

**WATERTOWN**  
**RETIREMENT SYSTEM**  
**AUDIT REPORT**  
JAN. 1, 2013 - DEC. 31, 2016



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



# PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

PHILIP Y. BROWN, ESQ., *Chairman*

JOHN W. PARSONS, ESQ., *Executive Director*

Auditor SUZANNE M. BUMP | KATHLEEN M. FALLON | KATE FITZPATRICK | JAMES M. MACHADO | ROBERT B. McCARTHY | JENNIFER F. SULLIVAN

September 6, 2019

Thomas V. Thibaut, Jr, Chairman  
Watertown Retirement Board  
149 Main Street  
Watertown, MA 02472

Dear Chairman Thibaut:

The Public Employee Retirement Administration Commission (PERAC) has completed a review of the audits of the Watertown Retirement System conducted by the firm of Melanson Heath in accordance with the provisions of Chapter 32, Section 21 of the Massachusetts General Laws. The audits covered the period from January 1, 2013 to December 31, 2016. These audits were determined to be conducted 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 # 20 / 2008.

We conducted an inspection of the work papers prepared by Melanson Heath. 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 report as issued.

We identified specific differences between these financial audits designed to provide an opinion on financial statements and our compliance audits designed to ensure adherence with Chapter 32 and related statutes and regulations specific to Massachusetts public pension systems.

Accordingly, we supplemented the field work conducted in the audits by Melanson Heath 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 properly reflected, 3) that investment manager contracts were procured in compliance with the provisions of Section 23B of Chapter 32, and management fees paid were in accordance with the executed contract, 4) that expenses were properly documented and accounted for, 5) that retirement contributions are accurately deducted, and 6) that retirement allowances were correctly calculated.

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To achieve these objectives, we inspected certain records of the Watertown Retirement Board in the above areas. Specifically, we reviewed the minutes of the Board meetings for compliance with fiduciary oversight, verified cash balances, and tested a sample of expenses for Board approvals, supporting documentation and proper accounting. We reviewed procurement files for contracts awarded to investment managers and confirmed that all required documents were maintained. We also calculated the management fees due per the contract and compared these amounts to the fees invoiced by the manager. 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 also tested a sample of members who retired during our audit period to verify that their retirement allowance was correctly calculated in accordance with the statute.

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 Watertown 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 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, 2016, December 31, 2015, December 31, 2014 and December 31, 2013.

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

Sincerely,

A handwritten signature in black ink, appearing to read "John W. Parsons". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

John W. Parsons, Esq.  
Executive Director

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

Financial Statements,  
Required Supplementary Information,  
and Other Information

For the Year Ended December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Retirement System Board  
Town of Watertown, Massachusetts

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

We have audited the accompanying financial statements of the Watertown, Massachusetts Contributory Retirement System (the System), a component unit of the Town of Watertown, as of and for the year ended December 31, 2016, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

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

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

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

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

### **Opinion**

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

### **Other Matters**

#### *Required Supplementary Information*

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

*Melanson Heath*

July 23, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Watertown Contributory Retirement System, we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2016. Unless otherwise noted, all amounts in the Management's Discussion and Analysis are expressed in thousands.

### A. OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

The Statement of Changes in Fiduciary Net Position presents information showing how the System's net position available for benefits changed during the year ended December 31, 2016. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds and transfers, and administrative expenses. Investment income during the period is also presented showing income from investing.

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

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

### B. FINANCIAL HIGHLIGHTS

- The System's total net position available for benefits was \$154,712,292 at December 31, 2016.
- The System's net position increased by \$14,085,681 which is primarily due to increased employer contributions and investment performance.

- Employer and employee contributions to the plan were \$19,063,596 which represents a \$1,847,059 increase over the preceding year. The employer share of contributions represents 82% of the total contributions.
- Benefits paid to plan participants were \$13,657,115. At December 31, 2016, there were 413 retirees and beneficiaries in receipt of pension benefits.
- The System's funded ratio as of the December 31, 2016 actuarial report was 78.2%.

