

EVERETT CONTRIBUTORY RETIREMENT SYSTEM

***AUDIT OF SPECIFIC ELEMENTS, ACCOUNTS
AND ITEMS OF FINANCIAL STATEMENTS***

YEAR ENDED DECEMBER 31, 2015

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



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Independent Auditor's Report

To the Honorable Everett Retirement Board
Everett Contributory Retirement System
Everett, Massachusetts

We have audited the accompanying schedule of employer allocations of the Everett Contributory Retirement System (ECRS) as of and for the year ended December 31, 2015, and the related notes. 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, total covered payroll, total pension expense and contributions included in the accompanying schedule of pension amounts by employer of the ECRS Pension Plan as of and for the year ended December 31, 2015 and the beginning net pension liability as of December 31, 2014, 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 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 the specified row 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 row 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 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 the 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 opinions.

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and totals for all rows titled 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 Everett Contributory Retirement System as of and for the year ended December 31, 2015 and the beginning net pension liability as of December 31, 2014, 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 City of Everett, Massachusetts, which includes the Everett Contributory Retirement System reported as fiduciary component unit, as of and for the year ended June 30, 2016 (except for the Everett Contributory Retirement System which is as of and for the year ended December 31, 2015), and our report thereon, dated December 23, 2016, expressed an unmodified opinion on those financial statements.

Restriction on Use

This report is intended solely for the information and use of the Everett Contributory Retirement System management, the Everett 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.



December 23, 2016

SCHEDULE OF EMPLOYER ALLOCATIONS

FOR THE YEAR ENDED DECEMBER 31, 2015

Employer	FY2016 Pension Fund Appropriation	Direct Appropriation E.R.I.	FY2016 Total Appropriation	Percent of Pension Fund Appropriation
City of Everett.....	\$ 12,681,347	\$ 427,891	\$ 13,109,238	\$ 96.38%
Everett Housing Authority.....	<u>476,307</u>	<u>10,681</u>	<u>486,988</u>	<u>3.62%</u>
Total.....	\$ <u>13,157,654</u>	\$ <u>438,572</u>	\$ <u>13,596,226</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, 2015

	City of Everett	Everett Housing Authority	Totals
<u>Net Pension Liability</u>			
Beginning net pension liability.....	\$ 106,940,000	\$ 4,017,000	\$ 110,957,000
Ending net pension liability.....	\$ 112,029,000	\$ 4,208,000	\$ 116,237,000
<u>Deferred Outflows of Resources</u>			
Differences between expected and actual experience.....	\$ -	\$ -	\$ -
Net difference between projected and actual investment earnings on pension plan investments.....	6,275,000	236,000	6,511,000
Changes of assumptions.....	-	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions.....	-	-	-
Pension contributions made subsequent to the measurement date.....	-	-	-
Total Deferred Outflows of Resources.....	<u>\$ 6,275,000</u>	<u>\$ 236,000</u>	<u>\$ 6,511,000</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience.....	\$ -	\$ -	\$ -
Changes of assumptions.....	-	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions.....	-	-	-
Total Deferred Inflows of Resources.....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Pension Expense</u>			
Proportionate share of plan pension expense.....	\$ 12,271,000	\$ 455,000	\$ 12,726,000
Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions.....	-	-	-
Total Employer Pension Expense.....	<u>\$ 12,271,000</u>	<u>\$ 455,000</u>	<u>\$ 12,726,000</u>

(Continued)

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

FOR THE YEAR ENDED DECEMBER 31, 2015

	City of Everett	Everett Housing Authority	Totals
<u>Contributions</u>			
Statutory required contribution.....	\$ 13,109,000	\$ 487,000	\$ 13,596,000
Contribution in relation to statutory required contribution.....	<u>(13,109,000)</u>	<u>(487,000)</u>	<u>(13,596,000)</u>
Contribution deficiency/(excess).....	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Contributions as a percentage of covered payroll.....	37.61%	37.20%	37.59%
<u>Deferred (Inflows)/Outflows Recognized in Future Pension Expense</u>			
June 30, 2017.....	\$ 1,591,000	\$ 60,000	\$ 1,651,000
June 30, 2018.....	1,591,000	60,000	1,651,000
June 30, 2019.....	1,591,000	60,000	1,651,000
June 30, 2020.....	<u>1,502,000</u>	<u>56,000</u>	<u>1,558,000</u>
Total Deferred Inflows/(Outflows) Recognized in Future Pension Expense.....	\$ <u>6,275,000</u>	\$ <u>236,000</u>	\$ <u>6,511,000</u>
<u>Discount Rate Sensitivity</u>			
1% decrease (6.75%).....	\$ 136,009,000	\$ 5,108,000	\$ 141,117,000
Current discount rate (7.75%).....	\$ 112,029,000	\$ 4,208,000	\$ 116,237,000
1% increase (8.75%).....	\$ 91,331,000	\$ 3,430,000	\$ 94,761,000
Covered Payroll.....	\$ 34,858,000	\$ 1,309,000	\$ 36,167,000

(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, 2015

NOTE 1 – Plan Description

The Everett 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 Everett 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. The System has two participating employers.

