

***BELMONT CONTRIBUTORY RETIREMENT SYSTEM  
(A Component Unit of the Town of Belmont)***

***REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS***

***DECEMBER 31, 2017 and 2016***

BELMONT CONTRIBUTORY RETIREMENT SYSTEM  
(A Component Unit of the Town of Belmont)

December 31, 2017 and 2016

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## **Independent Auditor's Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the Belmont Contributory Retirement System (the "System"), a component unit of the Town of Belmont, Massachusetts, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

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

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

### **Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Belmont Retirement System, as of December 31, 2017 and 2016, and the respective changes in financial position thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

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

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 4, 2019, on our consideration of the Belmont 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* in considering the Belmont Contributory Retirement System's internal control over financial reporting and compliance.

### **Restriction on Use**

This report is intended solely for the information and use of the Belmont Contributory Retirement System, the Public Employee Retirement Commission and all member units and is not intended to be and should not be used by anyone other than these specified parties.

*Powers + Sullivan, LLC*

January 4, 2019

# ***Management's Discussion and Analysis***

## ***Management's Discussion and Analysis***

The following discussion provides an overview and analysis of the plan net position and changes in plan net position of the Belmont Retirement System (the "System") for the years ended December 31, 2017 and 2016.

### ***Financial Highlights***

- Net position is available for payment of monthly retirement benefits and other qualified distributions to the System's participants. Net position held in trust for pension benefits was \$109.0 million at December 31, 2017, compared to \$95.8 million at December 31, 2016. The increase of approximately \$13.2 million resulted primarily from investment income received.
- Employer's contributions are made in accordance with a funding schedule approved by the Massachusetts Public Employee Retirement Administration Commission. The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of December 31, 2017, the funded ratio (actuarial value divided by actuarial accrued liability) was 59.53%.
- Employer and employee contributions increased by approximately \$665,000 compared to the prior year.

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

The System's financial statements are comprised of statements of plan net position, statements of changes in plan net position, and notes to financial statements. The System also presents required supplementary information in conformity with accounting principles generally accepted in the United States of America.

The *Statements of Plan Net Position* presents information on the System's assets and liabilities and the resulting net position held in trust for pension benefits. These statements reflect the System's investments at fair value, as well as cash, receivables, and other assets and liabilities.

The *Statements of Changes in Plan Net Position* presents information showing how the System's net position held in trust for pension benefits changed during the years ended December 31, 2017 and 2016. They reflect contributions by members and participating employers along with deductions or retirement benefits, refunds, and withdrawals, and administrative expenses. Investment income during the period is also presented showing income from investing and securities lending activities.

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

The *Required Supplementary Information* includes management's discussion and analysis, and other required supplementary information, as listed in the table of contents.

### ***Financial Analysis***

As noted earlier, net position may serve over time as a useful indicator of the System's financial position. The System's net position exceeded its liabilities by \$109.0 million and \$95.8 million, as of December 31, 2017 and 2016, respectfully.

The assets accumulated are held to provide pension benefits for qualified retirees along with active and inactive employees of member units. As of December 31, 2017 and 2016, the System's net position included investments of \$102.4 million and \$89.2 million, cash of \$2.5 and \$2.4 million and current accounts receivable of \$4.1 million and \$4.2 million, respectfully.

Net position increased in 2017 and 2016 by \$13.2 million and \$7.0 million, respectively. The increase in net position during both calendar years resulted primarily from strong investment performance.

### ***Requests for Information***

This financial report is designed to provide a general overview of the System's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Belmont Retirement Board, 455 Concord Ave., Belmont, MA. 02478.

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# ***Basic Financial Statements***

**BELMONT RETIREMENT SYSTEM**  
(A Component Unit of the Town of Belmont, Massachusetts)

Statements of Plan Net Position

December 31, 2017 and 2016

	<b>2017</b>	<b>2016</b>
<b>ASSETS</b>		
CURRENT:		
Cash and cash equivalents.....	\$ 2,525,101	\$ 2,363,700
Investments.....	102,389,851	89,177,495
Interest due and accrued.....	1,437	308
Receivables.....	4,094,011	4,221,886
TOTAL ASSETS.....	109,010,400	95,763,389
<b>LIABILITIES</b>		
Warrants payable.....	46,851	4,962
<b>NET POSITION</b>		
Held in trust for pension benefits.....	\$ 108,963,549	\$ 95,758,427

See notes to basic financial statements.