**C. FINANCIAL STATEMENT ANALYSIS**

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

**FIDUCIARY NET POSITION**

	<u>2016</u>	<u>2015</u>
Assets		
Cash and receivables	\$ 1,695	\$ 1,298
Investments	<u>153,050</u>	<u>139,369</u>
Total assets	154,745	140,667
Liabilities		
Accrued payroll and other	<u>33</u>	<u>40</u>
Net Position	<u>\$ 154,712</u>	<u>\$ 140,627</u>

**CHANGES IN FIDUCIARY NET POSITION**

	<u>2016</u>	<u>2015</u>
Additions		
Contributions	\$ 19,544	\$ 17,754
Investment Income, net	<u>9,116</u>	<u>1,613</u>
Total Additions	28,660	19,367
Deductions		
Benefit payments	13,657	12,584
Other	<u>918</u>	<u>776</u>
Total Deductions	<u>14,575</u>	<u>13,360</u>
Changes in net position	14,085	6,007
Net position - beginning of year	<u>140,627</u>	<u>134,620</u>
Net position - end of year	<u>\$ 154,712</u>	<u>\$ 140,627</u>

The System's total assets as of December 31, 2016 were \$154,745,604 and were mostly comprised of cash and investments. Total assets increased \$14,079,018 or

10% from the prior year primarily due to investment performance. Total liabilities as of December 31, 2016 were \$33,312. Total liabilities decreased by \$(6,662) or 17% over the prior year.

The System was 78.2% funded based on its actuarial valuation of January 1, 2017 with six years remaining in its amortization period.

The amount needed to finance benefits is accumulated through the collection of employers' and employee's contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 COLA and through earnings on investments. Contributions and net investment gain for calendar year 2016 resulted in a net gain of \$28,660,233. Employer's contributions increased by \$1,575,000. The System had net investment gain of \$9,115,979 in 2016 versus a gain of \$1,613,405 in 2015.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions, and the costs of administering the System. Total deductions for 2016 were \$14,574,548, which represents an increase of 9% over deductions of \$13,360,350 in 2015. The payment of pension benefits increased by \$1,073,591 or 8.5% over the previous year. The increase in these expenses resulted primarily from the annual COLA increases received by retirees and their beneficiaries as well as additional retirees.

#### **REQUESTS FOR INFORMATION**

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

Watertown Contributory Retirement System  
149 Main Street  
Watertown, Massachusetts 02472

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

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

Statement of Fiduciary Net Position

December 31, 2016

ASSETS

Cash and short-term investments	\$ 1,108,346
Investments	153,049,713
Accounts receivable	<u>587,545</u>
Total Assets	<u>\$ 154,745,604</u>

LIABILITIES AND NET POSITION

Accrued payroll	\$ 18,156
Other liabilities	<u>15,156</u>
Total Liabilities	33,312
Net position restricted for pensions	<u>154,712,292</u>
Total Liabilities and Net Position	<u>\$ 154,745,604</u>

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

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

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

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2016

Additions:	
Contributions:	
Employers	\$ 15,598,496
Plan members	3,465,100
Other systems and Commonwealth of Massachusetts	462,263
Other	<u>18,391</u>
Total contributions	19,544,250
Investment income:	
Appreciation in fair value of investments	10,170,886
Less: management fees	<u>(1,054,907)</u>
Net investment gain	<u>9,115,979</u>
Total additions	28,660,229
Deductions:	
Benefit payments to plan members and beneficiaries	13,657,115
Refunds to plan members	133,575
Transfers to other systems	516,751
Administrative expenses	<u>267,107</u>
Total deductions	<u>14,574,548</u>
Net increase (decrease)	14,085,681
Net position restricted for pensions:	
Beginning of year	<u>140,626,611</u>
End of year	<u>\$ 154,712,292</u>

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

## WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

### Notes to Financial Statements

#### 1. Description of Plan

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

Membership of the plan consisted of the following at January 1, 2017 (the latest actuarial valuation):

Retirees and beneficiaries receiving benefits	413
Terminated plan members entitled to but not yet receiving benefits	156
Active plan members	<u>569</u>
Total	<u>1,138</u>
Number of participating employers	2

