FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Falmouth, Massachusetts)

Report on Examination of
Basic Financial Statements
And Additional Information
Year Ended December 31, 2016

Report on Compliance and Internal Control
Year Ended December 31, 2016

FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Falmouth, Massachusetts)

TABLE OF CONTENTS
DECEMBER 31, 2016

	Page(s)
INDEPENDENT AUDITORS' REPORT	1 – 2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3 – 5
BASIC FINANCIAL STATEMENTS:	
Statement of Fiduciary Net Position	6
Statement of Changes in Fiduciary Net Position	7
Notes to Basic Financial Statements	8 – 18
REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED:	
Schedule of Changes in Net Pension Liability and Related Ratios	19
Schedule of Contributions	20
Schedule of Investment Returns	20
Notes to Required Supplementary Information	21 – 22
OTHER REPORTS:	
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*	23 – 24
Independent Auditors' Report on Audit of Specific Elements, Accounts and Items of Financial Statements	25 – 26
Pension Plan Schedules:	
Schedule of Employer Allocations	27
Schedule of Pension Amounts by Employer	28
Notes to Pension Plan Schedules	29

ROSELLI, CLARK & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park
Suite 4900
Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the Falmouth Contributory Retirement System (the "System"), a component unit of the Town of Falmouth, Massachusetts, as of and for the year ended December 31, 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 opinions.

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules of changes in net pension liability and related ratios, contributions and investment returns 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 a report dated June 7, 2017 on our consideration of the System's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
June 7, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Falmouth Contributory Retirement System's (the "System") financial performance provides an overview of the System's financial activities for the calendar year ended December 31, 2016. You should read it in conjunction with the basic financial statements, footnotes and required supplementary information that follows this discussion.

Financial Highlights

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. As of January 1, 2016 (the latest available actuarial information date), the funded ratio was approximately 63% based on the actuarial value of assets at that date.

The System's fiduciary net position increased nearly $9.9 million in 2016 versus a decrease of over $0.8 million in 2015. This improvement was primarily attributable to a significant improvement in the investment return experienced by the System in 2016. The System's 2016 investment return, net of investment management fees, exceeded 9.1% in 2016, which was significantly greater than the 0.3% return in 2015. This return exceeded the 2016 return posted by the S&P 500 (8.7%), but was lower than the 2016 return of the Dow Jones Industrial Average (11.8%).

Overview of the Financial Statements

This discussion and analysis is intended as an introduction to the System's basic financial statements. The basic financial statements are comprised of a Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, Notes to Financial Statements and Required Supplementary Information.

Statement of Fiduciary Net Position – presents information on the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position restricted for pensions. This statement reflects the System's investments at fair value, as well as cash, receivables and other assets and liabilities. Over time, the increase or decrease in fiduciary net position serves as a useful indicator of the System's financial health and condition.

Statement of Changes in Fiduciary Net Position – presents information showing how the System's fiduciary net position changed during the year. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds, withdrawals and administrative expenses. Investment income, including realized and unrealized gains on pooled investments, during the year is also presented.

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

Required Supplementary Information – includes this management's discussion and analysis and various unaudited schedules.

Financial Analysis

Fiduciary Net Position

The System's total assets as of December 31, 2016 approximated $127.1 million and principally consisted of investments recorded at fair value. Total assets increased by nearly $9.9 million. This increase was primarily due to the appreciation in investments.

	December 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 1,692,136	$ 2,052,626
Investments	121,818,629	111,751,241
Receivables and other current assets	3,648,316	3,474,400
Total Assets	127,159,081	117,278,267
Total Liabilities	108,669	96,530
Net Position Restricted for Pensions	**$ 127,050,412**	**$ 117,181,737**

Change in Fiduciary Net Position

The System's net position increased by nearly $9.9 million in 2016. This increase was due primarily to the $10.4 million increase in net investment income, offset by a $0.7 million increase in benefit payments.

	Year Ending December 31, 2016	Year Ending December 31, 2015
Additions		
Contributions	$ 11,035,172	$ 10,055,936
Investment earnings, net of management fees	10,544,632	137,648
Other income	5,727	4,206
Total Additions	21,585,531	10,197,790
Deductions		
Benefits and refunds to Plan members	11,421,881	10,713,380
Administrative and other expenses	294,975	297,904
Total Deductions	11,716,856	11,011,284
Net Increase in Net Position	**$ 9,868,675**	**$ (813,494)**

Additions – The amount needed to finance pension benefits is accumulated through the collection of employer and employee contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 Cost of Living Adjustments and through earnings on investments. In 2016, contributions increased nearly $1.0 million to approximately $11.0 million. Employer contributions represent approximately $7.3 million, or approximately 66%, of total contributions. Employer contributions are actuarially determined.

