth Contributory Retirement System employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.

O'Connor and Drew, P.C.

**Certified Public Accountants
Braintree, Massachusetts**

November 19, 2018

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Employer Allocations

December 31, 2017

<u>Employer</u>	<u>Fiscal Year 2018 Appropriations (Excluding ERI) *</u>	<u>Employer Allocation Percentage</u>
Town of Weymouth	\$ 7,282,908	68.76%
Weymouth School Department	3,004,888	28.37%
Weymouth Housing Authority	273,268	2.58%
Weymouth - Braintree Recreational	30,716	0.29%
Total	\$ 10,591,780	100.00%

* - This amount represents fiscal year 2018 appropriations that are not related to early retirement incentive (ERI) payments.

See notes to supplemental information.

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Pension Amounts by Employer

For the Year Ended December 31, 2017

	Employer				Total
	Town of Weymouth	Weymouth School Department	Weymouth Housing Authority	Weymouth - Braintree Recreational	
Net Pension Liability	\$ 65,048,076	\$ 25,917,923	\$ 2,446,579	\$ 264,935	\$ 93,677,513
Covered Payroll	\$ 28,650,448	\$ 11,839,044	\$ 922,426	\$ 183,037	\$ 41,594,955
Deferred Outflows of Resources:					
Differences between expected and actual experience	\$ 395,413	\$ 157,549	\$ 14,872	\$ 1,610	\$ 569,444
Changes in assumptions	1,607,397	640,455	60,457	6,547	2,314,856
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>309,193</u>	<u>-</u>	<u>33,025</u>	<u>-</u>	<u>342,218</u>
Total Deferred Outflows of Resources	<u>\$ 2,312,003</u>	<u>\$ 798,004</u>	<u>\$ 108,354</u>	<u>\$ 8,157</u>	<u>\$ 3,226,518</u>
Deferred Inflows of Resources:					
Net difference between projected and actual investment earnings on pension plan investments	\$ 3,605,511	\$ 1,436,589	\$ 135,610	\$ 14,685	\$ 5,192,395
Changes in assumptions	-	-	-	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>-</u>	<u>330,778</u>	<u>-</u>	<u>11,440</u>	<u>342,218</u>
Total Deferred Inflows of Resources	<u>\$ 3,605,511</u>	<u>\$ 1,767,367</u>	<u>\$ 135,610</u>	<u>\$ 26,125</u>	<u>\$ 5,534,613</u>
Pension Expense:					
Proportionate share of plan pension expense	\$ 7,808,736	\$ 3,111,333	\$ 293,701	\$ 31,804	\$ 11,245,574
Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions	<u>132,417</u>	<u>(128,424)</u>	<u>(794)</u>	<u>(3,199)</u>	<u>-</u>
Total Employer Pension Expense	<u>\$ 7,941,153</u>	<u>\$ 2,982,909</u>	<u>\$ 292,907</u>	<u>\$ 28,605</u>	<u>\$ 11,245,574</u>
Discount Rate Sensitivity of Net Pension Liability:					
1% decrease (6.75%)	\$ 87,093,956	\$ 35,013,932	\$ 3,273,781	\$ 357,915	\$ 125,739,584
Current discount rate (7.75%)	65,048,076	25,917,923	2,446,579	264,935	93,677,513
1% increase (8.75%)	49,710,453	19,589,704	1,871,084	200,247	71,371,488
Schedule of Contributions:					
Statutorily required contribution	\$ 7,538,430	\$ 3,005,767	\$ 288,833	\$ 30,725	\$ 10,863,755
Contribution in relation to statutorily required contribution	<u>(7,538,430)</u>	<u>(3,005,767)</u>	<u>(288,833)</u>	<u>(30,725)</u>	<u>(10,863,755)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Pension Amounts by Employer - Continued

For the Year Ended December 31, 2017

	Employer				<u>Total</u>
	<u>Town of Weymouth</u>	<u>Weymouth School Department</u>	<u>Weymouth Housing Authority</u>	<u>Weymouth - Braintree Recreational</u>	
Net Deferred Inflows (Outflows) of Resources Recognized in Future Pension Expense:					
June 30, 2018	\$ 957,954	\$ 200,505	\$ 30,256	\$ 163	\$ 1,188,878
June 30, 2019	727,299	108,603	21,581	(776)	856,707
June 30, 2020	(1,224,411)	(519,820)	(42,885)	(7,478)	(1,794,594)
June 30, 2021	(1,787,910)	(712,885)	(49,331)	(8,959)	(2,559,085)
June 30, 2022	<u>33,560</u>	<u>(45,766)</u>	<u>13,123</u>	<u>(918)</u>	<u>(1)</u>
Total Net Deferred Inflows (Outflows) of Resources	<u>\$ (1,293,508)</u>	<u>\$ (969,363)</u>	<u>\$ (27,256)</u>	<u>\$ (17,968)</u>	<u>\$ (2,308,095)</u>

See notes to supplemental information.

WEYMOUTH CONTRIBUTORY RETIREMENT SYSTEM

Notes to the Supplemental Information

December 31, 2017

Note 1 - **Schedule of Employer Allocations**

Governmental Accounting Standards Board (“GASB”) Statement No. 68 requires employers participating in a cost-sharing pension plan to recognize pension liabilities as employees provide services to the government and earn their pension benefits. Employers participating in cost-sharing plans are required to recognize their proportionate share of the plan’s collective pension amounts for all benefits provided through the plan including the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense.

GASB Statement No. 68 requires the allocation of the collective pension amounts to be consistent with the manner in which contributions to the plan are determined. As permissible under GASB Statement No. 68, the Schedule of Employer Allocations is used to present the allocation of Weymouth Contributory Retirement System’s (the “System”) collective pension amounts. The allocation is based upon the same manner as the portion of the fiscal year 2018 appropriation that is not related to early retirement incentive (“ERI”) payments. The liability related to future ERI payments was removed from the collective net pension liability, with the remainder of the net pension liability being allocated using the same employer percentages as the non-ERI portion of the fiscal year 2018 appropriation.

Note 2 - **Schedule of Pension Amounts by Employer**

The Schedule of Pension Amounts by Employer presents the net pension liability, the various categories of deferred outflows of resources and deferred inflows of resources, pension expense, and contributions for all participating employers including differences between expected and actual economic experience; differences between projected and actual investment earnings, net; and changes of assumptions.

Under GASB 68, the difference between projected and actual investment earnings gains and losses on investments are deferred and amortized over a 5-year straight-line method. Differences between expected and actual economic experience, changes in assumptions and proportionate share of changes use a straight-line amortization method over the average expected remaining services lives of active members compared to all active, inactive and retired members.

**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***



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 Trustees of
Weymouth Contributory Retirement System
Weymouth, 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 of America, the financial statements of Weymouth Contributory Retirement System (the "System"), which comprise the statement of fiduciary net position as of December 31, 2017, the related statement of changes in fiduciary net position for the year then ended, and the related notes to the financial statements, and we have issued our report thereon November 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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 System'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 System's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

O'Connor and Drew, P.C.

Certified Public Accountants
Braintree, Massachusetts

November 19, 2018