WELLESLEY

RETIREMENT SYSTEM AUDIT REPORT JAN. 1, 2016 - DEC. 31, 2020



PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION COMMONWEALTH OF MASSACHUSETTS

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<u>PERAC</u>

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., Chair

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

December 28, 2022

The Public Employee Retirement Administration Commission (PERAC) has completed a review of the audits of the Wellesley Retirement System conducted by the firm of Powers & Sullivan, LLC Certified Public Accountants. Powers & Sullivan 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, 2016 to December 31, 2020.

We conducted an inspection of the work papers prepared by Powers & Sullivan. 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 Powers & Sullivan 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 procurements of investments complied with the provisions of Section 23B of Chapter 32 and that management fees paid were in accordance with contracts, 4) that travel expenses were properly documented and accounted for, 5) that retirement contributions are accurately deducted, 6) that retirement allowances were correctly calculated, and 7) that required member documentation is maintained.

To achieve these objectives, we inspected certain records of the Wellesley Retirement Board in the above areas. Specifically, we reviewed the minutes of the Board meetings for compliance with fiduciary oversight, verified cash balances, examined a sample of investment procurements and recalculated management fees charged. We tested a sample of travel expenses for Board approvals, supporting documentation and proper accounting. 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



Wellesley Audit Report December 28, 2022 Page 2

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.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by PERAC.

We commend the Wellesley Retirement Board for the exemplary operation of the system.

It should be noted that the financial statements included in this audit report were based on the work performed by Powers & Sullivan 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, 2020, December 31, 2019, December 31, 2018, December 31, 2017, and December 31, 2016.

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

Sincerely,

John W. Parsons, Esq. Executive Director



SUPPLEMENTARY INFORMATION

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

		AS OF DECEMBER 31, 2020					
		PERCENTAGE					
		OF TOTAL					
		MARKET VALUE	ASSETS				
Cash		\$1,375,630	0.6%				
PRIT Cash Fund		200,064	0.1%				
PRIT Core Fund		<u>241,386,975</u>	<u>75</u> 99.4%				
	Grand Total	<u>\$242,962,668</u>	<u>100.0</u> %				

For the year ending December 31, 2020, the rate of return for the investments of the Wellesley Retirement System was 12.51%. For the five-year period ending December 31, 2020, the rate of return for the investments of the Wellesley Retirement System averaged 10.42%. For the 36-year period ending December 31, 2020, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Wellesley Retirement System was 9.99%.

The composite rate of return for all retirement systems for the year ending December 31, 2020 was 12.80%. For the five-year period ending December 31, 2020, the composite rate of return for the investments of all retirement systems averaged 10.38%. For the 36-year period ending December 31, 2020, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.31%.

ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Finance Director 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:	Sheryl Strother		
Appointed Member:	David N. Kornwitz, Chairman	Until a successor	is appointed
Elected Member:	Michael Leach	Term Expires:	6/30/25
Elected Member:	Timothy Barros	Term Expires:	6/30/23
Appointed Member:	Charles Cahill	Term Expires:	6/30/24

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

ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by the Segal as of January 1, 2021.

The actuarial liability for active members was	\$131,727,392
The actuarial liability for vested terminated members was	5,108,558
The actuarial liability for non-vested terminated members was	2,643,079
The actuarial liability for retired members was	146,599,664
The total actuarial liability was	\$286,078,693
System assets as of that date were (actuarial value)	242,973,730
The unfunded actuarial liability was	\$ <u>43,104,963</u>
The ratio of system's assets to total actuarial liability was	84.9%
As of that date the total covered employee payroll was	\$40,939,192

The normal cost for employees on that date was	10.2% of payroll
The normal cost for the employer (including expenses) was	9.1% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	6.00% per annum
Rate of Salary Increase:	Varies by group and service

SCHEDULE OF FUNDING PROGRESS AS OF JANUARY 1, 2021

	Actuarial	Actuarial	Unfunded			UAAL as a
Actuarial	Value of	Accrued	AAL	Funded	Covered	% of
Valuation	Assets	Liability	(UAAL)	Ratio	Payroll	Cov. Payroll
Date	(a)	(b)	(b-a)	(a/b)	(c)	((b-a)/c)
1/1/2021	\$242,973,730	\$286,078,693	\$43,104,963	84.9%	\$40,939,192	105.3%
1/12019	\$193,017,080	\$248,553,692	\$55,536,612	77.7%	\$39,169,350	141.8%
1/1/2017	\$169,089,812	\$224,137,166	\$55,047,354	75.4%	\$36,836,364	149.4%
1/12015	\$152,955,923	\$207,928,237	\$54,972,314	73.6%	\$35,959,727	I 52.9%
1/1/2013	\$125,714,763	\$186,235,650	\$60,520,887	67.5%	\$34,036,988	177.8%
1/1/2012	\$125,424,614	\$165,408,231	\$39,983,617	75.8%	\$33,919,655	117.9%

MEMBERSHIP EXHIBIT

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Retirement in Past Years										
Superannuation	16	18	19	13	11	11	22	18	21	20
Ordinary Disability	0	0	0	0	I	0	0	0	0	0
Accidental Disability	4	2	I	I	0	0	0	I	0	0
Total Retirements	20	20	20	14	12	П	22	19	21	20
Total Retirees, Beneficiaries and										
Survivors	406	399	408	405	403	402	413	412	427	430
Total Active Members	654	667	675	690	692	709	716	707	697	694
Pension Payments										
Superannuation	\$5,932,862	\$5,896,832	\$6,309,154	\$6,679,997	\$6,851,333	\$7,085,736	\$7,352,576	\$7,777,960	\$8,159,643	\$8,526,274
Survivor/Beneficiary Payments	541,414	572,945	559,890	562,672	577,343	621,158	585,720	600,027	610,172	621,296
Ordinary Disability	56,981	37,876	38,896	26,541	63,627	54,377	54,944	53,241	25,762	26,537
Accidental Disability	1,0 4 8,775	1,068,156	1,157,232	1,182,048	1,123,419	1,156,743	1,175,599	1,233,054	1,332,432	1,280,110
Other	<u>455,870</u>	423,210	<u>448,687</u>	419,302	<u>403,858</u>	502,125	<u>711,475</u>	<u>481,196</u>	<u>624,034</u>	590,039
Total Payments for Year	\$ <u>8,035,902</u>	\$ <u>7,999,019</u>	\$ <u>8,513,859</u>	\$ <u>8,870,560</u>	\$ <u>9,019,580</u>	\$ <u>9,420,139</u>	\$ <u>9,880,314</u>	\$ <u>10,145,477</u>	\$ <u>10,752,042</u>	\$ <u>11,044,255</u>

OTHER POST EMPLOYMENT BENEFITS (OPEB)

Chapter 88 of the Acts of 2004, and further revised by Chapter 176 of the Acts of 2017 allowed the Town of Wellesley to establish an Other Post-Employment Benefits Trust Fund for the purpose of meeting future OPEB costs payable by the town. Section 2 (c) states that the fund shall be subject to PERAC's triennial audit.

The Town administers a single employer defined benefit healthcare plan ("the Other Post Employment Benefit Plan"). The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the Town's group health insurance plan, which covers both active and retired members.

The actuarial valuation of the Town of Wellesley's OPEB Trust Fund was prepared by Segal as of December 31, 2020 and updated to June 30, 2022 in accordance with GASB Statement No. 74 and 75. The components of the net OPEB liability of the Town of Wellesley at June 30, 2022, were as follows:

Total OPEB liability	\$154,052,078
Less: OPEB plan's fiduciary net position	100,819,292
Net OPEB liability	\$ <u>53,232,786</u>
The OPEB plan's fiduciary net position as a percentage of the total OPEB liability	65.44%

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Cost Method	Entry age normal- level percentage of payroll
Asset Valuation Method	Market Value
Discount Rate	6.00%
Healthcare Cost Trend Rate	10.84% for one year, then 6.75% graded by 0.25% for
	9 years to an ultimate level of 4.50%
Salary Increases	Varies by group and service

PLAN MEMBERSHIP

Actives	913
Retirees and Beneficiaries	<u>949</u>
Total	<u>1,862</u>

OPEB Schedules - GASB Disclosure Information

The Schedule of Changes in the Town of Wellesley's Net OPEB Liability and related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position and ending net OPEB liability. It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability as a percentage of covered-employee payroll.

The Schedule of the Town of Wellesley's Contributions presents multi-year trend information on the Town's actual contributions to the other postemployment benefit plan and related ratios.

The Schedule of Investment Returns presents multi-year trend information on the money-weighted investment return on the Plan's other postemployment assets, net of investment expense.

These schedules are intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years for which information is available.

SCHEDULE OF CHANGES IN THE TOWN OF WELLESLEY'S NET OPEB LIABILTIY AND RELATED RATIOS

	FY 2022	FY 2021	FY 2020	FY 2019	FY 2018	FY 2017
Total OPEB Liability						
Service Cost	\$ 4,994,842	\$ 4,247,727	\$ 4,217,478	\$ 4,018,416	\$ 3,793,326	\$ 3,695,446
Interest	8,509,474	8,470,561	8,120,416	8,431,566	7,990,117	7,545,735
Differences between expected and actual experience	-	(888,614)	-	-	(5,332,500)	-
Changes of assumptions	6,729,387	7,093,397	(1,847,908)	-	(4,380,595)	-
Benefit payments	(5,936,215)	(5,468,869)	(5,088,867)	(5,619,307)	(5,078,148)	(4,614,800)
Net change in Total OPEB liability	\$ 14,297,488	\$ 13,454,202	\$ 5,401,119	\$ 6,830,675	\$ (3,007,800)	\$ 6,626,381
Total OPEB Liability - beginning	139,754,589	126,300,387	120,899,268	114,068,593	117,076,393	110,450,012
Total OPEB Liability- ending	\$ 154,052,077	\$ 139,754,589	\$ 126,300,387	\$ 120,899,268	\$ 114,068,593	\$ 117,076,393
Plan Fiduciary Net Position						
Contributions- employer	\$ 9,552,224	\$ 8,962,240	\$ 8,737,076	\$ 9,265,150	\$ 8,724,519	\$ 8,079,770
Net Investment Income	(4,077,957)	22,763,566	1,392,631	3,713,928	5,307,352	5,975,037
Benefit payments	(5,936,215)	(5,468,869)	(5,088,867)	(5,619,307)	(5,078,148)	(4,614,800)
Administrative expenses	-	-	-	-		-
Net change in Plan Fiduciary Net Position	\$ (461,948)	\$ 26,256,937	\$ 5,040,840	\$ 7,359,771	\$ 8,953,723	\$ 9,440,007
Plan Fiduciary Net Position - beginning	101,281,239	75,024,302	69,983,462	62,623,691	53,669,968	44,229,961
Plan Fiduciary Net Position - ending	\$ 100,819,291	\$ 101,281,239	\$ 75,024,302	\$ 69,983,462	\$ 62,623,691	\$ 53,669,968
Net OPEB Liability - ending	\$ 53,232,786	\$ 38,473,350	\$ 51,276,085	\$ 50,915,806	\$ 51,444,902	\$ 63,406,425
Plan Fiduciary Net Position as a Percentage of Total OPEB Liability	65.44%	72.47%	59.40%	57.89%	54.90%	45.84%
Covered-Employee Payroll	N/A	\$ 104,557,608	\$ 102,507,459	\$ 100,497,509	\$ 98,526,970	\$ 96,595,069
Net OPEB Liability as a Percentage of Covered-Employee Payroll	N/A	36.80%	50.02%	50.66%	52.21%	65.64%
Discount Rate	6.00%	6.00%	6.625%	6.625%	6.750%	6.750%

		Contributions in			Contributions
		relation to the			as a percentage
	Actuarially	Actuarially	Contribution	Covered	of Covered-
	Determined	Determined	Deficiency /	Employee-	Employee
Measurement	Contribution	Contribution	(Excess)	Payroll	Payroll
Date	(a)	(b)	(a-b)	(c)	(b/c)
6/30/2022	\$8,653,738	\$9,552,224	(\$898,486)	N/A	N/A
6/30/2021	\$9,173,192	\$8,962,240	\$210,952	\$104,557,608	8.57%
6/30/2020	\$8,041,954	\$8,736,547	(\$694,593)	\$102,507,459	8.52%
6/30/2019	\$7,825,463	\$9,265,678	(\$1,440,215)	\$100,497,509	9.22%
6/30/2018	\$8,750,052	\$8,724,519	\$25,533	\$98,526,970	8.85%
6/30/2017	\$8,484,223	\$8,079,770	\$404,453	\$96,595,069	8.36%

SCHEDULE OF TOWN OF WELLESLEY'S CONTRIBUTIONS

SCHEDULE OF INVESTMENT RETURNS

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Fiscal Year	Annual Money-Weighted Rate of Return
2021	29.58%
2020	1.93%
2019	5.79%
2018	9.62%
2017	12.80%

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WELLESLEY CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

WELLESLEY CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2020 AND 2019

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Financial Section

1



Independent Auditor's Report

To the Wellesley Retirement Board and the Audit Committee Wellesley Contributory Retirement System Wellesley, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Wellesley Contributory Retirement System, which comprise the statements of assets, liabilities, and fund balance as of December 31, 2020 and 2019, and the related statements of changes in fund balance, statements of income, statements of disbursements, and statements of investment income for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission (PERAC). Management is also responsible 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Commonwealth of Massachusetts' Division of Public Employee Retirement Administration Rules and Regulations 840 CMR 25.00: "The Conduct of Field Examinations of Contributory Retirement Systems", in existence as of August 27, 2004. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wellesley Contributory Retirement System as of December 31, 2020 and 2019, and the results of its operations and changes in fund balances for the years then ended, on the basis of the financial reporting provisions of PERAC as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. As described in Note 2 to the financial statements, the financial statements are prepared by the Wellesley Contributory Retirement System on the basis of the financial reporting provisions of the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of PERAC. Our opinion is not modified with respect to this matter.