**BELMONT RETIREMENT SYSTEM**  
(A Component Unit of the Town of Belmont, Massachusetts)

Statements of Changes in Plan Net Position

December 31, 2017 and 2016

	<u>2017</u>	<u>2016</u>
<b>ADDITIONS:</b>		
Contributions:		
Employer.....	\$ 9,014,711	\$ 8,432,117
Employee.....	2,665,509	2,582,816
Total contributions.....	<u>11,680,220</u>	<u>11,014,933</u>
Net investment income (loss):		
Net change in fair value of investments.....	11,606,276	6,956,064
Interest.....	2,110,899	647,765
Total investment income (loss).....	13,717,175	7,603,829
Less: investment expense.....	<u>(512,441)</u>	<u>(582,326)</u>
Net investment income (loss).....	<u>13,204,734</u>	<u>7,021,503</u>
Intergovernmental.....	48,858	118,433
Transfers from other systems.....	564,697	282,509
TOTAL ADDITIONS.....	<u>25,498,509</u>	<u>18,437,378</u>
<b>DEDUCTIONS:</b>		
Administration.....	323,187	321,612
Transfers to other systems.....	613,555	412,202
Retirement benefits and refunds.....	11,356,645	10,751,149
TOTAL DEDUCTIONS.....	<u>12,293,387</u>	<u>11,484,963</u>
CHANGE IN NET POSITION.....	13,205,122	6,952,415
NET POSITION AT BEGINNING OF YEAR.....	<u>95,758,427</u>	<u>88,806,012</u>
NET POSITION AT END OF YEAR.....	<u>\$ 108,963,549</u>	<u>\$ 95,758,427</u>

See notes to basic financial statements.

**NOTE 1 - PENSION PLAN**

*Plan Description* - The Belmont Contributory Retirement System is a cost-sharing multiple-employer, public-employee retirement system established under Chapter 32 of the Massachusetts General Laws and is a member of the Massachusetts Contributory Retirement System. The System provides pension benefits for participating employees of the Town of Belmont, Massachusetts (the “Town”) and the Belmont Housing Authority.

The System is a contributory defined benefit plan covering all permanent full-time employees and permanent part-time employees working more than 25 hours a week immediately upon the commencement of employment. Those employees who serve in the Town’s School Department in a teaching capacity are members of the Commonwealth of Massachusetts Teachers’ Retirement System and do not participate in the System.

At December 31, 2017, the System’s membership consists of the following:

Active members.....	460
Inactive members.....	230
Retirees and beneficiaries currently receiving benefits.....	<u>348</u>
 Total.....	 <u><u>1,038</u></u>

*Benefits Provided* - 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. Benefit payments are based upon a member’s age, length of creditable service, level of compensation, and group classification. Members joining the System after January 1, 1979 were subject to a cap of \$30,000 on the level of compensation upon which their benefit is calculated. This cap was removed effective July 1, 1991.

Members become vested after ten years of creditable service. A retirement allowance may be received upon reaching the age of 65 or upon attaining 20 years of service. The System also provides for early retirement at age 55 if the participant (1) has a record of ten years of creditable service, and (2) left accumulated annuity deductions in the fund. Elected members who fail to win reelection bids, are age 55 or over, have completed at least six years creditable service and remain members may be eligible for a termination allowance. Also, members in service before January 1, 1978, who are age 55 or over, and remain members of the system are eligible to receive a superannuation retirement allowance regardless of how many years of creditable service he/she has completed. Active members contribute between 5% and 11% of their gross regular compensation, depending on the employee’s membership date.

A retirement allowance has 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 benefit and the annuity is the pension.

The pension portion of any retirement is paid from the pension fund of the System. Employers must annually appropriate and contribute current year pension payments as determined by the Public Employee Retirement Administration Commission’s (PERAC) actuary.

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

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.

## **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Financial Reporting Entity* – Because of the significance of its operational and functional relationship with the Town, the System is included as a component unit in the Town’s basic financial statements.

*Basis of Accounting* – The accompanying financial statements of the Belmont Contributory Retirement System have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles.

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.

*Contributions* – Employer contributions are recognized as revenue and recorded as a receivable when appropriated by the participating employers. Plan member and other contributions are recognized when due.

*Benefits and Refunds* – Benefits and refunds to Plan members and beneficiaries are recognized as expenses when due and payable in accordance with the terms of the Plan.

### Fair Value Measurements

The System reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 1, Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the System's financial instruments see Note 4.

*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 that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

*Cash and Investments* - Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value. The fair values were determined by the closing price for those securities traded on national stock exchanges and at the average bid-and-asked quotation for those securities traded in the over-the-counter market. The fair value of private equities are based on management's valuation of estimates and assumptions from information and representations provided by the respective general partners, in the absence of readily ascertainable market values. Real estate assets are reported at fair value utilizing an income approach to valuation along with independent appraisals and estimates by management.