#### Participant Contributions

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

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

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

### Employer Contributions

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

### Participant Retirement Benefits

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

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

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

### Participant Refunds

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

## **2. Nature of Operations and Summary of Significant Accounting Policies**

### *Nature of Operations*

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

### *Summary of Significant Accounting Policies*

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2016 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

### Basis of Accounting

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

### Investments

#### *Investment Policy*

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

### *Rate of Return*

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 6.68%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### **3. Cash and Short-Term Investments**

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

As of December 31, 2016, \$827,370 of the System's bank balance of \$1,332,977 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

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

### **4. Investments**

#### *A. Credit Risk*

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

As of December 31, 2016, \$93,939,345 of the System's investment balance of \$153,049,713 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

The total value of investments of \$94,439,345 is held in debt and equity mutual funds which are exempt from rating disclosure. However, \$22,709,877 is held in a corporate bond fund with an average S&P rating of AA.

*B. Custodial Credit Risk*

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

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

*C. Concentration of Credit Risk*

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

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

I R + M Core Bond Fund	\$ 22,709,877
WTC CIF Opp Invest Alloc	\$ 9,676,118
Prit Hedge Funds	\$ 11,350,734
Prit Domestic Equity Fund	\$ 12,158,767
Prit Core Real Estate Fund	\$ 13,743,766
Earnest Partners International	\$ 11,037,166

*D. Interest Rate Risk*

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

*E. Foreign Currency Risk*

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

F. Fair Value

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

Out of the \$153,049,713 of total investments, \$58,610,368 are measured based on net asset value.

Description	Value	Fair Value Measurements Using:		
		Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:				
Debt securities				
Corporate bonds	\$ 22,709,877	\$ -	\$ 22,709,877	\$ -
Equity securities				
Equity mutual funds	62,053,350	62,053,350	-	-
Domestic stock funds	9,676,118	9,676,118	-	-
Subtotal	<u>94,439,345</u>	<u>\$ 71,729,468</u>	<u>\$ 22,709,877</u>	<u>\$ -</u>
Investments measured at the net asset value (NAV):				
External Investment Pools:				
PRIT	40,901,871	6,589,656	Monthly Redemption Frequency (If Currently Eligible)	30 days Redemption Notice Period
Limited Partnerships				
Arsenal real estate fund	493,763	-	Illiquid	N/A
Auda partners	323,229	795,000	Illiquid	N/A
Earnest partners international	11,037,098	-	Monthly	5 days
Guggenheim high yield fund	4,172,781	-	Monthly	30 days
Intercontinental real estate	282,322	-	Illiquid	N/A
New Boston institutional	18,783	-	Illiquid	N/A
RCP Fund	1,380,521	-	Illiquid	N/A
Subtotal	<u>58,610,368</u>			
Total	<u>\$ 153,049,713</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 represents primarily legal amounts due from employers for pension appropriation not received until after December 31, 2016.

**6. Accrued Payroll/Other Liabilities**

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

**7. Contingencies**

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

**8. Net Pension Liability of Participating Employers**

The net pension liability was based on an actuarial valuation dated January 1, 2017 for December 31, 2016.

The components of the net pension liability of the participating employers at December 31, 2016 were as follows:

*A. Net Pension Liability of Employers*

Total pension liability	\$ 197,794,002
Plan fiduciary net position	<u>(154,712,292)</u>
Employers' net pension liability	<u>\$ 43,081,710</u>
Plan fiduciary net position as a percentage of total pension liability	78.22%

*B. Actuarial Assumptions*

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

Valuation Date	1/1/2017
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	7.90%
Projected salary increases	3.50%
Inflation rate	2.25%
Post-retirement cost-of-living adjustment	3.00%

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

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

*C. Target Allocations*

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

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Core Fixed Income	20.00%	1.75%
High Yield Fixed Income	2.50%	3.25%
Global Fixed Income	2.50%	2.00%
Domestic Large Cap	25.00%	5.60%
Domestic Small Cap	5.00%	5.90%
International Equity	22.50%	5.80%
Real Estate	10.00%	4.25%
Hedge Funds	7.50%	3.60%
Private Equity	5.00%	7.25%
Total	<u>100.00%</u>	
Inflation	2.25%	