Other Matters

Additional Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Wellesley Contributory Retirement System's financial statements. The schedule of funding progress, as listed in the table of contents, which is the responsibility of management, is presented for the purpose of additional information and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

Our report is intended solely for the information and use of management of the member units, the Wellesley Contributory Retirement Board, others within the Town of Wellesley, Massachusetts, and PERAC and is not intended to be and should not be used by anyone other than these specified parties.

Payers & Sullivan LLC.

December 22, 2021

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STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

December 31,

Assets		2020		2019
Cash and cash equivalents Massachusetts Municipal Depository Trust (MMDT) funds Investments: Pension Reserve Investment Trust (PRIT) funds Receivables:	\$	708,786 866,907 241,386,975	\$	215,382 1,166,388 215,463,642
Reimbursements from other systems Payments from members Prepaid expenses		523,303 79,762 1,862		458,829 63,232 1,824
Total assets		243,567,595		217,369,297
Liabilities				
Reimbursements to other systems Other accrued liabilities		549,981 43,884	. <u>-</u>	531,283 8,677
Total liabilities	_	593,865	. <u>-</u>	539,960
Net assets available for pension benefits	\$	242,973,730	\$	216,829,337
Fund Balance				
Annuity Savings Fund Annuity Reserve Fund Special Military Service Credit Fund Pension Fund Pension Reserve Fund		42,054,828 8,234,869 2,917 9,831,838 182,849,278	\$	40,151,646 8,131,280 2,915 10,853,307 157,690,189
Total fund balance	\$	242,973,730	\$	216,829,337

See notes to financial statements.

Wellesley Contributory Retirement System

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STATEMENTS OF CHANGES IN FUND BALANCE

YEARS ENDED DECEMBER 31,

					2020
	_	Annuity Savings Fund		Annuity Reserve Fund	Special Military Service Credit Fund
Income: Receipts	\$	4,901,267	\$	- \$	_
Investment income/(loss)	Ψ	70,365	Ψ	238,667	2
		,			
Total income		4,971,632		238,667	2
Disbursements		(697,334)		(2,485,801)	-
Net increase (decrease) in fund balance before interfund transfers (out) in		4,274,298		(2,247,134)	2
Interfund transfers (out) in		(2,371,116)		2,350,723	-
Net increase (decrease) in fund balance		1,903,182	•	103,589	2
Fund balance, beginning of year		40,151,646		8,131,280	2,915
Fund balance, end of year	\$	42,054,828	\$	8,234,869 \$	2,917

See notes to financial statements.

Wellesley Contributory Retirement System

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2019

Pension Fund	Pension Reserve Fund	Expense Fund	Total All Funds	Total All Funds
\$ 10,022,788 \$	18,775 \$ 25,119,921	۽\$ 1,275,441	\$ 14,942,830 26,704,396	\$ 13,719,324 31,025,157
10,022,788	25,138,696	1,275,441	41,647,226	44,744,481
(11,044,257)		(1,275,441)	(15,502,833)	(15,863,745)
(1,021,469)	25,138,696	-	26,144,393	28,880,736
-	20,393			
(1,021,469)	25,159,089	-	26,144,393	28,880,736
10,853,307	157,690,189		216,829,337	187,948,601
\$ 9,831,838 \$	182,849,278	\$\$	\$ 242,973,730	\$ 216,829,337

Wellesley Contributory Retirement System

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STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31,

	2020	2019
Members deductions \$	3,985,761	\$ 3,858,230
Employer contributions: Town of Wellesley Wellesley Housing Authority	9,368,663 69,407	8,782,901 68,606
Investment income/(loss)	26,704,396	31,025,157
Reimbursements from other systems for Pension Fund	523,303	458,829
Transfers of members' accounts from other systems	886,472	418,485
State Retirement Board, cost of living adjustment	61,415	75,006
Federal grant reimbursement	16,408	17,477
Members' makeup payments and redeposits	29,034	19, 174
Income from court ordered restitution	402	14,287
Interest not refunded	1,965	6,329
Total income\$	41,647,226	\$

See notes to financial statements.

Wellesley Contributory Retirement System

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STATEMENTS OF DISBURSEMENTS

YEARS ENDED DECEMBER 31,

	2020	2019
Superannuation and termination retirement allowance payments from Pension Fund\$	8,526,274	6 8,159,643
Annuity portion of retirement allowance payments from Annuity Reserve Fund	2,485,801	2,261,810
Accidental disability payments from Pension Fund	1,280,110	1,332,432
Investment management and custodial fees from Expense Fund	1,041,106	1,036,397
Survivor allowance payments from Pension Fund	621,296	610,172
Refunds of members' accounts from Annuity Savings Fund	336,150	629,610
Transfer of members' accounts to other systems from Annuity Savings Fund	361,184	928,073
Reimbursements to other systems from Pension Fund	448,032	473,291
Accidental death benefits from Pension Fund	106,289	119,516
Staff salaries and benefits from Expense Fund	167,922	162,644
Ordinary disability payments from Pension Fund	26,537	25,762
Administrative expenses from Expense Fund	34,692	33,807
Section 101 benefits from Pension Fund	35,719	31,227
Legal expenses from Expense Fund	1,159	2,901
Fiduciary insurance expenses from Expense Fund	11,462	11,150
Travel expenses from Expense Fund	-	1,710
Actuarial and accounting service expenses from Expense Fund	19,100	43,600
Total disbursements\$	15,502,833	5 15,863,745

See notes to financial statements.

Wellesley Contributory Retirement System

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STATEMENTS OF INVESTMENT INCOME

	2020	2019
Gross investment income (loss)	\$ <u>26,704,396</u>	\$ <u>31,025,157</u>
Investment income required:		
Annuity Savings Fund	70,365	82,285
Annuity Reserve Fund	238,667	225,177
Special Military Service Credit Fund	2	3
Expense Fund	1,275,441	1,292,209
Total investment income required	1,584,475	1,599,674
Excess (deficiency) investment income transferred to Pension Reserve Fund	\$	\$

See notes to financial statements.

Wellesley Contributory Retirement System

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NOTE 1 – PLAN DESCRIPTION

The Plan is a cost sharing multiple-employer defined benefit plan covering all employees of governmental member units deemed eligible by the Wellesley Retirement Board (the Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. The Plan is administered by the Wellesley Contributory Retirement System (the System).

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the Plan is mandatory immediately upon the commencement of employment for all permanent and full-time employees and those employees who are scheduled for 1,000 hours per calendar year.

Massachusetts Contributory Retirement System benefits are, with certain exceptions, uniform from system to system. 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 (except for members who were hired on or after April 2, 2012, where the retirement allowance is calculated on the highest five-year average). Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. For members who began service prior to April 2, 2012, a superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service and normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55). For members who began service on or after April 2, 2012, a superannuation retirement allowance may be received upon the completion of age 60 with 10 years of service and normal retirement for most employees occurs at age 67 (except for certain hazardous duty and public safety positions, a superannuation allowance may also be received at age 55 and whose normal retirement is at age 57).

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

Active members contribute between 5 and 11% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. The majority of the Town's employees contribute between 9 and 11% of their regular compensation. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Public Employee Retirement Administration Commission's (PERAC) actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth of Massachusetts' state law during those years are borne by the Commonwealth and are deposited into the Pension Fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and all costs are borne by the System.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as determined by PERAC's actuary. Upon their inception, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside money for the future benefits of employees who are currently employed. Large unfunded liabilities resulted from operating under this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations. In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund.

Wellesley Contributory Retirement System

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Administrative expenses, which were previously appropriated from the governmental entities whose employees are members of the system, are now paid from investment income.

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

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, a member who voluntarily withdraws with less than 10 years of creditable service is entitled to receive 3% interest on his or her contributions. Members who involuntarily withdraw or those with more than 10 years of creditable service are entitled to interest on his or her contributions at the regular interest rate.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are presented on the basis of accounting and reporting practices prescribed by the Commonwealth of Massachusetts' Commissioner of PERAC. Financial accounting and reporting standards required by generally accepted accounting principles (GAAP) differ in some respects from the requirements of PERAC. The valuation of assets, liabilities, and net assets/fund balance are substantially the same. The main difference between GAAP and PERAC is that the financial statements for the changes in net assets/fund balance are presented in different formats.

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Commissioner of PERAC.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, redeposits, and transfers to and from other systems are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw from the System with less than 10 years of service is transferred to the Pension Reserve Fund. Upon retirement, a member's contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances are not entitled to an allowance and must be transferred to the Pension Reserve Fund after a period of 10 years of inactivity.

The *Annuity Reserve Fund* is the fund to which a Member's account is transferred upon retirement from the Annuity Savings Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 2.5% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on military leave for service in the Armed Forces who will receive creditable service for the period of that leave. Creditable service is granted provided the member returns to the same governmental unit within two years of the date of discharge from the military.

The *Pension Fund* contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The *Pension Reserve Fund* contains the amounts appropriated by the governmental units for the purpose of funding retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the

Wellesley Contributory Retirement System

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unrealized gain or loss of market valued investments as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund and Annuity Reserve Fund is credited to the Pension Reserve Fund.

The *Expense Fund* contains amounts transferred from investment income for the purpose of administering the System.

The Investment Income Account is credited with all interest and dividends derived from invested funds. At the end of the year, the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Special Military Service Credit Fund, and the Expense Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 – PLAN ADMINISTRATION

The System is administered by a five-member retirement board consisting of the Town Finance Director, who shall be a member ex officio, two elected members, one member appointed by the Board of Selectmen, and one member appointed by the other 4 members.

Ex-Officio Member:	Sheryl Strother	Term Expires:	Indefinite
Elected Member:	Timothy Barros	Term Expires:	June 2023
Elected Member:	Michael Leach	Term Expires:	June 2022
Appointed Member:	David Kornwitz	Term Expires:	June 2023
Appointed Member:	Charles Cahill	Term Expires:	June 2021

Board members are required to meet at least once a month and must keep record of all Board 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 Commissioner of PERAC.

The investment of the System's funds is the responsibility of the Board. All retirement allowances must be approved by the Board. All expenses incurred by the System must be approved by at least three members of the Board.

The Board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. The bonding provides dishonesty coverage in the amount of \$1,000,000 and fiduciary liability coverage in the amount of \$50,000,000.

NOTE 4 - CASH AND INVESTMENTS

At December 31, 2020 and 2019, the carrying amount (book value) of the Retirement System's deposits totaled \$708,786 and \$215,382 and the bank balances totaled \$974,178 and \$429,390, respectively. The bank balances were fully covered by Federal Depository Insurance.

Wellesley Contributory Retirement System

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Investments

The Retirement System's investments at December 31, 2020 and 2019, consist of two external investment pools, namely the Pension Reserve Investment Trust (PRIT) and the Massachusetts Municipal Depository Trust (MMDT).

The Retirement System participates, as a participating member, in the Pension Reserves Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

The PRIT fund, as a pool, invests in various products including, but not limited to, money market mutual funds, equities, pooled foreign and domestic fixed income and equity funds, United States government sponsored enterprises and treasury notes, real estate, and commodities. The underlying components of PRIT's fixed income portfolio had an effective weighted duration rate ranging from .14 to 16.03 years and from .19 to 16.28 years in 2019 and 2020, respectively.

The MMDT meets the criteria of an external investment pool. The MMDT is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

MMDT maintains a cash portfolio and a short-term bond portfolio. The System invests in the cash portfolio which has a weighted average maturity of 52 days.

As of December 31, 2020 and 2019, the Retirement System had investments in PRIT totaling \$241,386,975 and \$215,463,642 and investments in MMDT totaling \$866,907 and \$1,166,388, respectively.