*Accounts Receivable* - Accounts receivable consist of member deductions, pension fund appropriations, and other miscellaneous reimbursements. These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

*Deferred Outflows/Inflows of Resources* - In addition to assets, the statement of fiduciary net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (deduction) until then. The System did not have any items that qualify for reporting in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (addition) until that time. The System did not have any items that qualify for reporting in this category.

### **NOTE 3 – CONTRIBUTION REQUIREMENTS**

The System's funding policy is governed by Section 22D of Chapter 32. Employers are required to fund each year the actuarially determined normal costs plus an amount to amortize the unfunded liability no later than June 30, 2040. The System's current funding schedule will amortize the unfunded liability by fiscal 2029. Normal cost is based upon the entry age normal cost method and would increase each year. The Commonwealth of

Massachusetts funded cost-of-living adjustments (COLAs) granted from July 1, 1981 to June 30, 1998. The System is responsible for COLAs granted after July 1, 1998.

#### NOTE 4 - CASH AND INVESTMENTS

##### Custodial Credit Risk - Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a formal policy for custodial credit risk. At December 31, 2017 and 2016, the carrying amount of the System's deposits totaled \$2,525,101 and \$2,363,700 respectively. The bank balances of \$2,576,965 and \$2,571,339 at December 31, 2017 and 2016, respectively, were fully insured by Federal Depository Insurance.

##### Investments

Listed below are the investments of the System as of December 31, 2017:

<u>Investment Type</u>	<u>Fair value</u>	<u>Maturities</u>		<u>Quality Rating</u>
		<u>1-5 Years</u>	<u>6-10 Years</u>	
<u>Debt securities:</u>				
Scout Core Plus Bond Fund.....	\$ 9,702,521	\$ -	\$ 9,702,521	AA
Loomis Sayles Multisector.....	10,447,768	10,447,768	-	BB
Total debt securities.....	20,150,289	\$ 10,447,768	\$ 9,702,521	
<u>Other investments:</u>				
Equity securities.....	5,865,244			
Equity mutual funds.....	24,981,927			
Real estate investment trust.....	4,690,666			
PRIT Hedge Fund Account.....	8,174,424			
PRIT Alternative.....	12,941,934			
PRIT Real Estate Fund.....	4,939,589			
PRIT International Equity Fund.....	11,958,036			
PRIT Emerging Markets.....	6,195,996			
PRIT Fund.....	2,491,746			
Total investments.....	\$ 102,389,851			

Listed below are the investments of the System as of December 31, 2016:

<u>Investment Type</u>	<u>Fair value</u>	<u>Maturities</u>		<u>Quality Rating</u>
		<u>1-5 Years</u>	<u>6-10 Years</u>	
<u>Debt securities:</u>				
Scout Core Plus Bond Fund.....	\$ 8,569,490	\$ 8,569,490	\$ -	AA
Loomis Sayles Multisector.....	8,773,719	8,773,719	-	BAA2
Total debt securities.....	17,343,209	\$ 17,343,209	\$ -	
<u>Other investments:</u>				
Equity securities.....	5,576,005			
Equity mutual funds.....	25,088,793			
PRIT Hedge Fund Account.....	9,704,055			
PRIT Alternative Fund.....	9,690,252			
PRIT Real Estate Fund.....	10,191,513			
PRIT International Equity Fund.....	9,459,048			
PRIT Fund.....	2,124,620			
Total investments.....	\$ 89,177,495			

### Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the System will not be able to recover the value of its investments or collateral security that are in possession of an outside party. Of the System's investments in equity securities, the System's custodial credit risk exposure was \$5,865,244 and \$5,576,005 in 2017 and 2016, respectfully, because the related securities are uninsured, unregistered and held by the counterparty.

The System limits its custodial credit risk by utilizing an institutional custodial bank, currently State Street Bank, to custody all separately held securities which are registered under a nominee name that is specific to the System. Assets held in commingled fund accounts are also held in a similar fashion, with individual fund securities held in the fund's name at their custodian bank. A small percentage of the System's assets (typically less than 5%) may be held from time to time in commingled cash equivalent vehicles where the assets are subject to counterparty risk.

### Interest Rate Risk

The System's fixed income assets are held in professionally managed, institutional commingled funds. The System limits its effective exposure to interest rate risk by benchmarking its commingled fixed income investment accounts to an intermediate duration benchmark (LB Aggregate) of 4-5 years. Further, the System's current fixed income investments are diversified by sector (corporate, government, asset-backed, mortgage, non-US dollar) to provide additional protection in various interest rate environments.

