

**WATERTOWN
RETIREMENT SYSTEM
AUDIT REPORT
JAN. 1, 2017 - DEC. 31, 2021**



**PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS**

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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., Chair

WILLIAM T. KEEFE, Executive Director

Auditor DIANA DIZOGLIO | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES J. GUIDO | RICHARD MACKINNON, JR. | JENNIFER F. SULLIVAN, ESQ.

February 5, 2025

The Public Employee Retirement Administration Commission (PERAC) has completed a review of the audits of the Watertown Retirement System conducted by the firms of Marcum, LLP and Melanson. They conducted these audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audits covered the period from January 1, 2017 to December 31, 2021.

We conducted an inspection of the work papers prepared by Marcum, LLP and Melanson. We determined that the audits were conducted in a competent professional manner and the work papers demonstrated that audit tests and procedures were performed in sufficient detail to allow us to accept the final audit reports as issued.

We identified specific differences between these financial audits designed to provide an opinion on financial statements and our compliance audits performed in accordance with the accounting and management standards established by PERAC in regulation 840 CMR 25.00 and in compliance with the provisions specified in PERAC Memo #18/2019.

Accordingly, we supplemented the field work conducted in the audits by Marcum, LLP and Melanson with certain limited procedures designed to provide additional assurance that the accounting and management standards established by PERAC were adhered to and complied with. The specific objectives of our review were to determine: 1) that the Board is exercising appropriate fiduciary oversight, 2) that cash balances are accurately stated, 3) that retirement contributions are accurately deducted, 4) that retirement allowances were correctly calculated, and 5) that required member documentation is maintained.

To achieve these objectives, we inspected certain records of the Watertown Retirement Board in the above areas. Specifically, we reviewed the minutes of the Board meetings for compliance with fiduciary oversight and verified cash balances. We tested the payroll records of a sample of active members to confirm that the correct percentage of regular compensation is being deducted, including the additional two percent over \$30,000. We tested a sample of members who retired during our audit period to verify that their retirement allowance was calculated in accordance with the statute. We also reviewed a sample of member files for accuracy and completeness.

Watertown Audit Report
February 5, 2025
Page 2

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by PERAC with the exception of those related to our supplemental work which are detailed in the finding presented in this report.

It should be noted that the financial statements included in this audit report were based on the work performed by Marcum, LLP and Melanson and the tests conducted for the periods referenced in their opinion. These audits were not performed by employees or representatives of PERAC. It should also be noted that the opinions expressed in these audit reports were based on the laws and regulations in effect at the time.

The financial statements and footnotes presented in this report were limited to the express results as of and for the years ended December 31, 2021, December 31, 2020, December 31, 2019, December 31, 2018, and December 31, 2017.

In closing, I wish to acknowledge the work of Marcum, LLP and Melanson who conducted these examinations, and the PERAC examiners who conducted limited procedures to supplement the field work and express my appreciation to the Watertown Retirement Board and staff for their courtesy and cooperation.

Sincerely,



William T. Keefe
Executive Director

EXPLANATION OF FINDING AND RECOMMENDATION

New Retirees' Allowance Calculations:

We tested the retirement allowance calculations of 20 new retirees during the audit period and found issues with five retirements as follows:

- One superannuation retiree had unpaid leaves during the year before retirement. Actual pay was used in the average salary determination instead of the rate in effect immediately preceding the absence, which is allowed pursuant to G.L. c. 32, §5(3)(b). Also, this member's three years of regular compensation included four longevity payments. Only three years' worth of any payment should be included in the three-year average salary. The net effect of these is that the retiree is underpaid.
- One superannuation retirement's three-year period was short by one week of pay. This retiree is underpaid.
- Three superannuation retirees had pay from outside the three-year period included in the average salary. One had retroactive payments which belonged to prior years, the second retiree had an extra two weeks included and the third had both. These retirees were overpaid.

Lastly, one superannuation retiree should have received four COLAs as of December 2021 but instead, he received only three. It appears this was due to a recalculation done in October 2017 after the member had retired in February 2017.

Recommendation: The Retirement Board should recalculate the above noted retirement allowances. When calculating any amounts owed on allowances, interest must be applied.

In calculating these allowances, the Board should use payroll records instead of relying on the contributions that had been withheld.

Board Response:

The Board will further review the calculations performed on the noted retirement allowances and will make any necessary adjustments.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

SUPPLEMENTARY INFORMATION

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED (percentages by category)

| AS OF DECEMBER 31, 2021 | | |
|-------------------------------------|-----------------------------|----------------------------|
| | MARKET VALUE | PERCENTAGE OF TOTAL ASSETS |
| Cash | \$1,225,715 | 0.4% |
| Pooled Domestic Equity Funds | 85,175,291 | 29.9% |
| Pooled International Equity Funds | 55,771,306 | 19.6% |
| Pooled Domestic Fixed Income Funds | 46,196,014 | 16.2% |
| Pooled Global Fixed Income Funds | 9,187,209 | 3.2% |
| Pooled Alternative Investment Funds | 23,183,081 | 8.1% |
| Pooled Real Estate Funds | 27,819,408 | 9.8% |
| Pooled Domestic Balanced Funds | 16,363,425 | 5.8% |
| Hedge Funds | <u>19,546,808</u> | <u>6.9%</u> |
| Grand Total | <u>\$284,468,257</u> | 100.0% |

For the year ending December 31, 2021, the rate of return for the investments of the Watertown Retirement System was 16.24%. For the ten-year period ending December 31, 2021, the rate of return for the investments of the Watertown Retirement System averaged 10.45%. For the 37-year period ending December 31, 2021, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Watertown Retirement System was 8.72%.

The composite rate of return for all retirement systems for the year ending December 31, 2021 was 19.51%. For the ten-year period ending December 31, 2021, the composite rate of return for the investments of all retirement systems averaged 10.86%. For the 37-year period ending December 31, 2021, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.58%.

SUPPLEMENTARY INFORMATION (Continued)

ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four board members.

Ex-officio Member: Megan Langan

Appointed Member: John T. Loughran Serves until successor is appointed

Elected Member: Domenic Arone Term Expires: 10/15/2025

Elected Member: Thomas V. Thibaut, Jr., Chairperson Term Expires: 10/15/2026

Appointed Member: Kathleen Kiely-Becchetti Term Expires: 01/31/2027

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board. The PERAC Actuary performs verification prior to payment, unless the system has obtained a waiver for superannuation calculations allowing them to bypass this requirement. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

Retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. Fidelity insurance is the only required policy coverage under Ch. 32 §21 and §23 as well as 840 CMR 17.01. The policy is designed to cover specific intentional acts such as theft, fraud or embezzlement and also specify who commits such acts, most commonly employees of the system. This coverage reimburses the system for the losses it suffers as a result of its employees' actions. It does not insure the employees for their illegal acts. Statutorily required coverage is provided by the current fidelity insurance policy to a limit of \$1,000,000 with a \$10,000 deductible issued through Travelers Casualty and Surety Company. The system also has Fiduciary coverage to a limit of \$50,000,000 under a blanket policy issued through the Massachusetts Association of Contributory Retirement Systems.

BOARD REGULATIONS

The Watertown Retirement Board has adopted Supplemental Regulations which are available on the PERAC website at <https://www.mass.gov/watertown-retirement-board-regulations>

SUPPLEMENTARY INFORMATION (Continued)

MEMBERSHIP EXHIBIT

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 |
|---|--------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|---------------------|
| Retirement in Past Years | | | | | | | | | | |
| Superannuation | 12 | 11 | 20 | 16 | 13 | 13 | 16 | 17 | 20 | 12 |
| Ordinary Disability | 0 | 0 | 0 | 0 | 1 | 0 | 1 | 0 | 0 | 0 |
| Accidental Disability | 1 | 2 | 3 | 4 | 0 | 1 | 2 | 3 | 1 | 0 |
| Total Retirements | 13 | 13 | 23 | 20 | 14 | 14 | 19 | 20 | 21 | 12 |
| Total Retirees, Beneficiaries and Survivors | 402 | 401 | 411 | 419 | 413 | 418 | 415 | 423 | 428 | 418 |
| Total Active Members | 546 | 518 | 538 | 574 | 569 | 537 | 532 | 551 | 547 | 561 |
| Pension Payments | | | | | | | | | | |
| Superannuation | \$6,156,380 | \$6,351,866 | \$6,554,251 | \$6,849,207 | \$7,461,767 | \$7,413,710 | \$7,643,375 | \$7,898,947 | \$8,505,061 | \$8,674,909 |
| Survivor/Beneficiary Payments | 684,861 | 732,786 | 809,106 | 808,652 | 822,063 | 860,625 | 809,281 | 836,186 | 744,850 | 722,460 |
| Ordinary Disability | 117,404 | 119,182 | 144,639 | 146,038 | 148,551 | 201,338 | 190,473 | 185,990 | 167,502 | 161,605 |
| Accidental Disability | 1,773,904 | 1,696,669 | 1,708,633 | 1,936,370 | 2,124,006 | 2,083,531 | 2,117,364 | 2,246,967 | 2,202,928 | 2,296,007 |
| Other | 1,065,903 | 1,137,051 | 1,274,599 | 1,162,172 | 1,292,918 | 1,330,443 | 1,546,599 | 1,619,783 | 1,503,243 | 1,441,070 |
| Total Payments for Year | \$9,798,451 | \$10,037,554 | \$10,491,229 | \$10,901,519 | \$11,849,305 | \$11,889,647 | \$12,307,092 | \$12,787,873 | \$13,123,584 | \$13,296,051 |

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)

FINANCIAL STATEMENTS, REQUIRED
SUPPLEMENTARY INFORMATION,
AND OTHER INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2021



WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

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INDEPENDENT AUDITORS' REPORT

To the Retirement Board
Watertown Contributory Retirement System

Opinions

We have audited the financial statements of the Watertown Contributory Retirement System (the System), a component unit of the City of Watertown, Massachusetts, as of and for the year ended December 31, 2021, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the fiduciary net position of the Watertown Contributory Retirement System, as of December 31, 2021, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

The System's management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Schedule of Changes in the Net Pension Liability, and the Schedules of the Net Pension Liability, Contributions, and Investment Returns, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Marcum LLP

Andover, MA
April 19, 2024

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021

As management of the Watertown Contributory Retirement System (the System), we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2021.

Overview of the Financial Statements

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

Fund Financial Statements

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

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

The Statement of Changes in Fiduciary Net Position presents information showing how the System's net position restricted for pensions changed during the year ended December 31, 2021. It reflects contributions by members and participating employers, investment activity, along with deductions for retirement benefits, refunds, transfers, and administrative expenses.

Notes to Financial Statements

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

The Required Supplementary Information includes this Management's Discussion and Analysis, the Schedule of Changes in the Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns.

Financial Highlights

- The System's total net position restricted for pensions was \$285,499.121 at December 31, 2021.
- The System's net position increased by \$35,371,998, which is primarily due to investment gains during the year.
- Employer and employee contributions to the plan were \$12,113,427, which represents a \$6,323,474 decrease over the prior year. This decrease is primarily due to a reduction in the PERAC assessment as the System has begun to exceed 100% funding. The employer share of contributions represents 63.29% of the total contributions made to the System.

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021

- Benefits paid to plan participants increased by \$246,369 or 1.59%, totaling \$15,760,939. At December 31, 2021, there were 358 retirees and beneficiaries in receipt of pension benefits, as further discussed on page 10.
- The System's funded ratio (based on the System's GASB 68 report) as of the January 1, 2022 actuarial valuation was 113.7%.

Financial Statement Analysis

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

FIDUCIARY NET POSITION

| | 2021 | 2020 |
|--------------------------|-------------------|-------------------|
| Assets | | |
| Cash and receivables | \$ 2,324 | \$ 696 |
| Investments | <u>283,242</u> | <u>249,463</u> |
| Total Assets | <u>285,566</u> | <u>250,159</u> |
| Liabilities | | |
| Accounts payable | 67 | 32 |
| Total Liabilities | <u>67</u> | <u>32</u> |
| Net Position | | |
| Restricted for pensions | <u>\$ 285,499</u> | <u>\$ 250,127</u> |

The System's total assets as of December 31, 2021 were \$285,566.349 and were comprised primarily of cash and investments. Total assets increased by \$35,407,188 or 14.15%, from the prior year primarily due to an increase in investment value.

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021

CHANGES IN FIDUCIARY NET POSITION

| | 2021 | 2020 |
|---|-------------------|-------------------|
| Additions | | |
| Contributions | \$ 12,555 | \$ 18,906 |
| Investment income, net | <u>39,515</u> | <u>27,933</u> |
| Total Additions | 52,070 | 46,839 |
| Deductions | | |
| Benefit payments | 15,761 | 15,515 |
| Other | <u>937</u> | <u>647</u> |
| Total Deductions | 16,698 | 16,162 |
| Change in Net Position | 35,372 | 30,677 |
| Net Position Restricted for Pensions | | |
| Beginning of Year | <u>250,127</u> | <u>219,450</u> |
| End of Year | \$ 285,499 | \$ 250,127 |

The amount needed to finance benefits is accumulated through the collection of employers' and employee's contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 COLA and through earnings on investments. Contributions and net investment gain for calendar year 2021 resulted in total additions of \$52,070,200. Employers' contributions decreased by \$7,079,095, or 48.01% in calendar year 2021. The System had net investment income of \$39,515,192 versus an investment gain of \$27,932,948 in 2020, primarily due to the market performing more favorably in calendar years 2021 and 2020.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds and transfers of member contributions, reimbursement payments in accordance with Massachusetts General Law, Chapter 32, Section 3(8)c, more commonly referred to as 3(8)c reimbursements, and the costs of administering the System. Total deductions for calendar year 2021 were \$16,698,202, which represents an increase of \$536,096, or 3.32%, over deductions of \$16,162,106 in calendar year 2020. The payment of pension benefits increased by \$246,369 or 1.59% over the previous year.

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED DECEMBER 31, 2021

Requests for Information

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

Watertown Contributory Retirement System
Executive Director
149 Main Street
Watertown, Massachusetts 02472

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

STATEMENT OF FIDUCIARY NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2021

Assets

| | |
|---|------------------------------|
| Cash and Short-Term Investments | \$ 1,225,715 |
| Investments in: | |
| Domestic stock fund | 14,141,458 |
| Equity mutual funds | 126,115,255 |
| Fixed income mutual funds | 40,122,009 |
| External investment pool | 94,417,276 |
| Limited partnership | <u>8,446,543</u> |
| Total Investments | 283,242,541 |
| Accounts receivable | <u>1,098,093</u> |
| Total Assets | <u><u>\$ 285,566,349</u></u> |
| Liabilities | |
| Accounts payable | <u>67,228</u> |
| Net Position | |
| Restricted for pension purposes | <u>285,499,121</u> |
| Total Liabilities and Net Position | <u><u>\$ 285,566,349</u></u> |

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

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2021

| | |
|--|------------------------------|
| Additions | |
| Contributions | |
| Employers | \$ 7,666,647 |
| Plan members | 4,446,780 |
| Other systems and Commonwealth of Massachusetts | 376,303 |
| Other | <u>65,278</u> |
| Total Contributions | 12,555,008 |
| Investment Income | |
| Appreciation in fair value of investments | 41,300,593 |
| Less: Management fees | <u>(1,785,401)</u> |
| Net Investment Gain | <u>39,515,192</u> |
| Total Additions | 52,070,200 |
| Deductions | |
| Benefit payments to plan members and beneficiaries | 15,760,939 |
| Refunds to plan members | 291,695 |
| Transfers to other systems | 355,393 |
| Administrative expenses | <u>290,175</u> |
| Total Deductions | <u>16,698,202</u> |
| Net Increase | 35,371,998 |
| Net Position Restricted for Pensions | |
| Beginning of Year | <u>250,127,123</u> |
| End of Year | <u>\$ 285,499,121</u> |

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

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 1 -DESCRIPTION OF PLAN

Substantially all employees of the City of Watertown (except teachers and administrators under contract employed by the School Department) and Watertown Housing Authority are members of the Watertown Contributory Retirement System (the System), a cost-sharing, multiple-employer, public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages, and benefits paid. The Watertown Contributory Retirement Board does not have the authority to amend benefit provisions.

Membership of the plan consisted of the following at January 1, 2022:

| | |
|---|--------------|
| Retirees and beneficiaries receiving benefits | 358 |
| Inactive members entitled to a return of their employee contributions | 261 |
| Active plan members | <u>525</u> |
| | <u>1,144</u> |
| Number of participating employers | 2 |

PARTICIPANT CONTRIBUTIONS

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

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

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

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 1 -DESCRIPTION OF PLAN (CONTINUED)

PARTICIPANT RETIREMENT BENEFITS

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

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

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

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

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 1 -DESCRIPTION OF PLAN (CONTINUED)

PARTICIPANT RETIREMENT BENEFITS (CONTINUED)

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

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of three forms of payment as follows:

- Option A Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member—provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.
- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

PARTICIPANT REFUNDS

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

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 1 -DESCRIPTION OF PLAN (CONTINUED)

EMPLOYER CONTRIBUTIONS

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

NOTE 2 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2021 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

BASIS OF ACCOUNTING

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

INVESTMENTS

Investment Policy

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

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 2 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS (CONTINUED)

Rate of Return

For the year ended December 31, 2021, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 16.24%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested throughout the year.

NOTE 3 - CASH AND SHORT-TERM INVESTMENTS

CUSTODIAL CREDIT RISK – DEPOSITS

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

As of December 31, 2021, none of the System's bank balance of \$1,395,321 was exposed to custodial credit risk as uninsured or uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

NOTE 4 - INVESTMENTS

The following is a summary of the System's investments as of December 31, 2021:

| Investment Type | Amount |
|---------------------------|-----------------------|
| Domestic stock fund | \$ 14,141,458 |
| Equity mutual funds | 126,115,255 |
| Fixed income mutual funds | 40,122,009 |
| External investment pool* | 94,417,276 |
| Limited partnership | <u>8,446,543</u> |
| Total Investments | <u>\$ 283,242,541</u> |

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust (PRIT) was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 4 – INVESTMENTS (CONTINUED)

CUSTODIAL CREDIT RISK

The *custodial credit* risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System does not have formal investment policies related to custodial credit risk.

\$14,141,458 of the System's investments were exposed to custodial credit risk as uninsured and uncollateralized. However, \$94,417,276 of the System's investments were held in the State investment pool (PRIT). Investments in external/State investment pools and mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

CREDIT RISK

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

All of the System's investments in fixed income mutual funds of \$40,122,009 had a rating of AA2 at December 31, 2021.

CONCENTRATION OF CREDIT RISK

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from concentration of credit disclosure.

As of December 31, 2021, the System did not have any investments subject to concentration of credit risk disclosure as any investment classifications exceeding 5% are exempt.

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 4 – INVESTMENTS (CONTINUED)

INTEREST RATE RISK

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

All of the System's investments in fixed income mutual funds of 40,122,009 matured in less than one year.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The System does not have a formal investment policy related to foreign currency risk.

FAIR VALUE

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – Inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as Level 2.
- Level 3 – Unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

The net asset value (NAV) per share is the amount of net assets attributable to each share of capital stock outstanding at the close of the period. Investments measured at the NAV for fair value are not subject to level classification.