NOTE 5 - ACTUARIAL VALUATION

The most recent actuarial valuations of the System contained the following information:

Funding Information	January 1, 2021	January 1, 2019	January 1, 2017
Actuarial accrued liability - active members\$	131,727,392	\$ 118,685,048	\$ 111,805,358
Actuarial accrued liability - retired and inactive members	154,351,301	129,868,644	112,331,808
Actuarial accrued liability - total	286,078,693	248,553,692	224,137,166
Actuarial value of assets	242,973,730	193,017,080	169,089,812
Unfunded liability\$	43,104,963	\$ 55,536,612	\$ 55,047,354
Other Actuarial Information			
Normal cost for employees\$	4,175,748	\$ 3,952,186	\$ 3,668,973
Normal cost for employer\$	3,720,093	\$ 2,765,329	\$ 2,662,568
Covered payroll\$	40,939,192	\$ 39,169,350	\$ 36,836,364
Investment return	6.000%	6.625%	6.625%

Wellesley Contributory Retirement System

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The principal actuarial assumptions used in the January 1, 2021 valuation were as follows:

Valuation date	January 1, 2021
Actuarial cost method	Entry Age Normal Cost Method.
Amortization method	Amortization payments on the unfunded liability increasing by 3% per year
Remaining amortization period	As of January 1, 2021, 9 years for the unfunded liability.
Asset valuation method	As of January 1, 2021, the actuarial value of assets was set to equal the market value of assets with a smothing method applied going forward.
Inflation rate	2.75%
Projected salary increases	Based on years of service, ranging from 7.00% decreasing to 3.50% after 11 years of service from Group 1 and 2 employees, and ranging from 8.00% decreasing to 4.00% after 11 years for Group 4 employees.
Cost of living adjustments	2.75% increase on the first \$18,000 (previously \$17,000) of retirement allowance.
Rates of retirement	Varies based upon age for general employees, police and fire employees.
Mortality Rates: Pre-Retirement	RP-2014 Blue Collar Employee Mortality Table set forward one year for females projected generationally with Scale MP-2016.
Healthy Retiree	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year for females project generationally with Scale MP-2016.
Disabled Retiree	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year and projected generationally with with Scale MP-2016.
Investment rate of retum/Discount rate	6.0%, net of pension plan investment expense, including inflation.

NOTE 6 - MEMBERSHIP

The following table represents the System's membership at December 31:

	2020	2019
Active members	694	697
Inactive members	363	322
Disabled members	34	35
Retirees and beneficiaries currently receiving benefits	396	392
Total	1,487	1,446

Wellesley Contributory Retirement System

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Additional Information

Wellesley Contributory Retirement System

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Additional Information

	(A)	(B) Actuarial	(C)	(D)	(E)	UAAL as a	
Actuarial Valuation Date	 Actuarial Value of Assets	 Accrued Liability (AAL) Entry Age	Unfunded AAL (UAAL) (B) - (A)	Funded Ratio (A) / (B)	 Covered Payroll	Percentage of Covered Payroll (C) / (E)	Investment Retum Assumption
01/01/21	\$ 242,974	\$ 286,079	\$ 43,105	84.9%	\$ 40,939	105.3%	6.000%
01/01/19	193,017	248,554	55,537	77.7%	39,169	141.8%	6.625%
01/01/17	169,090	224,137	55,047	75.4%	36,836	149.4%	6.625%
01/01/15	152,956	207,928	54,972	73.6%	35,960	152.9%	6.75%
01/01/13	125,715	186,236	60,521	67.5%	34,037	177.8%	7.00%
01/01/12	125,425	165,408	39,983	75.8%	33,920	117.9%	7.75%
01/01/10	129,514	149,447	19,933	86.7%	32,053	62.2%	8.00%
01/01/08	144,298	136,022	(8,276)	106.1%	30,256	-27.4%	8.00%
01/01/06	127,011	123,086	(3,925)	103.2%	26,392	-14.9%	8.00%
01/01/04	116,792	112,846	(3,946)	103.5%	23,173	-17.0%	7.50%

SCHEDULE OF FUNDING PROGRESS (Dollar amounts in thousands)

	Valu	ation	of Assets			
Actuarial Valuation Date	Actual Market Value of Assets (1)		Actuarial Value of Assets (2)		Difference in Valuation Methods	Asset Valuation Methodologies
01/01/21	\$ 242,974	\$	242,974	\$	-	(1) The actual market value of the System's assets as reported in the System's Annual Statement of the Financial Condition of the
01/01/19	187,949		193,017		(5,068)	Wellesley Retirement Board to PERAC.
01/01/17	164,353		169,090		(4,737)	(2) The actuarial value of assets may otherwise be determined as the market value of assets (as reported in the System's Annual
01/01/15	152,956		152,956		-	Statement) less unrecognized return in each of the last five years. Unrecognized return is equal to the difference between the actual
01/01/13	125,715		125,715		-	market value return and the expected market value return and is recognized over a five year period, further adjusted, if necessary, to
01/01/12	113,747		125,425		(11,678)	be within 20% of the actual market value.
01/01/10	107,929		129,514		(21,585)	The actuarial value of assets was reset to actual market value in the valuations dated January 1, 2004, 2006, 2008, 2013, 2015 and
01/01/08	144,298		144,298		-	2021.
01/01/06	127,011		127,011		-	
01/01/04	116,792		116,792		-	

Wellesley Contributory Retirement System

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Additional Information

WELLESLEY CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

WELLESLEY CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2019 AND 2018

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Financial Section

1

Powers & Sullivan, LLC

Certified Publie Accountants

Independent Auditor's Report

To the Wellesley Retirement Board and the Audit Committee Wellesley Contributory Retirement System Wellesley, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Wellesley Contributory Retirement System, which comprise the statements of assets, liabilities, and fund balance as of December 31, 2019 and 2018, and the related statements of changes in fund balance, statements of income, statements of disbursements, and statements of investment income for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission (PERAC). Management is also responsible 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Commonwealth of Massachusetts' Division of Public Employee Retirement Administration Rules and Regulations 840 CMR 25.00: "The Conduct of Field Examinations of Contributory Retirement Systems", in existence as of August 27, 2004. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wellesley Contributory Retirement System as of December 31, 2019 and 2018, and the results of its operations and changes in fund balances for the years then ended, on the basis of the financial reporting provisions of PERAC as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. As described in Note 2 to the financial statements, the financial statements are prepared by the Wellesley Contributory Retirement System on the basis of the financial reporting provisions of the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of PERAC. Our opinion is not modified with respect to this matter.

Other Matters

Additional Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Wellesley Contributory Retirement System's financial statements. The schedule of funding progress, as listed in the table of contents, which is the responsibility of management, is presented for the purpose of additional information and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

Our report is intended solely for the information and use of management of the member units, the Wellesley Contributory Retirement Board, others within the Town of Wellesley, Massachusetts, and PERAC and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan LLC.

September 25, 2020

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STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

December 31,

	_	2019		2018
Assets				
Cash and cash equivalents	\$	215,382	\$	294,454
Massachusetts Municipal Depository Trust (MMDT) funds Investments:		1,166,388		640,195
Pension Reserve Investment Trust (PRIT) funds		215,463,642		186,914,037
Reimbursements from other systems		458,829		454,164
Payments from members		63,232		155,234
Prepaid expenses	_	1,824		1,743
Total assets	_	217,369,297		188,459,827
Liabilities				
Reimbursements to other systems		531,283		497,574
Other accrued liabilities	_	8,677		13,652
Total liabilities	_	539,960		511,226
Net assets available for pension benefits	\$_	216,829,337	\$	187,948,601
Fund Balance				
Annuity Savings Fund	\$	40,151,646	\$	39,975,237
Annuity Reserve Fund		8,131,280		7,535,696
Special Military Service Credit Fund		2,915		2,912
Pension Fund		10,853,307		11,037,739
Pension Reserve Fund	_	157,690,189		129,397,017
Total fund balance	\$_	216,829,337	*_	187,948,601

See notes to financial statements.

Wellesley Contributory Retirement System

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STATEMENTS OF CHANGES IN FUND BALANCE

YEARS ENDED DECEMBER 31,

				2019
		Annuity Savings Fund	Annuity Reserve Fund	Special Military Service Credit Fund
Income: Receipts	\$	4,295,889 \$	- \$	
Investment income/(loss)	Ψ	4,293,009 ¥ 82,285	225,177	3
Total income		4,378,174	225,177	3
Disbursements	_	(1,557,683)	(2,261,810)	-
Net increase (decrease) in fund balance before interfund transfers (out) in		2,820,491	(2,036,633)	3
Interfund transfers (out) in		(2,644,082)	2,632,217	-
Net increase (decrease) in fund balance		176,409	595,584	3
Fund balance, beginning of year		39,975,237	7,535,696	2,912
Fund balance, end of year	\$	40,151,646 \$	8,131,280 \$	2,915

See notes to financial statements.

Wellesley Contributory Retirement System

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2018

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_	Pension Fund		Pension Reserve Fund	 Expense Fund	 Total All Funds	Total All Funds
\$	9,385,342 -	\$	38,093 29,425,483	\$ ۔ 1,292,209	\$ 13,719,324 \$ 31,025,157	13,222,387 (3,511,132)
	9,385,342		29,463,576	1,292,209	44,744,481	9,711,255
-	(10,752,043)		-	 (1,292,209)	 (15,863,745)	(13,959,908)
	(1,366,701)		29,463,576	-	28,880,736	(4,248,653)
-	1,182,269		(1,170,404)	 -	 -	
	(184,432)		28,293,172	-	28,880,736	(4,248,653)
-	11,037,739		129,397,017	 -	 187,948,601	192,197,254
\$	10,853,307	\$ 	157,690,189	\$ -	\$ 216,829,337 \$	187,948,601

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STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31,

	2019	_	2018
Members deductions \$	3,858,230	\$	3,878,486
Employer contributions: Town of Wellesley Wellesley Housing Authority	8,782,901 68,606		8,285,438 64,562
Investment income/(loss)	31,025,157		(3,511,132)
Reimbursements from other systems for Pension Fund	458,829		454,164
Transfers of members' accounts from other systems	418,485		393,099
State Retirement Board, cost of living adjustment	75,006		84,940
Federal grant reimbursement	17,477		21,230
Members' makeup payments and redeposits	19,174		38,118
Income from court ordered restitution	14,287		2,077
Interest not refunded	6,329	_	273
Total income\$	44,744,481	\$_	9,711,255

See notes to financial statements.

Wellesley Contributory Retirement System

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STATEMENTS OF DISBURSEMENTS

YEARS ENDED DECEMBER 31,

	2019	2018
Superannuation and termination retirement allowance payments from Pension Fund\$	8,159,643 \$	7,777,959
Annuity portion of retirement allowance payments from Annuity Reserve Fund	2,261,810	2,080,157
Accidental disability payments from Pension Fund	1,332,432	1,233,054
Investment management and custodial fees from Expense Fund	1,036,397	1,012,271
Survivor allowance payments from Pension Fund	610,172	600,027
Refunds of members' accounts from Annuity Savings Fund	629,610	53,665
Transfer of members' accounts to other systems from Annuity Savings Fund	928,073	443,866
Reimbursements to other systems from Pension Fund	473,291	326,292
Accidental death benefits from Pension Fund	119,516	127,647
Staff salaries and benefits from Expense Fund	162,644	154,650
Ordinary disability payments from Pension Fund	25,762	53,241
Administrative expenses from Expense Fund	33,807	36,948
Section 101 benefits from Pension Fund	31,227	27,257
Legal expenses from Expense Fund	2,901	8,446
Fiduciary insurance expenses from Expense Fund	11,150	10,715
Travel expenses from Expense Fund	1,710	2,613
Actuarial and accounting service expenses from Expense Fund	43,600	11,100
Total disbursements\$	15,863,745 \$	13,959,908

See notes to financial statements.

Wellesley Contributory Retirement System

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STATEMENTS OF INVESTMENT INCOME

YEARS ENDED DECEMBER 31,				
	2019	2018		
Gross investment income (loss) \$	31,025,157	\$(3,511,132)_		
Investment income required: Annuity Savings Fund Annuity Reserve Fund Special Military Service Credit Fund Expense Fund	82,285 225,177 3 1,292,209	40,499 210,309 3 1,236,743		
Total investment income required	1,599,674	1,487,554		
Excess (deficiency) investment income transferred to Pension Reserve Fund\$	29,425,483	\$ (4,998,686)		

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See notes to financial statements.

NOTE 1 – PLAN DESCRIPTION

The Plan is a cost sharing multiple-employer defined benefit plan covering all employees of governmental member units deemed eligible by the Wellesley Retirement Board (the Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. The Plan is administered by the Wellesley Contributory Retirement System (the System).

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the Plan is mandatory immediately upon the commencement of employment for all permanent and full-time employees and those employees who are scheduled for 1,000 hours per calendar year.

Massachusetts Contributory Retirement System benefits are, with certain exceptions, uniform from system to system. 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 (except for members who were hired on or after April 2, 2012, where the retirement allowance is calculated on the highest five-year average). Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. For members who began service prior to April 2, 2012, a superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service and normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55). For members who began service on or after April 2, 2012, a superannuation retirement allowance may be received upon the completion of age 60 with 10 years of service and normal retirement for most employees occurs at age 67 (except for certain hazardous duty and public safety positions, a superannuation allowance may also be received at age 55 and whose normal retirement is at age 57).