### Credit Risk

The System has a policy that states no more than 20% of the fixed income assets may be invested in below investment grade securities (rated BBB by Standard & Poor's) and the average duration of the fixed income portfolio cannot be more than 20% higher than the market as measured by Lehman Aggregate Index.

### Concentration of Credit Risk

For the System, no fixed income security, except issues of the U. S. Government, mutual funds, external investment pools or other pooled funds, can comprise more than 5% of the Systems assets, measured at market; and no individual portfolio can hold more than 5% of its assets in securities of any single entity, except issues of the U. S. Government mutual funds, external investment pools or other pooled funds. Further, no equity security can comprise more than 5% of the equity portfolio measured at book value. The Belmont Retirement System does not maintain individual investments that exceed 5% of the System's total investments.

### Foreign Currency Risk

All of the System's exposure to foreign currency risk is attributable to its investments in individual commingled mutual funds and trusts that are invested in diversified (by country and security) portfolios of international stocks and bonds, that are denominated in foreign currencies. The System's combined policy target allocation to all non-U.S. securities is currently 15% of the System's total assets (12% international equities and 3% international bonds).

### Fair Market Value of Investments

The retiree pension defined benefit plan holds significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of the plan's activities, the plan shows greater

disaggregation in its disclosures. The plan chooses a tabular format for disclosing the levels within the fair value hierarchy.

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles.

The System has the following recurring fair value measurements as of December 31, 2017:

Investment Type	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments measured at fair value:</b>			
<u>Debt securities:</u>			
Scout Core Plus Bond Fund.....	\$ 9,702,521	\$ 9,702,521	\$ -
Loomis Sayles Multisector.....	10,447,768	10,447,768	-
Total debt securities.....	<u>20,150,289</u>	<u>20,150,289</u>	<u>-</u>
<u>Other investments:</u>			
Equity securities.....	5,865,244	5,865,244	-
Equity mutual funds.....	24,981,927	24,981,927	-
Real estate investment trust.....	4,690,666	-	4,690,666
Total other investments.....	<u>35,537,837</u>	<u>30,847,171</u>	<u>4,690,666</u>
Total investments measured at fair value.....	<u>55,688,126</u>	<u>\$ 50,997,460</u>	<u>\$ 4,690,666</u>
<b>Investments measured at net asset value:</b>			
Pension Reserve Investment Trust (PRIT).....	<u>46,701,725</u>		
Total investments.....	<u>\$ 102,389,851</u>		

The System has the following recurring fair value measurements as of December 31, 2016:

Investment Type	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments measured at fair value:</b>			
<u>Debt securities:</u>			
Scout Core Plus Bond Fund.....	\$ 8,569,490	\$ 8,569,490	\$ -
Loomis Sayles Multisector.....	8,773,719	8,773,719	-
Total debt securities.....	17,343,209	17,343,209	-
<u>Other investments:</u>			
Equity securities.....	5,576,005	5,576,005	-
Equity mutual funds.....	25,088,793	25,088,793	-
Total other investments.....	30,664,798	30,664,798	-
Total investments measured at fair value.....	48,008,007	\$ 48,008,007	\$ -
<b>Investments measured at net asset value:</b>			
Pension Reserve Investment Trust (PRIT).....	41,169,488		
Total investments.....	\$ 89,177,495		

Equity mutual funds, bond mutual funds, and equity securities classified in Level 1 of the fair hierarchy are valued using prices quoted in active markets for those securities. Real estate investment trusts classified in Level 3 are valued using either a discounted cash flow or market comparable companies technique.

PRIT Investments are valued using the net asset value (NAV) method. This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board (PRIM). The fair values of the positions in each investment Pool are the same as the value of each Pool’s shares. The System does not have the ability to control any of the investment decisions relative to its funds in PRIT.

**NOTE 5 – RECEIVABLES**

At December 31, 2017 and 2016, receivables for the System consist of \$4,094,011 and \$4,221,886, mainly related to pension fund appropriations due from member employers.