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 4 – INVESTMENTS (CONTINUED)

FAIR VALUE (CONTINUED)

The System has the following fair value measurements as of December 31, 2021:

| Investment Type | Amount | Fair Value Measurements Using: | | |
|---|-----------------------|--|--|--|
| | | Quoted prices in active markets for identical assets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Investments by fair value level: | | | | |
| Domestic stock funds | \$ 14,141,458 | \$ 14,141,458 | \$ -- | \$ -- |
| Equity mutual funds | 126,115,255 | 126,115,255 | -- | -- |
| Fixed income mutual funds | 40,122,009 | 40,122,009 | -- | -- |
| Investments measured at the net asset value (NAV): | | | | |
| External investment pools | 94,417,276 | | | |
| Limited partnerships | <u>8,446,543</u> | | | |
| | <u>\$ 283,242,541</u> | | | |

| Description | Value | Unfunded Commitments | Redemption Frequency (If currently eligible) | Redemption Notice Period |
|--|----------------------|-------------------------|---|--------------------------------|
| <i>External investment pools:</i> | | | | |
| Prim Alternative Investments - PE VY2011 | \$ 1,108,210 | \$ 129,714 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2013 | 1,626,306 | 77,639 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2014 | 1,876,545 | 137,932 | Illiquid | N/A |
| Hedge Funds | 19,546,808 | -- | Quarterly | 30 Days |
| Domestic Equity Fund | 32,314,522 | -- | Monthly | 5 Days |
| Core Real Estate Fund | 19,379,497 | -- | Monthly | 5 Days |
| Prim Alternative Investments - PE VY2015 | 2,911,729 | 146,178 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2016 | 1,459,790 | 168,848 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2017 | 3,683,889 | 781,995 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2012 | 1,268,895 | 73,918 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2018 | 3,180,146 | 767,392 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2019 | 3,214,264 | 1,160,854 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2020 | 1,715,150 | 2,037,550 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2021 | <u>1,131,525</u> | <u>4,128,824</u> | Illiquid | N/A |
| Total external investment pools | <u>\$ 94,417,276</u> | | | |
| <i>Limited partnerships:</i> | | | | |
| RCP Fund IV LP | \$ 6,633 | \$ -- | Illiquid | N/A |
| Terracap Partners IV Instl LP | 868,372 | -- | Illiquid | N/A |
| TA Realty Core Property FD LP | 5,191,844 | -- | Quarterly | 45 days |
| American Strat Val Rity FD I.P. | <u>2,379,694</u> | <u>--</u> | Quarterly | 30 days |
| Total limited partnerships | <u>\$ 8,446,543</u> | | | |

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 5 - ACCOUNTS RECEIVABLE

Annually the Public Employee Retirement Administration (PERAC) determines the amount of employer contributions (pension appropriations) to be made to the System. The accounts receivable balance primarily represents legal amounts due from employers for pension appropriation not received until after December 31, 2021.

NOTE 6 – COLLECTIVE PENSION EXPENSE

The calculation of collective pension expense for the year ended December 31, 2021 is presented in the following table:

| | |
|---|----------------------|
| Service Cost | S 3,815,556 |
| Interest | 18,430,781 |
| Employee contributions | (4,446,779) |
| Projected earnings on plan investments | (7,652,244) |
| Differences in expected and actual experience | 1,280,985 |
| Differences in projected and actual earnings on investments | (19,223,640) |
| Changes of assumptions | 3,854,455 |
| Changes in benefit terms | 3,815,556 |
| Administrative expenses | <u>330,940</u> |
| Total pension expense | <u>S 205,610</u> |

Each employer's proportionate share of the collective pension expense is equal to the collective pension expense multiplied by the employer's proportionate share percentage for the year ended December 31, 2021, as shown in the schedule of employer allocations.

NOTE 7 - ACCOUNTS PAYABLE

This balance represents calendar year 2021 expenditures paid after December 31, 2021.

NOTE 8 - CONTINGENCIES

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

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 9 - NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS

The net pension liability was based on an actuarial valuation dated January 1, 2022.

NET PENSION LIABILITY OF EMPLOYERS

The components of the net pension liability of the participating employers at December 31, 2021 were as follows:

| | |
|--|----------------------------|
| Total pension liability | 251,018,259 |
| Plan fiduciary net position | <u>(285,499,121)</u> |
| Employers' net pension asset | <u><u>(34,480,862)</u></u> |
| Plan fiduciary net position as a percentage of total pension liability | 113.7% |

ACTUARIAL ASSUMPTIONS

A summary of the actuarial assumptions as of the January 1, 2022 actuarial valuation is shown below:

| | |
|---|----------------|
| Valuation date | 1/1/2022 |
| Entry Age | |
| Actuarial cost method | Normal Cost |
| | Method |
| Remaining amortization period | 2 |
| Actuarial assumptions: | |
| Investment rate of return | 7.70% |
| Projected salary increases | |
| Group 1 | 3.50% |
| Group 2 | 3.50% |
| Group 4 | 3.50% |
| Inflation rate | 3.00% |
| Post-retirement cost-of-living adjustment | 3% on \$14,000 |

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

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 9 - NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS (CONTINUED)

ACTUARIAL ASSUMPTIONS (CONTINUED)

Mortality rates were represented by the various SOA Pub-2010 Public Retirement Plan Mortality Tables specific to the Group, Pre-retirement versus Post, Disabled and Beneficiaries, with Scale MP-2018 improvements until 2025.

TARGET ALLOCATIONS

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's targeted asset allocation as of December 31, 2021, are summarized in the following table.

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|---------------------------------------|-------------------------|--|
| Core fixed income | 15.00% | 2.40% |
| Global bonds | 2.00% | 2.50% |
| Domestic large cap | 24.00% | 4.20% |
| Domestic small cap | 7.00% | 3.90% |
| International developed equity | 20.00% | 6.30% |
| International emerging markets equity | 7.00% | 8.20% |
| Real estate | 10.00% | 4.80% |
| Hedge funds | 5.00% | 5.50% |
| Private equity | 10.00% | 7.10% |
| | <hr/> <u>100.00%</u> | |

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 9 - NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS (CONTINUED)

DISCOUNT RATE

The discount rate used to measure the total pension liability was 7.70%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the Board's funding policy, which establishes the contractually required rates by Statute. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

SENSITIVITY OF DISCOUNT RATE

The following presents the net pension liability (asset) of the participating employers calculated using the discount rate of 7.70%, as well as what the participating employers' net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

| | Current | |
|----------------|-----------------|-----------------|
| 1% | Discount | 1% |
| Decrease | Rate | Increase |
| (6.70%) | (7.70%) | (8.70%) |
| \$ (8,289,395) | \$ (34,480,862) | \$ (56,772,413) |

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 9 - NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS (CONTINUED)

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

The following schedule reflects the deferred outflows and inflows of resources for the System for the year ended December 31, 2021:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual experience | \$ 2,336,418 | \$ 1,489,975 |
| Changes of assumptions | 2,409,974 | -- |
| Net difference between projected and actual investment earnings on pension plan investments | -- | 25,737,652 |
| Changes in proportion and differences between employer Contributions and proportionate share of contributions | <u>50,336</u> | <u>50,336</u> |
| | <u><u>\$ 4,796,728</u></u> | <u><u>\$ 27,277,963</u></u> |

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 9 - NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS (CONTINUED)

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (CONTINUED)

The following summarizes changes in deferred outflows and inflows:

| | Measurement Year | Amortization Period | Beginning Balance on Prior Measurement Period Deferrals | Current Measurement Period Additions | Amortization of Amounts Recognized in Current Period Pension Expense | End of Year Balance |
|--|------------------|---------------------|---|--------------------------------------|--|---------------------|
| <i>Deferred Outflows of Resources</i> | | | | | | |
| Differences between expected and actual experience: | | | | | | |
| 2018 | 4.37 | \$ 341,587 | \$ -- | \$ 341,587 | \$ -- | -- |
| 2020 | 4.42 | 3,022,098 | -- | 1,248,801 | 1,773,297 | |
| 2021 | 4.36 | 801,731 | -- | 258,610 | 563,121 | |
| Change in assumptions | | | | | | |
| 2018 | 4.26 | 4,182,206 | -- | 3,319,210 | 862,996 | |
| 2021 | 4.36 | 881,531 | -- | 262,360 | 619,171 | |
| 2022 | 4.4 | -- | 1,200,692 | 272,885 | 927,807 | |
| Changes in proportion and differences between employer contributions and proportionate share of contributions: | | | | | | |
| 2018 | 4.37 | 522 | -- | 522 | -- | |
| 2019 | 4.26 | 12,410 | -- | 9,849 | 2,561 | |
| 2020 | 4.42 | 2,121 | -- | 877 | 1,244 | |
| 2021 | 4.36 | 7,847 | -- | 2,335 | 5,512 | |
| 2022 | 4.4 | -- | 53,084 | 12,065 | 41,019 | |
| Total Deferred Outflows of Resources | | | 9,252,053 | 1,253,776 | 5,709,101 | 4,796,728 |
| <i>Deferred Inflows of Resources</i> | | | | | | |
| Differences between expected and actual experience | | | | | | |
| 2018 | 4.26 | 149,784 | -- | 118,876 | 30,908 | |
| 2022 | 4.4 | -- | 1,888,205 | 429,138 | 1,459,067 | |
| Net difference between projected and actual investment earnings on pension plan investments: | | | | | | |
| 2018 | 5 | 2,428,956 | -- | 2,428,956 | -- | |
| 2019 | 5 | (9,974,698) | -- | (4,987,349) | (4,987,349) | |
| 2020 | 5 | 11,953,392 | -- | 3,984,464 | 7,968,928 | |
| 2021 | 5 | 8,594,484 | -- | 2,148,621 | 6,445,863 | |
| 2022 | 5 | -- | 20,387,762 | 4,077,552 | 16,310,210 | |
| Changes in proportion and differences between employer contributions and proportionate share of contributions: | | | | | | |
| 2018 | 4.37 | 522 | -- | 522 | -- | |
| 2019 | 4.26 | 12,410 | -- | 9,849 | 2,561 | |
| 2020 | 4.42 | 2,121 | -- | 877 | 1,244 | |
| 2021 | 4.36 | 7,847 | -- | 2,335 | 5,512 | |
| 2022 | 4.4 | -- | 53,081 | 12,065 | 41,019 | |
| Total Deferred Inflows of Resources | | | 13,174,818 | 22,329,051 | 8,225,906 | 27,277,963 |
| Total Collective Deferred Outflows (Inflows) of Resources | | | \$ (3,922,765) | \$ (21,075,275) | \$ (2,516,805) | \$ (22,481,235) |

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2021

NOTE 9 - NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS (CONTINUED)

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES (CONTINUED)

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

| Fiscal Year | Total |
|----------------|------------------------|
| 2023 | \$ (2,797,682) |
| 2024 | (9,341,424) |
| 2025 | (6,202,074) |
| 2026 | <u>(4,140,055)</u> |
| | <u>\$ (22,481,235)</u> |

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
(Unaudited)
(Amounts expressed in thousands)

| | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|------------------------|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total Pension Liability | | | | | | | | |
| Service cost | \$ 3,815,556 | \$ 3,729,807 | \$ 3,628,350 | \$ 3,305,996 | \$ 3,338,860 | \$ 3,895,597 | \$ 3,895,599 | \$ 3,745,767 |
| Interest on unfunded liability - time value of money | 18,430,781 | 17,941,564 | 17,119,562 | 15,945,986 | 15,330,990 | 14,442,636 | 14,615,997 | 14,213,781 |
| Changes in plan provisions | 3,815,556 | -- | -- | -- | -- | 778,002 | -- | -- |
| Experience (gain)/loss | (1,888,205) | 1,040,341 | 5,519,700 | (506,412) | 4,034,420 | 11,104,982 | -- | -- |
| Changes of assumptions | 1,200,692 | 1,143,891 | -- | 14,139,836 | -- | (1,926,591) | -- | -- |
| Benefit payments, including refunds of member contributions | (16,408,027) | (15,889,574) | (15,773,758) | (15,378,326) | (14,413,329) | (14,006,492) | (13,810,095) | (13,081,678) |
| Net Change in Total Pension Liability | 8,966,353 | 7,966,029 | 10,493,854 | 17,507,080 | 8,290,941 | 14,288,134 | 4,701,501 | 4,877,870 |
| Total Pension Liability - Beginning | 242,051,906 | 234,085,877 | 223,592,023 | 206,084,943 | 197,794,002 | 183,505,868 | 178,804,367 | 173,926,497 |
| Total Pension Liability - Ending (a) | 251,018,259 | 242,051,906 | 234,085,877 | 223,592,023 | 206,084,943 | 197,794,002 | 183,505,868 | 178,804,367 |
| Plan Fiduciary Net Position | | | | | | | | |
| Contributions - employer | 7,666,647 | 14,745,742 | 13,300,956 | 18,698,742 | 17,173,496 | 15,598,496 | 14,023,496 | 12,465,133 |
| Contributions - member | 4,446,779 | 3,691,160 | 3,986,192 | 4,369,364 | 3,400,281 | 3,465,100 | 3,193,042 | 3,186,332 |
| Net investment income | 39,611,402 | 27,964,023 | 34,298,396 | (9,967,302) | 24,612,432 | 8,827,366 | 1,842,184 | 7,674,151 |
| Benefit payments, including refunds of member contributions | (16,408,027) | (15,889,574) | (15,773,758) | (15,378,326) | (14,413,329) | (14,006,492) | (13,288,770) | (12,587,850) |
| Administrative expense | (330,941) | (303,609) | (320,979) | (339,624) | (309,692) | (279,447) | (300,358) | (279,447) |
| Other | 386,138 | 469,548 | 462,057 | 456,764 | 481,871 | 480,658 | 537,085 | 487,925 |
| Net Change in Plan Fiduciary Net Position | 35,371,998 | 30,677,290 | 35,952,864 | (2,160,382) | 30,945,059 | 14,085,681 | 6,006,679 | 10,946,244 |
| Plan Fiduciary Net Position - Beginning | 250,127,123 | 219,449,833 | 183,496,969 | 185,657,351 | 154,712,292 | 140,626,611 | 134,619,932 | 123,673,688 |
| Plan Fiduciary Net Position - Ending (b) | 285,499,121 | 250,127,123 | 219,449,833 | 183,496,969 | 185,657,351 | 154,712,292 | 140,626,611 | 134,619,932 |
| Net Pension Liability (Asset) - Ending (a-b) | \$ (34,480,862) | \$ (8,075,217) | \$ 14,636,044 | \$ 40,095,054 | \$ 20,427,592 | \$ 43,081,710 | \$ 42,879,257 | \$ 44,184,435 |

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

See independent auditors' report.

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF NET PENSION LIABILITY, CONTRIBUTIONS, AND INVESTMENT RETURNS
(Unaudited)
(Amounts expressed in thousands)

| Schedule of Net Pension Liability | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Total pension liability | \$ 251,018,259 | \$ 242,051,906 | \$ 234,085,877 | \$ 223,592,023 | \$ 206,084,943 | \$ 197,794,002 | \$ 183,505,868 | \$ 178,804,367 |
| Plan fiduciary net position | (285,499,121) | (250,127,123) | (219,449,833) | (183,496,969) | (185,657,351) | (154,712,292) | (140,626,611) | (134,619,932) |
| Net pension liability (asset) | \$ (34,480,862) | \$ (8,075,217) | \$ 14,636,044 | \$ 40,095,054 | \$ 20,427,592 | \$ 43,081,710 | \$ 42,879,257 | \$ 44,184,435 |
| Plan fiduciary net position as a percentage of the total pension liability | 113.7% | 103.3% | 93.7% | 82.1% | 90.1% | 78.2% | 76.6% | 75.3% |
| Covered payroll | \$ 38,164,294 | \$ 36,198,756 | \$ 35,322,996 | \$ 33,927,238 | \$ 33,501,993 | \$ 35,192,067 | \$ 31,539,610 | \$ 30,326,548 |
| Participating employer net pension liability as a percentage of covered payroll | -90.3% | -22.3% | 41.4% | 118.2% | 61.0% | 122.4% | 136.0% | 145.7% |
| Schedule of Contributions | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Actuarially determined contribution | \$ 7,666,647 | \$ 14,745,742 | \$ 13,300,956 | \$ 18,698,742 | \$ 17,173,496 | \$ 15,598,496 | \$ 14,023,496 | \$ 12,448,496 |
| Contributions in relation to the actuarially determined contribution | (7,666,647) | (14,745,742) | (13,300,956) | (18,698,742) | (17,173,496) | (15,598,496) | (14,023,496) | (12,448,496) |
| Contribution deficiency (excess) | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| Covered payroll | \$ 38,164,294 | \$ 36,198,756 | \$ 35,322,996 | \$ 33,927,238 | \$ 33,501,993 | \$ 35,192,067 | \$ 31,539,610 | \$ 30,326,548 |
| Contributions as a percentage of covered payroll | 20.1% | 40.7% | 37.7% | 55.1% | 51.3% | 44.3% | 44.5% | 41.0% |
| Schedule of Investment Returns | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| <i>Year Ended December 31</i> | | | | | | | | |
| Annual money weighted rate of return, net of investment expense | 16.24% | 13.42% | 19.85% | -4.58% | 14.44% | 6.68% | 0.78% | 6.42% |

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

See independent auditors' report.



INDEPENDENT AUDITORS' REPORT

To the Retirement Board
Watertown Contributory Retirement System

Opinions

We have audited the accompanying schedule of employer allocations of the Watertown Contributory Retirement System (the System) as of and for the year ended December 31, 2021. We have also audited the total for all entities of the titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified totals) included in the accompanying schedule of pension amounts by employer of the Watertown Contributory Retirement System as of and for the year ended December 31, 2021.

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 for the Watertown Contributory Retirement System as of and for the year ended December 31, 2021, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Schedule section of our report. We are required to be independent of the Watertown Contributory Retirement System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Schedules

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

Auditors' Responsibilities for the Audit of the Schedules

Our objectives are to obtain reasonable assurance about whether the schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that

includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the schedules.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the schedules, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the schedules.
- Obtain an understanding of internal control relevant to the audit 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 System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the schedules.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Matters

We have audited, in accordance with GAAS, the financial statements of the Watertown Contributory Retirement System as of and for the year ended December 31, 2021, and our report dated April 19, 2024 expressed an unmodified opinion on those finance statements.

Restriction on Use

Our report is intended solely for the information and use of the Watertown Contributory Retirement System management, the Retirement Board, System employers and their auditors as of and for the year ended December 31, 2021 and is not intended to be and should not be used by anyone other than these specified parties.

Marcum LLP

Andover, MA
April 19, 2024

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)

SCHEDULE OF EMPLOYER ALLOCATIONS

| Employer | FY 2022 Actual Employer Contributions | Allocation Percentage |
|-------------------|--|--------------------------|
| City of Watertown | \$ 7,459,084 | 97.2926% |
| Housing Authority | <u>207,563</u> | <u>2.7074%</u> |
| Total | <u>7,666,647</u> | <u>100.00%</u> |

See actuarial assumptions in the City of Watertown, Massachusetts Contributory Retirement System audited financial statements.