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

Active members contribute between 5 and 11% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's membership commences. The majority of the Town's employees contribute between 9 and 11% of their regular compensation. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Public Employee Retirement Administration Commission's (PERAC) actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth of Massachusetts' state law during those years are borne by the Commonwealth and are deposited into the Pension Fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and all costs are borne by the System.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as determined by PERAC's actuary. Upon their inception, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside money for the future benefits of employees who are currently employed. Large unfunded liabilities resulted from operating under this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations. In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund.

Wellesley Contributory Retirement System

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Administrative expenses, which were previously appropriated from the governmental entities whose employees are members of the system, are now paid from investment income.

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

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, a member who voluntarily withdraws with less than 10 years of creditable service is entitled to receive 3% interest on his or her contributions. Members who involuntarily withdraw or those with more than 10 years of creditable service are entitled to interest on his or her contributions at the regular interest rate.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are presented on the basis of accounting and reporting practices prescribed by the Commonwealth of Massachusetts' Commissioner of PERAC. Financial accounting and reporting standards required by generally accepted accounting principles (GAAP) differ in some respects from the requirements of PERAC. The valuation of assets, liabilities, and net assets/fund balance are substantially the same. The main difference between GAAP and PERAC is that the financial statements for the changes in net assets/fund balance are presented in different formats.

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Commissioner of PERAC.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, redeposits, and transfers to and from other systems are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw from the System with less than 10 years of service is transferred to the Pension Reserve Fund. Upon retirement, a member's contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances are not entitled to an allowance and must be transferred to the Pension Reserve Fund after a period of 10 years of inactivity.

The *Annuity Reserve Fund* is the fund to which a Member's account is transferred upon retirement from the Annuity Savings Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 2.5% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on military leave for service in the Armed Forces who will receive creditable service for the period of that leave. Creditable service is granted provided the member returns to the same governmental unit within two years of the date of discharge from the military.

The *Pension Fund* contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains the amounts appropriated by the governmental units for the purpose of

Wellesley Contributory Retirement System

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funding retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain or loss of market valued investments as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund and Annuity Reserve Fund is credited to the Pension Reserve Fund.

The *Expense Fund* contains amounts transferred from investment income for the purpose of administering the System.

The Investment Income Account is credited with all interest and dividends derived from invested funds. At the end of the year, the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Special Military Service Credit Fund, and the Expense Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 – PLAN ADMINISTRATION

The System is administered by a five-member retirement board consisting of the Town Finance Director, who shall be a member ex officio, two elected members, one member appointed by the Board of Selectmen, and one member appointed by the other 4 members.

Ex-Officio Member:	Sheryl Strother	Term Expires:	Indefinite
Elected Member:	Timothy Barros	Term Expires:	June 2020
Elected Member:	Michael Leach	Term Expires:	June 2022
Appointed Member:	David Kornwitz	Term Expires:	Indefinite
Appointed Member:	Charles Cahill	Term Expires:	June 2021

Board members are required to meet at least once a month and must keep record of all Board 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 Commissioner of PERAC.

The investment of the System's funds is the responsibility of the Board. All retirement allowances must be approved by the Board. All expenses incurred by the System must be approved by at least three members of the Board.

The Board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. The bonding provides dishonesty coverage in the amount of \$1,000,000 and fiduciary liability coverage in the amount of \$50,000,000.

NOTE 4 - CASH AND INVESTMENTS

At December 31, 2019 and 2018, the carrying amount (book value) of the Retirement System's deposits totaled \$215,382 and \$294,454 and the bank balances totaled \$429,390 and \$478,485, respectively. The bank balances were fully covered by Federal Depository Insurance.

Wellesley Contributory Retirement System

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Investments

The Retirement System's investments at December 31, 2019 and 2018, consist of two external investment pools, namely the Pension Reserve Investment Trust (PRIT) and the Massachusetts Municipal Depository Trust (MMDT).

The Retirement System participates, as a participating member, in the Pension Reserves Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

The PRIT fund, as a pool, invests in various products including, but not limited to, money market mutual funds, equities, pooled foreign and domestic fixed income and equity funds, United States government sponsored enterprises and treasury notes, real estate, and commodities. The underlying components of PRIT's fixed income portfolio had an effective weighted duration rate ranging from .18 to 15.31 years and from .14 to 16.03 years in 2018 and 2019, respectively.

The MMDT meets the criteria of an external investment pool. The MMDT is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

MMDT maintains a cash portfolio and a short-term bond portfolio. The System invests in the cash portfolio which has a weighted average maturity of 33 days.

As of December 31, 2019 and 2018, the Retirement System had investments in PRIT totaling \$215,463,642 and \$186,914,037 and investments in MMDT totaling \$1,166,388 and \$640,195, respectively.

NOTE 5 - ACTUARIAL VALUATION

The most recent actuarial valuations of the System contained the following information:

Funding Information	January 1, 2019	January 1, 2017	January 1, 2015
Actuarial accrued liability - active members\$	118,685,048	\$ 111,805,358 \$	101,684,411
Actuarial accrued liability - retired and inactive members	129,868,644	112,331,808	106,243,826
Actuarial accrued liability - total	248,553,692	224,137,166	207,928,237
Actuarial value of assets	193,017,080	169,089,812	152,955,923
Unfunded liability\$	55,536,612	\$ 55,047,354 \$	54,972,314
Other Actuarial Information			
Normal cost for employees\$	3,952,186	\$ 3,668,973 \$	3,410,805
Normal cost for employer\$	2,765,329	\$ 2,662,568 \$	2,468,524
Covered payroll\$	39,169,350	\$ 36,836,364 \$	35,959,727
Investment return	6.625%	6.625%	6.75%

Wellesley Contributory Retirement System

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The principal actuarial assumptions used in the January 1, 2019 valuation were as follows:

Valuation date	January 1, 2019
Actuarial cost method	Entry Age Normal Cost Method.
Amortization method	Level dollar for 2010 ERI liability and 3.5% increasing payments for the remaining unfunded liability.
Remaining amortization period	As of July 1, 2017, 5 years for the 2010 ERI liability and 13 years for the remaining unfunded liability.
Asset valuation method	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period with a fresh start as of January 1, 2015. Asset value is adjusted as necessary to be within 20% of the market value.
Inflation rate	2.75%
Projected salary increases	Based on years of service, ranging from 7.00% decreasing to 3.50% after 11 years of service from Group 1 and 2 employees, and ranging from 8.00% decreasing to 4.00% after 11 years for Group 4 employees.
Cost of living adjustments	2.75% increase on the first \$17,000 (previously \$15,000) of retirement income.
Rates of retirement	Varies based upon age for general employees, police and fire employees.
Mortality Rates: Pre-Retirement	RP-2014 Blue Collar Employee Mortality Table set forward one year for females projected generationally with Scale MP-2016.
Healthy Retiree	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year for females project generationally with Scale MP-2016.
Disabled Retiree	RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB from 2015.
Investment rate of return/Discount rate	6.625%, net of pension plan investment expense, including inflation.

NOTE 6 - MEMBERSHIP

The following table represents the System's membership at December 31:

	2019	2018
Active members	697	707
Inactive members	322	303
Disabled members	35	35
Retirees and beneficiaries currently receiving benefits	392	377
Total	1,446	1,422

Wellesley Contributory Retirement System

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NOTE 7 - COVID-19

On March 10, 2020, the Massachusetts Governor declared a state of emergency in response to the coronavirus outbreak. The World Health Organization officially declared the novel Coronavirus (COVID-19) a pandemic the following day. In an attempt to slow the spread of COVID-19, governments issued various stay at home orders that caused global economic shutdowns and substantial financial market impact. Starting in March 2020, the Governor continued to issue orders allowing governments to operate and carry out essential functions safely. These included modifying the state's Open Meeting Law, issuing a stay-at-home order, and introducing a phased approach to reopening State businesses. The System is considered an essential business and although it was closed to the public for a period of time, it remained operational and most employees continued to perform their daily duties.

Subsequent to December 31, 2019, the worldwide adverse effects of the COVID-19 pandemic caused a sharp decrease in the value of the System's assets. Since that time, the values have rebounded. Although fluctuations in the market are anticipated, any long-term impact resulting from the COVID-19 pandemic cannot be determined as of the date of the financial statements.

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Additional Information

Wellesley Contributory Retirement System

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Additional Information

Actuarial Valuation Date	 (A) Actuarial Value of Assets	_	(B) Actuarial Accrued Liability (AAL) Entry Age	(C) Unfunded AAL (UAAL) (B) - (A)	(D) Funded Ratio (A) / (B)	 (E) Covered Payroll	UAAL as a Percentage of Covered Payroll (C) / (E)	Investment Retum Assumptior
01/01/19	\$ 193,017	\$	248,554	\$ 55,537	77.7%	\$ 39,169	141.8%	6.625%
01/01/17	169,090		224,137	55,047	75.4%	36,836	149.4%	6.625%
01/01/15	152,956		207,928	54,972	73.6%	35,960	152.9%	6.75%
01/01/13	125,715		186,236	60,521	67.5%	34,037	177.8%	7.00%
01/01/12	125,425		165,408	39,983	75.8%	33,920	117.9%	7.75%
01/01/10	129,514		149,447	19,933	86.7%	32,053	62.2%	8.00%
01/01/08	144,298		136,022	(8,276)	106.1%	30,256	-27.4%	8.00%
01/01/06	127,011		123,086	(3,925)	103.2%	26,392	-14.9%	8.00%
01/01/04	116,792		112,846	(3,946)	103.5%	23,173	-17.0%	7.50%

(4,223)

103.7%

22,573

-18.7%

SCHEDULE OF FUNDING PROGRESS (Dollar amounts in thousands)

	Valuation of Assets							
Actuarial Valuation Date		Actual Market Value of Assets (1)		Actuarial Value of Assets (2)		Difference in Valuation Methods		Asset Valuation Methodologies
01/01/19	\$	187,949	\$	193,017	\$	(5,068)	(1)	The actual market value of the System's assets as reported in the System's Annual Statement of the Financial Condition of the
01/01/17		164,353		169,090		(4,737)		Wellesley Retirement Board to PERAC.
01/01/15		152,956		152,956		-	(2)	The actuarial value of assets may otherwise be determined as the market value of assets (as reported in the System's Annual
01/01/13		125,715		125,715		-		Statement) less unrecognized return in each of the last five years. Unrecognized return is equal to the difference between the actual
01/01/12		113,747		125,425		(11,678)		market value return and the expected market value return and is recognized over a five year period, further adjusted, if necessary, to
01/01/10		107,929		129,514		(21,585)		be within 20% of the actual market value.
01/01/08		144,298		144,298		-		The actuarial value of assets was reset to actual market value in the valuations dated January 1, 2004, 2006, 2008, 2013, and 2015.
01/01/06		127,011		127,011		-		
01/01/04		116,792		116,792		-		
01/01/03		99,621		119,034		(19,413)		

Wellesley Contributory Retirement System

01/01/03

119,034

114,811

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Additional Information

7.00%

WELLESLEY CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

WELLESLEY CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2018 AND 2017

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Financial Section

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Powers & Sullivan, LLC

Certified Public Accountants

Independent Auditor's Report

To the Wellesley Retirement Board and the Audit Committee Wellesley Contributory Retirement System Wellesley, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Wellesley Contributory Retirement System, which comprise the statements of assets, liabilities, and fund balance as of December 31, 2018 and 2017, and the related statements of changes in fund balance, statements of income, statements of disbursements, and statements of investment income for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission (PERAC). Management is also responsible 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Commonwealth of Massachusetts' Division of Public Employee Retirement Administration Rules and Regulations 840 CMR 25.00: "The Conduct of Field Examinations of Contributory Retirement Systems", in existence as of August 27, 2004. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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.





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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wellesley Contributory Retirement System as of December 31, 2018 and 2017, and the results of its operations and changes in fund balances for the years then ended, on the basis of the financial reporting provisions of PERAC as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. As described in Note 2 to the financial statements, the financial statements are prepared by the Wellesley Contributory Retirement System on the basis of the financial reporting provisions of the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of PERAC. Our opinion is not modified with respect to this matter.

Other Matters

Additional Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Wellesley Contributory Retirement System's financial statements. The schedule of funding progress, as listed in the table of contents, which is the responsibility of management, is presented for the purpose of additional information and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

Our report is intended solely for the information and use of management of the member units, the Wellesley Contributory Retirement Board, others within the Town of Wellesley, Massachusetts, and PERAC and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan LLC.