**NOTE 6 – ACTUARIAL VALUATION**

The total pension liability was determined by an actuarial valuation as of January 1, 2018, rolled back to the measurement date of December 31, 2017, using the following assumptions:

Valuation date.....	January 1, 2018
Actuarial cost method.....	Individual Entry Age Normal Cost Method.
Amortization method.....	Level payments on the 2002 ERI liability, payments increasing 4.5% per year for the 2003 ERI liability, and remaining liability amortized so that total payment increases by 6.97% in fiscal 2018 and fiscal 2019 and 4.45% thereafter.
Remaining amortization period.....	As of January 1, 2018, 7 years for the 2003 ERI liability and 11 years for the remaining unfunded liability.
Asset valuation method.....	Market value of assets as reported in the System's Annual Statement less unrecognized return in each of the last five years. Unrecognized return is equal to the difference between the actual market value return and the expected market value return and is recognized at 20% per year over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
Investment rate of return.....	7.40%, net of pension plan investment expense, including inflation.
Discount rate.....	7.40%
Inflation rate.....	3.00% per year
Projected salary increases.....	Groups 1/2: 3.75% to 6% based on service. Group 4: 4.25% - 7% based on service.
Cost of living adjustments.....	3% of first \$12,000
Mortality rates.....	<i>Pre-Retirement:</i> RP-2014 Blue Collar Employee Mortality Table set forward one year for females and projected generationally with Scale MP-2017.  <i>Healthy Retiree:</i> RP-2014 Blue Collar Employee Annuitant Table set forward one year for females and projected generationally with Scale MP-2017.  <i>Disabled Retiree:</i> RP-2014 Blue Collar Employee Annuitant Table set forward one year and projected generationally with Scale MP-2017.

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

Total pension liability.....	\$	183,043,747
Total pension plan's fiduciary net position.....		<u>(108,963,549)</u>
Total net pension liability.....	\$	<u><u>74,080,198</u></u>
The pension plan's fiduciary net position as		
a percentage of the total pension liability.....		59.53%

## NOTE 7 – INVESTMENT POLICY

*Investment policy:* The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan 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.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate 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 pension plan's target asset allocation as of January 1, 2018, are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity.....	28.00%	6.15%
International developed markets equity.....	10.00%	7.11%
International emerging markets equity.....	5.00%	9.41%
Core fixed income.....	10.00%	1.68%
High-yield fixed income.....	11.00%	4.13%
Real estate.....	12.00%	4.90%
Commodities.....	10.00%	4.71%
Hedge fund, GTAA, Risk parity.....	7.00%	3.94%
Private equity.....	7.00%	10.28%
Total.....	<u><u>100.00%</u></u>	

*Discount rate:* The discount rate used to measure the total pension liability was 7.4%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all

projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the net pension liability to changes in the discount rate:* The following presents the net pension liability, calculated using the discount rate of 7.40%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.40%) or 1-percentage-point higher (8.40%) than the current rate:

	December 31, 2017 Measurement Date		
	1% Decrease (6.40%)	Current Discount (7.40%)	1% Increase (8.40%)
The Town's proportionate share of the net pension liability.....	\$ 83,409,215	\$ 65,819,279	\$ 51,037,975

*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 expense, was 14.5%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*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 pension fund appropriations are allocated amongst employers based on covered payroll.

**NOTE 8 – COMMITMENTS AND CONTINGENCIES**

The System has no significant commitments or contingencies as of December 31, 2017.

**NOTE 9 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 4, 2019, which is the date the financial statements were available to be issued.

**NOTE 10 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During 2018, the following GASB pronouncements were implemented:

- GASB Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The basic financial statements, related notes and required supplementary information were updated to be in compliance with this pronouncement.
- GASB Statement #81, *Irrevocable Split-Interest Agreements*. This pronouncement did not impact the basic financial statements.

- GASB Statement #85, *Omnibus 2017*. This pronouncement did not impact the basic financial statements.
- GASB Statement #86, *Certain Debt Extinguishment Issues*. This pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #83, *Certain Asset Retirement Obligations*, which is required to be implemented in 2019.
- The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in 2019.
- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2021.
- The GASB issued Statement #88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is required to be implemented in 2019.
- The GASB issued Statement #89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented in 2021.
- The GASB issued Statement #90, *Majority Equity Interests – an amendment of GASB Statements #14 and #61*, which is required to be implemented in 2020.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

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## ***Required Supplementary Information***