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2021

| | City | Housing Authority | Total |
|---|------------------------|----------------------|------------------------|
| Net Pension Liability | \$ (33,547,327) | \$ (933,535) | \$ (34,480,862) |
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$ 2,273,162 | \$ 63,256 | \$ 2,336,418 |
| Changes of assumptions | 2,344,727 | 65,247 | 2,409,974 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 50,336 | -- | 50,336 |
| Total Deferred Outflows of Resources | <u>\$ 4,668,225</u> | <u>\$ 128,503</u> | <u>\$ 4,796,728</u> |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | \$ 1,449,635 | \$ 40,340 | \$ 1,489,975 |
| Net difference between projected and actual investment earnings on pension plan investments | 25,010,830 | 696,822 | 25,737,652 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | -- | 50,336 | 50,336 |
| Total Deferred Inflows of Resources | <u>\$ 26,490,465</u> | <u>\$ 787,498</u> | <u>\$ 27,277,963</u> |
| Pension Expense | | | |
| Proportionate share of pension expense | \$ 200,043 | \$ 5,567 | \$ 205,610 |
| Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions | 24,528 | (24,528) | -- |
| Total Pension Expense | <u>\$ 224,571</u> | <u>\$ (18,961)</u> | <u>\$ 205,610</u> |
| Contributions | | | |
| Actuarially determined contribution | \$ 7,459,084 | \$ 207,563 | \$ 7,666,647 |
| Contributions made | (7,459,084) | (207,563) | (7,666,647) |
| Contribution deficiency/(excess) | \$ -- | \$ -- | \$ -- |
| Contributions as a percentage of covered payroll | 20% | 20% | 20% |
| Deferred Outflows/(Inflows) Recognized in Future Pension Expense | | | |
| June 30, 2023 | \$ (2,703,938) | \$ (93,744) | \$ (2,797,682) |
| June 30, 2024 | (9,073,582) | (267,842) | (9,341,424) |
| June 30, 2025 | (6,021,211) | (180,863) | (6,202,074) |
| June 30, 2026 | (4,023,509) | (116,546) | (4,140,055) |
| Total Deferred Outflows/(Inflows) Recognized in Future Pension Expense | <u>\$ (21,822,240)</u> | <u>\$ (658,995)</u> | <u>\$ (22,481,235)</u> |
| Discount Rate Sensitivity | | | |
| 1% decrease (6.70%) | \$ (8,064,968) | \$ (224,427) | \$ (8,289,395) |
| Current discount rate (7.70%) | \$ (33,547,327) | \$ (933,535) | \$ (34,480,862) |
| 1% increase (8.70%) | \$ (55,235,357) | \$ (1,537,056) | \$ (56,772,413) |
| Covered Payroll | \$ 37,131,034 | \$ 1,033,260 | \$ 38,164,294 |

See actuarial assumptions in the City of Watertown, Massachusetts Contributory Retirement System audited financial statements.

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)

FINANCIAL STATEMENTS, REQUIRED SUPPLEMENTARY INFORMATION,
AND OTHER INFORMATION

FOR THE YEAR ENDED DECEMBER 31, 2020



**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

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INDEPENDENT AUDITORS' REPORT

To the Retirement Board Watertown Contributory Retirement System
City of Watertown, Massachusetts

We have audited the accompanying financial statements of the Watertown Contributory Retirement System (the System), a component unit of the City of Watertown, Massachusetts, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the System'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 System's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Watertown Contributory Retirement System as of December 31, 2020, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Marcum LLP

Andover, MA
April 19, 2024

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

As management of the Watertown Contributory Retirement System (the System), we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2020.

Overview of the Financial Statements

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

Fund Financial Statements

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

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

The Statement of Changes in Fiduciary Net Position presents information showing how the System's net position restricted for pensions changed during the year ended December 31, 2020. It reflects contributions by members and participating employers, investment activity, along with deductions for retirement benefits, refunds, transfers, and administrative expenses.

Notes to Financial Statements

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

The Required Supplementary Information includes this Management's Discussion and Analysis, the Schedule of Changes in the Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns.

Financial Highlights

- The System's total net position restricted for pensions was \$250,127,123 at December 31, 2020.
- The System's net position increased by \$30,677,291, which is primarily due to investment gains during the year.

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

- Employer and employee contributions to the plan were \$18,436,901, which represents a \$1,149,753 increase over the prior year. The employer share of contributions represents 79.98% of the total contributions made to the System.
- Benefits paid to plan participants increased by \$612,178 or 4.118%, totaling \$15,514,570. At December 31, 2020, there were 431 retirees and beneficiaries in receipt of pension benefits, as further discussed on page 9.
- The System's funded ratio (based on the System's GASB 68 valuation) as of the January 1, 2021 actuarial valuation was 103.3%.

Financial Statement Analysis

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

Fiduciary Net Position

| | 2020 | 2019 |
|--------------------------|-------------------|-------------------|
| Assets | | |
| Cash and receivables | \$ 696 | \$ 1,408 |
| Investments | <u>249,463</u> | <u>218,077</u> |
| Total Assets | 250,159 | 219,485 |
| Liabilities | | |
| Accounts payable | 32 | 35 |
| Other | <u>--</u> | <u>--</u> |
| Total Liabilities | 32 | 35 |
| Net Position | | |
| Restricted for pensions | <u>\$ 250,127</u> | <u>\$ 219,450</u> |

The System's total assets as of December 31, 2020 were \$250,159,161 and were comprised primarily of cash and investments. Total assets increased by \$30,674,339 or 13.98%, from the prior year primarily due to an increase in investment value.

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

Changes in Fiduciary Net Position

| | 2020 | 2019 |
|---|----------------------|----------------------|
| Additions | | |
| Contributions | \$ 18,906 | \$ 17,749 |
| Investment income, net | <u>27,933</u> | <u>34,267</u> |
| Total Additions | 46,839 | 52,016 |
| Deductions | | |
| Benefit payments | 15,515 | 14,902 |
| Other | <u>647</u> | <u>1,161</u> |
| Total Deductions | <u>16,162</u> | <u>16,063</u> |
| Change in Net Position | 30,677 | 35,953 |
| Net Position Restricted for Pensions | | |
| Beginning of Year | 219,450 | 183,497 |
| End of Year | <u>\$ 250,127</u> | <u>\$ 219,450</u> |

The amount needed to finance benefits is accumulated through the collection of employers' and employee's contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 COLA and through earnings on investments. Contributions and net investment gain for calendar year 2020 resulted in total additions of \$46,839,397. Employers' contributions increased by \$1,444,786, or 10.86% in calendar year 2020. The System had net investment income of \$27,932,948 versus an investment gain of \$34,266,958 in 2019, primarily due to the market performing more favorably in calendar years 2020 and 2019.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds and transfers of member contributions, reimbursement payments in accordance with Massachusetts General Law, Chapter 32, Section 3(8)c, more commonly referred to as 3(8)c reimbursements, and the costs of administering the System. Total deductions for calendar year 2020 were \$16,162,106, which represents an increase of \$98,806, or 0.62%, over deductions of \$16,063,300 in calendar year 2019. The payment of pension benefits increased by \$612,178 or 4.11% over the previous year.

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

MANAGEMENT'S DISCUSSION AND ANALYSIS

DECEMBER 31, 2020

Requests for Information

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

Watertown Contributory Retirement System
Executive Director
149 Main Street
Watertown, Massachusetts 02472

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2020

Assets

| | |
|---------------------------------|-------------------|
| Cash and short-term investments | \$ 455,512 |
| Investments in: | |
| Domestic stock fund | 13,572,146 |
| Equity mutual funds | 101,226,991 |
| Fixed income mutual funds | 37,387,296 |
| External investment pool | 66,368,486 |
| Limited partnership | <u>30,907,967</u> |
| Total Investments | 249,462,886 |
| Accounts receivable | <u>240,763</u> |

Total Assets \$ 250,159,161

Liabilities

| | |
|------------------|-----------|
| Accounts payable | \$ 32,038 |
|------------------|-----------|

Net Position

| | |
|---------------------------------|--------------------|
| Restricted for pension purposes | <u>250,127,123</u> |
|---------------------------------|--------------------|

Total Liabilities and Net Position \$ 250,159,161

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

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2020

Additions

Contributions:

| | |
|---|---------------|
| Employers | S 14,745,742 |
| Plan members | 3,691,159 |
| Other systems and Commonwealth of Massachusetts | 445,808 |
| Other | <u>23,740</u> |

Total Contributions 18,906,449

Investment Income

| | |
|---|--------------------|
| Appreciation in fair value of investments | 29,411,486 |
| Less: Management fees | <u>(1,478,538)</u> |
| | <u>27,932,948</u> |

Net Investment Gain 27,932,948

Total Additions 46,839,397

Deductions

| | |
|--|----------------|
| Benefit payments to plan members and beneficiaries | 15,514,570 |
| Refunds to plan members | 192,678 |
| Transfers to other systems | 182,327 |
| Administrative expenses | <u>272,531</u> |

Total Deductions 16,162,106

Net Increase 30,677,291

Net Position Restricted for Pensions

| | |
|-------------------|----------------------|
| Beginning of Year | 219,449,832 |
| End of Year | <u>S 250,127,123</u> |

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

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 1 - DESCRIPTION OF PLAN

Substantially all employees of the City of Watertown (except teachers and administrators under contract employed by the School Department) and Watertown Housing Authority are members of the Watertown Contributory Retirement System (the System), a cost-sharing, multiple-employer, public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages, and benefits paid. The Watertown Contributory Retirement Board does not have the authority to amend benefit provisions.

Membership of the plan consisted of the following at January 1, 2021:

| | |
|--|---------------------|
| Retirees and beneficiaries receiving benefits | 431 |
| Inactive members entitled to a return of their | |
| employee contributions | 196 |
| Active plan members | 522 |
| Total | <u><u>1,149</u></u> |
| Number of participating employers | 2 |

PARTICIPANT CONTRIBUTIONS

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

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

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

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 1 - DESCRIPTION OF PLAN (CONTINUED)

PARTICIPANT RETIREMENT BENEFITS

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

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

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

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

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 1 - DESCRIPTION OF PLAN (CONTINUED)

PARTICIPANT RETIREMENT BENEFITS (CONTINUED)

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

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of three forms of payment as follows:

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.
- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 1 - DESCRIPTION OF PLAN (CONTINUED)

PARTICIPANT REFUNDS

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

EMPLOYER CONTRIBUTIONS

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

NOTE 2 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2020 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

**NOTE 2 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

BASIS OF ACCOUNTING

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

INVESTMENTS

Investment Policy

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

Rate of Return

For the year ended December 31, 2020, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 13.42%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested throughout the year.

NOTE 3 - CASH AND SHORT-TERM INVESTMENTS

Custodial Credit Risk - Deposits

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

As of December 31, 2020, none of the System's bank balance of \$577,001 was exposed to custodial credit risk as uninsured or uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 4 – INVESTMENTS

The following is a summary of the System's investments as of December 31, 2020:

| Investment Type | Amount |
|---------------------------|---------------------------|
| Domestic stock fund | \$ 13,572,146 |
| Equity mutual funds | 101,226,991 |
| Fixed income mutual funds | 37,387,296 |
| External investment pool* | 66,368,486 |
| Limited partnership | <u>30,907,967</u> |
| Total Investments | <u>\$ 249,462,886</u> |

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust (PRIT) was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

CUSTODIAL CREDIT RISK

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System does not have formal investment policies related to custodial credit risk.

\$13,572,146 of the System's investments were exposed to custodial credit risk as uninsured and uncollateralized. However, \$66,368,486 of the System's investments were held in the State investment pool (PRIT). Investments in external/State investment pools and mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

CREDIT RISK

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

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 4 – INVESTMENTS (CONTINUED)

CREDIT RISK (CONTINUED)

All of the System's investments in fixed income mutual funds of \$37,387,296 had a rating of AA2 at December 31, 2020.

CONCENTRATION OF CREDIT RISK

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from concentration of credit disclosure.

As of December 31, 2020, the System did not have any investments subject to concentration of credit risk disclosure as any investment classifications exceeding 5% are exempt.

INTEREST RATE RISK

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

All of the System's investments in fixed income mutual funds of \$37,387,296 matured in less than one year.

FOREIGN CURRENCY RISK

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The System does not have a formal investment policy related to foreign currency risk.

FAIR VALUE

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 4 – INVESTMENTS (CONTINUED)

FAIR VALUE (CONTINUED)

The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – Inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as Level 2.
- Level 3 – Unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

The net asset value (NAV) per share is the amount of net assets attributable to each share of capital stock outstanding at the close of the period. Investments measured at the NAV for fair value are not subject to level classification.

The System has the following fair value measurements as of December 31, 2020:

| Investment Type | Fair Value Measurements Using: | | |
|---|---|-------------------------------|---------------------------------|
| | Quoted prices in active markets for identical | Significant observable inputs | Significant unobservable inputs |
| | (Level 1) | (Level 2) | (Level 3) |
| Investments by fair value level | | | |
| Domestic stock funds | \$ 13,572,146 | \$ 13,572,146 | \$ -- |
| Equity mutual funds | 101,226,991 | 101,226,991 | -- |
| Fixed income mutual funds | 37,387,296 | 37,387,296 | -- |
| Investments measured at the net asset value (NAV): | | | |
| External investment pools | 66,368,486 | | |
| Limited partnerships | 30,907,967 | | |
| Total | <u>\$ 249,462,886</u> | | |

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 4 – INVESTMENTS (CONTINUED)

FAIR VALUE (CONTINUED)

| Description | Value | Unfunded Commitments | Redemption Frequency (If currently eligible) | Redemption Notice Period |
|--|-----------------------------|----------------------|--|--------------------------|
| External investment pools | | | | |
| Prim Alternative Investments - PE VY2011 | \$ 978,697 | \$ 129,818 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2013 | 1,192,079 | 95,075 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2014 | 1,515,621 | 176,228 | Illiquid | N/A |
| Hedge Funds | 17,858,835 | -- | Quarterly | 30 Days |
| Domestic Equity Fund | 20,744,484 | -- | Monthly | 5 Days |
| Core Real Estate Fund | 14,518,168 | -- | Monthly | 5 Days |
| Prim Alternative Investments - PE VY2015 | 2,370,107 | 192,346 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2016 | 1,047,277 | 271,413 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2017 | 2,164,846 | 1,452,805 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2012 | 1,157,006 | 97,772 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2018 | 1,173,209 | 1,445,205 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2019 | 1,176,469 | 2,045,704 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2020 | <u>171,688</u> | <u>3,407,282</u> | Illiquid | N/A |
| Total External Investment Pools | <u>\$ 66,368,486</u> | | | |
| Limited partnerships | | | | |
| Arsenal Real Estate Fund IA | \$ 776 | \$ -- | Illiquid | N/A |
| Auda Partners | 16,893 | -- | Illiquid | N/A |
| Earnest Partners International | 23,536,461 | -- | Monthly | 5 days |
| RCP Fund IV LP | 29,421 | -- | Illiquid | N/A |
| Terracap Partners IV Instl LP | 1,039,787 | -- | Illiquid | N/A |
| TA Realty Core Property FD LP | 4,195,098 | -- | Quarterly | 45 days |
| American Strat Val Rlty FD LP | <u>2,089,531</u> | <u>--</u> | Quarterly | 30 days |
| Total Limited Partnerships | <u>\$ 30,907,967</u> | | | |

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 5 - ACCOUNTS RECEIVABLE

Annually the Public Employee Retirement Administration (PERAC) determines the amount of employer contributions (pension appropriations) to be made to the System. The accounts receivable balance primarily represents legal amounts due from employers for pension appropriation not received until after December 31, 2020.

NOTE 6 – COLLECTIVE PENSION EXPENSE

The calculation of collective pension expense for the year ended December 31, 2020 is presented in the following table:

| | |
|---|------------------------|
| Service Cost | S 3,729,807 |
| Interest | 17,941,564 |
| Employee contributions | (3,691,160) |
| Projected earnings on plan investments | (17,220,918) |
| Differences in expected and actual experience | 3,612,601 |
| Differences in projected and actual earnings on investments | (3,048,882) |
| Changes of assumptions | 3,352,415 |
| Administrative expenses | <u>303,610</u> |
| Total pension expense | <u>S 4,979,037</u> |

Each employer's proportionate share of the collective pension expense is equal to the collective pension expense multiplied by the employer's proportionate share percentage for the year ended December 31, 2020, as shown in the schedule of employer allocations.

NOTE 7 - ACCOUNTS PAYABLE

This balance represents calendar year 2020 expenditures paid after December 31, 2020.

NOTE 8 - CONTINGENCIES

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

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 9 - NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS

The net pension liability was based on an actuarial valuation dated January 1, 2021.

NET PENSION LIABILITY OF EMPLOYERS

The components of the net pension liability of the participating employers at December 31, 2020 were as follows:

| | |
|---|-----------------------|
| Total pension liability | \$ 242,051,906 |
| Plan fiduciary net position | <u>(250,127,123)</u> |
| Employers' net pension asset | <u>\$ (8,075,217)</u> |
| Plan fiduciary net position as a percentage of total pension liability | 103.3% |

ACTUARIAL ASSUMPTIONS

A summary of the actuarial assumptions as of the January 1, 2021 actuarial valuation is shown below:

| | |
|---|----------------|
| Valuation date | 1/1/2021 |
| Entry Age | |
| Normal Cost | |
| Actuarial cost method | Method |
| Remaining amortization period | 2 |
| Actuarial assumptions: | |
| Investment rate of return | 7.75% |
| Projected salary increases | |
| Group 1 | 3.50% |
| Group 2 | 3.50% |
| Group 4 | 3.50% |
| Inflation rate | 2.40% |
| Post-retirement cost-of-living adjustment | 3% on \$13,000 |

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 9 - NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS (CONTINUED)

ACTUARIAL ASSUMPTIONS (CONTINUED)

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

Mortality rates were represented by the various SOA Pub-2010 Public Retirement Plan Mortality Tables specific to the Group, Pre-retirement versus Post, Disabled and Beneficiaries, with Scale MP-2018 improvements until 2025.

TARGET ALLOCATIONS

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's targeted asset allocation as of December 31, 2020, are summarized in the following table.

