



WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

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

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

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Statement of Fiduciary Net Position	7
Statement of Changes in Fiduciary Net Position	8
Notes to Financial Statements	9
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedule of Changes in the Net Pension Liability	22
Schedules of Net Pension Liability, Contributions, and Investment Returns	23
OTHER INFORMATION:	
Independent Auditors' Report	24
Schedule of Employer Allocations	26
Schedule of Pension Amounts by Employer	27



INDEPENDENT AUDITORS' REPORT

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

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

800.282.2440 | melansoncpas.com



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

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

Opinion

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

Other Matters

Required Supplementary Information

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

A handwritten signature in cursive script that reads "Melanson".

Greenfield, Massachusetts
August 3, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Overview of the Financial Statements

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

Fund Financial Statements

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

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

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

Notes to Financial Statements

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

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

Financial Highlights

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

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

Financial Statement Analysis

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

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

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

CHANGES IN FIDUCIARY NET POSITION

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

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

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

Requests for Information

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

Watertown Contributory Retirement System

Ms. Barbara Sheehan, Executive Director

149 Main Street

Watertown, Massachusetts 02472

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

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

Statement of Fiduciary Net Position

December 31, 2019

Assets

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

Liabilities

Accounts payable	\$	34,990
------------------	----	--------

Net Position

Restricted for pension purposes		<u>219,449,832</u>
Total Liabilities and Net Position	\$	<u><u>219,484,822</u></u>

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

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

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

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2019

Additions

Contributions:

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

Investment income:

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

Deductions

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

Net Position Restricted for Pensions

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

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

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

Notes to Financial Statements

1. Description of Plan

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

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

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

Participant Contributions

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

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

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

Participant Retirement Benefits

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

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

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

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

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

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

Methods of Payment

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

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

Participant Refunds

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

Employer Contributions

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

2. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

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

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

Summary of Significant Accounting Policies

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

Basis of Accounting

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

Investments

Investment Policy

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

Rate of Return

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

3. Cash and Short-Term Investments

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

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

4. Investments

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

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

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

Custodial Credit Risk

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

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

Credit Risk

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

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

Concentration of Credit Risk

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

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

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

Interest Rate Risk

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

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

Foreign Currency Risk

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

Fair Value

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

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

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

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

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

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

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

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

5. Accounts Receivable

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

6. Accounts Payable

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

7. Contingencies

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

8. Net Pension Liability of Participating Employers

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

Net Pension Liability of Employers

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

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

Actuarial Assumptions

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

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

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

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

Target Allocations

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

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

Discount Rate

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

Sensitivity of Discount Rate

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

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

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

Deferred Outflows/(Inflows) of Resources

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

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

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

	Measurement Year	Amortization Period	Beginning Balance on Prior Measurement Period Deferrals	Current Measurement Period Additions	Amortization of Amounts Recognized in Current Period Pension Expense	End of Year Balance
Deferred Outflows of Resources						
Differences between expected and actual experience:	2017	4.54	\$ 3,766,889	\$ -	\$ 2,446,031	\$ 1,320,858
	2018	4.37	2,188,003	-	923,208	1,264,795
	2020	4.42	-	5,519,700	1,248,801	4,270,899
Change in assumptions	2018	4.26	10,820,626	-	3,319,210	7,501,416
Changes in proportion and differences between employer contributions and proportionate share of contributions:	2016	4.54	(1,350)	-	(1,350)	-
	2017	4.54	(70,603)	-	(45,847)	(24,756)
	2018	4.37	(28,569)	-	(12,054)	(16,515)
	2019	5.26	63,762	-	14,968	48,794
	2020	5.00	-	25,856	5,171	20,685
Total Deferred Outflows of Resources			16,738,758	5,545,556	7,898,138	14,386,176
Deferred (Inflows) of Resources						
Differences between expected and actual experience	2018	4.26	(387,536)	-	(118,876)	(268,660)
Change in assumptions	2017	4.54	(653,514)	-	(424,359)	(229,155)
Net difference between projected and actual investment earnings on pension plan investments:	2016	5.00	1,818,798	-	1,818,798	-
	2017	5.00	1,051,619	-	525,810	525,809
	2018	5.00	(7,286,866)	-	(2,428,955)	(4,857,911)
	2019	5.00	19,949,396	-	4,987,349	14,962,047
	2020	5.00	-	(19,922,320)	(3,984,464)	(15,937,856)
Changes in proportion and differences between employer contributions and proportionate share of contributions:	2016	4.54	1,350	-	1,350	-
	2017	4.54	70,603	-	45,847	24,756
	2018	4.37	28,569	-	12,054	16,515
	2019	5.26	(63,762)	-	(14,968)	(48,794)
	2020	5.00	-	(25,856)	(5,171)	(20,685)
Total Deferred (Inflows) of Resources			14,528,657	(19,948,176)	414,415	(5,833,934)
Total Collective Deferred Outflows (Inflows) of Resources			\$ 31,267,415	\$ (14,402,620)	\$ 8,312,553	\$ 8,552,242

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

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

Subsequent Event

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

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Watertown, Massachusetts)
 Required Supplementary Information
 Schedule of Changes in the Net Pension Liability
 (Unaudited)

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

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

See Independent Auditors' Report.

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

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

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

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

See Independent Auditors' Report.



INDEPENDENT AUDITORS' REPORT

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

Report on Schedules

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

Management's Responsibility for the Schedules

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

Auditors' Responsibility

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

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

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

800.282.2440 | melansoncpas.com



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

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

Opinions

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

Restriction on Use

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

Melanson

Greenfield, Massachusetts
August 3, 2021

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

(A Component Unit of the Town of Watertown, Massachusetts)
Schedule of Employer Allocations

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

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

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

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

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