The System's investment return, net of investment management fees, exceeded 9.1% in 2016, which was significantly greater than the 0.3% return in 2015. This return exceeded the 2016 return posted by the S&P 500 (8.7%), but was lower than the 2016 return of the Dow Jones Industrial Average (11.8%).

Deductions – The primary deductions for the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions and the costs of administering the system. Benefit payments represented over 97% of total 2016 deductions. Benefit payments increased nearly $0.7 million, or 6.6%, year-over-year. This increase was due primarily to an increase in the number of retirees.

The remaining 2016 administrative and other expenses approximated $295,000, which was consistent with the prior year.

Overall Financial Position

As of January 1, 2016 (the date of the latest available full actuarial study), the funded ratio was approximately 63% based on the actuarial value of the System's assets at that date. This actuarial study projects the System to be fully funded by 2033.

The System reported a 2016 money-weighted rate of return of approximately 9.1%, which far exceeded its prior year return of 0.3% as well as the 7.5% long-term discount rate used in the System's actuarial studies.

The System maintains a large portion of its investments in pooled funds. Some of these funds invest in private companies or real estate. The determination of the value of these investments is very subjective and the ultimate amount of gains and losses in some of these funds will not be determined until the underlying assets (i.e., the real estate or stock in the private companies) are sold. Furthermore, these types of investments are not as liquid as investments in savings accounts, money markets, certificates of deposits, government securities or debt and equity securities in publicly-held U.S. corporations. You should refer to Notes 2 and 4 to these financial statements.

The composition of the Plan's investment portfolio makes it difficult to compare it to typical market indices like the Dow Jones Industrial Average or the S&P 500. Therefore, an internal benchmark is needed that contemplates returns in the U.S. and international equity markets, real estate markets and private equity/venture capital funds.

Although the System has been successful in garnering the yields necessary to achieve fully funded status in the required time frame, the System (like so many other institutional investors) has experienced a great deal of volatility in its investments. Management believes that the volatility in the worldwide markets may continue for the foreseeable future. Accordingly, management intends to actively monitor the System's investment positions to best maximize returns while mitigating risk as best as it can.

Contacting the System's Financial Management Personnel

This discussion and analysis is designed to provide the Falmouth Retirement Board, its membership, taxpayers, investors and creditors with a general overview of the System's financial results and to demonstrate the System's accountability for the funding it receives. If you have any questions about this report or need additional financial information, contact the Falmouth Retirement Board at 80 Davis Straits, Suite 102, Falmouth, MA 02540.

FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Falmouth, Massachusetts)

STATEMENT OF FIDUCIARY NET POSITION
DECEMBER 31, 2016

ASSETS	
Cash and cash equivalents	$ 1,692,136
Investments (Note 4)	121,818,629
Employer and employee contributions receivable	3,648,100
Other receivables	216
Total accounts receivable and other current assets	127,159,081
Total assets	127,159,081
DEFERRED OUTFLOWS OF RESOURCES	-
LIABILITIES	
Accounts payable and accrued expenses	108,669
Total liabilities	108,669
DEFERRED INFLOWS OF RESOURCES	-
NET POSITION RESTRICTED FOR PENSIONS	$ 127,050,412

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

FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Falmouth, Massachusetts)

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED DECEMBER 31, 2016

ADDITIONS	
Contributions:	
Employer contributions – appropriations	$ 7,296,200
Employee contributions – member deductions and payments	2,902,265
Transfers from other systems	227,554
Reimbursements from other systems	494,895
Receipts from the Commonwealth of Massachusetts	114,258
Total contributions	11,035,172
Investment income:	
Interest and dividend income	1,793,912
Net appreciation in fair value of investments	9,612,567
Less management fees	(861,847)
Net investment income	10,544,632
Other income	5,727
Total additions	21,585,531
DEDUCTIONS	
Benefits, transfers of, and refunds to members:	
Benefit payments	10,771,992
Member refunds	143,100
Transfers to other systems	251,290
Reimbursements to other systems	255,499
Administrative expenses:	
System operations payroll	163,815
Other administrative expenses	131,160
Total deductions	11,716,856
NET INCREASE IN NET POSITION	9,868,675
NET POSITION RESTRICTED FOR PENSIONS	
Beginning of year	117,181,737
End of year	$ 127,050,412

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

1. DESCRIPTION OF THE PLAN

General – The Falmouth Contributory Retirement System (the "System") is a multiple employer defined benefit pension plan established and administered by the Falmouth Retirement Board under the provisions of Chapter 32 of the Massachusetts General Laws to provide pension benefits for participants. The System is a component unit of the Town of Falmouth. The Town of Falmouth (the "Town") and the Falmouth Housing Authority (the "FHA") contribute to the System.