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|---------------------------------------|-------------------------|--|
| Core fixed income | 15.00% | 0.30% |
| Global bonds | 2.00% | 0.00% |
| Domestic large cap | 24.00% | 4.50% |
| Domestic small cap | 7.00% | 4.90% |
| International developed equity | 20.00% | 6.10% |
| International emerging markets equity | 7.00% | 7.60% |
| Real estate | 10.00% | 4.40% |
| Hedge funds | 5.00% | 4.50% |
| Private equity | 10.00% | 7.60% |
| Total | <u>100.00%</u> | |

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 9 - NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS (CONTINUED)

DISCOUNT RATE

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

SENSITIVITY OF DISCOUNT RATE

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

| 1% | Current Discount | 1% |
|----------------------------|------------------------|----------------------------|
| Decrease <u>(6.75%)</u> | Rate <u>(7.75%)</u> | Increase <u>(8.75%)</u> |
| \$ 16,944,657 | \$ (8,075,217) | \$ (29,373,892) |

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 9 - NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS (CONTINUED)

DEFERRED OUTFLOWS/(INFLows) OF RESOURCES

The following schedule reflects the deferred outflows and inflows of resources for the System for the year ended December 31, 2020:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 4,165,416 | \$ 149,784 |
| Changes of assumptions | 5,063,737 | -- |
| Net difference between projected and actual investment earnings on pension plan investments | -- | 13,002,134 |
| Changes in proportion and differences between employer contributions and proportionate share of | <u>22.900</u> | <u>22,900</u> |
| Total | <u><u>\$ 9,252,053</u></u> | <u><u>\$ 13,174,818</u></u> |

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 9 - NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS (CONTINUED)

DEFERRED OUTFLOWS/(INFLows) OF RESOURCES (CONTINUED)

The following summarizes changes in deferred outflows and inflows:

| | Measurement Year | Amortization Period | Beginning Balance on Prior Period Deferrals | Current Measurement Period Additions | Amortization of Amounts Recognized in Current Period Pension Expense | End of Year Balance |
|--|------------------|---------------------|---|--------------------------------------|--|-----------------------|
| Deferred Outflows of Resources | | | | | | |
| Differences between expected and | 2017 | 4.54 | \$ 1,320,858 | \$ -- | \$ 1,320,858 | \$ -- |
| | 2018 | 4.37 | 1,264,795 | -- | 923,208 | 341,587 |
| | 2020 | 4.42 | 4,270,899 | -- | 1,248,801 | 3,022,098 |
| | 2021 | 4.36 | -- | 1,040,341 | 238,610 | 801,731 |
| Change in assumptions | 2018 | 4.26 | 7,501,416 | -- | 3,319,210 | 4,182,206 |
| | 2021 | 4.36 | -- | 1,143,891 | 262,360 | 881,531 |
| Changes in proportion and differences | 2018 | 4.37 | 1,927 | -- | 1,405 | 522 |
| | 2019 | 4.26 | 22,259 | -- | 9,849 | 12,410 |
| | 2020 | 4.42 | 2,998 | -- | 877 | 2,121 |
| | 2021 | 4.36 | -- | 10,182 | 2,335 | 7,847 |
| Total Deferred Outflows of Resources | | | 14,385,152 | 2,194,414 | 7,327,513 | 9,252,053 |
| Deferred Inflows of Resources | | | | | | |
| Differences between expected and | 2018 | 4.26 | 268,660 | -- | 118,876 | 149,784 |
| Change in assumptions | 2017 | 4.54 | 229,155 | -- | 229,155 | -- |
| Net difference between projected and | 2017 | 5 | (525,809) | -- | (525,809) | -- |
| | 2018 | 5 | 4,857,911 | -- | 2,428,955 | 2,428,956 |
| | 2019 | 5 | (14,962,047) | -- | (4,987,349) | (9,974,698) |
| | 2020 | 5 | 15,937,856 | -- | 3,984,464 | 11,953,392 |
| | 2021 | 5 | -- | 10,743,105 | 2,148,621 | 8,594,484 |
| Changes in proportion and differences | 2018 | 4.37 | 1,927 | -- | 1,405 | 522 |
| | 2019 | 4.26 | 22,259 | -- | 9,849 | 12,410 |
| | 2020 | 4.42 | 2,998 | -- | 877 | 2,121 |
| | 2021 | 4.36 | -- | 10,182 | 2,335 | 7,847 |
| Total Deferred Inflows of Resources | | | 5,832,910 | 10,753,287 | 3,411,379 | 13,174,818 |
| Total Collective Deferred Outflows (Inflows) of Resources | | | \$ 8,552,242 | \$ (8,558,873) | \$ 3,916,134 | \$ (3,922,765) |

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2020

NOTE 9 - NET PENSION LIABILITY OF PARTICIPATING EMPLOYERS (CONTINUED)

DEFERRED OUTFLOWS/(INFLows) OF RESOURCES (CONTINUED)

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

| | Fiscal Year | Total |
|------|--------------------|-----------------------|
| 2022 | \$ 1,717,001 | |
| 2023 | 1,436,123 | |
| 2024 | (5,107,619) | |
| 2025 | <u>(1,968,270)</u> | |
| | | <u>\$ (3,922,765)</u> |

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION**

(UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2020

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total Pension Liability | | | | | | | |
| Service cost | \$ 3,729,807 | \$ 3,628,350 | \$ 3,305,996 | \$ 3,338,860 | \$ 3,895,597 | \$ 3,895,599 | \$ 3,745,767 |
| Interest on unfunded liability - time value of money | 17,941,564 | 17,119,562 | 15,945,986 | 15,330,990 | 14,442,636 | 14,615,997 | 14,213,781 |
| Changes in plan provisions | -- | -- | -- | -- | 778,002 | -- | -- |
| Experience (gain)/loss | 1,040,341 | 5,519,700 | (506,412) | 4,034,420 | 11,104,982 | -- | -- |
| Changes of assumptions | 1,143,891 | -- | 14,139,836 | -- | (1,926,591) | -- | -- |
| Benefit payments, including refunds of member contributions | (15,889,574) | (15,773,758) | (15,378,326) | (14,413,329) | (14,006,492) | (13,810,095) | (13,081,678) |
| Net Change in Total Pension Liability | 7,966,029 | 10,493,854 | 17,507,080 | 8,290,941 | 14,288,134 | 4,701,501 | 4,877,870 |
| Total Pension Liability - Beginning | 234,085,877 | 223,592,023 | 206,084,943 | 197,794,002 | 183,505,868 | 178,804,367 | 173,926,497 |
| Total Pension Liability - Ending (a) | 242,051,906 | 234,085,877 | 223,592,023 | 206,084,943 | 197,794,002 | 183,505,868 | 178,804,367 |
| Plan Fiduciary Net Position | | | | | | | |
| Contributions - employer | 14,745,742 | 13,300,956 | 18,698,742 | 17,173,496 | 15,598,496 | 14,023,496 | 12,465,133 |
| Contributions - member | 3,691,160 | 3,986,192 | 4,369,364 | 3,400,281 | 3,465,100 | 3,193,042 | 3,186,332 |
| Net investment income | 27,964,023 | 34,298,396 | (9,967,302) | 24,612,432 | 8,827,366 | 1,842,184 | 7,674,151 |
| Benefit payments, including refunds of member contributions | (15,889,574) | (15,773,758) | (15,378,326) | (14,413,329) | (14,006,492) | (13,288,770) | (12,587,850) |
| Administrative expense | (303,609) | (320,979) | (339,624) | (309,692) | (279,447) | (300,358) | (279,447) |
| Other | 469,548 | 462,057 | 456,764 | 481,871 | 480,658 | 537,085 | 487,925 |
| Net Change in Plan Fiduciary Net Position | 30,677,290 | 35,952,864 | (2,160,382) | 30,945,059 | 14,085,681 | 6,006,679 | 10,946,244 |
| Plan Fiduciary Net Position - Beginning | 219,449,833 | 183,496,969 | 185,657,351 | 154,712,292 | 140,626,611 | 134,619,932 | 123,673,688 |
| Plan Fiduciary Net Position - Ending (b) | 250,127,123 | 219,449,833 | 183,496,969 | 185,657,351 | 154,712,292 | 140,626,611 | 134,619,932 |
| Net Pension Liability (Asset) - Ending (a-b) | \$ (8,075,217) | \$ 14,636,044 | \$ 40,095,054 | \$ 20,427,592 | \$ 43,081,710 | \$ 42,879,257 | \$ 44,184,435 |

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

See independent auditors' report.

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

**SCHEDULES OF NET PENSION LIABILITY, CONTRIBUTIONS, AND INVESTMENT RETURNS
REQUIRED SUPPLEMENTARY INFORMATION**

(UNAUDITED)

FOR THE YEAR ENDED DECEMBER 31, 2020

| | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|-----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Schedule of Net Pension Liability | | | | | | | |
| Total pension liability | \$ 242,051,906 | \$ 234,085,877 | \$ 223,592,023 | \$ 206,084,943 | \$ 197,794,002 | \$ 183,505,868 | \$ 178,804,367 |
| Plan fiduciary net position | <u>(250,127,123)</u> | <u>(219,449,833)</u> | <u>(183,496,969)</u> | <u>(185,657,351)</u> | <u>(154,712,292)</u> | <u>(140,626,611)</u> | <u>(134,619,930)</u> |
| Net Pension Liability (Asset) | \$ (8,075,217) | \$ 14,636,044 | \$ 40,095,054 | \$ 20,427,592 | \$ 43,081,710 | \$ 42,879,257 | \$ 44,184,437 |
| Plan fiduciary net position as a percentage of the total pension liability | 103.3% | 93.7% | 82.1% | 90.1% | 78.2% | 76.6% | 75.3% |
| Covered payroll | \$ 36,198,756 | \$ 35,322,996 | \$ 33,927,238 | \$ 33,501,993 | \$ 35,192,067 | \$ 31,539,610 | \$ 30,326,548 |
| Participating employer net pension liability as a percentage of covered payroll | -22.3% | 41.4% | 118.2% | 61.0% | 122.4% | 136.0% | 145.7% |
| Schedule of Contributions | | | | | | | |
| Actuarially determined contribution | \$ 14,745,742 | \$ 13,300,956 | \$ 18,698,742 | \$ 17,173,496 | \$ 15,598,496 | \$ 14,023,496 | \$ 12,448,496 |
| Contributions in relation to the actuarially determined contribution | <u>(14,745,742)</u> | <u>(13,300,956)</u> | <u>(18,698,742)</u> | <u>(17,173,496)</u> | <u>(15,598,496)</u> | <u>(14,023,496)</u> | <u>(12,448,496)</u> |
| Contribution Deficiency (Excess) | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Covered payroll | \$ 36,198,756 | \$ 35,322,996 | \$ 33,927,238 | \$ 33,501,993 | \$ 35,192,067 | \$ 31,539,610 | \$ 30,326,548 |
| Contributions as a percentage of covered payroll | 40.7% | 37.7% | 55.1% | 51.3% | 44.3% | 44.5% | 41.0% |
| Schedule of Investment Returns | | | | | | | |
| Year Ended December 31 | | | | | | | |
| Annual money weighted rate of return, net of investment expense | 13.42% | 19.85% | -4.58% | 14.44% | 6.68% | 0.78% | 6.42% |

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

See independent auditors' report.



INDEPENDENT AUDITORS' REPORT

To the Retirement Board
Watertown Contributory Retirement System
City of Watertown, Massachusetts

Report on Schedules

We have audited the accompanying schedule of employer allocations of the Watertown Contributory Retirement System as of and for the year ended December 31, 2020. We have also audited the total for all entities of the titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified totals) included in the accompanying schedule of pension amounts by employers of the Watertown Contributory Retirement System (the System) as of and for the year ended December 31, 2020.

Management's Responsibility for the Schedules

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and specified totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and specified totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and specified totals included in the schedule of pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the

effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and specified totals included in the schedule of pension amounts by employer.

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

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for the Watertown Contributory Retirement System as of and for the year ended December 31, 2020, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have audited, in accordance with GAAS, the financial statements of the Watertown Contributory Retirement System as of and for the year ended December 31, 2020, and our report dated April 19, 2024 expressed an unmodified opinion on those finance statements.

Restriction on Use

Our report is intended solely for the information and use of Watertown Contributory Retirement System management, the Retirement Board, System employers and their auditors as of and for the year ended December 31, 2020 and is not intended to be and should not be used by anyone other than these specified parties.

Marcum LLP

Andover, MA
April 19, 2024

**WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)**

SCHEDULES OF EMPLOYER ALLOCATIONS

FOR THE YEAR ENDED DECEMBER 31, 2020

| Employer | Actual Employer Contributions | Allocation Percentage |
|-------------------|-------------------------------|-----------------------|
| City of Watertown | \$ 14,538,179 | 98.59% |
| Housing Authority | 207,563 | 1.41% |
| Total | <u>\$ 14,745,742</u> | <u>100.00%</u> |

See actuarial assumptions in the City of Watertown, Massachusetts Contributory Retirement System audited financial statements.

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A COMPONENT UNIT OF THE CITY OF WATERTOWN, MASSACHUSETTS)

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

FOR THE YEAR ENDED DECEMBER 31, 2020

| | City | Housing Authority | Total |
|---|-----------------------|----------------------|-----------------------|
| Net Pension Liability | \$ (7,961,550) | \$ (113,667) | \$ (8,075,217) |
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$ 4,106,784 | \$ 58,632 | \$ 4,165,416 |
| Changes of assumptions | 4,992,460 | 71,277 | 5,063,737 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | <u>21,895</u> | <u>1,005</u> | <u>22,900</u> |
| Total Deferred Outflows of Resources | \$ 9,121,139 | \$ 130,914 | \$ 9,252,053 |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | \$ 147,676 | \$ 2,108 | \$ 149,784 |
| Net difference between projected and actual investment earnings on pension plan investments | 12,819,117 | 183,017 | 13,002,134 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | <u>1,005</u> | <u>21,895</u> | <u>22,900</u> |
| Total Deferred Inflows of Resources | \$ 12,967,798 | \$ 207,020 | \$ 13,174,818 |
| Pension Expense | | | |
| Proportionate share of pension expense | \$ 4,908,952 | \$ 70,085 | \$ 4,979,037 |
| Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions | <u>12,126</u> | <u>(12,126)</u> | <u>--</u> |
| Total Pension Expense | \$ 4,921,078 | \$ 57,959 | \$ 4,979,037 |
| Contributions | | | |
| Actuarially determined contribution | \$ 14,538,179 | \$ 207,563 | \$ 14,745,742 |
| Contributions made | <u>(14,538,179)</u> | <u>(207,563)</u> | <u>(14,745,742)</u> |
| Contribution deficiency/(excess) | \$ -- | \$ -- | \$ -- |
| Contributions as a percentage of covered payroll | 41% | 41% | 41% |
| Deferred Outflows/(Inflows) Recognized in Future Pension Expense | | | |
| June 30, 2022 | \$ 1,692,832 | \$ 24,169 | \$ 1,717,001 |
| June 30, 2023 | 1,415,908 | 20,215 | 1,436,123 |
| June 30, 2024 | (5,014,834) | (92,785) | (5,107,619) |
| June 30, 2025 | <u>(1,940,565)</u> | <u>(27,705)</u> | <u>(1,968,270)</u> |
| Total Deferred Outflows/(Inflows) Recognized in Future Pension Expense | \$ (3,846,659) | \$ (76,106) | \$ (3,922,765) |
| Discount Rate Sensitivity | | | |
| 1% decrease (6.75%) | \$ 16,706,144 | \$ 238,513 | \$ 16,944,657 |
| Current discount rate (7.75%) | (7,961,550) | (113,667) | (8,075,217) |
| 1% increase (8.75%) | (28,960,425) | (413,467) | (29,373,892) |
| Covered Payroll | \$ 35,689,222 | \$ 509,534 | \$ 36,198,756 |

See actuarial assumptions in the City of Watertown, Massachusetts Contributory Retirement System audited financial statements.



WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Watertown, Massachusetts)

**Financial Statements, Required Supplementary Information,
and Other Information
For the Year Ended December 31, 2019**

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INDEPENDENT AUDITORS' REPORT

To the Retirement Board
Watertown Contributory Retirement System
Town of Watertown, Massachusetts

We have audited the accompanying financial statements of the Watertown, Massachusetts Contributory Retirement System (the System), a component unit of the Town of Watertown, Massachusetts, as of and for the year ended December 31, 2019, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies

Merrimack, New Hampshire
Andover, Massachusetts
Greenfield, Massachusetts
Ellsworth, Maine

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used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Watertown Contributory Retirement System as of December 31, 2019, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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



Greenfield, Massachusetts
August 3, 2021

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MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Watertown Contributory Retirement System (the System), we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2019.

Overview of the Financial Statements

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

Fund Financial Statements

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

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

The Statement of Changes in Fiduciary Net Position presents information showing how the System's net position restricted for pensions changed during the year ended December 31, 2019. It reflects contributions by members and participating employers, investment activity, along with deductions for retirement benefits, refunds, transfers, and administrative expenses.

Notes to Financial Statements

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

The Required Supplementary Information includes this Management's Discussion and Analysis, the Schedule of Changes in the Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns.

Financial Highlights

- The System's total net position restricted for pensions was \$219,449,832 at December 31, 2019.
- The System's net position increase by \$35,952,863, which is primarily due to investment gains during the year.

- Employer and employee contributions to the plan were \$17,287,148, which represents a \$(5,780,957) decrease over the prior year. The employer share of contributions represents 76.94% of the total contributions made to the System.
- Benefits paid to plan participants increased by \$403,004 or 2.78%, totaling \$14,902,392. At December 31, 2019, there were 363 retirees and beneficiaries in receipt of pension benefits, as further discussed on page 9.
- The System's funded ratio (based on the System's GASB 68 valuation) as of the January 1, 2020 actuarial valuation was 93.7%, with 3 years remaining in its amortization period.

Financial Statement Analysis

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

| | FIDUCIARY NET POSITION | |
|--------------------------|-------------------------------|-------------------|
| | 2019 | 2018 |
| Assets | | |
| Cash and receivables | \$ 1,408 | \$ 1,622 |
| Investments | <u>218,077</u> | <u>181,936</u> |
| Total Assets | 219,485 | 183,558 |
| Liabilities | | |
| Accounts payable | 35 | 14 |
| Other | <u>-</u> | <u>47</u> |
| Total Liabilities | <u>35</u> | <u>61</u> |
| Net Position | | |
| Restricted for pensions | <u>\$ 219,450</u> | <u>\$ 183,497</u> |

The System's total assets as of December 31, 2019 were \$219,484,822 and were comprised primarily of cash and investments. Total assets increased by \$35,926,617 or 19.57%, from the prior year primarily due to an increase in investment value.

| CHANGES IN FIDUCIARY NET POSITION | | |
|---|-------------------|-------------------|
| | 2019 | 2018 |
| Additions | | |
| Contributions | \$ 17,749 | \$ 23,568 |
| Investment income (loss), net | <u>34,267</u> | <u>(10,011)</u> |
| Total Additions | 52,016 | 13,557 |
| Deductions | | |
| Benefit payments | 14,902 | 14,499 |
| Other | <u>1,161</u> | <u>1,218</u> |
| Total Deductions | <u>16,063</u> | <u>15,717</u> |
| Change in Net Position | 35,953 | (2,160) |
| Net Position Restricted for Pensions | | |
| Beginning of Year | <u>183,497</u> | <u>185,657</u> |
| End of Year | <u>\$ 219,450</u> | <u>\$ 183,497</u> |

The amount needed to finance benefits is accumulated through the collection of employers' and employee's contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 COLA and through earnings on investments. Contributions and net investment loss for calendar year 2019 resulted in total additions of \$52,016,163. Employers' contributions decreased by \$(5,397,786), or (28.87) % in calendar year 2019. The System had net investment income of \$34,266,958 versus an investment loss of \$(10,011,238) in 2018, primarily due to the market performing more favorably in calendar year 2019.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds and transfers of member contributions, reimbursement payments in accordance with Massachusetts General Law, Chapter 32, Section 3(8)c, more commonly referred to as 3(8)c reimbursements, and the costs of administering the System. Total deductions for calendar year 2019 were \$16,063,300, which represents an increase of \$346,353, or 2.20%, over deductions of \$15,716,947 in calendar year 2018. The payment of pension benefits increased by \$403,004 or 2.78% over the previous year.

Requests for Information

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

Watertown Contributory Retirement System

Ms. Barbara Sheehan, Executive Director

149 Main Street

Watertown, Massachusetts 02472

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Watertown, Massachusetts)

Statement of Fiduciary Net Position

December 31, 2019

Assets

| | |
|---------------------------------|-----------------------|
| Cash and short-term investments | \$ 1,143,367 |
| Investments in: | |
| Domestic stock fund | 11,900,239 |
| Equity mutual funds | 86,668,796 |
| Fixed income mutual funds | 35,554,563 |
| External investment pool | 57,827,915 |
| Limited partnership | <u>26,125,884</u> |
| Total Investments | 218,077,397 |
| Accounts receivable | <u>264,058</u> |
| Total Assets | <u>\$ 219,484,822</u> |

Liabilities

| | |
|------------------------------------|-----------------------|
| Accounts payable | \$ 34,990 |
| Net Position | |
| Restricted for pension purposes | <u>219,449,832</u> |
| Total Liabilities and Net Position | <u>\$ 219,484,822</u> |

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

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Watertown, Massachusetts)

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2019

Additions

Contributions:

| | |
|---|-------------------|
| Employers | \$ 13,300,956 |
| Plan members | 3,986,192 |
| Other systems and Commonwealth of Massachusetts | 438,830 |
| Other | <u>23,227</u> |
| | <u>17,749,205</u> |

Investment income:

| | |
|---|--------------------|
| Appreciation in fair value of investments | 35,673,077 |
| Less: Management fees | <u>(1,406,119)</u> |
| | <u>34,266,958</u> |
| Total Contributions | <u>52,016,163</u> |

Deductions

| | |
|--|-------------------|
| Benefit payments to plan members and beneficiaries | 14,902,392 |
| Refunds to plan members | 115,942 |
| Transfers to other systems | 755,424 |
| Administrative expenses | <u>289,542</u> |
| | <u>16,063,300</u> |
| Total Deductions | <u>35,952,863</u> |

Net Position Restricted for Pensions

| | |
|-------------------|-----------------------|
| Beginning of Year | <u>183,496,969</u> |
| End of Year | <u>\$ 219,449,832</u> |

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

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

Notes to Financial Statements

1. Description of Plan

Substantially all employees of the Town of Watertown (except teachers and administrators under contract employed by the School Department) and Watertown Housing Authority are members of the Watertown Contributory Retirement System (the System), a cost-sharing, multiple-employer, public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages, and benefits paid. The Watertown Contributory Retirement Board does not have the authority to amend benefit provisions.