*D. Discount Rate*

The discount rate used to measure the total pension liability was 7.90%. The projection of cash flows used to determine the discount rate assumed that

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

*E. Sensitivity of Discount Rate*

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

<u>Year Ended</u>	1% Decrease (6.90%)	Current Discount Rate (7.90%)	1% Discount (8.90%)
December 31, 2016	\$ 63,141,296	\$ 43,081,710	\$ 25,980,882

*F. Deferred Outflows/Inflows of Resources*

The following schedule reflects the deferred outflows/inflows of resources for the System for the year ended December 31, 2016:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ 8,658,951	\$ -
Changes of assumptions	-	1,502,232
Difference between projected and actual investment earnings	8,499,883	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>168,647</u>	<u>168,647</u>
Total	<u>\$ 17,327,481</u>	<u>\$ 1,670,879</u>

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

	Measurement Year	Amortization Period	Beginning Balance on Prior Measurement Period Deferrals	Current Measurement Period Additions	Amortization of Amounts Recognized in Current Period Pension Expense	End of Year Balance
<b>Deferred Outflows of Resources:</b>						
Net difference between projected and actual earnings on pension plan investments	2015	5	\$ 1,410,377	\$ -	\$ (470,126)	\$ 940,251
Net difference between projected and actual earnings on pension plan investments	2016	5	7,275,192	-	(1,818,799)	5,456,393
Net difference between projected and actual earnings on pension plan investments	2017	5	-	2,629,049	(525,810)	2,103,239
Changes in proportion and differences between contributions and proportionate share of contributions	2016	4.54	8,850 *	-	(2,500)	6,350
Changes in proportion and differences between contributions and proportionate share of contributions	2017	4.54	-	208,144	(45,847)	162,297
Changes in experience	2017	4.54	-	11,104,982	(2,446,031)	8,658,951
Total Deferred Outflows of Resources			\$ 8,694,419	\$ 13,942,175	\$ (5,309,113)	\$ 17,327,481
<b>Deferred (Inflows) of Resources:</b>						
Changes in assumptions	2017	4.54	\$ -	\$ (1,926,591)	424,359	\$ (1,502,232)
Changes in proportion and differences between contributions and proportionate share of contributions	2016	4.54	(8,850)	-	2,500	(6,350)
Changes in proportion and differences between contributions and proportionate share of contributions	2017	4.54	-	(208,144)	45,847	(162,297)
Total Deferred (Inflows) of Resources			\$ (8,850)	\$ (2,134,735)	\$ 472,706	\$ (1,670,879)

\* Adjusted from prior year schedule

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

Year ended June 30:	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 5,309,112	\$ (466,966)
2018	5,309,112	(466,966)
2019	5,309,112	(466,966)
2020	<u>1,400,145</u>	<u>(269,981)</u>
Total	<u>\$ 17,327,481</u>	<u>\$ (1,670,879)</u>

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

**Schedule of Changes in the Net Pension Liability**

(Unaudited)