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
AND RELATED RATIOS**

	12/31/2017	12/31/2016	12/31/2015	12/31/2014
<b>Total pension liability:</b>				
Service cost.....	\$ 3,793,768	\$ 3,677,753	\$ 3,422,586	\$ 3,290,948
Interest.....	12,689,446	12,311,049	11,975,171	11,576,179
Changes in benefit terms.....	770,006	-	-	-
Differences between expected and actual experience.....	2,782,900	-	(2,308,867)	-
Changes in assumptions.....	3,287,108	-	6,683,815	-
Benefit payments, including refunds of employee contributions.....	(11,356,645)	(10,762,409)	(10,035,365)	(9,665,616)
Net change in total pension liability.....	11,966,583	5,226,393	9,737,340	5,201,511
Total pension liability, beginning.....	171,077,164	165,850,771	156,113,431	150,911,920
Total pension liability, ending (a).....	<u>\$ 183,043,747</u>	<u>\$ 171,077,164</u>	<u>\$ 165,850,771</u>	<u>\$ 156,113,431</u>
<b>Plan fiduciary net position:</b>				
Member contributions.....	\$ 9,014,711	\$ 8,432,117	\$ 7,877,960	7,364,523
Employer contributions.....	2,665,509	2,582,816	2,460,974	2,378,296
Net investment income (loss).....	13,204,734	7,021,503	934,243	5,521,768
Retirement benefits and refunds.....	(11,356,645)	(10,762,409)	(10,035,365)	(9,665,616)
Administrative expenses.....	(323,187)	(321,612)	(154,097)	(182,627)
Net increase (decrease) in fiduciary net position.....	13,205,122	6,952,415	1,083,715	5,416,344
Fiduciary net position at beginning of year.....	95,758,427	88,806,012	87,722,297	82,305,953
Fiduciary net position at end of year (b).....	<u>\$ 108,963,549</u>	<u>\$ 95,758,427</u>	<u>\$ 88,806,012</u>	<u>\$ 87,722,297</u>
<b>Net pension liability - ending (a) - (b).....</b>	<u>\$ 74,080,198</u>	<u>\$ 75,318,737</u>	<u>\$ 77,044,759</u>	<u>\$ 68,391,134</u>
Plan fiduciary net position as a percentage of the total pension liability.....	59.53%	55.97%	53.55%	56.19%
Covered-employee payroll.....	\$ 26,395,332	\$ 26,016,467	\$ 25,031,508	\$ 25,142,886
Net pension liability as a percentage of covered-employee payroll.....	280.66%	289.50%	307.79%	272.01%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for  
which information is available.

See notes to required supplementary information.

**SCHEDULE OF CONTRIBUTIONS**

	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Actuarially determined contribution.....	\$ 9,014,711	\$ 8,427,189	\$ 7,877,960	\$ 7,364,523
Contributions in relation to the actuarially determined contribution.....	<u>9,014,711</u>	<u>8,432,117</u>	<u>7,877,960</u>	<u>7,364,523</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ (4,928)</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll.....	\$ 26,395,332	\$ 26,016,467	\$ 25,031,508	\$ 25,142,886
Contributions as a percentage of covered- employee payroll.....	34.15%	32.41%	31.47%	29.29%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those  
years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF INVESTMENT RETURN**

---

	<u>12/31/2017</u>	<u>12/31/2016</u>	<u>12/31/2015</u>	<u>12/31/2014</u>
Annual money-weighted rate of return, net of investment expense.....	14.50%	8.89%	1.32%	6.69%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those  
years for which information is available.

The annual money-weighted rate of return has been calculated by  
PERAC.

See notes to required supplementary information.

**NOTE A – 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 systems 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 B – 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. Accordingly, actual employer contributions may be less than the "total appropriation". The pension fund appropriations are allocated amongst employers based on covered payroll.

**NOTE C – MONEY WEIGHTED RATE OF RETURN**

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



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**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**

**Independent Auditor's Report**

To the Belmont Retirement Board  
Belmont Retirement System  
Belmont, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of the Belmont Retirement System (the "System"), a component unit of the Town of Belmont, Massachusetts, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the Belmont Retirement System's basic financial statements, and have issued our report thereon dated January 4, 2019.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or 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 from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an

objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

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

*Powers + Sullivan, LLC*

January 4, 2019

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# ***Audit of Specific Elements, Accounts and Items of Financial Statements***



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## **Independent Auditor's Report**

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

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

## **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.

## **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, total covered payroll, total pension expense and contributions for the total of all participating entities for the Belmont 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.

## **Other Matter**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Belmont Contributory Retirement System, as of and for the year ended December 31, 2017, and our report thereon, dated January 4, 2019, expressed an unmodified opinion on those financial statements.