Membership of the plan consisted of the following at January 1, 2020:

| | |
|---|---------------------|
| Retirees and beneficiaries receiving benefits | 363 |
| Inactive members entitled to a return of their employee contributions | 239 |
| Active plan members | <u>528</u> |
| Total | <u><u>1,130</u></u> |
| Number of participating employers | 2 |

Participant Contributions

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

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

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

Participant Retirement Benefits

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

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are 4 classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

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

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

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

Methods of Payment

A member may elect to receive his or her retirement allowance in one of three forms of payment as follows:

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member's death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.
- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

Participant Refunds

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

Employer Contributions

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

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The System is a member of the Massachusetts Contributory Retirement Systems and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the Town of Watertown, Massachusetts

(the Town), the System is included as a pension trust fund in the Town's basic financial statements. The System is governed by a five-member board. The five members include two appointed by the Town, two elected by the members and retirees, and a fifth member chosen by the other four members with the approval of Public Employee Retirement Administration Commission.

Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2019 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting

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

Investments

Investment Policy

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

Rate of Return

For the year ended December 31, 2019, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was not available. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested throughout the year.

3. Cash and Short-Term Investments

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

As of December 31, 2019, \$595,319 of the System's bank balance of \$1,378,499 was exposed to custodial credit risk as uninsured or uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

4. Investments

The following is a summary of the System's investments as of December 31, 2019:

| <u>Investment Type</u> | <u>Amount</u> |
|---------------------------|-----------------------|
| Domestic stock fund | \$ 11,900,239 |
| Equity mutual funds | 86,668,796 |
| Fixed income mutual funds | 35,554,563 |
| External investment pool* | 57,827,915 |
| Limited partnership | 26,125,884 |
| Total Investments | \$ 218,077,397 |

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust (PRIT) was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System does not have formal investment policies related to custodial credit risk.

\$11,900,239 of the System's investments were exposed to custodial credit risk as uninsured and uncollateralized. However, \$57,827,915 of the System's investments were held in the State investment pool (PRIT). Investments in external/State investment pools and mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

Credit Risk

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

All of the System's investments in fixed income mutual funds of \$35, 554,563 had a rating of AA2 at December 31, 2019.

Concentration of Credit Risk

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from concentration of credit disclosure.

As of December 31, 2019, the System did not have any investments subject to concentration of credit risk disclosure as any investment classifications exceeding 5% are exempt.

Interest Rate Risk

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

All of the System's investments in fixed income mutual funds of \$35,554,563 matured in less than one year.

Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The System does not have a formal investment policy related to foreign currency risk.

Fair Value

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2 – Inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.

- **Level 3 – Unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.**

The net asset value (NAV) per share is the amount of net assets attributable to each share of capital stock outstanding at the close of the period. Investments measured at the NAV for fair value are not subject to level classification.

The System has the following fair value measurements as of December 31, 2019:

| <u>Investment Type</u> | <u>Amount</u> | Fair Value Measurements Using: | | |
|---|-----------------------|---|---|---|
| | | Quoted prices in active markets for identical assets <u>(Level 1)</u> | Significant observable inputs <u>(Level 2)</u> | Significant unobservable inputs <u>(Level 3)</u> |
| Investments by fair value level: | | | | |
| Domestic stock funds | \$ 11,900,239 | \$ 11,900,239 | \$ - | \$ - |
| Equity mutual funds | 86,668,796 | 86,668,796 | - | - |
| Fixed income mutual funds | 35,554,563 | - | 35,554,563 | - |
| Investments measured at the net asset value (NAV): | | | | |
| External investment pools | 57,827,915 | | | |
| Limited partnerships | <u>26,125,884</u> | | | |
| Total | \$ 218,077,397 | | | |

| <u>Description</u> | <u>Value</u> | <u>Unfunded Commitments</u> | <u>Redemption Frequency (if currently eligible)</u> | <u>Redemption Notice Period</u> |
|--|----------------------|-----------------------------|---|---------------------------------|
| <i>External investment pools:</i> | | | | |
| Prim Alternative Investments - PE VY2011 | \$ 1,062,258 | \$ 138,580 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2013 | 1,119,103 | 131,907 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2014 | 1,331,097 | 274,604 | Illiquid | N/A |
| Hedge Funds | 15,960,897 | - | Quarterly | 30 Days |
| Domestic Equity Fund | 17,473,310 | - | Monthly | 5 Days |
| Core Real Estate Fund | 15,347,411 | - | Monthly | 5 Days |
| Prim Alternative Investments - PE VY2015 | 1,840,993 | 287,809 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2016 | 701,924 | 351,145 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2017 | 1,106,479 | 1,892,541 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2012 | 949,030 | 120,613 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2018 | 541,514 | 2,227,842 | Illiquid | N/A |
| Prim Alternative Investments - PE VY2019 | 393,899 | 2,796,370 | Illiquid | N/A |
| Total external investment pools | \$ <u>57,827,915</u> | | | |
| <i>Limited partnerships:</i> | | | | |
| Arsenal Real Estate Fund IA | \$ 44,451 | \$ - | Illiquid | N/A |
| Auda Partners | 86,158 | 95,686 | Illiquid | N/A |
| Ernest Partners International | 19,185,539 | - | Monthly | 5 days |
| RCP Fund IV LP | 370,622 | - | Illiquid | N/A |
| Terracap Partners IV Instl LP | 1,168,852 | - | Illiquid | N/A |
| TA Realty Core Property FD LP | 4,116,566 | - | Quarterly | 45 days |
| American Strat Val Rlty FD LP | 1,153,696 | 916,000 | Quarterly | 30 days |
| Total limited partnerships | \$ <u>26,125,884</u> | | | |

5. Accounts Receivable

Annually the Public Employee Retirement Administration (PERAC) determines the amount of employer contributions (pension appropriations) to be made to the System. The accounts receivable balance primarily represents legal amounts due from employers for pension appropriation not received until after December 31, 2019.

6. Accounts Payable

This balance represents calendar year 2019 expenditures paid after December 31, 2019.

7. Contingencies

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

8. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2020.

Net Pension Liability of Employers

The components of the net pension liability of the participating employers at December 31, 2019 were as follows:

| | |
|---|----------------------|
| Total pension liability | \$ 234,085,877 |
| Plan fiduciary net position | <u>(219,449,833)</u> |
| Employers' net pension liability | <u>\$ 14,636,044</u> |
| Plan fiduciary net position as a percentage of total pension liability | 93.7% |

Actuarial Assumptions

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

| | |
|---|----------------|
| Valuation date | 1/1/2020 |
| Entry Age | |
| Normal Cost | |
| Actuarial cost method | Method |
| Remaining amortization period | 3 |
| Actuarial assumptions: | |
| Investment rate of return | 7.80% |
| Projected salary increases | |
| Group 1 | 3.50% |
| Group 2 | 3.50% |
| Group 4 | 3.50% |
| Inflation rate | 2.40% |
| Post-retirement cost-of-living adjustment | 3% on \$13,000 |

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

Mortality rates were represented by the various SOA Pub-2010 Public Retirement Plan Mortality Tables specific to the Group, Pre-retirement versus Post, Disabled and Beneficiaries, with Scale MP-2018 improvements until 2025.

Target Allocations

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's targeted asset allocation as of December 31, 2019, are summarized in the following table.

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|---------------------------------------|--------------------------------|---|
| Core bonds | 15.00% | 1.45% |
| High yield fixed income | 0.00% | 2.95% |
| Global fixed income | 2.00% | 1.65% |
| Domestic large cap | 24.00% | 4.75% |
| Domestic small cap | 7.00% | 5.15% |
| International developed equity | 20.00% | 5.45% |
| International emerging markets equity | 7.00% | 6.25% |
| Real estate | 10.00% | 4.10% |
| Hedge funds | 5.00% | 3.60% |
| Private equity | 10.00% | 7.60% |
| Total | 100.00% | |

Discount Rate

The discount rate used to measure the total pension liability was 7.80%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the Board's funding policy, which establishes the contractually required rates by Statute. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of Discount Rate

The following presents the net pension liability (asset) of the participating employers calculated using the discount rate of 7.80%, as well as what the participating employers'

net pension liability (asset) would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

| | 1% | Current Discount Rate | 1% |
|---------------|----------------|-----------------------------|----------------|
| Decrease | <u>(6.80%)</u> | <u>(7.80%)</u> | <u>(8.80%)</u> |
| \$ 38,925,160 | \$ 14,636,044 | \$ (6,048,577) | |

Deferred Outflows/(Inflows) of Resources

The following schedule reflects the deferred outflows/(inflows) of resources for the System for the year ended December 31, 2019:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred (Inflows) of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ 6,856,552 | \$ (268,660) |
| Changes of assumptions | 7,501,416 | (229,155) |
| Net difference between projected and actual investment earnings on pension plan investments | - | (5,307,911) |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | <u>28,208</u> | <u>(28,208)</u> |
| Total | <u>\$ 14,386,176</u> | <u>\$ (5,833,934)</u> |

The following summarizes changes in deferred outflows/(inflows):

| | Measurement Year | Amortization Period | Beginning Balance on Prior Measurement Period Deferrals | Current Measurement Period Additions | Amortization of Amounts Recognized in Current Period Pension Expense | End of Year Balance |
|--|---------------------|------------------------|--|---|--|------------------------|
| Deferred Outflows of Resources | | | | | | |
| Differences between expected and actual experience: | 2017 | 4.54 | \$ 3,766,889 | \$ - | \$ 2,446,031 | \$ 1,320,858 |
| | 2018 | 4.37 | 2,188,003 | - | 923,208 | 1,264,795 |
| | 2020 | 4.42 | - | 5,519,700 | 1,248,801 | 4,270,899 |
| Change in assumptions | 2018 | 4.26 | 10,820,626 | - | 3,319,210 | 7,501,416 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions: | 2016 | 4.54 | (1,350) | - | (1,350) | - |
| | 2017 | 4.54 | (70,603) | - | (45,847) | (24,756) |
| | 2018 | 4.37 | (28,569) | - | (12,054) | (16,515) |
| | 2019 | 5.26 | 63,762 | - | 14,968 | 48,794 |
| | 2020 | 5.00 | - | 25,856 | 5,171 | 20,685 |
| Total Deferred Outflows of Resources | | | 16,738,758 | 5,545,556 | 7,898,138 | 14,386,176 |
| Deferred (Inflows) of Resources | | | | | | |
| Differences between expected and actual experience | 2018 | 4.26 | (387,536) | - | (118,876) | (268,660) |
| Change in assumptions | 2017 | 4.54 | (653,514) | - | (424,359) | (229,155) |
| Net difference between projected and actual investment earnings on pension plan investments: | 2016 | 5.00 | 1,818,798 | - | 1,818,798 | - |
| | 2017 | 5.00 | 1,051,619 | - | 525,810 | 525,809 |
| | 2018 | 5.00 | (7,285,866) | - | (2,428,955) | (4,857,911) |
| | 2019 | 5.00 | 19,949,396 | - | 4,987,349 | 14,962,047 |
| | 2020 | 5.00 | - | (19,922,320) | (3,984,464) | (15,937,856) |
| Changes in proportion and differences between employer contributions and proportionate share of contributions: | 2016 | 4.54 | 1,350 | - | 1,350 | - |
| | 2017 | 4.54 | 70,603 | - | 45,847 | 24,756 |
| | 2018 | 4.37 | 28,569 | - | 12,054 | 16,515 |
| | 2019 | 5.26 | (63,762) | - | (14,968) | (48,794) |
| | 2020 | 5.00 | - | (25,856) | (5,171) | (20,685) |
| Total Deferred (Inflows) of Resources | | | 14,528,657 | (19,948,176) | 414,415 | (5,833,934) |
| Total Collective Deferred Outflows (Inflows) of Resources | | | \$ 31,267,415 | \$ (14,402,620) | \$ 8,312,553 | \$ 8,552,242 |

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

| Fiscal <u>Year</u> | <u>Total</u> |
|-----------------------|----------------------------|
| 2021 | \$ 5,563,785 |
| 2022 | 3,364,652 |
| 2023 | 3,083,774 |
| 2024 | <u>(3,459,969)</u> |
| | <u><u>\$ 8,552,242</u></u> |

Subsequent Event

The COVID-19 outbreak in the United States (and across the globe) has resulted in economic uncertainties. The disruption is expected to be temporary, but there is considerable uncertainty around the duration and scope. The extent of the impact of COVID-19 on our operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, impact on our members, employees, and vendors, all of which are uncertain and cannot be predicted. At this point, the extent to which COVID-19 may impact our financial condition or results of operations is uncertain.

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Watertown, Massachusetts)

Required Supplementary Information

Schedule of Changes in the Net Pension Liability

(Unaudited)

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total Pension Liability | | | | | | |
| Service cost | \$ 3,628,350 | \$ 3,305,996 | \$ 3,338,860 | \$ 3,895,597 | \$ 3,895,599 | \$ 3,745,767 |
| Interest on unfunded liability - time value of money | 17,119,562 | 15,945,986 | 15,330,990 | 14,442,636 | 14,615,997 | 14,213,781 |
| Changes in plan provisions | - | - | 778,002 | - | - | - |
| Experience (gain)/loss | 5,519,700 | (506,412) | 4,034,420 | 11,104,982 | - | - |
| Changes of assumptions | - | 14,139,836 | (1,926,591) | - | - | - |
| Benefit payments, including refunds of member contributions | <u>(15,773,758)</u> | <u>(15,378,326)</u> | <u>(14,413,329)</u> | <u>(14,006,492)</u> | <u>(13,810,095)</u> | <u>(13,081,678)</u> |
| Net Change in Total Pension Liability | 10,493,854 | 17,507,080 | 8,290,941 | 14,288,134 | 4,701,501 | 4,877,870 |
| Total Pension Liability - Beginning | <u>223,592,023</u> | <u>206,084,943</u> | <u>197,794,002</u> | <u>183,505,868</u> | <u>178,804,367</u> | <u>173,926,497</u> |
| Total Pension Liability - Ending (a) | <u>234,085,877</u> | <u>223,592,023</u> | <u>206,084,943</u> | <u>197,794,002</u> | <u>183,505,868</u> | <u>178,804,367</u> |
| Plan Fiduciary Net Position | | | | | | |
| Contributions - employer | 13,300,956 | 18,698,742 | 17,173,496 | 15,598,496 | 14,023,496 | 12,465,133 |
| Contributions - member | 3,986,192 | 4,369,364 | 3,400,281 | 3,465,100 | 3,193,042 | 3,186,332 |
| Net investment income | 34,298,396 | (9,967,302) | 24,612,432 | 8,827,366 | 1,842,184 | 7,674,151 |
| Benefit payments, including refunds of member contributions | <u>(15,773,758)</u> | <u>(15,378,326)</u> | <u>(14,413,329)</u> | <u>(14,006,492)</u> | <u>(13,288,770)</u> | <u>(12,587,850)</u> |
| Administrative expense | (320,979) | (339,624) | (309,692) | (279,447) | (300,358) | (279,447) |
| Other | 462,057 | 456,764 | 481,871 | 480,658 | 537,085 | 487,925 |
| Net Change in Plan Fiduciary Net Position | 35,952,864 | (2,160,382) | 30,945,059 | 14,085,681 | 6,006,679 | 10,946,244 |
| Plan Fiduciary Net Position - Beginning | <u>183,496,969</u> | <u>185,657,351</u> | <u>154,712,292</u> | <u>140,626,611</u> | <u>134,619,932</u> | <u>123,673,688</u> |
| Plan Fiduciary Net Position - Ending (b) | <u>219,449,833</u> | <u>183,496,969</u> | <u>185,657,351</u> | <u>154,712,292</u> | <u>140,626,611</u> | <u>134,619,932</u> |
| Net Pension Liability - Ending (a-b) | <u>\$ 14,636,044</u> | <u>\$ 40,095,054</u> | <u>\$ 20,427,592</u> | <u>\$ 43,081,710</u> | <u>\$ 42,879,257</u> | <u>\$ 44,184,435</u> |

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

See Independent Auditors' Report.

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
 (A Component Unit of the Town of Watertown, Massachusetts)
 Required Supplementary Information
 Schedules of Net Pension Liability, Contributions, and Investment Returns
 (Unaudited)

| Schedule of Net Pension Liability | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total pension liability | \$ 234,085,877 | \$ 223,592,023 | \$ 206,084,943 | \$ 197,794,002 | \$ 183,505,868 | \$ 178,804,367 |
| Plan fiduciary net position | <u>(219,449,833)</u> | <u>(183,496,969)</u> | <u>(185,657,351)</u> | <u>(154,712,292)</u> | <u>(140,626,611)</u> | <u>(134,619,930)</u> |
| Net pension liability | \$ 14,636,044 | \$ 40,095,054 | \$ 20,427,592 | \$ 43,081,710 | \$ 42,879,257 | \$ 44,184,437 |
| Plan fiduciary net position as a percentage of the total pension liability | 93.7% | 82.1% | 90.1% | 78.2% | 76.6% | 75.3% |
| Covered payroll | \$ 35,322,996 | \$ 33,927,238 | \$ 33,501,993 | \$ 35,192,067 | \$ 31,539,610 | \$ 30,326,548 |
| Participating employer net pension liability as a percentage of covered payroll | 41.4% | 118.2% | 61.0% | 122.4% | 136.0% | 145.7% |
| Schedule of Contributions | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Actuarially determined contribution | \$ 13,300,956 | \$ 18,698,742 | \$ 17,173,496 | \$ 15,598,496 | \$ 14,023,496 | \$ 12,448,496 |
| Contributions in relation to the actuarially determined contribution | <u>(13,300,956)</u> | <u>(18,698,742)</u> | <u>(17,173,496)</u> | <u>(15,598,496)</u> | <u>(14,023,496)</u> | <u>(12,448,496)</u> |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered payroll | \$ 35,322,996 | \$ 33,927,238 | \$ 33,501,993 | \$ 35,192,067 | \$ 31,539,610 | \$ 30,326,548 |
| Contributions as a percentage of covered payroll | 37.7% | 55.1% | 51.3% | 44.3% | 44.5% | 41.0% |
| Schedule of Investment Returns | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| <i>Year Ended December 31</i> | | | | | | |
| Annual money weighted rate of return, net of investment expense | unavailable | unavailable | 14.44% | 6.68% | 0.78% | 6.42% |

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

See Independent Auditors' Report.



INDEPENDENT AUDITORS' REPORT

To the Retirement Board
Watertown Contributory Retirement System
Town of Watertown, Massachusetts

Report on Schedules

We have audited the accompanying schedule of employer allocations of the Watertown Contributory Retirement System as of and for the year ended December 31, 2019. We have also audited the total for all entities of the titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified totals) included in the accompanying schedule of pension amounts by employer of the Watertown Contributory Retirement System (the System) as of and for the year ended December 31, 2019.

Management's Responsibility for the Schedules

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

Auditors' Responsibility

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

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

Merrimack, New Hampshire
Andover, Massachusetts
Greenfield, Massachusetts
Ellsworth, Maine

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

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

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for the Watertown Contributory Retirement System as of and for the year ended December 31, 2019, in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use

Our report is intended solely for the information and use of Watertown Contributory Retirement System management, the Retirement Board, System employers and their auditors as of and for the year ended December 31, 2019 and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Melanson".

Greenfield, Massachusetts
August 3, 2021

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WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Watertown, Massachusetts)
Schedule of Employer Allocations

| <u>Employer</u> | <u>FY2020</u> <u>Actual</u> <u>Employer</u> <u>Contributions</u> | <u>Allocation</u> <u>Percentage</u> |
|-------------------|---|--|
| Town of Watertown | \$ 13,093,393 | 98.4395% |
| Housing Authority | <u>207,563</u> | 1.5605% |
| Total | <u>\$ 13,300,956</u> | <u>100.0000%</u> |

See actuarial assumptions in the Town of Watertown, Massachusetts Contributory Retirement System audited financial statements.