November 4, 2019

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STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

December 31,

		2018		2017
Assets				
Cash and cash equivalents	\$	294,454	\$	157,448
Massachusetts Municipal Depository Trust (MMDT) funds Investments:		640,195		411,920
Pension Reserve Investment Trust (PRIT) funds		186,914,037		191,567,425
Reimbursements from other systems		454,164		393,450
Payments from members		155,234		169,689
Prepaid expenses	-	1,743		1,705
Total assets	_	188,459,827		192,701,637
Liabilities				
Reimbursements to other systems		497,574		502,800
Other accrued liabilities	_	22,249		1,583
Total liabilities	_	519,823		504,383
Net assets available for pension benefits	\$_	187,940,004	\$	192,197,254
Fund Balance				
Annuity Savings Fund	\$	39,975,237	\$	38,412,507
Annuity Reserve Fund		7,535,696		7,129,086
Special Military Service Credit Fund		2,912		2,909
Pension Fund		11,037,739		11,304,765
Pension Reserve Fund	_	129,397,017		135,347,987
Total fund balance	\$_	187,948,601	\$_	192,197,254

See notes to financial statements.

Wellesley Contributory Retirement System

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STATEMENTS OF CHANGES IN FUND BALANCE

YEARS ENDED DECEMBER 31,

				2018
		Annuity Savings Fund	Annuity Reserve Fund	Special Military Service Credit Fund
Income: Receipts	\$	4,309,703 \$	- \$	_
Investment income/(loss)	Ŷ	40,499	210,309	3
Total income		4,350,202	210,309	3
Disbursements		(497,531)	(2,080,157)	-
Net increase (decrease) in fund balance before interfund transfers (out) in		3,852,671	(1,869,848)	3
Interfund transfers (out) in		(2,289,941)	2,276,458	-
Net increase (decrease) in fund balance	_	1,562,730	406,610	3
Fund balance, beginning of year		38,412,507	7,129,086	2,909
Fund balance, end of year	\$	39,975,237 \$	7,535,696 \$	2,912

See notes to financial statements.

Wellesley Contributory Retirement System

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2017

-	Pension Fund	Pension Reserve Fund	Expense Fund	Total All Funds	Total All Funds
\$	8,889,104 \$ -	23,580 \$ (4,998,686)	- \$ 1,236,743	13,222,387 \$ (3,511,132)	12,852,538 28,795,510
	8,889,104	(4,975,106)	1,236,743	9,711,255	41,648,048
-	(10,145,477)	<u> </u>	(1,236,743)	(13,959,908)	(13,803,943)
	(1,256,373)	(4,975,106)	-	(4,248,653)	27,844,105
-	989,347	(975,864)	<u> </u>		
	(267,026)	(5,950,970)	-	(4,248,653)	27,844,105
-	11,304,765	135,347,987	<u> </u>	192,197,254	164,353,149
\$	11,037,739 \$	129,397,017 \$	\$	187,948,601 \$	192,197,254

Wellesley Contributory Retirement System

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STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31,

	2018	2017
Members deductions \$	3,878,486	\$ 3,714,243
Employer contributions: Town of Wellesley Wellesley Housing Authority	8,285,438 64,562	7,784,319 51,456
Investment income/(loss)	(3,511,132)	28,795,510
Reimbursements from other systems for Pension Fund	454, 164	393,734
Transfers of members' accounts from other systems	393,099	743,438
State Retirement Board, cost of living adjustment	84,940	95,600
Federal grant reimbursement	21,230	38,522
Members' makeup payments and redeposits	38,118	20, 196
Income from court ordered restitution	2,077	5,077
Interest not refunded	273	5,953
Total income\$	9,711,255	\$41,648,048

See notes to financial statements.

Wellesley Contributory Retirement System

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STATEMENTS OF DISBURSEMENTS

YEARS ENDED DECEMBER 31,

	2018	2017
Superannuation and termination retirement allowance payments from Pension Fund\$	7,777,959	\$ 7,352,576
Annuity portion of retirement allowance payments from Annuity Reserve Fund	2,080,157	1,899,778
Accidental disability payments from Pension Fund	1,233,054	1,175,599
Investment management and custodial fees from Expense Fund	1,012,271	927,441
Survivor allowance payments from Pension Fund	600,027	585,722
Refunds of members' accounts from Annuity Savings Fund	53,665	214,521
Transfer of members' accounts to other systems from Annuity Savings Fund	443,866	638,333
Reimbursements to other systems from Pension Fund	326,292	547,414
Accidental death benefits from Pension Fund	127,647	145,892
Staff salaries and benefits from Expense Fund	154,650	149,565
Ordinary disability payments from Pension Fund	53,241	54,943
Administrative expenses from Expense Fund	36,948	42,122
Section 101 benefits from Pension Fund	27,257	18,169
Legal expenses from Expense Fund	8,446	5,205
Fiduciary insurance expenses from Expense Fund	10,715	10,503
Travel expenses from Expense Fund	2,613	2,560
Actuarial and accounting service expenses from Expense Fund	11,100	33,600
Total disbursements\$	13,959,908	\$

See notes to financial statements.

Wellesley Contributory Retirement System

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STATEMENTS OF INVESTMENT INCOME

YEARS ENDED DECEMBER 31,				
	2018	2017		
Gross investment income\$	(3,511,132) \$	28,795,510		
Investment income required: Annuity Savings Fund Annuity Reserve Fund Special Military Service Credit Fund Expense Fund	40,499 210,309 3 1,236,743	48,242 195,713 3 1,170,996		
Total investment income required	1,487,554	1,414,954		
Excess investment income transferred to Pension Reserve Fund\$	(4,998,686) \$	27,380,556		

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See notes to financial statements.

NOTE 1 – PLAN DESCRIPTION

The Plan is a cost sharing multiple-employer defined benefit plan covering all employees of governmental member units deemed eligible by the Wellesley Retirement Board (the Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. The Plan is administered by the Wellesley Contributory Retirement System (the System).

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the Plan is mandatory immediately upon the commencement of employment for all permanent and full-time employees and those employees who are scheduled for 1,000 hours per calendar year.

Massachusetts Contributory Retirement System benefits are, with certain exceptions, uniform from system to system. 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 (except for members who were hired on or after April 2, 2012, where the retirement allowance is calculated on the highest five-year average). Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. For members who began service prior to April 2, 2012, a superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service and normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55). For members who began service on or after April 2, 2012, a superannuation retirement allowance may be received upon the completion of age 60 with 10 years of service and normal retirement for most employees occurs at age 67 (except for certain hazardous duty and public safety positions, a superannuation allowance may also be received at age 55 and whose normal retirement is at age 57).

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

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

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as determined by PERAC's actuary. Upon their inception, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside money for the future benefits of employees who are currently employed. Large unfunded liabilities resulted from operating under this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations. In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund.

Wellesley Contributory Retirement System

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Administrative expenses, which were previously appropriated from the governmental entities whose employees are members of the system, are now paid from investment income.

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

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, a member who voluntarily withdraws with less than 10 years of creditable service is entitled to receive 3% interest on his or her contributions. Members who involuntarily withdraw or those with more than 10 years of creditable service are entitled to interest on his or her contributions at the regular interest rate.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are presented on the basis of accounting and reporting practices prescribed by the Commonwealth of Massachusetts' Commissioner of PERAC. Financial accounting and reporting standards required by generally accepted accounting principles (GAAP) differ in some respects from the requirements of PERAC. The valuation of assets, liabilities, and net assets/fund balance are substantially the same. The main difference between GAAP and PERAC is that the financial statements for the changes in net assets/fund balance are presented in different formats.

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Commissioner of PERAC.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, redeposits, and transfers to and from other systems are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw from the System with less than 10 years of service is transferred to the Pension Reserve Fund. Upon retirement, a member's contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances are not entitled to an allowance and must be transferred to the Pension Reserve Fund after a period of 10 years of inactivity.

The *Annuity Reserve Fund* is the fund to which a Member's account is transferred upon retirement from the Annuity Savings Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 2.5% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on military leave for service in the Armed Forces who will receive creditable service for the period of that leave. Creditable service is granted provided the member returns to the same governmental unit within two years of the date of discharge from the military.

The *Pension Fund* contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The *Pension Reserve Fund* contains the amounts appropriated by the governmental units for the purpose of funding retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the

Wellesley Contributory Retirement System

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Notes to Financial Statements

unrealized gain or loss of market valued investments as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund and Annuity Reserve Fund is credited to the Pension Reserve Fund.

The *Expense Fund* contains amounts transferred from investment income for the purpose of administering the System.

The *Investment Income Account* is credited with all interest and dividends derived from invested funds. At the end of the year, the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Special Military Service Credit Fund, and the Expense Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - PLAN ADMINISTRATION

The System is administered by a five-member retirement board consisting of the Town Finance Director, who shall be a member ex officio, two elected members, one member appointed by the Board of Selectmen, and one member appointed by the other 4 members.

Ex-Officio Member:	Sheryl Strother	Term Expires:	Indefinite
Elected Member:	Timothy Barros	Term Expires:	June 2020
Elected Member:	Michael Leach	Term Expires:	June 2022
Appointed Member:	David Kornwitz	Term Expires:	Indefinite
Appointed Member:	Charles Cahill	Term Expires:	June 2021

Board members are required to meet at least once a month and must keep record of all Board 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 Commissioner of PERAC.

The investment of the System's funds is the responsibility of the Board. All retirement allowances must be approved by the Board. All expenses incurred by the System must be approved by at least three members of the Board.

The Board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. The bonding provides dishonesty coverage in the amount of \$1,000,000 and fiduciary liability coverage in the amount of \$50,000,000.

NOTE 4 - CASH AND INVESTMENTS

At December 31, 2018 and 2017, the carrying amount (book value) of the Retirement System's deposits totaled \$294,454 and \$157,448 and the bank balances totaled \$478,485 and \$290,375, respectively. The bank balances were fully covered by Federal Depository Insurance.

Wellesley Contributory Retirement System

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Investments

The Retirement System's investments at December 31, 2018 and 2017, consist of two external investment pools, namely the Pension Reserve Investment Trust (PRIT) and the Massachusetts Municipal Depository Trust (MMDT).

The Retirement System participates, as a participating member, in the Pension Reserves Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

The PRIT fund, as a pool, invests in various products including, but not limited to, money market mutual funds, equities, pooled foreign and domestic fixed income and equity funds, United States government sponsored enterprises and treasury notes, real estate, and commodities. The underlying components of PRIT's fixed income portfolio had an effective weighted duration rate ranging from .18 to 15.31 years in 2018.

The MMDT meets the criteria of an external investment pool. The MMDT is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

MMDT maintains a cash portfolio and a short-term bond portfolio. The System invests in the cash portfolio which has a weighted average maturity of 28 days.

As of December 31, 2018 and 2017, the Retirement System had investments in PRIT totaling \$186,914,037 and \$191,567,425 and investments in MMDT totaling \$640,195 and \$411,920, respectively.

NOTE 5 - ACTUARIAL VALUATION

The most recent actuarial valuations of the System contained the following information:

Funding Information	January 1, 2019	 January 1, 2017	 January 1, 2015
Actuarial accrued liability - active members\$	118,685,048	\$ 111,805,358	\$ 101,684,411
Actuarial accrued liability - retired and inactive members	129,868,644	 112,331,808	 106,243,826
Actuarial accrued liability - total	248,553,692	224,137,166	207,928,237
Actuarial value of assets	193,017,080	 169,089,812	 152,955,923
Unfunded liability\$	55,536,612	\$ 55,047,354	\$ 54,972,314
Other Actuarial Information			
Normal cost for employees\$	3,952,186	\$ 3,668,973	\$ 3,410,805
Normal cost for employer\$	2,765,329	\$ 2,662,568	\$ 2,468,524
Covered payroll\$	39,169,350	\$ 36,836,364	\$ 35,959,727
Investment return	6.625%	6.625%	6.75%

Wellesley Contributory Retirement System

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Notes to Financial Statements

Valuation date	January 1, 2019
Actuarial cost method	Entry Age Normal Cost Method.
Amortization method	Level dollar for 2010 ERI liability and 3.5% increasing payments for the remaining unfunded liability.
Remaining amortization period	As of July 1, 2017, 5 years for the 2010 ERI liability and 13 years for the remaining unfunded liability.
Asset valuation method	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period with a fresh start as of January 1, 2015. Asset value is adjusted as necessary to be within 20% of the market value.
Inflation rate	2.75%
Projected salary increases	Based on years of service, ranging from 7.00% decreasing to 3.50% after 11 years of service from Group 1 and 2 employees, and ranging from 8.00% decreasing to 4.00% after 11 years for Group 4 employees.
Cost of living adjustments	2.75% increase on the first \$17,000 (previously \$15,000) of retirement income.
Rates of retirement	Varies based upon age for general employees, police and fire employees.
Mortality Rates: Pre-Retirement	RP-2014 Blue Collar Employee Mortality Table set forward one year for females projected generationally with Scale MP-2016.
Healthy Retiree	RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward one year for females project generationally with Scale MP-2016.
Disabled Retiree	RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB from 2015.
Investment rate of return/Discount rate	6.625%, net of pension plan investment expense, including inflation.