	<u>2016</u>	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>			
Service cost	\$ 3,895,597	\$ 3,895,599	\$ 3,745,767
Interest on unfunded liability - time value of \$	14,442,636	14,615,997	14,213,781
Changes in plan provisions	778,002	-	-
Experience loss	11,104,982	-	-
Changes of assumptions	(1,926,591)	-	-
Benefit payments, including refunds of member contributions	<u>(14,006,492)</u>	<u>(13,810,095)</u>	<u>(13,081,678)</u>
Net change in total pension liability	14,288,134	4,701,501	4,877,870
Total pension liability - beginning	<u>183,505,868</u>	<u>178,804,367</u>	<u>173,926,497</u>
<b>Total pension liability - ending (a)</b>	<u>\$ 197,794,002</u>	<u>\$ 183,505,868</u>	<u>\$ 178,804,367</u>
<b>Plan fiduciary net position</b>			
Contributions - employer	\$ 15,598,496	\$ 14,023,496	\$ 12,465,133
Contributions - member	3,465,100	3,193,042	3,186,332
Net investment income	8,827,366	1,842,184	7,674,151
Benefit payments, including refunds of member contributions	(14,006,492)	(13,288,770)	(12,587,850)
Administrative expense	(279,447)	(300,358)	(279,447)
Other	<u>480,658</u>	<u>537,085</u>	<u>487,925</u>
Net change in plan fiduciary net position	14,085,681	6,006,679	10,946,244
Plan fiduciary net position - beginning	<u>140,626,611</u>	<u>134,619,932</u>	<u>123,673,688</u>
<b>Plan fiduciary net position - ending (b)</b>	<u>\$ 154,712,292</u>	<u>\$ 140,626,611</u>	<u>\$ 134,619,932</u>
<b>Net pension liability (asset) - ending (a-b)</b>	<u>\$ 43,081,710</u>	<u>\$ 42,879,257</u>	<u>\$ 44,184,435</u>

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

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

**Schedules of Net Pension Liability, Contributions, and Investment Returns**

(Unaudited)

**Schedule of Net Pension Liability**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 197,794,002	\$ 183,505,868	\$ 178,804,367
Plan fiduciary net position	<u>154,712,292</u>	<u>140,626,611</u>	<u>134,619,930</u>
Net pension liability (asset)	<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	78.2%	76.6%	75.3%
Covered payroll	\$ 35,192,067	\$ 31,539,610	\$ 30,326,548
Participating employer net pension liability (asset) as a percentage of covered payroll	122.4%	136.0%	145.7%

**Schedule of Contributions**

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

**Schedule of Investment Returns**

*Year Ended December 31*

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

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

## Independent Auditors' Report

To the Retirement System Board  
Town of Watertown, Massachusetts

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

### **Report on Schedules**

We have audited the accompanying schedule of employer allocations of the Watertown Contributory Retirement System as of and for the year ended December 31, 2016. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying schedule of pension amounts by employer of the Watertown Contributory Retirement System as of and for the year ended December 31, 2016.

### **Management's Responsibility for the Schedules**

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

### **Auditors' Responsibility**

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

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

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

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

### **Opinions**

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for the Watertown Contributory Retirement System as of and for the year ended December 31, 2016, 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, 2016 and is not intended to be and should not be used by anyone other than these specified parties.

*Melanson Heath*

July 23, 2018

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

SCHEDULE OF EMPLOYER ALLOCATIONS

<u>Employer</u>	FY 2018 Required Employer <u>Contributions</u>	Employer Allocation <u>Percentage*</u>
Town	\$ 15,311,356	98.14%
Housing	<u>287,140</u>	<u>1.86%</u>
Total	<u>\$ 15,598,496</u>	<u>100.00%</u>

\*Calculated percentages differ from amounts shown by immaterial amounts.

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

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

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

As of and for the year ended December 31, 2016

Entity	Deferred Outflows of Resources						Deferred Inflows of Resources		Pension Expense		
	Net Pension Liability	Changes in Proportion and differences between contributions and proportionate shares of		Differences Between Expected and Actual Experience	Net Asset Loss	Total Deferred Outflows of Resources	Changes in Assumptions	Total Deferred Inflows of Resources	Proportionate Share of Pension Expense	Change in Proportional Share of Contributions	Total Employer Pension Expense
		Contributions	shares of								
Town	\$ 42,278,353	\$ 159,185	\$ 8,497,485	\$ 8,341,383	\$ 16,988,053	\$ 1,474,219	\$ 9,462	\$ 1,483,681	\$ 9,136,957	\$ (155,947)	\$ 8,981,010
Housing	803,357	9,462	161,466	158,500	329,428	28,013	159,185	187,198	173,617	155,947	329,564
Total for All Entities	\$ 43,081,710	\$ 168,647	\$ 8,658,951	\$ 8,499,883	\$ 17,327,481	\$ 1,502,232	\$ 168,647	\$ 1,670,879	\$ 9,310,574	\$ -	\$ 9,310,574