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM
 (A Component Unit of the Town of Watertown, Massachusetts)
 Schedule of Pension Amounts by Employer
 As of and for the Year Ended December 31, 2019

| | <u>Town</u> | <u>Housing Authority</u> | <u>Total</u> |
|---|-----------------------------|--------------------------|-----------------------------|
| Net Pension Liability | \$ 14,407,649 | \$ 228,395 | \$ 14,636,044 |
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$ 6,749,556 | \$ 106,996 | \$ 6,856,552 |
| Changes of assumptions | 7,384,357 | 117,059 | 7,501,416 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | <u>25,961</u> | <u>2,247</u> | <u>28,208</u> |
| Total Deferred Outflows of Resources | <u><u>\$ 14,159,874</u></u> | <u><u>\$ 226,302</u></u> | <u><u>\$ 14,386,176</u></u> |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | \$ 264,468 | \$ 4,192 | \$ 268,660 |
| Changes of assumptions | 225,579 | 3,576 | 229,155 |
| Net difference between projected and actual investment earnings on pension plan investments | 5,225,082 | 82,829 | 5,307,911 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | <u>2,247</u> | <u>25,961</u> | <u>28,208</u> |
| Total Deferred Inflows of Resources | <u><u>\$ 5,717,376</u></u> | <u><u>\$ 116,558</u></u> | <u><u>\$ 5,833,934</u></u> |
| Pension Expense | | | |
| Proportionate share of pension expense | \$ 10,847,222 | \$ 171,954 | \$ 11,019,176 |
| Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions | <u>9,943</u> | <u>(9,942)</u> | <u>1</u> |
| Total Pension Expense | <u><u>\$ 10,857,165</u></u> | <u><u>\$ 162,012</u></u> | <u><u>\$ 11,019,177</u></u> |
| Contributions | | | |
| Actuarially determined contribution | \$ 13,093,393 | \$ 207,563 | \$ 13,300,956 |
| Contributions made | <u>(13,093,393)</u> | <u>(207,563)</u> | <u>(13,300,956)</u> |
| Contribution deficiency/(excess) | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |
| Contributions as a percentage of covered payroll | 38% | 38% | 38% |
| Deferred Outflows/(Inflows) Recognized in Future Pension Expense | | | |
| June 30, 2021 | \$ 5,476,962 | \$ 86,823 | \$ 5,563,785 |
| June 30, 2022 | 3,312,147 | 52,505 | 3,364,652 |
| June 30, 2023 | 3,035,652 | 48,122 | 3,083,774 |
| June 30, 2024 | <u>(3,405,976)</u> | <u>(53,993)</u> | <u>(3,459,969)</u> |
| Total Deferred Outflows/(Inflows) Recognized in Future Pension Expense | <u><u>\$ 8,418,785</u></u> | <u><u>\$ 133,457</u></u> | <u><u>\$ 8,552,242</u></u> |
| Discount Rate Sensitivity | | | |
| 1% decrease (6.80%) | \$ 38,317,733 | \$ 607,427 | \$ 38,925,160 |
| Current discount rate (7.80%) | \$ 14,407,649 | \$ 228,395 | \$ 14,636,044 |
| 1% increase (8.80%) | \$ (5,954,189) | \$ (94,388) | \$ (6,048,577) |
| Covered Payroll | \$ 34,771,781 | \$ 551,215 | \$ 35,322,996 |

See actuarial assumptions in the Town of Watertown, Massachusetts Contributory Retirement System audited financial statements.



WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

A Component Unit of the Town of Watertown, Massachusetts

**Financial Statements, Required Supplementary Information,
and Other Information**

For the Year Ended December 31, 2018

(With Independent Auditors' Report Thereon)

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INDEPENDENT AUDITORS' REPORT

To the Contributory Retirement Board
Watertown Contributory Retirement System
Town of Watertown, Massachusetts

We have audited the accompanying financial statements of the Watertown, Massachusetts Contributory Retirement System (the System), a component unit of the Town of Watertown, Massachusetts, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies

Merrimack, New Hampshire
Andover, Massachusetts
Greenfield, Massachusetts
Ellsworth, Maine

800.282.2440 | melansoncpas.com



used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the Watertown Contributory Retirement System as of December 31, 2018, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

A handwritten signature in black ink that reads "Melanson".

Andover, Massachusetts
December 10, 2020

800.282.2440 | melansoncpas.com

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Watertown Contributory Retirement System (the System), we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2018.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The Statement of Changes in Fiduciary Net Position presents information showing how the System's net position restricted for pensions changed during the year ended December 31, 2018. It reflects contributions by members and participating employers, investment activity, along with deductions for retirement benefits, refunds, transfers, and administrative expenses.

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

The Required Supplementary Information includes this Management's Discussion and Analysis, the Schedule of Changes in the Net Pension Liability, and the Schedules of Net Pension Liability, Contributions, and Investment Returns.

B. FINANCIAL HIGHLIGHTS

- The System's total net position restricted for pensions was \$183,496,969 at December 31, 2018.
- The System's net position (decreased) by \$(2,160,382), which is primarily due to investment performance.

- Employer and employee contributions to the plan were \$23,068,105, which represents a \$2,491,238 increase over the prior year. The employer share of contributions represents 79.34% of the total contributions made to the System.
- Benefits paid to plan participants increased by \$768,019 or 5.60%, totaling \$14,499,388. At December 31, 2018, there were 426 retirees and beneficiaries in receipt of pension benefits, as further discussed on page 9.
- The System's December 31, 2018 funded ratio based on the GASB 68 report (Accounting) was 82.1%. The Systems January 1, 2019 funded ratio based on the actuarial valuation (Funding) was 89.0%.

C. FINANCIAL STATEMENT ANALYSIS

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

| | <u>FIDUCIARY NET POSITION</u> | |
|-------------------------|-------------------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| Assets | | |
| Cash and receivables | \$ 1,622 | \$ 1,455 |
| Investments | <u>181,936</u> | <u>184,250</u> |
| Total assets | 183,558 | 185,705 |
| Liabilities | | |
| Accounts payable | 14 | 48 |
| Other | <u>47</u> | - |
| Total liabilities | <u>61</u> | <u>48</u> |
| Net Position | | |
| Restricted for pensions | <u>\$ 183,497</u> | <u>\$ 185,657</u> |

The System's total assets as of December 31, 2018 were \$183,558,205 and mostly comprise cash and investments. Total assets decreased (\$2,146,675) or (1.16)%, from the prior year primarily due to investment performance. Total liabilities increased by \$13,707 or 28.84% over the prior year.

| <u>CHANGES IN FIDUCIARY NET POSITION</u> | | |
|---|-------------------|-------------------|
| | <u>2018</u> | <u>2017</u> |
| Additions | | |
| Contributions | \$ 23,568 | \$ 21,059 |
| Investment income, net | <u>(10,011)</u> | <u>24,571</u> |
| Total additions | 13,557 | 45,630 |
| Deductions | | |
| Benefit payments | 14,499 | 13,731 |
| Other | <u>1,218</u> | <u>954</u> |
| Total deductions | <u>15,717</u> | <u>14,685</u> |
| Changes in net position | (2,160) | 30,945 |
| Net Position Restricted for Pensions | | |
| Beginning of year | <u>185,657</u> | <u>154,712</u> |
| End of year | <u>\$ 183,497</u> | <u>\$ 185,657</u> |

The amount needed to finance benefits is accumulated through the collection of employers' and employee's contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 COLA and through earnings on investments. Contributions and net investment loss for calendar year 2018 resulted in a net loss of (\$2,160,382). Employers' contributions increased by \$2,509,066, or 11.91% in calendar year 2018. The System had a net investment loss of (\$10,011,238) versus income of \$24,570,843 in 2017, primarily due to investment performance.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds and transfers of member contributions, reimbursement payments in accordance with Massachusetts General Law, Chapter 32, Section 3(8)c, more commonly referred to as 3(8)c reimbursements, and the costs of administering the System. Total deductions for calendar year 2018 were \$15,716,947, which represents an increase of \$1,032,423, or 7.03%, over deductions of \$14,684,524 in calendar year 2017. The payment of pension benefits increased by \$768,019 or 5.6% over the previous year. The increase in these expenses resulted from cost-of-living adjustments (COLA) and higher pensions earned by new retirees.

REQUESTS FOR INFORMATION

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

Watertown Contributory Retirement System

149 Main Street

Watertown, Massachusetts 02472

TOWN OF WATERTOWN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Watertown, Massachusetts)

Statement of Fiduciary Net Position

December 31, 2018

Assets

| | |
|---------------------------------|-----------------------|
| Cash and short-term investments | \$ 1,085,215 |
| Investments: | |
| Domestic stock fund | 16,083,872 |
| Equity mutual funds | 62,619,892 |
| External investment pool | 51,407,255 |
| Fixed income mutual funds | 32,000,107 |
| Limited partnership | 19,824,766 |
| Accounts receivable | <u>537,098</u> |
| Total assets | <u>\$ 183,558,205</u> |

Liabilities

| | |
|--------------------------|---------------|
| Accounts payable | \$ 13,511 |
| Other | <u>47,725</u> |
| Total liabilities | <u>61,236</u> |

Net Position

| | |
|---|-----------------------|
| Restricted for pensions | <u>183,496,969</u> |
| Total liabilities and net position | <u>\$ 183,558,205</u> |

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

TOWN OF WATERTOWN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Watertown, Massachusetts)

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2018

Additions

Contributions:

| | |
|---|---------------|
| Employers | \$ 18,698,742 |
| Plan members | 4,369,363 |
| Other systems and Commonwealth of Massachusetts | 443,596 |
| Other | 56,101 |
| | <hr/> |

| | |
|---------------------|------------|
| Total contributions | 23,567,802 |
|---------------------|------------|

Investment income (loss):

| | |
|--|--------------------|
| Appreciation (depreciation) in fair value of investments | (8,726,066) |
| Less: management fees | <hr/> (1,285,171) |
| | <hr/> (10,011,237) |
| | <hr/> |

| | |
|-----------------|------------|
| Total additions | 13,556,565 |
|-----------------|------------|

Deductions

| | |
|--|---------------|
| Benefit payments to plan members and beneficiaries | 14,499,388 |
| Refunds to plan members | 336,003 |
| Transfers to other systems | 585,877 |
| Administrative expenses | <hr/> 295,679 |
| | <hr/> |

| | |
|------------------|------------|
| Total deductions | 15,716,947 |
|------------------|------------|

| | |
|----------------|-------------|
| Net (decrease) | (2,160,382) |
|----------------|-------------|

Net Position Restricted for Pensions

| | |
|-------------------|----------------------|
| Beginning of year | 185,657,351 |
| End of year | <hr/> \$ 183,496,969 |

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

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

Notes to Financial Statements

1. Description of Plan

Substantially all employees of the Town of Watertown (except teachers and administrators under contract employed by the School Department) and Watertown Housing Authority are members of the Watertown Contributory Retirement System (the System), a cost-sharing, multiple-employer, public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages, and benefits paid. The Watertown Contributory Retirement Board does not have the authority to amend benefit provisions.

Membership of the plan consisted of the following at January 1, 2019 (the latest actuarial valuation):

| | |
|--|---------------------|
| Retirees and beneficiaries receiving benefits | 426 |
| Terminated plan members entitled to but not yet receiving benefits | 183 |
| Active plan members | <u>512</u> |
| Total | <u><u>1,121</u></u> |
| Number of participating employers | 2 |

Participant Contributions

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

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

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

Employer Contributions

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

Participant Retirement Benefits

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

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are four classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

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

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

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

Methods of Payment

A member may elect to receive his or her retirement allowance in one of three forms of payment as follows:

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the members death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member, provided however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree's beneficiary or beneficiaries of choice.
- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member's designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or "pops up" to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable "pops up" to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

Participant Refunds

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

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2018 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting

The System follows accounting policies mandated by the Commonwealth of Massachusetts. The accounting records are maintained on the accrual basis of accounting. Contributions from the Town of Watertown and Watertown Housing Authority employees are recognized as revenue in the period in which employees provide services to the respective member unit.

Investments

Investment Policy

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

Rate of Return

For the year ended December 31, 2018, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was unavailable. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested throughout the year.

3. Cash and Short-Term Investments

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

As of December 31, 2018, \$838,666 of the System's bank balance(s) of \$1,171,439 were exposed to custodial credit risk as uninsured or uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

4. Investments

The following is a summary of the System's investments as of December 31, 2018:

| <u>Investment Type</u> | <u>Amount</u> |
|---------------------------|-----------------------|
| Domestic stock fund | \$ 16,083,872 |
| Equity mutual funds | 62,619,892 |
| External investment pool* | 51,407,255 |
| Fixed income mutual funds | 32,000,107 |
| Limited partnership | <u>19,824,766</u> |
| Total investments | <u>\$ 181,935,892</u> |

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust (PRIT) was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

A. Credit Risk

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

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

| <u>Investment Type</u> | <u>Amount</u> | <u>Disclosure</u> | <u>Average Rating as of Year End</u> |
|---------------------------|----------------|-------------------|--|
| | | | <u>Exempt From</u> |
| Domestic stock fund | \$ 16,083,872 | \$ 16,083,872 | \$ - |
| Equity mutual funds | 62,619,892 | 62,619,892 | - |
| External investment pool | 51,407,255 | 51,407,255 | - |
| Fixed income mutual funds | 32,000,107 | - | 32,000,107 |
| Limited partnership | 19,824,766 | 19,824,766 | - |
| Total | \$ 181,935,892 | \$ 149,935,785 | \$ 32,000,107 |

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System does not have policies for custodial credit risk.

The System's investments of \$130,528,637 were exposed to custodial credit risk as uninsured and uncollateralized. However, \$51,407,255 of the System's investments were held in the State investment pool (PRIT).

Investments in external/State investment pools and in open-end mutual funds are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

C. Concentration of Credit Risk

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

Investments issued or explicitly guaranteed by the U.S. government and investments in mutual funds, external investment pools, and other pooled investments are excluded from concentration of credit disclosure.

As of December 31, 2018, investments in any one issuer that represent 5% or more of total investments are as follows:

| <u>Investment Issuer</u> | <u>Amount</u> | <u>% of total Investments</u> |
|--------------------------------|----------------------|-------------------------------|
| Earnest Partners International | \$ 14,306,827 | 8% |
| Total | \$ 14,306,827 | |

D. Interest Rate Risk

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

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

| <u>Investment Type</u> | <u>Amount</u> | <u>Less Than 1</u> |
|---------------------------|----------------------|----------------------|
| Fixed income mutual funds | \$ 32,000,107 | \$ 32,000,107 |
| Total | \$ 32,000,107 | \$ 32,000,107 |

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The System does not have a formal investment policy related to foreign currency risk.

F. Fair Value

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into three levels as follows:

- Level 1 – Inputs that reflect quoted prices (unadjusted) in active markets for identical assets or liabilities that the fund has the ability to access at the measurement date.

- Level 2 – Inputs other than quoted prices that are observable for an asset or liability either directly or indirectly, including inputs in markets that are not considered to be active. Because they must often be priced on the basis of transactions involving similar but not identical securities or do not trade with sufficient frequency, certain directly held securities are categorized as level 2.
- Level 3 – Unobservable inputs based on the best information available, using assumptions in determining the fair value of investments and derivative instruments.

The net asset value (NAV) per share is the amount of net assets attributable to each share of capital stock outstanding at the close of the period. Investments measured at the NAV for fair value are not subject to level classification.

The System has the following fair value measurements as of December 31, 2018:

| Description | Amount | Fair Value Measurements Using: | | |
|---|-----------------------|--|--|--|
| | | Quoted prices in active markets for identical assets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Investments by fair value level: | | | | |
| Domestic stock funds | \$ 16,083,872 | \$ 16,083,872 | \$ - | \$ - |
| Equity mutual funds | 62,619,892 | 62,619,892 | - | - |
| Fixed income mutual funds | 32,000,107 | - | 32,000,107 | - |
| Investments measured at the net asset value (NAV): | | | | |
| External investment pools | 51,407,255 | | | |
| Limited partnerships | 19,824,766 | | | |
| Total | \$ 181,935,892 | | | |

| Description | Value | Unfunded Commitments | Redemption | | |
|-------------------------------------|----------------------|---------------------------------|--|---|--|
| | | | Frequency (If currently eligible) | Redemption Notice Period | |
| External Investment pools: | | | | | |
| PRIM alternative investments - 2011 | \$ 1,251,168 | \$ 294,120 | Illiquid | N/A | |
| PRIM alternative investments - 2013 | 989,208 | 530,677 | Illiquid | N/A | |
| PRIM alternative investments - 2014 | 1,190,710 | 502,045 | Illiquid | N/A | |
| Hedge funds | 13,877,573 | - | Quarterly | 30 Days | |
| Domestic equity fund | 14,129,810 | - | Monthly | 5 Days | |
| Core real estate fund | 16,070,051 | - | Monthly | 5 Days | |
| PRIM alternative investments - 2015 | 1,432,571 | 942,386 | Illiquid | N/A | |
| PRIM alternative investments - 2016 | 631,233 | 1,391,340 | Illiquid | N/A | |
| PRIM alternative investments - 2017 | 489,479 | 2,397,268 | Illiquid | N/A | |
| PRIM alternative investments - 2012 | 1,136,477 | 668,172 | Illiquid | N/A | |
| PRIM alternative investments - 2018 | <u>208,975</u> | <u>2,744,889</u> | Illiquid | N/A | |
| Total external investment pool | <u>\$ 51,407,255</u> | | | | |
| Limited Partnerships: | | | | | |
| Arsenal Real Estate Fund LP | \$ 69,157 | - | Illiquid | N/A | |
| Auda Partners | 153,394 | 95,686 | Illiquid | N/A | |
| Earnest Partners International | 14,306,827 | - | Monthly | 5 days | |
| RCP Fund IV LP | 867,655 | - | Illiquid | N/A | |
| Terracap Partners IV Instl LP | 1,043,817 | - | Illiquid | N/A | |
| TA Realty Core Property FD LP | 3,007,031 | 718,584 | Quarterly | 45 days | |
| American Strat Val Rity FD LP | <u>376,885</u> | <u>1,634,000</u> | Quarterly | 30 days | |
| Total limited partnerships | <u>\$ 19,824,766</u> | | | | |

5. Accounts Receivable

Annually the Public Employee Retirement Administration (PERAC) determines the amount of employer contributions (pension appropriations) to be made to the System. The accounts receivable balance primarily represents legal amounts due from employers for pension appropriation not received until after December 31, 2018.

6. Accounts Payable

This balance represents payment for salaries paid by the Town on behalf of the System.

7. Contingencies

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

8. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2019 and rolled back to December 31, 2018.

A. Net Pension Liability of Employers

The components of the net pension liability of the participating employers at December 31, 2018 were as follows:

| | |
|--|----------------------|
| Total pension liability | \$ 223,592,023 |
| Plan fiduciary net position | <u>(183,496,969)</u> |
| Employers' net pension liability | <u>\$ 40,095,054</u> |
| Plan fiduciary net position as a percentage of total pension liability | 82.1% |

B. Actuarial Assumptions

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

| | |
|---|-----------|
| Valuation date | 1/1/2019 |
| Actuarial cost method | Entry Age |
| Remaining amortization period | 4 |
| Actuarial assumptions: | |
| Investment rate of return | 7.80% |
| Projected salary increases | 3.50% |
| Post-retirement cost-of-living adjustment | 3.00% |

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

Mortality rates were represented by the various SOA Pub-2010 Public Retirement Plan Mortality Tables specific to the Group, Pre-retirement versus Post, Disabled and Beneficiaries, with Scale MP-2018 improvements until 2025.