The principal actuarial assumptions used in the January 1, 2019 valuation were as follows:

NOTE 6 - MEMBERSHIP

The following table represents the System's membership at December 31:

	2018	2017
Active members	707	716
Inactive members	303	229
Disabled members	35	34
Retirees and beneficiaries currently receiving benefits	377	379
Total	1,422	1,358

Wellesley Contributory Retirement System

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Additional Information

Wellesley Contributory Retirement System

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Additional Information

Actuarial Valuation Date	 (A) Actuarial Value of Assets	 (B) Actuarial Accrued Liability (AAL) Entry Age	 (C) Unfunded AAL (UAAL) (B) - (A)	(D) Funded Ratio (A) / (B)	 (E) Covered Payroll	UAAL as a Percentage of Covered Payroll (C) / (E)	Investment Retum Assumptior
01/01/19	\$ 193,017	\$ 248,554	\$ 55,537	77.7%	\$ 39,169	141.8%	6.625%
01/01/17	169,090	224,137	55,047	75.4%	36,836	149.4%	6.625%
01/01/15	152,956	207,928	54,972	73.6%	35,960	152.9%	6.75%
01/01/13	125,715	186,236	60,521	67.5%	34,037	177.8%	7.00%
01/01/12	125,425	165,408	39,983	75.8%	33,920	117.9%	7.75%
01/01/10	129,514	149,447	19,933	86.7%	32,053	62.2%	8.00%
01/01/08	144,298	136,022	(8,276)	106.1%	30,256	-27.4%	8.00%
01/01/06	127,011	123,086	(3,925)	103.2%	26,392	-14.9%	8.00%
01/01/04	116,792	112,846	(3,946)	103.5%	23,173	-17.0%	7.50%

(4,223)

103.7%

22,573

-18.7%

SCHEDULE OF FUNDING PROGRESS (Dollar amounts in thousands)

	Valu	atior	of Assets			
Actuarial Valuation Date	Actual Market Value of Assets (1)		Actuarial Value of Assets (2)	 Difference in Valuation Methods		Asset Valuation Methodologies
01/01/19	\$ 187,949	\$	193,017	\$ (5,068)	(1)	The actual market value of the System's assets as reported in the System's Annual Statement of the Financial Condition of the
01/01/17	164,353		169,090	(4,737)		Wellesley Retirement Board to PERAC.
01/01/15	152,956		152,956	-	(2)	The actuarial value of assets may otherwise be determined as the market value of assets (as reported in the System's Annual
01/01/13	125,715		125,715	-		Statement) less unrecognized return in each of the last five years. Unrecognized return is equal to the difference between the actual
01/01/12	113,747		125,425	(11,678)		market value return and the expected market value return and is recognized over a five year period, further adjusted, if necessary, to
01/01/10	107,929		129,514	(21,585)		be within 20% of the actual market value.
01/01/08	144,298		144,298	-		The actuarial value of assets was reset to actual market value in the valuations dated January 1, 2004, 2006, 2008, 2013, and 2015.
01/01/06	127,011		127,011	-		
01/01/04	116,792		116,792	-		
01/01/03	99,621		119,034	(19,413)		

Wellesley Contributory Retirement System

01/01/03

119,034

114,811

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Additional Information

7.00%

WELLESLEY CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

WELLESLEY CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2017 AND 2016

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Financial Section

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Powers & Sullivan, LLC

Certified Public Accountants

Independent Auditor's Report

To the Wellesley Retirement Board and the Audit Committee Wellesley Contributory Retirement System Wellesley, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Wellesley Contributory Retirement System, which comprise the statements of assets, liabilities, and fund balance as of December 31, 2017 and 2016, and the related statements of changes in fund balance, statements of income, statements of disbursements, and statements of investment income for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission (PERAC). Management is also responsible 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Commonwealth of Massachusetts' Division of Public Employee Retirement Administration Rules and Regulations 840 CMR 25.00: "The Conduct of Field Examinations of Contributory Retirement Systems", in existence as of August 27, 2004. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wellesley Contributory Retirement System as of December 31, 2017 and 2016, and the results of its operations and changes in fund balances for the years then ended, on the basis of the financial reporting provisions of PERAC as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. As described in Note 2 to the financial statements, the financial statements are prepared by the Wellesley Contributory Retirement System on the basis of the financial reporting provisions of the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of PERAC. Our opinion is not modified with respect to this matter.

Other Matters

Additional Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Wellesley Contributory Retirement System's financial statements. The schedule of funding progress, as listed in the table of contents, which is the responsibility of management, is presented for the purpose of additional information and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

Our report is intended solely for the information and use of management of the member units, the Wellesley Contributory Retirement Board, others within the Town of Wellesley, Massachusetts, and PERAC and is not intended to be and should not be used by anyone other than these specified parties.

Powers & Sullivan LLC

October 23, 2018

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STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

December 31,

		2017		2016
Assets		2017	• •	2016
Cash and cash equivalents	\$	157,448	\$	306,255
Massachusetts Municipal Depository Trust (MMDT) funds		411,920		1,000,355
Pension Reserve Investment Trust (PRIT) funds		191,567,425		162,977,492
Reimbursements from other systems		393,450		359,511
Payments from members		169,689		86,316
Prepaid expenses		1,705		1,681
Total assets		192,701,637		164,731,610
Liabilities				
Reimbursements to other systems		502,800		377,079
Other accrued liabilities	_	1,583		1,382
Total liabilities		504,383		378,461
Net assets available for pension benefits	\$	192,197,254	\$	164,353,149
Fund Balance				
Annuity Savings Fund	\$	38,412,507	\$	37,433,859
Annuity Reserve Fund		7,129,086		6,138,839
Special Military Service Credit Fund		2,909		2,906
Pension Fund		11,304,765		11,481,990
Pension Reserve Fund	_	135,347,987		109,295,555
Total fund balance	\$	192,197,254	\$	164,353,149

See notes to financial statements.

Wellesley Contributory Retirement System

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STATEMENTS OF CHANGES IN FUND BALANCE

YEARS ENDED DECEMBER 31,

				2017
	_	Annuity Savings Fund	Annuity Reserve Fund	Special Military Service Credit Fund
Income: Receipts	\$	4,477,877 \$	- \$	_
Investment income	Ψ	48,242	195,713	3
Total income		4,526,119	195,713	3
Disbursements	_	(852,854)	(1,899,778)	-
Net increase (decrease) in fund balance before interfund transfers (out) in		3,673,265	(1,704,065)	3
Interfund transfers (out) in		(2,694,617)	2,694,312	-
Net increase (decrease) in fund balance		978,648	990,247	3
Fund balance, beginning of year		37,433,859	6,138,839	2,906
Fund balance, end of year	\$	38,412,507 \$	7,129,086 \$	2,909

See notes to financial statements.

Wellesley Contributory Retirement System

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2016

	Pension Fund	Pension Reserve Fund	_	Expense Fund	_	Total All Funds	Total All Funds
\$	8,325,109 \$ -	6 49,552 5 27,380,556	\$_	- 9 1,170,996	\$_	12,852,538 \$ 28,795,510	11,875,866 12,124,667
	8,325,109	27,430,108		1,170,996		41,648,048	24,000,533
	(9,880,315)		-	(1,170,996)	-	(13,803,943)	(13,183,481)
	(1,555,206)	27,430,108		-		27,844,105	10,817,052
_	1,377,981	(1,377,676)	_	-	_	-	
	(177,225)	26,052,432		-		27,844,105	10,817,052
	11,481,990	109,295,555	_	<u> </u>	_	164,353,149	153,536,097
\$	11,304,765	5 135,347,987 5	\$_	_ \$	\$_	192,197,254 \$	164,353,149

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STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31,

	2017	2016
Members deductions	3,714,243	\$ 3,541,355
Employer contributions: Town of Wellesley Wellesley Housing Authority	7,784,319 51,456	7,512,624 49,649
Investment income	28,795,510	12,124,667
Reimbursements from other systems for Pension Fund	393,734	359,511
Transfers of members' accounts from other systems	743,438	225,019
State Retirement Board, cost of living adjustment	95,600	107,199
Federal grant reimbursement	38,522	-
Members' makeup payments and redeposits	20,196	67,604
Income from court ordered restitution	5,077	2,347
Income from workers compensation settlement	-	10,000
Interest not refunded	5,953	558
Total income\$	41,648,048	\$

See notes to financial statements.

Wellesley Contributory Retirement System

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STATEMENTS OF DISBURSEMENTS

YEARS ENDED DECEMBER 31,

	2017	2016
Superannuation and termination retirement allowance payments from Pension Fund\$	7,352,576 \$	7,085,736
Annuity portion of retirement allowance payments from Annuity Reserve Fund	1,899,778	1,793,136
Accidental disability payments from Pension Fund	1,175,599	1,156,743
Investment management and custodial fees from Expense Fund	927,441	836,349
Survivor allowance payments from Pension Fund	585,722	621,158
Refunds of members' accounts from Annuity Savings Fund	214,521	235,541
Transfer of members' accounts to other systems from Annuity Savings Fund	638,333	652,967
Reimbursements to other systems from Pension Fund	547,414	318,127
Accidental death benefits from Pension Fund	145,892	165,597
Staff salaries and benefits from Expense Fund	149,565	167,073
Ordinary disability payments from Pension Fund	54,943	54,377
Administrative expenses from Expense Fund	42,122	39,606
Section 101 benefits from Pension Fund	18,169	18,401
Legal expenses from Expense Fund	5,205	6,620
Fiduciary insurance expenses from Expense Fund	10,503	10,504
Travel expenses from Expense Fund	2,560	2,946
Actuarial and accounting service expenses from Expense Fund	33,600	18,600
Total disbursements\$	13,803,943 \$	13,183,481

See notes to financial statements.

Wellesley Contributory Retirement System

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STATEMENTS OF INVESTMENT INCOME

YEARS ENDED DECEMBER 31,					
	2017	2016			
Gross investment income\$	28,795,510	\$_12,124,667			
Investment income required: Annuity Savings Fund Annuity Reserve Fund Special Military Service Credit Fund Expense Fund.	48,242 195,713 3 1,170,996	49,557 186,304 3 1,081,698			
Total investment income required	1,414,954	1,317,562			
Excess investment income transferred to Pension Reserve Fund	27,380,556	\$ 10,807,105			

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See notes to financial statements.

Wellesley Contributory Retirement System

NOTE 1 - PLAN DESCRIPTION

The Plan is a cost sharing multiple-employer defined benefit plan covering all employees of governmental member units deemed eligible by the Wellesley Retirement Board (the Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. The Plan is administered by the Wellesley Contributory Retirement System (the System).

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the Plan is mandatory immediately upon the commencement of employment for all permanent and full-time employees and those employees who are scheduled for 1,000 hours per calendar year.

Massachusetts Contributory Retirement System benefits are, with certain exceptions, uniform from system to system. 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 (except for members who were hired on or after April 2, 2012, where the retirement allowance is calculated on the highest five-year average). Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. For members who began service prior to April 2, 2012, a superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service and normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55). For members who began service on or after April 2, 2012, a superannuation retirement allowance may be received upon the completion of age 60 with 10 years of service and normal retirement for most employees occurs at age 67 (except for certain hazardous duty and public safety positions, a superannuation allowance may also be received at age 55 and whose normal retirement is at age 57).

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

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

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as determined by PERAC's actuary. Upon their inception, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside money for the future benefits of employees who are currently employed. Large unfunded liabilities resulted from operating under this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations. In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund.

Wellesley Contributory Retirement System

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Administrative expenses, which were previously appropriated from the governmental entities whose employees are members of the system, are now paid from investment income.

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

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, a member who voluntarily withdraws with less than 10 years of creditable service is entitled to receive 3% interest on his or her contributions. Members who involuntarily withdraw or those with more than 10 years of creditable service are entitled to interest on his or her contributions at the regular interest rate.

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

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements are presented on the basis of accounting and reporting practices prescribed by the Commonwealth of Massachusetts' Commissioner of PERAC. Financial accounting and reporting standards required by generally accepted accounting principles (GAAP) differ in some respects from the requirements of PERAC. The valuation of assets, liabilities, and net assets/fund balance are substantially the same. The main difference between GAAP and PERAC is that the financial statements for the changes in net assets/fund balance are presented in different formats.

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Commissioner of PERAC.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, redeposits, and transfers to and from other systems are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw from the System with less than 10 years of service is transferred to the Pension Reserve Fund. Upon retirement, a member's contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances are not entitled to an allowance and must be transferred to the Pension Reserve Fund after a period of 10 years of inactivity.

The *Annuity Reserve Fund* is the fund to which a Member's account is transferred upon retirement from the Annuity Savings Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 2.5% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on military leave for service in the Armed Forces who will receive creditable service for the period of that leave. Creditable service is granted provided the member returns to the same governmental unit within two years of the date of discharge from the military.

The *Pension Fund* contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The *Pension Reserve Fund* contains the amounts appropriated by the governmental units for the purpose of funding retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the

Wellesley Contributory Retirement System

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Notes to Financial Statements

unrealized gain or loss of market valued investments as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund and Annuity Reserve Fund is credited to the Pension Reserve Fund.

The *Expense Fund* contains amounts transferred from investment income for the purpose of administering the System.