Employees of the Town (with the exception of teachers and certain administrative personnel employed by the School Department who participate in a separate plan) and the FHA are covered by the System. Participation in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

At December 31, 2016, membership in the System consisted of:

Retirees and beneficiaries currently receiving benefits	388
Active plan members	581
Inactive plan members	126
Total	1,095

Plan Benefits – Massachusetts contributory retirement system benefits are uniform from one retirement system to another. For employees with service dates beginning before April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive three-year average annual rate of regular compensation. For those employees who began their service on or after April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest consecutive five-year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation and group classification.

The retirement allowance consists of two parts – an annuity and a pension. Participants' accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement benefit and annuity is the pension.

Participants who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees may be entitled to receive interest, which has accrued on those contributions. A vested employee who has not reached their eligible retirement age and elects to leave his accumulation on deposit may apply for benefits upon reaching his eligible retirement age.

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

Retirement Requirements – In order to receive retirement benefits, participants must meet one of the following two categories:

Normal Retirement – Generally, normal retirement occurs between ages 65 and 67. However, most participants with a hire date before April 2, 2012, may retire after twenty years of service or at any time after attaining age 55. For most participants hired on or after April 2, 2012, they must attain the age of 60 before they can retire. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years' creditable service in order to retire at age 55 or 60, as applicable. Participants become vested after ten years of service. Benefits commencing before age 65 are generally provided at a reduced rate. However, members working in certain occupations may retire with full benefits earlier than age 65.

Participants who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 may request a refund of their accumulated total contributions. In addition, depending on the number of years of creditable service, these employees may be entitled to interest that has accrued on their contributions. A vested employee under the age of 55 who elects to leave his accumulated contributions on deposit may apply for pension benefits upon reaching his eligible retirement age.

Disability Retirements **–** The System provides for both an ordinary disability retirement, where a participant is permanently incapacitated from a cause unrelated to employment, and an accidental disability retirement, where the disability is the result of an injury or illness received or aggravated in the performance of one's duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status. In addition, certain provisions are in place relative to death benefits for beneficiaries of employees who die in active service.

Public Availability of Financial Statements – The Falmouth Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Falmouth Retirement Board, 80 Davis Straits, Suite 102, Falmouth, Massachusetts 02540.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The financial statements of the System have been prepared on the accrual basis of accounting. The accounting records of the System are maintained on a calendar-year basis in accordance with the standards and procedures established by Public Employee Retirement Administration Commission ("PERAC") and Massachusetts law.

Estimates – The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America, or GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, demand deposits and short-term holdings with original maturities of three months or less from the date of acquisition.

Investments – The carrying amounts of the System's investments approximate their fair value. When actively quoted observable prices are not available, the System generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- *Level 1* – Inputs are quoted prices in active markets for identical investments at the measurement date.

- *Level 2* – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.

- *Level 3* – Inputs reflect the System's best estimate of what market participants would use in pricing the investment at the measurement date.

The remaining investments not categorized under the fair value hierarchy are shown at net asset value ("NAV"). These are investments in non-governmental entities for which a readily determinable fair value is not available, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

The following table presents the fair value of the System's investments by type as of December 31, 2016:

	December 31,	Fair Value Measurements Using		
	2016	Level 1	Level 2	Level 3
Investments by fair value level				
Debt securities:				
Domestic fixed income funds	$ 20,648,969	$ 20,648,969	$ -	$ -
International fixed income funds	2,789,782	-	2,789,782	-
Equity securities	26,535,056	26,535,056	-	-
Mutual funds:				
Domestic equity mutual funds	25,220,627	25,220,627	-	-
International equity mutual funds	11,653,976	11,653,976	-	-
Real estate mutual funds	6,085,461	6,085,461	-	-
Total investments by fair value level	92,933,871	$ 90,144,089	$ 2,789,782	$ -
Investments measured at the net asset value (NAV)				
Private equity funds	12,102,733			
Real estate funds	5,113,698			
State Treasurer investment pool	11,668,327			
Total investments measured at the NAV	28,884,758			
Total investments measured at fair value	$ 121,818,629			

Equity securities, domestic fixed income funds and mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities. The international fixed income investments are classified in Level 2 based on the composition and fair value of underlying investments contained within these investments, which can be determined using inputs other than the quoted prices that are observable either directly or indirectly.

Investments Measured at NAV By Asset Class	Fair Value	Unfunded Commitments
Private equity funds	$ 12,102,733	$ 1,296,187
Real estate funds	5,113,698	120,000
State Treasurer investment pool	11,668,327	-
	$ 28,884,758	$ 1,416,187

Investments measured at NAV include comingled/pooled funds in private equity or venture funds, real estate and investments in the State Treasurer investment pool.