## **Restriction on Use**

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

*Powers + Sullivan, LLC*

January 4, 2019

# ***Pension Plan Schedules***

**SCHEDULE OF EMPLOYER ALLOCATIONS**

FOR THE YEAR ENDED DECEMBER 31, 2017

Employer	FY2017 Pension Fund Appropriation	Direct Appropriation E.R.I.	FY2017 Total Appropriation	Share of Net Pension Liability	Percent of Pension Fund Appropriation
Town of Belmont.....	\$ 7,933,272	\$ 76,180	\$ 8,009,452	\$ 65,819,280	88.85%
Electric Light Department.....	848,861	-	848,861	6,975,686	9.42%
Belmont Housing Authority.....	129,388	27,010	156,398	1,285,232	1.73%
Total.....	\$ <u>8,911,521</u>	\$ <u>103,190</u>	\$ <u>9,014,711</u>	\$ <u>74,080,198</u>	<u>100.00%</u>

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

**SCHEDULE OF PENSION AMOUNTS BY EMPLOYER**

FOR THE YEAR ENDED DECEMBER 31, 2017

	<u>Town of Belmont</u>	<u>Electric Light Department</u>	<u>Belmont Housing Authority</u>	<u>Totals</u>
<b>Net Pension Liability</b>				
Beginning net pension liability.....	\$ 67,554,485	\$ 6,466,318	\$ 1,297,934	\$ 75,318,737
Ending net pension liability.....	\$ 65,819,280	\$ 6,975,686	\$ 1,285,232	\$ 74,080,198
<b>Deferred Outflows of Resources</b>				
Differences between expected and actual experience.....	\$ 1,978,056	\$ 209,639	\$ 38,625	\$ 2,226,320
Changes of assumptions.....	4,711,834	499,372	92,006	5,303,212
Changes in proportion and differences between employer contributions and proportionate share of contributions.....	<u>796,318</u>	<u>461,043</u>	<u>6,450</u>	<u>1,263,811</u>
Total Deferred Outflows of Resources.....	<u>\$ 7,486,208</u>	<u>\$ 1,170,054</u>	<u>\$ 137,081</u>	<u>\$ 8,793,343</u>
<b>Deferred Inflows of Resources</b>				
Differences between expected and actual experience.....	\$ 820,560	\$ 86,965	\$ 16,023	\$ 923,548
Changes of assumptions.....	-	-	-	-
Net difference between projected and actual earnings on pension plan investments.....	2,237,097	237,093	43,683	2,517,873
Changes in proportion and differences between employer contributions and proportionate share of contributions.....	<u>1,121,227</u>	<u>80,425</u>	<u>62,159</u>	<u>1,263,811</u>
Total Deferred Inflows of Resources.....	<u>\$ 4,178,884</u>	<u>\$ 404,483</u>	<u>\$ 121,865</u>	<u>\$ 4,705,232</u>
<b>Pension Expense</b>				
Proportionate share of plan pension expense.....	\$ 8,782,935	\$ 930,837	\$ 171,502	\$ 9,885,274
Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions.....	<u>(45,241)</u>	<u>74,834</u>	<u>(29,593)</u>	<u>-</u>
Total Employer Pension Expense.....	<u>\$ 8,737,694</u>	<u>\$ 1,005,671</u>	<u>\$ 141,909</u>	<u>\$ 9,885,274</u>

(Continued)

**SCHEDULE OF PENSION AMOUNTS BY EMPLOYER**

FOR THE YEAR ENDED DECEMBER 31, 2017

	Town of Belmont	Electric Light Department	Belmont Housing Authority	Totals
<u>Contributions</u>				
Statutory required contribution.....	\$ 8,009,452	\$ 848,861	\$ 156,398	\$ 9,014,711
Contribution in relation to statutory required contribution.....	<u>(8,009,452)</u>	<u>(848,861)</u>	<u>(156,398)</u>	<u>(9,014,711)</u>
Contribution deficiency/(excess).....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contributions as a percentage of covered payroll.....	34.29%	31.09%	51.16%	34.15%
<u>Deferred Outflows/(Inflows) Recognized in Future Pension Expense</u>				
June 30, 2019.....	\$ 1,870,577	\$ 277,878	\$ 7,816	\$ 2,156,271
June 30, 2020.....	1,715,328	262,567	7,806	1,985,701
June 30, 2021.....	(170,449)	109,339	(2,182)	(63,292)
June 30, 2022.....	<u>(108,131)</u>	<u>115,786</u>	<u>1,776</u>	<u>9,431</u>
Total Deferred Outflows/(Inflows) Recognized in Future Pension Expense.....	<u>\$ 3,307,325</u>	<u>\$ 765,570</u>	<u>\$ 15,216</u>	<u>\$ 4,088,111</u>
<u>Discount Rate Sensitivity</u>				
1% decrease (6.40%).....	\$ 83,409,215	\$ 8,839,909	\$ 1,628,705	\$ 93,877,829
Current discount rate (7.40%).....	\$ 65,819,280	\$ 6,975,686	\$ 1,285,232	\$ 74,080,198
1% increase (8.40%).....	\$ 51,037,975	\$ 5,409,127	\$ 996,602	\$ 57,443,705
Covered Payroll.....	\$ 23,359,304	\$ 2,730,334	\$ 305,694	\$ 26,395,332
				(Concluded)