The *Investment Income Account* is credited with all interest and dividends derived from invested funds. At the end of the year, the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Special Military Service Credit Fund, and the Expense Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 – PLAN ADMINISTRATION

The System is administered by a five-member retirement board consisting of the Town Finance Director, who shall be a member ex officio, two elected members, one member appointed by the Board of Selectmen, and one member appointed by the other 4 members.

Ex-Officio Member:	Sheryl Strother	Term Expires:	Indefinite
Elected Member:	Timothy Barros	Term Expires:	June 2020
Elected Member:	Michael Leach	Term Expires:	June 2019
Appointed Member:	David Kornwitz	Term Expires:	Indefinite
Appointed Member:	Charles Cahill	Term Expires:	June 2018

Board members are required to meet at least once a month and must keep record of all Board 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 Commissioner of PERAC.

The investment of the System's funds is the responsibility of the Board. All retirement allowances must be approved by the Board. All expenses incurred by the System must be approved by at least three members of the Board.

The Board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. The bonding provides dishonesty coverage in the amount of \$1,000,000 and fiduciary liability coverage in the amount of \$50,000,000.

NOTE 4 - CASH AND INVESTMENTS

At December 31, 2017 and 2016, the carrying amount (book value) of the Retirement System's deposits totaled \$157,448 and \$306,255 and the bank balances totaled \$290,375 and \$454,693, respectively. The bank balances were fully covered by Federal Depository Insurance.

Wellesley Contributory Retirement System

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Investments

The Retirement System's investments at December 31, 2017 and 2016, consist of two external investment pools, namely the Pension Reserve Investment Trust (PRIT) and the Massachusetts Municipal Depository Trust (MMDT).

The Retirement System participates, as a participating member, in the Pension Reserves Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

The PRIT fund, as a pool, invests in various products including, but not limited to, money market mutual funds, equities, pooled foreign and domestic fixed income and equity funds, United States government sponsored enterprises and treasury notes, real estate, and commodities. The underlying components of PRIT's fixed income portfolio had an effective weighted duration rate ranging from .15 to 16.31 years in 2017.

The MMDT meets the criteria of an external investment pool. The MMDT is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

MMDT maintains a cash portfolio and a short-term bond portfolio. The cash portfolio had a weighted average maturity of 43 days and the short-term bond portfolio had a weighted average maturity of approximately 2.6 years. Credit ratings associated with the short-term bond portfolio ranged from BBB to AAA. Approximately 63% of the total was rated AAA, approximately 17% of the total was rated A/AA and approximately 16% rated BBB.

As of December 31, 2017 and 2016, the Retirement System had investments in PRIT totaling \$191,567,425 and \$162,977,492 and investments in MMDT totaling \$411,920 and \$1,000,355, respectively.

NOTE 5 - ACTUARIAL VALUATION

The most recent actuarial valuations of the System contained the following information:

Funding Information	January 1, 2017	-	January 1, 2015	-	January 1, 2013
Actuarial accrued liability - active members\$	111,805,358	\$	101,684,411	\$	91,615,394
Actuarial accrued liability - retired and inactive members	112,331,808	-	106,243,826	-	94,620,256
Actuarial accrued liability - total	224,137,166		207,928,237		186,235,650
Actuarial value of assets	169,089,812	-	152,955,923		125,714,763
Unfunded liability\$	55,047,354	\$	54,972,314	\$	60,520,887
Other Actuarial Information					
Normal cost for employees\$	3,668,973	\$	3,410,805	\$	3,192,423
Normal cost for employer\$	2,662,568	\$	2,468,524	\$	1,954,193
Covered employee payroll\$	36,836,364	\$	35,959,727	\$	34,036,988
Investment return	6.625%		6.75%		7.00%
Wellesley Contributory Retirement System15			l	Fir	nancial Statements

The principal actuarial assumptions used in the January 1, 2017 valuation were as follows:

Valuation date	January 1, 2017
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level dollar for 2010 ERI liability and 3.5% increasing payments for the remaining unfunded liability
Remaining amortization period	7 years from July 1, 2015 for 2010 ERI and 15 years from July 1, 2015 for the remaining unfunded liability
Asset valuation method	Market value of assets less unrecognized return in each of the last five years with a fresh start as of January 1, 2015. Unrecognized return is equal to the difference between the actual market value return and the expected market value return and is recognized over a five-year period, further adjusted, if necessary, to be within 20% of the market value.
Inflation rate	2.75% (previously, 3.5%)
Projected salary increases	Based on years of service, ranging from 7.00% decreasing to 3.50% after 11 years of service from Group 1 and 2 employees, and ranging from 8.00% decreasing to 4.00% after 11 years for Group 4 employees.
Cost of living adjustments	2.75% of the first \$15,000 of retirement income
Rates of retirement	Varies based upon age for general employees, police and fire employees
Mortality Rates: Healthy Retiree	RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Tables set forward one year for females projected generationally with Scale MP-2016D
Disabled Retiree	RP-2000 Healthy Annuitant Mortality Table projected generationally with Scale BB2D from 2015
Investment rate of return/Discount rate	6.625%, net of pension plan investment expense, including inflation (previously, 6.75%)

NOTE 6 - MEMBERSHIP

The following table represents the System's membership at December 31:

	2017	2016
Active members	716 229	709 219
Disabled members	34	35
Retirees and beneficiaries currently receiving benefits	379	367
Total	1,358	1,330

Wellesley Contributory Retirement System

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Additional Information

Wellesley Contributory Retirement System

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Additional Information

Actuarial aluation Date	 (A) Actuarial Value of Assets	 (B) Actuarial Accrued Liability (AAL) Entry Age	(C) Unfunded AAL (UAAL) (B) - (A)	(D) Funded Ratio (A) / (B)	 (E) Covered Payroll	UAAL as a Percentage of Covered Payroll (C) / (E)	Investment Return Assumption
1/01/17	\$ 164,353	\$ 224,137	\$ 59,784	73.3%	\$ 36,836	162.3%	6.625%
1/01/15	152,956	207,928	54,972	73.6%	35,960	152.9%	6.75%
1/01/13	125,715	186,236	60,521	67.5%	34,037	177.8%	7.00%
1/01/12	125,425	165,408	39,983	75.8%	33,920	117.9%	7.75%
1/01/10	129,514	149,447	19,933	86.7%	32,053	62.2%	8.00%
1/01/08	144,298	136,022	(8,276)	106.1%	30,256	-27.4%	8.00%
1/01/06	127,011	123,086	(3,925)	103.2%	26,392	-14.9%	8.00%
1/01/04	116,792	112,846	(3,946)	103.5%	23,173	-17.0%	7.50%
1/01/03	119,034	114,811	(4,223)	103.7%	22,573	-18.7%	7.00%
1/01/01	123,291	92,279	(31,012)	133.6%	21,561	-143.8%	7.50%
1/01/99	106,296	81,975	(24,321)	129.7%	17,695	-137.4%	7.50%

SCHEDULE OF FUNDING PROGRESS	
(Dollar amounts in thousands)	

		Valı	uation	of Assets			
Actuarial Valuation Date	Act Market _of Ass	Value		Actuarial Value of Assets (2)	 Difference in Valuation Methods		Asset Valuation Methodologies
01/01/17	\$ 164,	353	\$	169,090	\$ (4,737)		
01/01/15	152,	956		152,956	-	(The actual market value of the System's assets as reported in the System's Annual Statement of the Financial Condition of the
01/01/13	125,	715		125,715	-		Wellesley Retirement Board to PERAC.
01/01/12	113,	747		125,425	(11,678)	(The actuarial value of assets may otherwise be determined as the market value of assets (as reported in the System's Annual
01/01/10	107,	929		129,514	(21,585)		Statement) less unrecognized return in each of the last five years. Unrecognized return is equal to the difference between the actual
01/01/08	144,	298		144,298	-		market value return and the expected market value return and is recognized over a five year period, further adjusted, if necessary, to
01/01/06	127,	011		127,011	-		be within 20% of the actual market value.
01/01/04	116,	792		116,792	-		The actuarial value of assets was reset to actual market value in the valuations dated January 1, 2004, 2006, 2008, 2013, and 2015.
01/01/03	99,6	521		119,034	(19,413)		
01/01/01	127,	990		123,291	4,699		
01/01/99	118,	107		106,296	11,811		

Wellesley Contributory Retirement System

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Additional Information

WELLESLEY CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

WELLESLEY CONTRIBUTORY RETIREMENT SYSTEM

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2016 AND 2015

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Financial Section

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Powers & Sullivan, LLC

Certified Public Accountants

Independent Auditor's Report

To the Wellesley Retirement Board and the Audit Committee Wellesley Contributory Retirement System Wellesley, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the Wellesley Contributory Retirement System, which comprise the statements of assets, liabilities, and fund balance as of December 31, 2016 and 2015, and the related statements of changes in fund balance, statements of income, statements of disbursements, and statements of investment income for the years then ended, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting provisions of the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission (PERAC). Management is also responsible 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Commonwealth of Massachusetts' Division of Public Employee Retirement Administration Rules and Regulations 840 CMR 25.00: "The Conduct of Field Examinations of Contributory Retirement Systems", in existence as of August 27, 2004. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Wellesley Contributory Retirement System as of December 31, 2016 and 2015, and the results of its operations and changes in fund balances for the years then ended, on the basis of the financial reporting provisions of PERAC as described in Note 2.

Basis of Accounting

We draw attention to Note 2 of the financial statements, which describes the basis of accounting. As described in Note 2 to the financial statements, the financial statements are prepared by the Wellesley Contributory Retirement System on the basis of the financial reporting provisions of the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of PERAC. Our opinion is not modified with respect to this matter.

Other Matters

Additional Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Wellesley Contributory Retirement System's financial statements. The schedule of funding progress, as listed in the table of contents, which is the responsibility of management, is presented for the purpose of additional information and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Restriction on Use

Our report is intended solely for the information and use of management of the member units, the Wellesley Contributory Retirement Board, others within the Town of Wellesley, Massachusetts, and PERAC and is not intended to be and should not be used by anyone other than these specified parties.

Powers + Julians, LLC

September 13, 2017

Financial Statements

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STATEMENTS OF ASSETS, LIABILITIES AND FUND BALANCE

December 31,

	2016		2015
Assets			
Cash and cash equivalents\$	306,255	\$	284,844
Massachusetts Municipal Depository Trust (MMDT) funds Investments:	1,000,355		521,483
Pension Reserve Investment Trust (PRIT) funds	162,977,492		152,484,113
Reimbursements from other systems	359,511		343,260
Payments from members	86,316		174,741
Prepaid expenses	1,681	· _	1,631
Total assets	164,731,610		153,810,072
Liabilities			
Reimbursements to other systems	377,079		263,075
Other accrued liabilities	1,382		10,900
Total liabilities	378,461		273,975
Net assets available for pension benefits\$	164,353,149	\$ _	153,536,097
Fund Balance			
Annuity Savings Fund\$	37,433,859	\$	35,690,215
Annuity Reserve Fund	6,138,839		6,509,714
Special Military Service Credit Fund	2,906		2,903
Pension Fund	11,481,990		11,367,539
Pension Reserve Fund	109,295,555		99,965,726
Total fund balance\$_	164,353,149	\$_	153,536,097

See notes to financial statements.

Wellesley Contributory Retirement System

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STATEMENTS OF CHANGES IN FUND BALANCE

YEARS ENDED DECEMBER 31,

	_			2016
	_	Annuity Savings Fund	Annuity Reserve Fund	Special Military Service Credit Fund
Income:	\$	3,833,978 \$	- \$	
Receipts Investment income	Φ	3,833,978 \$ 49,557	- 5 186,304	- 3
			100,001	
Total income		3,883,535	186,304	3
Disbursements		(888,508)	(1,793,136)	-
Net increase (decrease) in fund balance before interfund transfers (out) in		2,995,027	(1,606,832)	3
Interfund transfers (out) in	_	(1,251,383)	1,235,957	-
Net increase (decrease) in fund balance		1,743,644	(370,875)	3
Fund balance, beginning of year	_	35,690,215	6,509,714	2,903
Fund balance, end of year	\$	37,433,859 \$	6,138,839 \$	2,906

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See notes to financial statements.

Wellesley Contributory Retirement System

2015

	Pension Fund	Pension Reserve Fund	Expense Fund	Total All Funds	Total All Funds
\$	8,038,983 \$ 	2,905 \$ 10,807,105	- 5 1,081,698	\$ 11,875,866 \$ 12,124,667	5 11,773,220 1,932,778
	8,038,983	10,810,010	1,081,698	24,000,533	13,705,998
_	(9,420,139)	<u> </u>	(1,081,698)	(13,183,481)	(13,125,826)
	(1,381,156)	10,810,010	-	10,817,052	580,172
	1,495,607	(1,480,181)	<u> </u>	<u> </u>	
	114,451	9,329,829	-	10,817,052	580,172
	11,367,539	99,965,726		153,536,097	152,955,925
\$	11,481,990 \$	109,295,555 \$		\$ 164,353,149	153,536,097

Wellesley Contributory Retirement System

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STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31,

	2016		2015
Members deductions\$	3,541,355	\$	3,448,878
Employer contributions: Town of Wellesley Wellesley Housing Authority	7,512,624 49,649		7,235,004 50,893
Investment income	12,124,667		1,932,778
Reimbursements from other systems for Pension Fund	359,511		343,260
Transfers of members' accounts from other systems	225,019		526,129
State Retirement Board, cost of living adjustment	107,199		116,067
Federal grant reimbursement	-		18,935
Members' makeup payments and redeposits	67,604		29,619
Income from court ordered restitution	2,347		2,759
Income from workers compensation settlement	10,000		-
Interest not refunded	558_	_	1,676
Total income\$	24,000,533	\$_	13,705,998

See notes to financial statements.