Private equity and real estate holdings generally include investments in which the System is a general partner in a private equity, venture capital fund or similar investment vehicle. The value of these investments are recorded at values determined in good faith by the general partners of the private equity and venture capital firms after consideration of pertinent information, including current financial position and operative results, price-earnings multiples and available market prices of similar companies' securities, the nature of the securities, marketability, restrictions on disposition and other appropriation and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot reasonably be determined until individual securities are liquidated. In addition, fair values of real estate funds are generally based on independent, third-party appraisals. By their very nature, these investments are illiquid and typically cannot be resold or redeemed. Distributions from each fund will be received as the underlying investments are liquidated. It is expected that the underlying assets for the funds will be liquidated over an average of ten years.

The State Treasurer investment pool is administered by the Commonwealth of Massachusetts' Pension Reserve Investment Management Board, or PRIM. The specific investment held by the System is the PRIT Absolute Fund, which consists of a diverse set of investments that includes private equity, venture and real estate investments. The determination of the fair value of these investments is very subjective and the period-end values are reported to the System as NAV. Investments in the PRIT Absolute Fund are more liquid than investments in private equity and real estate holdings, but generally cannot be resold to third parties. The System may liquidate its investment in the PRIT Absolute Fund at any time with less than thirty days' notice. Distributions from the PRIT Absolute Fund may be received regularly and, upon receipt, are deposited into an accompanying short-term cash investment account.

Because of the inherent uncertainty of valuations used in many of the System's investments measured at NAV, estimated values may differ significantly from the values that would have been used had a readily available market for positions in privately held companies or the real estate existed at December 31, 2016. These differences could have a material adverse effect on the System's financial statements.

Fair Value of Financial Instruments – The carrying amounts of cash and cash equivalents, accounts receivable and other current assets, accounts payable and accrued expenses approximate their fair value due to the relatively short-term maturities.

Revenue Recognition – Contributions are recognized as additions in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Contributions appropriated by the Town and FHA are on a fiscal-year basis. Investment purchases and sales are recorded on their trade dates. Interest and dividends are recorded when earned. Investment income is allocated to the various funds on the basis of a rate determined annually by PERAC.

Derivatives **–** The System may invest in derivative products, mainly currency hedges, to minimize the currency risk on international investments. The System's investments are managed by independent, professional money managers whose investment performance is subject to periodic review. At December 31, 2016, the System maintained investments with the PRIT Absolute Fund (see Notes 3 and 4) totaling approximately $11.7 million, a portion of which may include derivative products at the discretion of the PRIT fund managers.

3. SYSTEM ADMINISTRATION

The System is administered by a five-person Board consisting of the Town Accountant (or similar position), two members elected by the participants in or retired from the service of the System, one member appointed by the Town's Board of Selectmen and one member appointed by the other members of the Board.

At December 31, 2016, the Board was comprised as follows:

		Term Expires
Ex-Officio Member:	Ms. Jennifer P. Petit, Town Finance Director	No Specified Date
Appointed Member:	Mr. Gary W. Anderson	No Specified Date
Elected Member:	Mr. Russell R. Ferreira (Chairman)	October 30, 2019
Elected Member:	Mr. Paul D. Brodeur	December 3, 2017
Fifth Member (non-member):	Ms. Ellen K. Philbin	June 30, 2018

The Board is required to meet at least once a month and keep a record of its proceedings. The Board annually submits a financial statement of condition for the System with the Commissioner of PERAC. All retirement allowances are approved by the Board. Expenses incurred by the System must be approved by at least two members of the Board.

4. DEPOSITS AND INVESTMENTS

Massachusetts General Laws Chapter 32 and PERAC regulations require the System to invest funds only in pre-approved investment instruments, which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, certain corporate bonds and equities and investment pools.

Investment Policy – The investment of the System's funds is the responsibility of the Board. The Board adopted a revised investment policy statement in March 2016. The investment objective is to fully fund the System by generating sufficient long-term, inflation-adjusted capital appreciation while providing sufficient liquidity to meet short-term withdrawal requirements. The Board seeks to generate long-term investment performance that meets or exceeds actuarially-targeted rates of return (currently at 7.5%). Furthermore, the Board establishes investment benchmarks by asset class to compare its actual performance against.

The System's investment policy requires diversification within its investment portfolio. Effective March 2016, the System's portfolio target weights and the long-term expected rates of return for each of these assets classes were as follows:

Asset Class	Target Policy Range	Long-Term Expected Rate of Return
Domestic equity	33.0% to 43.0%	7.6% to 10.1%
International equity	10.0% to 20.0%	7.6%
Fixed income	14.5% to 24.5%	2.6% to 8.7%
Real Estate/ Real Assets	7.5% to 12.5%	7.5%
Private equity	5.0% to 10.0%	13.1%
Hedge funds	7.5% to 12.5%	7.3%
Cash	0.0% to 3.0%	nil

The revised investment policy in March 2016 replaced the existing investment policy, which was in effect since January 2010. The updated investment policy eliminated certain revenue enhancements permissible under the previous investment policy such as commission recapture and securities lending, neither of which were ever exercised by the System. In addition, the updated investment policy revised down in all cases the long-term expected rates of return for the asset classes listed above.