Changes of Assumptions

Change in mortality table and the change in the discount rate from 7.9% in 2017 to 7.8% in 2018 caused an increase of Net Pension Liability, Deferred Outflows, and Deferred Inflows.

C. Target Allocations

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's targeted asset allocation as of December 31, 2018, are summarized in the following table.

| Asset Class | Target Asset Allocation | Long-Term Expected Real Rate of Return |
|-------------------------|-------------------------|--|
| Core bonds | 19.00% | 1.60% |
| High yield fixed income | 2.50% | 3.00% |
| Global fixed income | 4.00% | 1.75% |
| Domestic large cap | 25.00% | 5.00% |
| Domestic small cap | 5.00% | 5.55% |
| International equity | 22.00% | 5.35% |
| Real estate | 10.00% | 3.90% |
| Hedge funds | 7.50% | 3.25% |
| Private equity | 5.00% | 7.25% |
| Total | <u>100.00%</u> | |

D. Discount Rate

The discount rate used to measure the total pension liability was 7.8%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the Board's funding policy, which establishes the contractually required rates by Statute. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

E. Sensitivity of Discount Rate

The following presents the net pension liability of the participating employers calculated using the discount rate of 7.8%, as well as what the participating employers' net pension liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate:

| | Current | |
|--|---------------------------------|---------------------------------|
| | 1% Decrease <u>(6.8%)</u> | 1% Increase <u>(8.8%)</u> |
| | \$ 63,262,824 | \$ 40,095,054 |
| | | \$ 20,353,747 |

F. Deferred Outflows/(Inflows) of Resources

The following schedule reflects the deferred outflows/(inflows) of resources for the System for the year ended December 31, 2018:

| | Deferred Outflows of <u>Resources</u> | Deferred (Inflows) of <u>Resources</u> |
|--|---|--|
| Differences between expected and actual experience | \$ 5,954,892 | \$ (387,536) |
| Changes of assumptions | 10,820,626 | (653,514) |
| Net difference between projected and actual investment earnings on pension plan investments | <u>15,532,947</u> | - |
| Total | \$ <u>32,308,465</u> | \$ <u>(1,041,050)</u> |

*These amounts must be calculated separately by each member employer.

The following summarizes changes in deferred outflows/(inflows), excluding employer-specific amounts:

| | Measurement Year | Amortization Period | Beginning Balance on Prior Measurement Period Deferrals | Current Measurement Period Additions | Amortization of Amounts Recognized in Current Period Pension Expense | End of Year Balance |
|---|---------------------|------------------------|---|---|--|------------------------|
| Deferred Outflows of Resources: | | | | | | |
| Differences between expected and actual experience | 2017 | 4.54 | \$ 6,212,920 | \$ - | \$ 2,446,031 | \$ 3,766,889 |
| Differences between expected and actual experience | 2018 | 4.37 | 3,111,211 | - | 923,208 | 2,188,003 |
| Change in assumptions | 2018 | 4.26 | - | 14,139,836 | 3,319,210 | 10,820,626 |
| Net difference between projected and actual investment earnings on pension plan investments | 2015 | 5.00 | 470,124 | - | 470,124 | - |
| Net difference between projected and actual investment earnings on pension plan investments | 2016 | 5.00 | 3,637,596 | - | 1,818,798 | 1,818,798 |
| Net difference between projected and actual investment earnings on pension plan investments | 2017 | 5.00 | 1,577,429 | - | 525,810 | 1,051,619 |
| Net difference between projected and actual investment earnings on pension plan investments | 2018 | 5.00 | (9,715,821) | - | (2,428,955) | (7,286,866) |
| Net difference between projected and actual investment earnings on pension plan investments | 2019 | 5.00 | - | 24,936,745 | 4,987,349 | 19,949,396 |
| Total Deferred Outflows of Resources | | | 5,293,459 | 39,076,581 | 12,061,575 | 32,308,465 |
| Deferred (Inflows) of Resources: | | | | | | |
| Differences between expected and actual experience: | 2018 | 4.26 | - | (506,412) | (118,876) | (387,536) |
| Change in assumptions | 2017 | 4.54 | (1,077,873) | - | (424,359) | (653,514) |
| Total Deferred (Inflows) of Resources | | | (1,077,873) | (506,412) | (543,235) | (1,041,050) |
| Total Collective Deferred Outflows (Inflows) of Resources | | | \$ 4,215,586 | \$ 38,570,169 | \$ 11,518,340 | \$ 31,267,415 |

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

| Fiscal Year* | Total |
|-----------------|----------------------|
| 2019 | \$ 11,048,216 |
| 2020 | 8,299,448 |
| 2021 | 6,100,315 |
| 2022 | 5,819,436 |
| | \$ 31,267,415 |

**Presented by member units' fiscal year to fairly present the fiduciary impact of related deferred outflows/(inflows) in the fiscal year affecting the member unit.*

TOWN OF WATERTOWN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Watertown, Massachusetts)

Schedule of Changes in the Net Pension Liability

Required Supplementary Information

For the Year Ended December 31, 2018

(Unaudited)

| | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total Pension Liability | | | | | |
| Service cost | \$ 3,305,996 | \$ 3,338,860 | \$ 3,895,597 | \$ 3,895,599 | \$ 3,745,767 |
| Interest on unfunded liability - time value of money | 15,945,986 | 15,330,990 | 14,442,636 | 14,615,997 | 14,213,781 |
| Changes in plan provisions | | | 778,002 | | |
| Experience (gain)/loss | (505,412) | 4,034,420 | 11,104,982 | | |
| Changes of assumptions | 14,139,836 | | (1,926,591) | | |
| Benefit payments, including refunds of member contributions | (15,378,326) | (14,413,329) | (14,006,492) | (13,810,095) | (13,081,678) |
| Net change in total pension liability | 17,507,080 | 8,290,941 | 14,288,134 | 4,701,501 | 4,877,870 |
| Total pension liability - beginning | <u>206,084,943</u> | <u>197,794,002</u> | <u>183,505,868</u> | <u>178,804,367</u> | <u>173,926,497</u> |
| Total pension liability - ending (a) | <u>223,592,023</u> | <u>206,084,943</u> | <u>197,794,002</u> | <u>183,505,868</u> | <u>178,804,367</u> |
| Plan Fiduciary Net Position | | | | | |
| Contributions - employer | 18,698,742 | 17,173,496 | 15,598,496 | 14,023,496 | 12,465,133 |
| Contributions - member | 4,369,364 | 3,400,281 | 3,465,100 | 3,193,042 | 3,186,332 |
| Net investment income | (9,967,302) | 24,612,432 | 8,827,366 | 1,842,184 | 7,674,151 |
| Benefit payments, including refunds of member contributions | (15,378,326) | (14,413,329) | (14,006,492) | (13,288,770) | (12,587,850) |
| Administrative expense | (339,624) | (309,692) | (279,447) | (300,358) | (279,447) |
| Other | 456,764 | 481,871 | 480,658 | 537,085 | 487,925 |
| Net change in plan fiduciary net position | (2,160,382) | 30,945,059 | 14,085,681 | 6,006,679 | 10,946,244 |
| Plan fiduciary net position - beginning | <u>185,657,351</u> | <u>154,712,292</u> | <u>140,626,611</u> | <u>134,619,932</u> | <u>123,673,688</u> |
| Plan fiduciary net position - ending (b) | <u>183,496,969</u> | <u>185,657,351</u> | <u>154,712,292</u> | <u>140,626,611</u> | <u>134,619,932</u> |
| Net pension liability (asset) - ending (a-b) | <u>\$ 40,095,054</u> | <u>\$ 20,427,592</u> | <u>\$ 43,081,710</u> | <u>\$ 42,879,257</u> | <u>\$ 44,184,435</u> |

Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.
See Independent Auditors' Report.

TOWN OF WATERTOWN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of Watertown, Massachusetts)
Schedules of Net Pension Liability, Contributions, and Investment Returns
Required Supplementary Information
For the Year Ended December 31, 2018
(Uaudited)

| Schedule of Net Pension Liability | 2018 | 2017 | 2016 | 2015 | 2014 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total pension liability | \$ 223,592,023 | \$ 206,084,943 | \$ 197,794,002 | \$ 183,505,868 | \$ 178,804,367 |
| Plan fiduciary net position | <u>(183,496,969)</u> | <u>(185,657,351)</u> | <u>(154,712,292)</u> | <u>(140,626,611)</u> | <u>(134,619,930)</u> |
| Net pension liability (asset) | <u>\$ 40,095,054</u> | <u>\$ 20,427,592</u> | <u>\$ 43,081,710</u> | <u>\$ 42,879,257</u> | <u>\$ 44,184,437</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 82.1% | 90.1% | 78.2% | 76.6% | 75.3% |
| Covered payroll | \$ 33,927,238 | \$ 33,501,993 | \$ 35,192,067 | \$ 31,539,610 | \$ 30,326,548 |
| Participating employer net pension liability (asset) as a percentage of covered payroll | 118% | 61.0% | 122.4% | 136.0% | 145.7% |
| Schedule of Contributions | 2018 | 2017 | 2016 | 2015 | 2014 |
| Actuarially determined contribution | \$ 18,698,742 | \$ 17,173,496 | \$ 15,598,496 | \$ 14,023,496 | \$ 12,448,496 |
| Contributions in relation to the actuarially determined contribution | <u>(18,698,742)</u> | <u>(17,173,496)</u> | <u>(15,598,496)</u> | <u>(14,023,496)</u> | <u>(12,448,496)</u> |
| Contribution deficiency (excess) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Covered payroll | \$ 33,927,238 | \$ 33,501,993 | \$ 35,192,067 | \$ 31,539,610 | \$ 30,326,548 |
| Contributions as a percentage of covered payroll | 55.1% | 51.3% | 44.3% | 44.5% | 41.0% |
| Schedule of Investment Returns | | | | | |
| <i>Year Ended December 31</i> | 2018 | 2017 | 2016 | 2015 | 2014 |
| Annual money weighted rate of return, net of investment expense | unavailable | 14.44% | 6.58% | 0.78% | 6.42% |

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

See Independent Auditors' Report.



INDEPENDENT AUDITORS' REPORT

**To the Contributory Retirement Board
Watertown Contributory Retirement System
Town of Watertown, Massachusetts**

Report on Schedules

We have audited the accompanying schedule of employer allocations of the Watertown Contributory Retirement System as of and for the year ended December 31, 2018. We have also audited the total for all entities of the titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified totals) included in the accompanying schedule of pension amounts by employer of the Watertown Contributory Retirement System as of and for the year ended December 31, 2018.

Management's Responsibility for the Schedules

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

Auditors' Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified 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 specified totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including

Merrimack, New Hampshire
Andover, Massachusetts
Greenfield, Massachusetts
Ellsworth, Maine



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

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

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for the Watertown Contributory Retirement System as of and for the year ended December 31, 2018, in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use

Our report is intended solely for the information and use of Watertown Contributory Retirement System management, the Retirement Board, System employers and their auditors as of and for the year ended December 31, 2018 and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Melanson".

Andover, Massachusetts
December 10, 2020

800.282.2440 | melansoncpas.com

**TOWN OF WATERTOWN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

(A Component Unit of the Town of Watertown, Massachusetts)

Schedule of Employer Allocations

| <u>Employer</u> | FY 2018 Actual Employer <u>Contributions</u> | Allocation <u>Percentage</u> |
|-----------------|---|---------------------------------|
| Town | \$ 18,398,742 | 98.3956% |
| Housing | <u>300,000</u> | <u>1.6044%</u> |
| Total | <u>\$ 18,698,742</u> | <u>100.0000%</u> |

See actuarial assumptions in the Town of Watertown,
Massachusetts Contributory Retirement System audited financial
statements.

| TOWN OF WATERTOWN, MASSACHUSETTS CONTRIBUTORY RETIREMENT SYSTEM | | | |
|---|----------------------|-------------------|----------------------|
| (A Component Unit of the Town of Watertown, Massachusetts) | | | |
| Schedule of Pension Amounts by Employer | | | |
| As of and for the Year Ended December 31, 2018 | | | |
| | Town | Housing | Total |
| Net Pension Liability | \$ 39,451,769 | \$ 643,285 | \$ 40,095,054 |
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | \$ 5,859,352 | \$ 95,540 | \$ 5,954,892 |
| Changes of assumptions | 10,647,020 | 173,606 | 10,820,626 |
| Net difference between projected and actual investment earnings on pension plan investments | 15,283,736 | 249,211 | 15,532,947 |
| Changes in proportion and differences between employer contributions and proportionate share of contributions | 29,782 | (29,782) | - |
| Total Deferred Outflows of Resources | \$ 31,819,890 | \$ 488,575 | \$ 32,308,465 |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | \$ 381,318 | \$ 6,218 | \$ 387,536 |
| Changes of assumptions | 643,029 | 10,485 | 653,514 |
| Total Deferred Inflows of Resources | \$ 1,024,347 | \$ 16,703 | \$ 1,041,050 |
| Pension Expense | | | |
| Proportionate share of pension expense | \$ 11,582,282 | \$ 188,856 | \$ 11,771,138 |
| Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions | 10,178 | (10,178) | - |
| Total Pension Expense | \$ 11,592,460 | \$ 178,678 | \$ 11,771,138 |
| Contributions | | | |
| Actuarially determined contribution | \$ 18,398,742 | \$ 300,000 | \$ 18,698,742 |
| Contributions made | (18,398,742) | (300,000) | (18,698,742) |
| Contribution deficiency/(excess) | \$ - | \$ - | \$ - |
| Contributions as a percentage of covered payroll | 55% | 55% | 55% |
| Deferred Outflows/(Inflows) Recognized in Future Pension Expense | | | |
| June 30, 2019 | \$ 10,870,958 | \$ 177,258 | \$ 11,048,216 |
| June 30, 2020 | 8,166,292 | 133,156 | 8,299,448 |
| June 30, 2021 | 6,002,442 | 97,873 | 6,100,315 |
| June 30, 2022 | 5,755,851 | 63,585 | 5,819,436 |
| Total Deferred Outflows/(Inflows) Recognized in Future Pension Expense | \$ 30,795,543 | \$ 471,872 | \$ 31,267,415 |
| Discount Rate Sensitivity | | | |
| 1% decrease (6.8%) | \$ 62,247,835 | \$ 1,014,989 | \$ 63,262,824 |
| Current discount rate (7.8%) | \$ 39,451,769 | \$ 643,285 | \$ 40,095,054 |
| 1% increase (8.8%) | \$ 20,027,191 | \$ 326,556 | \$ 20,353,747 |
| Covered Payroll | \$ 33,382,909 | \$ 544,329 | \$ 33,927,238 |

See actuarial assumptions in the Watertown Contributory Retirement System's audited financial statements.

**WATERTOWN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM
(A Component Unit of the Town of
Watertown, Massachusetts)**

**Financial Statements,
Required Supplementary Information,
and Other Information**

For the Year Ended December 31, 2017

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INDEPENDENT AUDITORS' REPORT

To the Retirement System Board
Town of Watertown, Massachusetts

Additional Offices:
Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies

used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

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

Other Matters

Required Supplementary Information

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

Melanson Heath

February 5, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Watertown Contributory Retirement System, we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2017. Unless otherwise noted, all amounts in the Management's Discussion and Analysis are expressed in thousands.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

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

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

The Required Supplemental Information includes this management's discussion and analysis and Schedules of Changes in the Net Pension Liability, of Net Pension Liability, of Contributions, and of Investment Returns.

B. FINANCIAL HIGHLIGHTS

- The System's total net position available for benefits was \$185,657,351 at December 31, 2017.
- The System's net position increased by \$30,945,059 which is primarily due to increased employer contributions and investment performance.

- Employer and employee contributions (including transfers from other systems) to the plan were \$20,576,867 which represents a \$1,513,271 increase over the preceding year. The employer share of contributions represents 82% of the total contributions.
- Benefits paid to plan participants were \$13,731,369. At December 31, 2017, there were 425 retirees and beneficiaries in receipt of pension benefits.
- The System's December 31, 2017 funded ratio based on the GASB 68 actuarial valuation report (Accounting) was 90.1%. The System's January 1, 2018 funded ratio based on the actuarial valuation (Funding) was 88.2%.

C. FINANCIAL STATEMENT ANALYSIS

The following is a summary of financial statement data for the current and prior fiscal years. Amounts are in the thousands.

FIDUCIARY NET POSITION

| | <u>2017</u> | <u>2016</u> |
|---------------------------|-------------------|-------------------|
| Assets | | |
| Cash and receivables | \$ 1,455 | \$ 1,695 |
| Investments | <u>184,250</u> | <u>153,050</u> |
| Total assets | 185,705 | 154,745 |
| Liabilities | | |
| Accrued payroll and other | 48 | 33 |
| Net Position | \$ 185,657 | \$ 154,712 |

CHANGES IN FIDUCIARY NET POSITION

| | <u>2017</u> | <u>2016</u> |
|---|--------------------------|--------------------------|
| Additions | | |
| Contributions | \$ 21,059 | \$ 19,544 |
| Investment Income, net | <u>24,571</u> | <u>9,116</u> |
| Total Additions | 45,630 | 28,660 |
| Deductions | | |
| Benefit payments | 13,731 | 13,657 |
| Other | <u>954</u> | <u>918</u> |
| Total Deductions | <u>14,685</u> | <u>14,575</u> |
| Changes in net position | 30,945 | 14,085 |
| Net position - beginning of year | <u>154,712</u> | <u>140,627</u> |
| Net position - end of year | <u>\$ 185,657</u> | <u>\$ 154,712</u> |

The System's total assets as of December 31, 2017 were \$185,704,880 and mostly comprised of cash and investments. Total assets increased \$30,959,276 or 20% from the prior year primarily due to investment performance. Total liabilities as of December 31, 2017 were \$47,529. Total liabilities increased by \$14,217 or 43% over the prior year.

The System was 88.2% funded based on its actuarial valuation of January 1, 2018 with three years remaining in its amortization period.

The amount needed to finance benefits is accumulated through the collection of employers' and employee's contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 COLA and through earnings on investments. The System received \$246,331 for reimbursements from the Commonwealth of Massachusetts for pre-1998 COLA in calendar year 2017. Contributions and net investment gain for calendar year 2017 resulted in a net gain of \$45,629,580. Employer's contributions increased by \$1,575,000. The System had net investment gain of \$24,570,842 in 2017 versus a gain of \$9,115,979 in 2016.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions, and the costs of administering the System. Total deductions for 2016 were \$14,684,521, which represents an increase of 0.8% over deductions of \$14,574,548 in 2016. The payment of pension benefits increased by \$74,254 or 0.6% over the previous year. The increase in these expenses resulted primarily from the annual COLA increases received by retirees and their beneficiaries as well as additional retirees.