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

**Notes to Schedule of Employer Allocations  
and Schedule of Pension Amounts by Employer**

Year Ended December 31, 2017

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**NOTE 1 – PLAN DESCRIPTION**

The Belmont Contributory Retirement System (System) is a multiple-employer, cost-sharing, contributory defined benefit pension plan covering all employees of the governmental member units deemed eligible by the Belmont Contributory Retirement Board (Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. Membership in the System is mandatory immediately upon the commencement of employment for all permanent employees working a minimum of 20 hours per week. As of January 1, 2018, the System had three participating employers

The System is governed by a five-member board comprised of the Town Accountant (ex-officio), two elected members, a member appointed by the Selectmen and a member appointed by the other four members.

The System is component unit of the Town of Belmont, and is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

**NOTE 2 – SCHEDULE OF EMPLOYER ALLOCATIONS**

Governmental Accounting Standards Board (GASB) Statement #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, pension expense, and contributions

GASB Statement #68 requires the allocation of the collective pension amounts be consistent with the manner in which contributions to the plan are determined. As permissible under GASB Statement #68, The Schedule of Employer Allocations is used to demonstrate the allocation of Belmont Contributory Retirement System's collective pension amounts.

Massachusetts General Law (MGL) Chapter 32 Section 22 Paragraph 7c dictates that Massachusetts cost sharing defined benefit pension plans allocate the annual required pension fund appropriation to employer units based on their proportionate share of the aggregate of the annual rates of regular compensation of all members in service of the system who are employees of any government unit at the close of business on the September 30th immediately preceding the fiscal year unless another methodology is approved by the Board. The member unit appropriations were based on the proportionate aggregate rates of regular compensation as of the close of business on September 30. The allocation of the net pension liability, deferred outflows, and pension expense was allocated based on the proportionate aggregate rates of regular compensation as of the close of business on September 30.

When a member unit accepts an Early Retirement Incentive Program (E.R.I. or ERIP), PERAC completes an analysis of the costs and liabilities attributable to the additional benefits payable in accordance with the ERIP. The accrued liability for the members who accept the ERIP as retirees including the ERIP less the accrued liability for the members as active employees excluding the ERIP represents the increase in accrued liability due to the ERIP. The net increase is amortized for each member unit accepting the ERIP, and is separately identified in the system's funding schedule. The 2002 ERIP is being amortized on a straight line basis ending in fiscal 2018. The 2003 ERIP is being amortized at an increasing rate of 4.5% ending in fiscal 2025.

**Notes to Schedule of Employer Allocations  
and Schedule of Pension Amounts by Employer**

Year Ended December 31, 2017

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**NOTE 3 – 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. Additionally, the changes in proportion and differences between employer contributions and proportionate share of contributions are presented in accordance with GASB Statements.

The Belmont Municipal Light Plant (BMLP) prepares its financial statements on a calendar year basis. Since all of the employers make their pension contributions on July 1<sup>st</sup> of each year, the BMLP's July payment is after the measurement date of December 31, 2017. GASB #68 and #71 considers this to be a deferred outflow of resources and the BMLP will need to adjust its separately issued financial statements for this timing difference each year.

Changes in Assumptions:

The investment return assumption was lowered from 7.50% to 7.40%.

The mortality assumption for non-disabled participants was updated from the RP-2000 Employee and Healthy Annuitant Mortality Tables projected generationally from 2009 with Scale BB2D to the RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Tables set forward one year for female participants projected generationally with Scale MP-2017.

The mortality assumption for disabled participants was updated from the RP-2000 Healthy Annuitant Mortality Table projected generationally from 2015 with Scale BB2D to the RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year projected generationally with Scale MP-2017.

Change in Plan Provisions

As permitted by Section 63 of Chapter 139 of the Acts of 2012, the Board has increased the Section 101 annual allowance from \$6,000 to \$12,000 as of July 1, 2018.

As permitted by Section 19 of Chapter 188 of the Acts of 2010, the Cost of Living Adjustment base was increased from \$12,000 to \$13,000 as of July 1, 2019.

As permitted by Section 30 of Chapter 176 of the Acts of 2011, the Board has adopted an increase to the Section 12 minimum annual allowance from \$3,000 to \$6,000.