Investment Management – Wainwright Investment Counsel ("Wainwright") provided investment advisory services to the System throughout all of 2016. The System's advisory agreement with Wainwright is set to expire on December 31, 2018.

At December 31, 2016, the System had contracted with the following firms to serve as investment managers:

Investment Advisor	Investment Type
Baring Asset Management, Inc.	International Fixed Income
Dimensional Fund Advisors	International Equity and Real Estate
Earnest Partners	Equities
H.G.K. Asset Management, Inc.	International Equity
Intercontinental Real Estate Corporation	Real Estate
INVESCO	Private Equity
LMCG Investments, LLC	Mid-Cap Domestic and International Equity
Lexington Partners, Inc.	Private Equity
Mesirow Financial Services, Inc.	Private Equity
Metropolitan Real Estate Partners	Real Estate
P.R.I.M. Board	Various
Principal Global Investors, LLC	Real Estate
RhumbLine Advisers	Domestic Equity – Russell 1000
Seizert Capital Partners	Mid-Cap Domestic Equity
Siguler Guff & Company, LLC	Private Equity
State Street Global Advisors	Fixed Income

Rate of Return – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested. The 2016 money-weighted rate of return was approximately 9.11%.

Custody of Investments – State Street Bank and Trust is the custodian of the System's investment portfolio. State Street Bank and Trust held the investment securities of the system at December 31, 2016 and provided investment transaction and reporting services for all of 2016.

Custodial Credit Risk: Deposits – Deposits are subject to the risk of bank failure. The System may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The System's policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation insurance coverage for the first $250,000 of deposits held at each financial institution. At December 31, 2016, $296,969 of the System's cash deposits were uninsured; all of which was held with State Street Bank and Trust.

Custodial Credit Risk: Investments – Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The System's policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the System. At December 31, 2016, the System was not exposed to custodial credit risk on its investments.

Interest Rate Risk: Deposits – This is the risk that fair value losses may arise due to increasing interest rates. Such risk is reduced by the fact that the System maintains its excess funds in highly liquid bank accounts; thereby, allowing for timely reallocation should the need arise.

Interest Rate Risk: Investments – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The System does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Foreign Currency Risk: Deposits and Investments – Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit. The System did not directly hold any investments denominated in foreign currency at December 31, 2016.

Securities Credit Risk: Investments – In the case of investments, there is the risk that in the event of an invested party will be unable to fulfill its obligations, such as to provide required payments to investors, to meet current or future performance expectations, to abide by industry regulations and proper operational practices, ceasing to exist, or filing for bankruptcy. In those instances, the System may not be able to recover the full amount of its principal investment and/or investment earnings. As previously noted, PERAC and Massachusetts statutory regulations have been enacted to reduce this risk. In evaluating its credit risk, the System relies on credit ratings assigned by Moody's Investors Services and Standard and Poor's Financial Services. The System does voluntarily self-impose certain investment restrictions; however, those can be changed at the Board's discretion. The System does maintain a significant portion (approximately 96%) of its monetary assets as investment holdings.

None of the System's investments were subject to credit quality ratings from leading credit rating agencies. At December 31, 2016, uninsured short-term investment funds with fair values of $1,332,6858 were reported as cash equivalents. These funds represent temporary holdings of excess cash resources. The System intends to reinvest these amounts in less than one year. Accordingly, the fair values of these amounts have been classified as cash equivalents in these financial statements.

Concentration of Credit Risk: Investments – The following investments held by the System at December 31, 2016 represent approximately 62.7% of the System's total investments:

SSGA Passive Bond Market Index SL Fund	14.8%
Rhumbline Russell 1000 Funds	12.8%
PRIT Absolute Return Fund	9.6%
LMCG Mid-Cap Core Fund	7.9%
Dimensional Fund Advisors International Core Equity Portfolio	6.4%
HGK Trinity Street International Equity Fund GP, LLC	6.2%
Dimensional Fund Advisors Global Real Estate Securities Portfolio	5.0%

5. FUNDING POLICY

GAAP requires that the annual minimum provision for pension costs should include normal cost, interest on unfunded past service cost liability, and amortization of unfunded vested benefits, based on an acceptable actuarial cost method. Chapter 32 of the Massachusetts General Laws governs the contributions of retirement system members and their employers.

Employee Contributions – Employees whose creditable service began prior to January 1, 1975, contribute 5% of their base salary or wage; those whose service date is subsequent to January 1, 1975, and prior to January 1, 1984, contribute 7%; those whose service date is subsequent to January 1, 1984, and prior to July 1, 1996, contribute 8%, and those whose service date is subsequent to July 1, 1996, contribute 9%. In addition, employees hired on or after January 1, 1979 contribute an additional 2% on regular compensation in excess of $30,000.