REQUESTS FOR INFORMATION

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

Watertown Contributory Retirement System

149 Main Street

Watertown, Massachusetts 02472

**TOWN OF WATERTOWN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

(A Component Unit of the Town of Watertown, Massachusetts)

Statement of Fiduciary Net Position

December 31, 2017

ASSETS

| | |
|---------------------------------|-----------------------|
| Cash and short-term investments | \$ 941,511 |
| Investments | 184,249,602 |
| Accounts receivable | <u>513,767</u> |
| Total Assets | <u>\$ 185,704,880</u> |

LIABILITIES AND NET POSITION

| | |
|--------------------------------------|-----------------------|
| Accrued payroll | \$ 13,511 |
| Other liabilities | <u>34,018</u> |
| Total Liabilities | 47,529 |
| Net position restricted for pensions | <u>185,657,351</u> |
| Total Liabilities and Net Position | <u>\$ 185,704,880</u> |

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

**TOWN OF WATERTOWN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

(A Component Unit of the Town of Watertown, Massachusetts)

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2017

Additions:

Contributions:

| | |
|---|-------------------|
| Employers | \$ 17,173,496 |
| Plan members | 3,403,371 |
| Other systems and Commonwealth of Massachusetts | 464,834 |
| Other | <u>17,037</u> |
| Total contributions | 21,058,738 |

Investment income:

| | |
|---|--------------------|
| Appreciation in fair value of investments | 25,718,882 |
| Less: management fees | <u>(1,148,040)</u> |
| Net investment gain | 24,570,842 |
| Total additions | 45,629,580 |

Deductions:

| | |
|--|-------------------|
| Benefit payments to plan members and beneficiaries | 13,731,369 |
| Refunds to plan members | 293,943 |
| Transfers to other systems | 388,015 |
| Administrative expenses | <u>271,194</u> |
| Total deductions | 14,684,521 |
| Net increase | 30,945,059 |

Net position restricted for pensions:

| | |
|--------------------|------------------------------|
| Beginning of year | <u>154,712,292</u> |
| End of year | <u>\$ 185,657,351</u> |

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

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

Notes to Financial Statements

1. Description of Plan

Substantially all employees of the Town of Watertown (except teachers and administrators under contract employed by the School Department) and Watertown Housing Authority are members of the Watertown Contributory Retirement System (the System), a cost sharing, multiple employer public employee retirement system (PERS). Eligible employees must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions.

Membership of the plan consisted of the following at January 1, 2018 (the latest actuarial valuation):

| | |
|--|--------------|
| Retirees and beneficiaries receiving benefits | 425 |
| Terminated plan members entitled to but not yet receiving benefits | 165 |
| Active plan members | <u>523</u> |
| Total | <u>1,113</u> |
| Number of participating employers | 2 |

Participant Contributions

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

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

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

Employer Contributions

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

Participant Retirement Benefits

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

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

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

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

Participant Refunds

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

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

Summary of Significant Accounting Policies

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

Basis of Accounting

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

Investments

Investment Policy

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

Rate of Return

For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 14.44%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

3. Cash and Short-Term Investments

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

As of December 31, 2017, \$676,868 of the System's bank balance of \$1,182,543 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

The System's investments are exposed to custodial credit risk because the related securities are uninsured, unregistered and held by the System's brokerage firm, which is also the counterparty to these securities. This risk is managed by the custodian's errors and omissions policy and securities are reported as separately identifiable securities with individual CUSIP numbers.

4. Investments

A. Credit Risk

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

As of December 31, 2017, \$113,182,123 of the System's investment balance of \$184,249,602 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

The total value of investments of \$184,249,602 is held in debt and equity mutual funds which are exempt from rating disclosure. However, \$22,709,877 is held in a corporate bond fund with an average S&P rating of AA.

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System does not have policies for custodial credit risk.

The System manages this risk by investing in Pension Reserves Investment Trust (PRIT), having Securities Investor Protection Corporation (SIPC) coverage, excess SIPC coverage, and by holding assets in separately identifiable trusts.

C. Concentration of Credit Risk

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund.

The System has multiple investments in one issuer greater than 5% of total investments.

| | |
|--------------------------------|---------------|
| I R + M Core Bond Fund | \$ 30,514,039 |
| Earnest Partners International | \$ 16,959,123 |

D. Interest Rate Risk

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

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The System does not have policies for foreign currency risk.

F. Fair Value

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Out of the \$184,249,602 of total investments, \$75,092,431 are measured based on net asset value.

| <u>Fair Value Measurements Using:</u> | | | | | |
|---|-----------------------|--|--|--|--|
| | | Quoted prices in active markets for identical assets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | |
| <u>Description</u> | <u>Value</u> | | | | |
| Investments by fair value level: | | | | | |
| Debt securities | | | | | |
| Corporate bonds | \$ 30,514,039 | \$ - | \$ 30,514,039 | \$ - | |
| Equity securities | | | | | |
| Equity mutual funds | 67,700,768 | 67,700,768 | - | - | |
| Domestic stock funds | <u>10,942,364</u> | <u>10,942,364</u> | - | - | |
| Subtotal | <u>109,157,171</u> | <u>\$ 78,643,132</u> | <u>\$ 30,514,039</u> | <u>\$ -</u> | |
| Investments measured at the net asset value (NAV): | | | | | |
| External Investment Pools: | | | | | |
| PRIT | 52,153,372 | \$ 8,225,466 | Monthly Vintage Year: Illiquid | 30 days N/A | |
| Limited Partnerships | | | | | |
| Arsenal real estate fund | 281,996 | - | Illiquid | N/A | |
| Auda partners | 292,253 | \$ 795,000 | Illiquid | N/A | |
| Earnest partners international | 16,959,123 | - | Monthly | 5 days | |
| Guggenheim high yield fund | 4,524,953 | - | Monthly | 30 days | |
| RCP Fund | <u>880,734</u> | - | Illiquid | N/A | |
| Subtotal | <u>75,092,431</u> | | | | |
| Total | <u>\$ 184,249,602</u> | | | | |

5. Accounts Receivable

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

6. Accrued Payroll/Other Liabilities

This balance represents payment for salaries paid by the Town of Watertown on behalf of the System.

7. Contingencies

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

8. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2018 for December 31, 2017.

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

A. Net Pension Liability of Employers

| | |
|--|----------------------|
| Total pension liability | \$ 206,084,943 |
| Plan fiduciary net position | <u>(185,657,351)</u> |
| Employers' net pension liability | \$ <u>20,427,592</u> |
| Plan fiduciary net position as a percentage of total pension liability | 90.1% |

B. Actuarial Assumptions

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

| | |
|---|-----------|
| Valuation Date | 1/1/2018 |
| Actuarial cost method | Entry Age |
| Actuarial assumptions: | |
| Investment rate of return | 7.90% |
| Projected salary increases | 3.50% |
| Post-retirement cost-of-living adjustment | 3.00% |

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

Mortality rates were based on both pre-retirement and beneficiary RP-2014 Blue Collar Mortality Table for males and females, adjusted to Scale MP-2016. Mortality for disabled members is represented by the RP-2000 Mortality Table set forward two years for all disabled members. Generational adjusting is based on Scale MP-2016.

C. Target Allocations

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric average real rates of return for each major asset class included in the System's targeted asset allocation as of December 31, 2017, are summarized in the following table.

| <u>Asset Class</u> | <u>Target Asset Allocation</u> | <u>Long-term Expected Real Rate of Return</u> |
|-------------------------|--------------------------------|---|
| Core Fixed Income | 19.00% | 1.65% |
| High Yield Fixed Income | 2.50% | 3.05% |
| Global Fixed Income | 4.00% | 1.85% |
| Domestic Large Cap | 25.00% | 5.55% |
| Domestic Small Cap | 5.00% | 6.00% |
| International Equity | 22.00% | 5.55% |
| Real Estate | 10.00% | 4.20% |
| Hedge Funds | 7.50% | 3.45% |
| Private Equity | 5.00% | 7.05% |
| Total | <u>100.00%</u> | |

D. Discount Rate

The discount rate used to measure the total pension liability was 7.90%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the Board's funding policy, which establishes the contractually required rates by Statute. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

E. Sensitivity of Discount Rate

The following presents the net pension liability of the participating employers calculated using the discount rate of 7.90%, as well as what the participating employers' net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.90%) or 1 percentage-point higher (8.90%) than the current rate:

| <u>Year Ended</u> | Current | | <u>1% Discount Rate (7.90%)</u> | <u>1% Discount (8.90%)</u> |
|-------------------|------------------------------------|------------------------------------|---|------------------------------------|
| | <u>1% Decrease (6.90%)</u> | <u>1% Increase (8.90%)</u> | | |
| December 31, 2017 | \$ 41,201,802 | \$ 20,427,592 | \$ 2,710,262 | |

F. Deferred Outflows/Inflows of Resources

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

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Difference between expected and actual experience | \$ 9,324,131 | \$ - |
| Changes of assumptions | - | 1,077,873 |
| Difference between projected and actual investment earnings | - | 4,030,673 |
| Changes in proportion and differences between contributions and proportionate share of contributions | <u>160,923</u> | <u>160,923</u> |
| Total | <u>\$ 9,485,054</u> | <u>\$ 5,269,469</u> |

The following summarizes changes in deferred outflows/inflows, excluding employer-specific amounts:

| | <u>Measurement Year</u> | <u>Amortization Period</u> | <u>Beginning Balance on Prior Measurement</u> | <u>Current Period Additions</u> | <u>Amortization of Amounts Recognized In Current Period</u> | <u>Pension Expense</u> | <u>End of Year Balance</u> |
|--|-----------------------------|--------------------------------|---|---|---|------------------------|--------------------------------|
| <u>Deferred Outflows of Resources:</u> | | | | | | | |
| Changes in experience | 2017 | 4.54 | \$ 8,658,951 | \$ - | \$ (2,446,032) | \$ 6,212,919 | |
| | 2018 | 4.37 | - | 4,034,420 | (923,208) | | 3,111,212 |
| Changes in proportion and differences between contributions and proportionate share of contributions | | | | | | | |
| | 2016 | 4.54 | 6,350 | - | (2,500) | | 3,850 |
| | 2017 | 4.54 | 162,297 | - | (45,847) | | 116,450 |
| | 2018 | 4.37 | - | 52,677 | (12,054) | | 40,623 |
| Total Deferred Outflows of Resources | | | \$ <u>8,827,598</u> | \$ <u>4,087,097</u> | \$ <u>(3,429,641)</u> | \$ <u>9,485,054</u> | |
| <u>Deferred (Inflows) of Resources:</u> | | | | | | | |
| Changes in assumptions | 2017 | 4.54 | \$ (1,502,232) | \$ - | \$ 424,359 | \$ (1,077,873) | |
| Net difference between projected and actual earnings on pension plan investments | 2015 | 5 | 940,251 | - | (470,126) | | 470,125 |
| | 2016 | 5 | 5,456,393 | - | (1,818,799) | | 3,637,594 |
| | 2017 | 5 | 2,103,239 | - | (525,810) | | 1,577,429 |
| | 2018 | 5 | - | (12,144,776) | 2,428,955 | | (9,715,821) |
| Changes in proportion and differences between contributions and proportionate share of contributions | 2016 | 4.54 | (6,350) | - | 2,500 | | (3,850) |
| | 2017 | 4.54 | (162,297) | - | 45,847 | | (116,450) |
| | 2018 | 4.37 | - | (52,677) | 12,054 | | (40,623) |
| Total Deferred (Inflows) of Resources | | | \$ <u>6,829,004</u> | \$ <u>(12,197,453)</u> | \$ <u>98,980</u> | \$ <u>(5,269,469)</u> | |

The following schedule reflects the amortization of the balance of deferred outflows/inflows of resources, excluding employer-specific amounts, for the net difference between projected and actual investment earnings:

Year ended June 30:

| | |
|-------|---------------------|
| 2018 | \$ 3,330,657 |
| 2019 | 2,860,533 |
| 2020 | 111,765 |
| 2021 | <u>(2,087,370)</u> |
| Total | \$ <u>4,215,585</u> |

**TOWN OF WATERTOWN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

Schedule of Changes in the Net Pension Liability

(Unaudited)

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|----------------------|----------------------|----------------------|----------------------|
| Total pension liability | | | | |
| Service cost | \$ 3,338,860 | \$ 3,895,597 | \$ 3,895,599 | \$ 3,745,767 |
| Interest on unfunded liability - time value of \$ | 15,330,990 | 14,442,636 | 14,615,997 | 14,213,781 |
| Changes in plan provisions | - | 778,002 | - | - |
| Experience loss | 4,034,420 | 11,104,982 | - | - |
| Changes of assumptions | - | (1,926,591) | - | - |
| Benefit payments, including refunds of member contributions | <u>(14,413,329)</u> | <u>(14,006,492)</u> | <u>(13,810,095)</u> | <u>(13,081,878)</u> |
| Net change in total pension liability | 8,290,941 | 14,288,134 | 4,701,501 | 4,877,870 |
| Total pension liability - beginning | <u>197,794,002</u> | <u>183,505,868</u> | <u>178,804,367</u> | <u>173,926,497</u> |
| Total pension liability - ending (a) | <u>206,084,943</u> | <u>197,794,002</u> | <u>183,505,868</u> | <u>178,804,367</u> |
| Plan fiduciary net position | | | | |
| Contributions - employer | 17,173,496 | 15,598,496 | 14,023,496 | 12,465,133 |
| Contributions - member | 3,400,281 | 3,465,100 | 3,193,042 | 3,186,332 |
| Net investment income | 24,612,432 | 8,827,366 | 1,842,184 | 7,674,151 |
| Benefit payments, including refunds of member contributions | <u>(14,413,329)</u> | <u>(14,006,492)</u> | <u>(13,288,770)</u> | <u>(12,587,850)</u> |
| Administrative expense | (309,692) | (279,447) | (300,358) | (279,447) |
| Other | 481,871 | 480,658 | 537,085 | 487,925 |
| Net change in plan fiduciary net position | 30,945,059 | 14,085,681 | 6,006,679 | 10,946,244 |
| Plan fiduciary net position - beginning | <u>154,712,292</u> | <u>140,626,611</u> | <u>134,619,932</u> | <u>123,673,688</u> |
| Plan fiduciary net position - ending (b) | <u>185,657,351</u> | <u>154,712,292</u> | <u>140,626,611</u> | <u>134,619,932</u> |
| Net pension liability (asset) - ending (a-b) | <u>\$ 20,427,592</u> | <u>\$ 43,081,710</u> | <u>\$ 42,879,257</u> | <u>\$ 44,184,435</u> |

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

**TOWN OF WATERTOWN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

Schedules of Net Pension Liability, Contributions, and Investment Returns

(Unaudited)

Schedule of Net Pension Liability

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|----------------------|----------------------|----------------------|----------------------|
| Total pension liability | \$ 206,084,943 | \$ 197,794,002 | \$ 183,505,868 | \$ 178,804,367 |
| Plan fiduciary net position | <u>185,657,351</u> | <u>154,712,292</u> | <u>140,626,611</u> | <u>134,619,930</u> |
| Net pension liability (asset) | <u>\$ 20,427,592</u> | <u>\$ 43,081,710</u> | <u>\$ 42,879,257</u> | <u>\$ 44,184,437</u> |
| Plan fiduciary net position as a percentage of the total pension liability | 90.1% | 78.2% | 76.6% | 75.3% |
| Covered payroll | \$ 33,501,993 | \$ 35,192,067 | \$ 31,539,610 | \$ 30,326,548 |
| Participating employer net pension liability (asset) as a percentage of covered payroll | 61.0% | 122.4% | 136.0% | 145.7% |

Schedule of Contributions

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|--|-------------------|-------------------|-------------------|-------------------|
| Actuarially determined contribution | \$ 17,173,496 | \$ 15,598,496 | \$ 14,023,496 | \$ 12,448,496 |
| Contributions in relation to the actuarially determined contribution | <u>17,173,496</u> | <u>15,598,496</u> | <u>14,023,496</u> | <u>12,448,496</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Covered payroll | \$ 33,501,993 | \$ 35,192,067 | \$ 31,539,610 | \$ 30,326,548 |
| Contributions as a percentage of covered payroll | 51.3% | 44.3% | 44.5% | 41.0% |

Schedule of Investment Returns

Year Ended December 31

| | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|-------------|-------------|-------------|-------------|
| Annual money weighted rate of return, net of investment expense | 14.44% | 6.68% | 0.78% | 6.42% |

Schedules are intended to show information for 10 years.

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Independent Auditors' Report

To the Retirement System Board
Town of Watertown, Massachusetts

Additional Offices:
Nashua, NH
Manchester, NH
Greenfield, MA
Ellsworth, ME

Report on Schedules

We have audited the accompanying schedule of employer allocations of the Watertown Contributory Retirement System as of and for the year ended December 31, 2017. 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 (specified column totals) included in the accompanying schedule of pension amounts by employer of the Watertown Contributory Retirement System as of and for the year ended December 31, 2017.

Management's Responsibility for the Schedules

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

Auditors' Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified 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 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 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 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 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 for the Watertown Contributory Retirement System as of and for the year ended December 31, 2017, in accordance with accounting principles generally accepted in the United States of America.

Restriction on Use

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

Melanson Heath

February 5, 2019

**TOWN OF WATERTOWN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

SCHEDULE OF EMPLOYER ALLOCATIONS

| <u>Employer</u> | <u>FY 2018 Required Employer Contributions</u> | <u>Employer Allocation Percentage*</u> |
|-----------------|--|--|
| Town | \$ 16,853,521 | 98.14% |
| Housing | <u>319,975</u> | <u>1.86%</u> |
| Total | <u>\$ 17,173,496</u> | <u>100.00%</u> |

*Calculated percentages differ from amounts shown by immaterial amounts.

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

**TOWN OF WATERTOWN, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM**

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

As of and for the year ended December 31, 2017

| Entity | Deferred Outflows of Resources | | | | Deferred Inflows of Resources | | | | Pension Expense | | | |
|-------------------------------|---------------------------------------|---|--------------------------|--|---|-------------------------|------------------------------|--|------------------------|----------------------|------------------------------|--|
| | Net Pension Liability | Changes in Proportion and differences between contributions and expected proportionate | Deferred Outflows | Net Difference Between Investment and Actual Earnings on Plan | Changes in Proportion and differences between contributions and expected proportionate | Deferred Inflows | Share of Pension Plan | Change in Proportional Employer | Total | Proportionate | Share of Pension Plan | Change in Proportional Employer |
| Town | \$ 20,046,985 | \$ 9,150,405 | \$ 157,434 | \$ 9,307,839 | \$ 3,955,574 | \$ 1,057,789 | \$ 3,489 | \$ 5,016,852 | \$ 6,322,233 | \$ (689) | \$ 6,321,544 | |
| Housing | 380,607 | 173,726 | 3,489 | 177,215 | 75,099 | 20,084 | 157,434 | 252,617 | 120,032 | 689 | 120,721 | |
| Total for All Entities | \$ 20,427,592 | \$ 9,324,131 | \$ 160,923 | \$ 9,485,054 | \$ 4,030,673 | \$ 1,077,873 | \$ 160,923 | \$ 5,269,459 | \$ 6,442,265 | \$ - | \$ 6,442,265 | |

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

COMMONWEALTH OF MASSACHUSETTS

Public Employee Retirement Administration Commission

Five Middlesex Avenue, Suite 304 | Somerville, MA 02145

Phone: 617-666-4446 | Fax: 617-628-4002

Web: www.mass.gov/perac

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., Chair

WILLIAM T. KEEFE, Executive Director

Auditor DIANA DIZOGLIO | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES J. GUIDO | RICHARD MACKINNON, JR. | JENNIFER F. SULLIVAN, ESQ.

December 29, 2025

Thomas V. Thibaut, Jr., Chairperson
Watertown Retirement Board
149 Main Street
Watertown, MA 02471

REFERENCE: Report of the Examination of the Watertown Retirement System for the five-year period from January 1, 2017 through December 31, 2021.

Dear Chairperson Thibaut:

The Public Employee Retirement Administration Commission has completed a follow-up review of the finding and recommendation contained in its audit report of the Watertown Retirement System for the period referenced above. We conduct these visits as a regular part of the oversight process to ensure the timely implementation of the recommendations contained in that report. The examination also addressed the other matters discussed at the completion of the audit. The results are as follows:

The Audit Report cited a finding that involved incorrect retirement benefits being paid to six retirees.

Follow-up Result: Four of the retirees have had their average salary recalculated, and the retiree who was missing a COLA has been fixed. After providing additional information, the sixth retiree does not need to be changed. This issue is resolved.

The additional matters discussed have been reviewed and have been partially resolved.

The Commission wishes to acknowledge the effort demonstrated by the staff of the Watertown Retirement Board to correct many of the issues from the most recent examination of the system.

Thank you for your continued cooperation in this matter.

Sincerely,



William T. Keefe
Executive Director

WTK/cms

cc: Watertown Retirement Board Members

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