The System is governed by a five-member board comprised of the City Auditor (ex-officio), two members elected by the System's participants, one member appointed by the Mayor and a member appointed by the other four members.

The System is a component unit of the City of Everett and is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. That report may be obtained by contacting the City Auditor located at 484 Broadway, Everett, Massachusetts, 02149.

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 Everett 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 allocation of the net pension liability, deferred outflows, and pension expense were allocated based on the proportionate aggregate rates of regular compensation as of the close of business on September 30, 2014, attributable to each member unit, which was the regular compensation used to allocate the fiscal 2016 employer unit appropriations and is the long-term expected contribution rate for the ECRS.

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

Year Ended December 31, 2015

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 remaining ERIP is being amortized to reduce the unfunded actuarial accrued liability attributable to the ERIP to zero.

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, and pension expense for all participating employers including differences between expected and actual economic experience; differences between projected and actual investment earnings, net; and changes of assumptions. Since the system performs an actuarial valuation bi-annually, there are no reported differences between expected and actual experience or a change of assumptions as of December 31, 2015.

NOTE 4 – Pension Plan Information

Benefits Provided

The System provides retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The Systems provide retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual 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, and group classification. Members become vested after ten years of creditable service.

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.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law 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 Board and are borne by the System.

Contributions

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the System a legislatively mandated actuarial determined contribution that, when combined with plan member contributions, is expected to

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

Year Ended December 31, 2015

finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

Pension Liabilities

The net pension liability was measured as of December 31, 2015, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. Accordingly, update procedures were used to roll forward the total pension liability to the measurement date. The proportion of the net pension liability was based on a projection of the long-term share of contributions to the pension plan relative to the projected contributions of all participating members.

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, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Large Cap Equities.....	14.50%	7.50%
Small/Mid Cap Equities.....	3.50%	7.75%
International Equities (Unhedged).....	16.00%	8.00%
Emerging International Equities.....	6.00%	9.25%
High-Yield Bonds.....	1.50%	5.75%
Bank Loans.....	1.50%	6.00%
EMD (external).....	1.00%	6.00%
EMD (local currency).....	2.00%	6.75%
TIPS.....	3.00%	4.00%
Core bonds.....	3.00%	3.98%
20 + Year Treasury STRIPS.....	7.00%	4.00%
15 - Year Duration Treasuries.....	0.00%	5.00%
Private Equity.....	10.00%	9.50%
Private Debt.....	4.00%	8.00%
Real Estate (Core).....	10.00%	6.50%
Hedge Funds.....	9.00%	6.75%
Timber/Natural Resources.....	4.00%	6.75%
Portfolio Completion.....	4.00%	N/A
	<u>100.00%</u>	

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

Year Ended December 31, 2015

Actuarial Assumptions

The total pension liability in the January 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2015:

Valuation date.....	January 1, 2014
Actuarial cost method.....	Individual Entry Age Normal Cost Method
Amortization method.....	4.5% increasing total appropriation
Remaining amortization period.....	15 years
Asset valuation method.....	Actuarial value, 5-year smoothing
Inflation rate.....	Not explicitly assumed
Investment rate of return/Discount rate.....	7.75%
Projected salary increases.....	Varies by length of service with ultimate rates of 4.25% for Group 1, 4.50% for Group 2 and 4.75% for Group 4.
Cost of living adjustments.....	3.0% of the first \$14,000 of retirement income.
Rates of retirement.....	Varies based upon age for general employees, police and fire employees.
Rates of disability.....	Based on an analysis of past experience. It is also assumed that the percentage of job-related disabilities is 55% for Groups 1 & 2 and 90% for Group 4.
Mortality Rates:	
Pre-Retirement.....	The RP-2000 Employee Mortality Table projected 22 years with Scale AA (gender distinct).
Healthy Retiree.....	The RP-2000 Healthy Annuitant Mortality Table projected 17 years with Scale AA (gender distinct).
Disabled Retiree.....	The RP-2000 Healthy Annuitant Mortality Table set forward three years for males. It is assumed that 55% of pre-retirement deaths are job-related for Group 1 and 2 members and 90% are job-related for Group 4 members. For members retired under an Accidental Disability, 40% of deaths are assumed to be from the same cause as the disability.

Rate of Return

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 0.51%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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

Year Ended December 31, 2015

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 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.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued City of Everett, Massachusetts' comprehensive annual financial report.