Employer Contributions – Under the provisions of Chapter 32 of Massachusetts General Law, participating employers are assessed their share of the total retirement cost based on independent actuarial study.

Employer contributions of $7,296,200 were made in 2016 in accordance with the funding policy. Employer contributions as a percentage of covered payroll was approximately 25.7% in 2016.

Cost of Living Adjustment (COLA) – Through 1998, the Massachusetts Legislature was able to grant cost-of-living increases to benefits being paid to retirees. These increases were expressed as a percentage of the retiree's allowance subject to a maximum dollar increase. All COLA's granted from 1982 through June 30, 1998, are reimbursed to the System by the Commonwealth of Massachusetts since the Commonwealth was financially responsible for COLA adjustments during this time frame; any COLA's granted thereafter by the Board are required to be funded by the System directly. A COLA may be approved in excess of the Consumer Price Index, or CPI, but for 2016 is not to exceed 3% annually on the first $12,000 of a retirement allowance. The System has historically approved a COLA annually, usually at the maximum 3% rate.

The Commonwealth is expected to continue funding the cost-of-living amounts granted to retirees prior to 1998 for the duration of their selected retirement option.

6. ACTUARIAL VALUATION

The System is statutorily required to adopt the funding schedule that will fully amortize the unfunded actuarial accrued liability by June 30, 2040. As of the latest actuarial valuation, the System has selected a funding schedule that fully amortizes the unfunded actuarial accrued liability by June 30, 2034.

The components of the System's net pension liability at December 31, 2016 (dollar amounts in thousands) were as follows:

Total pension liability	$	198,328
Plan fiduciary net position		127,050
Net pension liability	$	71,278
Plan fiduciary net position as a percentage of total pension liability		64.1%

The total pension liability was determined by an actuarial valuation as of January 1, 2016 and updated to roll forward to December 31, 2016. The significant actuarial assumptions used in the January 1, 2016 report were as follows:

Actuarial cost method:	Individual entry age normal
Amortization method:	Top payments increase 5.86% per year until FY 2032 with a final amortization payment in FY 2033.
Remaining amortization period:	16 years
Asset valuation method:	Actuarial value, 5-year smoothing
Investment rate of return:	7.5% per annum
Projected salary increases:	Service based table with ultimate ranges of 4.25%, 4.50% and 4.75% for groups 1, 2 and 4, respectively
Cost of living adjustments:	3% on the first $12,000 of benefits. The funding schedule reflects a $14,000 COLA base.
Mortality rates:	Pre-retirement rates reflect the RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct). Post-retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).
Disabled life mortality:	For disabled retirees, the mortality rate is assumed to be in accordance with RP-2000 Health Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct). It is assumed that 55% of pre-retirement deaths are job-related for group 1and 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.

Discount Rate – The discount rate used to measure the total pension liability in the January 1, 2016 actuarial valuation report was 7.5%, which was a reduction from the previous discount rate of 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Expected Real Rate of Return – The long-term expected rate of return on System investments was determined using a building-block method in which best-estimate ranges of expected future rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the System's target allocation as of December 31, 2016 are summarized in the investment policy table in Note 4.

Sensitivity Analysis **–** The following illustrates the net position liability at December 31, 2016 calculated using the current discount rate of 7.75%, as well as the projection of what the net position liability would be if it were calculated using a discount rate that is 1.0% lower (6.5%) and 1.0% higher (8.5%) than the current rate (dollar amounts in thousands):

	1% Decrease (6.5%)	Current Discount (7.5%)	1% Increase (8.5%)
Net pension liability	$ 93,713	$ 71,278	$ 52,310

7. NET POSITION RESTRICTED FOR PENSIONS

Net position restricted for pensions, as of December 31, 2016, were comprised of five funds:

Description	Amount	Purpose
Annuity Savings Fund	$ 30,204,787	Active members' contribution balance
Annuity Reserve Fund	11,185,781	Retired members' contribution balance
Military Service Fund	10,273	Members' contributions account while on military leave
Pension Fund	8,965,343	Amounts appropriated to fund future retirement
Pension Reserve Fund	76,684,228	Remaining net assets
Total	$ 127,050,412	

8. COMMITMENTS AND CONTINGENCIES

Facility Lease – In 2013, the System entered into a ten-year, non-cancellable facility lease with a third party for its office. Future minimum annual rental expense obligations due under this facility lease, which includes rent and common area maintenance fees, as are as follows:

Calendar Year	Lease Payments
2017	$ 39,383
2018	40,176
2019	40,339
2020	41,155
2021	41,323
2022	42,165
2023	32,762
	$ 277,303

General – The System is subject to a variety of claims that arise from time to time in the ordinary course of business. Although management of the System currently believes that resolving claims against the System, individually or in aggregate, will not have a material adverse impact on the System's financial position or its results of operations, these matters are subject to inherent uncertainties and management's views of these matters may change in the future.