Wellesley Contributory Retirement System

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STATEMENTS OF DISBURSEMENTS

YEARS ENDED DECEMBER 31,

	2016	2015
Superannuation and termination retirement allowance payments from Pension Fund\$	7,085,736 \$	6,851,333
Annuity portion of retirement allowance payments from Annuity Reserve Fund	1,793,136	1,809,793
Accidental disability payments from Pension Fund	1,156,743	1,123,419
Investment management and custodial fees from Expense Fund	836,349	784,507
Survivor allowance payments from Pension Fund	621,158	577,343
Refunds of members' accounts from Annuity Savings Fund	235,541	445,852
Transfer of members' accounts to other systems from Annuity Savings Fund	652,967	815,374
Reimbursements to other systems from Pension Fund	318,127	244,217
Accidental death benefits from Pension Fund	165,597	133,724
Staff salaries and benefits from Expense Fund	167,073	155,607
Ordinary disability payments from Pension Fund	54,377	63,626
Administrative expenses from Expense Fund	39,606	31,678
Section 101 benefits from Pension Fund	18,401	25,917
Legal expenses from Expense Fund	6,620	17,442
Fiduciary insurance expenses from Expense Fund	10,504	9,744
Travel expenses from Expense Fund	2,946	2,850
Actuarial and accounting service expenses from Expense Fund	18,600	33,400
Total disbursements\$	13,183,481 \$	13,125,826

See notes to financial statements.

Wellesley Contributory Retirement System

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STATEMENTS OF INVESTMENT INCOME

YEARS ENDED DECEMBER 31,		
	2016	2015
Gross investment income\$	12,124,667	\$1,932,778
Investment income required: Annuity Savings Fund Annuity Reserve Fund Special Military Service Credit Fund Expense Fund.	49,557 186,304 3 1,081,698	49,813 197,870 3 1,035,227
Total investment income required	1,317,562	1,282,913
Excess investment income transferred to Pension Reserve Fund\$	10,807,105	\$ 649,865

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See notes to financial statements.

Wellesley Contributory Retirement System

NOTE 1 – PLAN DESCRIPTION

The Plan is a cost sharing multiple-employer defined benefit plan covering all employees of governmental member units deemed eligible by the Wellesley Retirement Board (the Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. The Plan is administered by the Wellesley Contributory Retirement System (the System).

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the Plan is mandatory immediately upon the commencement of employment for all permanent and full-time employees and those employees who are scheduled for 1,000 hours per calendar year.

Massachusetts Contributory Retirement System benefits are, with certain exceptions, uniform from system to system. 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 (except for members who were hired on or after April 2, 2012, where the retirement allowance is calculated on the highest five-year average). Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. For members who began service prior to April 2, 2012, a superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service and normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55). For members who began service on or after April 2, 2012, a superannuation retirement allowance may be received upon the completion of age 60 with 10 years of service and normal retirement for most employees occurs at age 67 (except for certain hazardous duty and public safety positions, a superannuation allowance may also be received at age 55 and whose normal retirement is at age 57).

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

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

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as determined by PERAC's actuary. Upon their inception, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside money for the future benefits of employees who are currently employed. Large unfunded liabilities resulted from operating under this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations. In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund.

Wellesley Contributory Retirement System

12

Administrative expenses, which were previously appropriated from the governmental entities whose employees are members of the system, are now paid from investment income.

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

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, a member who voluntarily withdraws with less than 10 years of creditable service is entitled to receive 3% interest on his or her contributions. Members who involuntarily withdraw or those with more than 10 years of creditable service are entitled to interest on his or her contributions at the regular interest rate.

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The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, redeposits, and transfers to and from other systems are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw from the System with less than 10 years of service is transferred to the Pension Reserve Fund. Upon retirement, a member's contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances are not entitled to an allowance and must be transferred to the Pension Reserve Fund after a period of 10 years of inactivity.

The *Annuity Reserve Fund* is the fund to which a Member's account is transferred upon retirement from the Annuity Savings Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 2.5% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on military leave for service in the Armed Forces who will receive creditable service for the period of that leave. Creditable service is granted provided the member returns to the same governmental unit within two years of the date of discharge from the military.

The *Pension Fund* contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The *Pension Reserve Fund* contains the amounts appropriated by the governmental units for the purpose of funding retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the

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unrealized gain or loss of market valued investments as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund and Annuity Reserve Fund is credited to the Pension Reserve Fund.

The *Expense Fund* contains amounts transferred from investment income for the purpose of administering the System.

The Investment Income Account is credited with all interest and dividends derived from invested funds. At the end of the year, the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Special Military Service Credit Fund, and the Expense Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 – PLAN ADMINISTRATION

The System is administered by a five-member retirement board consisting of the Town Finance Director, who shall be a member ex officio, two elected members, one member appointed by the Board of Selectmen, and one member appointed by the other 4 members.

Ex officio Member:	Sheryl Strother	Term Expires:	Indefinite
Elected Member:	Timothy Barros	Term Expires:	June 2020
Elected Member:	Michael Leach	Term Expires:	June 2019
Appointed Member:	David Kornwitz	Term Expires:	Indefinite
Appointed Member:	Charles Cahill	Term Expires:	June 2018

Board members are required to meet at least once a month and must keep record of all Board 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 Commissioner of PERAC.

The investment of the System's funds is the responsibility of the Board. All retirement allowances must be approved by the Board. All expenses incurred by the System must be approved by at least three members of the Board.

The Board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. The bonding provides dishonesty coverage in the amount of \$1,000,000 and fiduciary liability coverage in the amount of \$50,000,000.

NOTE 4 – CASH AND INVESTMENTS

At December 31, 2016 and 2015, the carrying amount (book value) of the Retirement System's deposits totaled \$306,255 and \$284,844 and the bank balances totaled \$454,693 and \$502,882, respectively. The bank balances were fully covered by Federal Depository Insurance.

Investments

The Retirement System's investments at December 31, 2016 and 2015, consist of two external investment pools,

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namely the Pension Reserve Investment Trust (PRIT) and the Massachusetts Municipal Depository Trust (MMDT).

The Retirement System participates, as a participating member, in the Pension Reserves Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

The PRIT fund, as a pool, invests in various products including, but not limited to, money market mutual funds, equities, pooled foreign and domestic fixed income and equity funds, United States government sponsored enterprises and treasury notes, real estate, and commodities. The underlying components of PRIT's fixed income portfolio had an effective weighted duration rate ranging from .45 to 22.60 years in 2016.

The MMDT meets the criteria of an external investment pool. The MMDT is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

MMDT maintains a cash portfolio and a short-term bond portfolio. The cash portfolio had a weighted average maturity of 51 days and the short term bond portfolio had a weighted average maturity of approximately 2.7 years. Credit ratings associated with the short-term bond portfolio ranged from BBB to AAA. Approximately 67% of the total was rated AAA, approximately 16% of the total was rated A/AA and approximately 17% rated BBB.

As of December 31, 2016 and 2015, the Retirement System had investments in PRIT totaling \$162,977,492 and \$152,484,113 and investments in MMDT totaling \$1,000,355 and \$521,483, respectively.

NOTE 5 - ACTUARIAL VALUATION

The most recent actuarial valuations of the System contained the following information:

Funding Information	January 1, 2015	January 1, 2013		January 1, 2012
Actuarial accrued liability - active members	\$ 101,684,411	\$ 91,615,394	\$	82,832,589
Actuarial accrued liability - retired and inactive members	106,243,826	94,620,256		82,575,642
Actuarial accrued liability - total	207,928,237	186,235,650		165,408,231
Actuarial value of assets	152,955,923	125,714,763		125,424,614
Unfunded liability	\$ 54,972,314	\$ 60,520,887	\$	39,983,617
Other Actuarial Information				
Normal cost for employees	\$ 3,410,805	\$ 3,192,423	\$	3,147,569
Normal cost for employer	\$ 2,468,524	\$ 1,954,193	\$	1,808,560
Covered employee payroll	\$ 37,792,050	\$ 34,036,988	\$	33,919,655
Investment return	6.75%	7.00%		7.75%
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Notes to Financial Statements

Valuation date	January 1, 2015
Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level dollar for 2010 ERI liability and 3.5% increasing payments for the remaining unfunded liability
Remaining amortization period	7 years from July 1, 2015 for 2010 ERI and 15 years from July 1, 2015 for the remaining unfunded liability
Asset valuation method	Market value
Inflation rate	3.5%
Projected salary increases	Varies by length of service with ultimate rates of 3.5% for Group 1 and 2 employees and 4.00% for Group 4 employees
Cost of living adjustments	3.0% of the first \$15,000 of retirement income
Rates of retirement	Varies based upon age for general employees, police and fire employees
Mortality Rates: Healthy Retiree	The RP-2014 Blue Collar Healthy Employee and Annuitant Mortality Tables with MP-2014 improvement projections backed out to a base year of 2006 and projected generationally with Scale BB2D
Disabled Retiree	The RP-2014 Blue Collar Healthy Annuitant Mortality Table set forward 3 years for males with MP-2014 improvement projections backed out to a base year of 2006 projected generationally with Scle BB2D
Investment rate of return/Discount rate	6.75%, net of pension plan investment expense, including inflation (previously, 7.00%)

The principal actuarial assumptions used in the January 1, 2015 valuation were as follows:

NOTE 6 - MEMBERSHIP

The following table represents the System's membership at December 31:

	2016	2015
Active members Inactive members Disabled members Retirees and beneficiaries currently receiving benefits	709 219 35 367	692 221 34 369
Total	1,330	1,316

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Additional Information

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SCHEDULE OF FUNDING PROGRESS (Dollar amounts in thousands)

Actuarial Valuation Date 01/01/15 01/01/13 01/01/12 01/01/10 01/01/08 01/01/06 01/01/04	- \$	(A) Actuarial Value of Assets 152,956 125,715 125,425 129,514 144,298 127,011 116,792	\$ (B) Actuarial Accrued Liability (AAL) Entry Age 207,928 186,236 165,408 149,447 136,022 123,086 112,846	- \$	(C) Unfunded AAL (UAAL) (B) - (A) 54,972 60,521 39,983 19,933 (8,276) (3,925) (3,946)	(D) Funded Ratio (A) / (B) 73.6% 67.5% 75.8% 86.7% 106.1% 103.2% 103.5%	\$ (E) Covered Payroll 37,792 34,037 33,920 32,053 30,256 26,392 23,173	UAAL as a Percentage of Covered Payroll (C) / (E) 145.5% 177.8% 117.9% 62.2% -27.4% -14.9% -17.0%	Investment Return Assumption 6.75% 7.00% 7.75% 8.00% 8.00% 8.00% 7.50%
01/01/04		116,792	112,846		(3,946)	103.5%	23,173	-17.0%	7.50%
01/01/03		119,034	114,811		(4,223)	103.7%	22,573	-18.7%	7.00%
01/01/01		123,291	92,279		(31,012)	133.6%	21,561	-143.8%	7.50%
01/01/99		106,296	81,975		(24,321)	129.7%	17,695	-137.4%	7.50%

Valuation of Assets								
_	Actuarial Valuation Date		Actual Market Value of Assets (1)	_	Actuarial Value of Assets (2)		Difference in Valuation Methods	Asset Valuation Methodologies
	01/01/15	\$	152,956	\$	152,956	\$	-	(1) The actual market value of the System's assets as reported in the System's Annual Statement of the Financial Condition of the
	01/01/13		125,715		125,715		-	Wellesley Retirement Board to PERAC.
	01/01/12		113,747		125,425		(11,678)	(2) The actuarial value of assets may otherwise be determined as the market value of assets (as reported in the System's Annual
	01/01/10		107,929		129,514		(21,585)	Statement) less unrecognized return in each of the last five years. Unrecognized return is equal to the difference between the actual
	01/01/08		144,298		144,298		-	market value return and the expected market value return and is recognized over a five year period, further adjusted, if necessary, to
	01/01/06		127,011		127,011		-	be within 20% of the actual market value.
	01/01/04		116,792		116,792		-	The actuarial value of assets was reset to actual market value in the valuations dated January 1, 2004, 2006, 2008, 2013, and 2015.
	01/01/03		99,621		119,034		(19,413)	
	01/01/01		127,990		123,291		4,699	
	01/01/99		118,107		106,296		11,811	

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Additional Information

COMMONWEALTH OF MASSACHUSETTS

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