* * * * * *

FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Falmouth, Massachusetts)

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
YEARS ENDED DECEMBER 31, 2016

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

(Dollar Amounts in Thousands)

	2016	2015	2014
Total pension liability:			
Service cost	$ 4,242	$ 4,015	$ 3,842
Interest	13,692	13,578	13,035
Differences between expected and actual experience	(1,237)	-	-
Changes in assumptions	8,600	-	-
Benefit payments, including refunds of member contributions	(10,561)	(10,364)	(9,730)
Net change in total pension liability	14,736	7,229	7,147
Total pension liability - beginning of year	183,592	176,363	169,216
Total pension liability - end of year (a)	$ 198,328	$ 183,592	$ 176,363
Plan fiduciary net position:			
Contributions - employer	$ 7,296	$ 6,949	$ 6,618
Contributions - members	2,902	2,801	2,768
Contributions - nonemployer contributing entities	837	306	543
Net investment income	10,545	138	7,139
Benefit payments, including refunds of member contributions	(11,422)	(10,713)	(10,155)
Administrative expenses	(295)	(298)	(284)
Other	5	4	21
Net change in plan fiduciary net position	9,868	(813)	6,650
Plan fiduciary net position - beginning of year	117,182	117,995	111,345
Plan fiduciary net position - end of year (b)	$ 127,050	$ 117,182	$ 117,995
Net pension liability - end of year (a) - (b)	$ 71,278	$ 66,410	$ 58,368
Plan fiduciary net position as a percentage of the total pension liability	64.1%	63.8%	66.9%
Covered-employee payroll	$ 28,417	$ 27,478	$ 27,478
Net pension liability as a percentage of covered-employee payroll	250.8%	241.7%	212.4%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Falmouth, Massachusetts)

REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED
YEARS ENDED DECEMBER 31, 2016

SCHEDULE OF CONTRIBUTIONS
(Dollar Amounts in Thousands)

	2016	2015	2014
Actuarially-determined contribution	$ 7,296	$ 6,949	$ 6,618
Contributions in relation to the actuarially-determined contribution	7,296	6,949	6,618
Contribution deficiency (excess)	$ -	$ -	$ -
Covered-employee payroll	$ 28,417	$ 27,478	$ 27,478
Contribution as a percentage of covered-employee payroll	25.7%	25.3%	24.1%

SCHEDULE OF INVESTMENT RETURNS

	2016	2015	2014	2013	2012
Annual money-weighted rate of return, net of investment expense	9.11%	0.33%	6.56%	19.18%	12.93%

Note: These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See independent auditors' report.

A. CHANGES OF BENEFIT TERMS

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the System's benefit terms in 2016.

B. SIGNIFICANT ACTUARIAL ASSUMPTIONS AND METHODS

The significant actuarial assumptions used in the January 1, 2016 report were as follows:

Actuarial cost method:	Individual entry age normal
Amortization method:	Top payments increase 5.86% per year until FY 2032 with a final amortization payment in FY 2033.
Remaining amortization period:	16 years
Asset valuation method:	Actuarial value, 5-year smoothing
Investment rate of return:	7.5% per annum
Projected salary increases:	Service based table with ultimate ranges of 4.25%, 4.50% and 4.75% for groups 1, 2 and 4, respectively
Cost of living adjustments:	3% on the first $12,000 of benefits. The funding schedule reflects a $14,000 COLA base.
Mortality rates:	Pre-retirement rates reflect the RP-2000 Employees table projected generationally with Scale BB and a base year of 2009 (gender distinct). Post-retirement rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2009 (gender distinct).
Disabled life mortality:	For disabled retirees, the mortality rate is assumed to be in accordance with RP-2000 Health Annuitant Table projected generationally with Scale BB and a base year of 2012 (gender distinct). It is assumed that 55% of pre-retirement deaths are job-related for group 1and 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.

C. CHANGES TO ACTUARIAL ASSUMPTIONS AND METHODS

In 2016, the System adopted a number of changes to its actuarial assumptions and methods. The most significant of these changes included (1) a decrease in the assumed investment rate of return, or discount rate, from 7.75% to 7.50% and (2) changes in mortality rate for pre-retirement, post-retirement and disabilities.

RCA CPA

Roselli, Clark & Associates
Certified Public Accountants

500 West Cummings Park
Suite 4900
Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

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 Falmouth Retirement Board
Falmouth Contributory Retirement System
Falmouth, 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 Falmouth Contributory Retirement System (the "System"), a component unit of the Town of Falmouth, Massachusetts, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements and have issued our report thereon dated June 7, 2017.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
June 7, 2017

ROSELLI, CLARK & ASSOCIATES
CERTIFIED PUBLIC ACCOUNTANTS

500 West Cummings Park
Suite 4900
Woburn, MA 01801

Telephone: (781) 933-0073

www.roselliclark.com

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

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

We have audited the accompanying schedule of employer allocations of the Falmouth Contributory Retirement System (the "System"), a component unit of the Town of Falmouth, Massachusetts, as of and for the year ended December 31, 2016. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources and total pension expense included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended December 31, 2016, and the related notes thereto.

Management's Responsibility for the Schedules

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities of the System as of and for the year ended December 31, 2016, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the System as of and for the year ended December 31, 2016, and our report thereon, dated June 7, 2017, expressed an unmodified opinion on those financial statements.

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
June 7, 2017

FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Falmouth, Massachusetts)

SCHEDULE OF EMPLOYER ALLOCATIONS
FOR THE YEAR ENDED DECEMBER 31, 2016

(Dollar Amounts in Thousands)

Employer	Actual Employer Contributions	Employer Allocation Percentage
Town of Falmouth	$ 7,082	97.1%
Falmouth Housing Authority	214	2.9%
Total	$ 7,296	100.0%

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

FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Falmouth, Massachusetts)

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER
FOR THE YEAR ENDED DECEMBER 31, 2016

(Dollar Amounts in Thousands)

	Town of Falmouth	Falmouth Housing Authority	Total
Net pension liability	$ 69,211	$ 2,067	$ 71,278
Deferred outflows of resources:			
Differences between expected and actual experience	$ -	$ -	$ -
Net difference between projected and actual investment earnings on pension plan investments	4,420	131	4,551
Changes of assumptions	6,804	203	7,007
Changes in proportion and differences between employer contributions and proportionate share of contributions	69	-	69
Total deferred outflows of resources	$ 11,293	$ 334	$ 11,627
Deferred inflows of resources:			
Differences between expected and actual experience	$ (979)	$ (29)	$ (1,008)
Changes of assumptions	-	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	(69)	(69)
Total deferred inflows of resources	$ (979)	$ (98)	$ (1,077)
Pension expense (income):			
Proportionate share of plan pension expense	$ 9,402	$ 281	$ 9,683
Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions	23	(23)	-
Total employer pension expense	$ 9,425	$ 258	$ 9,683

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

FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Falmouth, Massachusetts)

NOTES TO PENSION PLAN SCHEDULES
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2016

A. INTRODUCTION

GASB Statement No, 68, *Accounting and Financial Reporting for Pensions*, establishes financial reporting requirements for governments that provide employees with pension benefits. GASB 68 requires employers to recognize a net pension liability or net pension asset as employees earn pension benefits. Employers participating in the Falmouth Contributory Retirement System (the "Retirement System") will recognize their proportionate share of the collective pension amounts for all benefits provided by the Retirement System.

B. METHOD OF PROPORTIONATE SHARE ALLOCATION

The basis for the proportionate share allocation by employer as found in the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer is consistent with the manner in which employer contributions to the Retirement System are determined. The net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense is based upon actual historical employer contributions to the Retirement System from the census data submitted to the Retirement System for pay periods ending December 31, 2016.

C. EXPECTED FUTURE AMORTIZATION OF DEFERRED BALANCES

The following table summarizes the expected amortization of the deferred outflows of resources and inflows of resources into pension expense.

	2017	2018	2019	2020	2021	Total
	(Dollar Amounts are in Thousands)					
Town of Falmouth						
Difference between projected and actual investment earnings on pension plan investments, net	$ 1,684	$ 1,684	$ 1,398	$ (346)	$ -	$ 4,420
Changes of assumptions	1,547	1,547	1,547	1,547	616	6,804
Differences between expected and actual experience	(222)	(222)	(222)	(222)	(91)	(979)
Net effect of change in proportion of beginning reported balances	23	23	23	-	-	69
Falmouth Housing Authority						
Difference between projected and actual investment earnings on pension plan investments, net	50	50	41	(10)	-	131
Changes of assumptions	46	46	46	46	19	203
Differences between expected and actual experience	(7)	(7)	(7)	(7)	(1)	(29)
Net effect of change in proportion of beginning reported balances	(23)	(23)	(23)	-	-	(69)
Total						
Difference between projected and actual investment earnings on pension plan investments, net	1,734	1,734	1,439	(356)	-	4,551
Changes of assumptions	1,593	1,593	1,593	1,593	635	7,007
Differences between expected and actual experience	(229)	(229)	(229)	(229)	(92)	(1,008)
Net effect of change in proportion of beginning reported balances	-	-	-	-	-	-