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

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

Financial Statements,  
Required Supplementary Information,  
and Other Information

For the Year Ended December 31, 2015

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## INDEPENDENT AUDITORS' REPORT

To the Retirement System Board  
Town of Watertown, Massachusetts

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

We have audited the accompanying financial statements of the Watertown, Massachusetts Contributory Retirement System (the System), a component unit of the Town of Watertown, as of and for the year ended December 31, 2015, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of December 31, 2015, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

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

*Melanson Heath*

March 21, 2017

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Watertown Contributory Retirement System, we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2015. Unless otherwise noted, all amounts in the Management's Discussion and Analysis are expressed in thousands.

### A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements 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 for pension benefits. This statement reflects the System's investments at fair value, as well as cash, receivables and other assets and liabilities.

The Statement of Changes in Fiduciary Net Position presents information showing how the System's net position available for benefits changed during the year ended December 31, 2015. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds and transfers, and administrative expenses. Investment income during the period is also presented showing income from investing.

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

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

### B. FINANCIAL HIGHLIGHTS

- The System's total net position available for benefits was \$140,626,611 at December 31, 2015.

- The System's net position increased by \$6,006,679 which is primarily due to increased employer contributions and investment performance.
- Employer and employee contributions to the plan were \$17,216,537 which represents a \$1,581,709 increase over the preceding year. The employer share of contributions represents 79% of the total contributions.
- Benefits paid to plan participants were \$12,583,524. At December 31, 2015, there were 419 retirees and beneficiaries in receipt of pension benefits.
- The System's funded ratio as of the December 31, 2015 actuarial report was 76.6%.

**C. FINANCIAL STATEMENT ANALYSIS**

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

**FIDUCIARY NET POSITION**

	<u>2015</u>	<u>2014</u>
Assets		
Cash and receivables	\$ 1,297	\$ 14,358
Investments	<u>139,369</u>	<u>120,324</u>
Total assets	140,666	134,682
Liabilities		
Accrued payroll and other	<u>40</u>	<u>62</u>
Net Position	<u>\$ 140,626</u>	<u>\$ 134,620</u>

**CHANGES IN FIDUCIARY NET POSITION**

	<u>2015</u>	<u>2014</u>
Additions		
Contributions	\$ 17,754	\$ 16,139
Investment Income, net	<u>1,613</u>	<u>7,756</u>
Total Additions	19,367	23,895
Deductions		
Benefit payments	12,584	11,984
Other	<u>777</u>	<u>965</u>
Total Deductions	<u>13,361</u>	<u>12,949</u>
Changes in net position	6,006	10,946
Net position - beginning of year	<u>134,620</u>	<u>123,674</u>
Net position - end of year	<u>\$ 140,626</u>	<u>\$ 134,620</u>

The System's total assets as of December 31, 2015 were \$140,666,585 and were mostly comprised of cash and investments. Total assets increased \$5,984,150 or 4.4% from the prior year primarily due to investment performance and additional appropriation contributions from the Town of Watertown. Total liabilities as of December 31, 2015 were \$39,974. Total liabilities decreased by \$22,529 or 36% over the prior year.

The System was 76.6% funded based on its actuarial valuation of 12/31/15 with 7 years remaining in its amortization period.

The amount needed to finance benefits is accumulated through the collection of employers' and employee's contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 COLA and through earnings on investments. Contributions and net investment gain for calendar year 2015 resulted in a net gain of \$19,367,029. Employer's contributions increased by \$1,575,000. The System had net investment gain of \$1,613,405 versus a gain of \$7,756,245 in 2015.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions, and the costs of administering the System. Total deductions for 2015 were \$13,360,350, which represents an increase of 3.2% over deductions of \$12,949,388 in 2015. The payment of pension benefits increased by \$599,179 or 5% over the previous year. The increase in these expenses resulted primarily from the annual COLA increases received by retirees and their beneficiaries.

#### **REQUESTS FOR INFORMATION**

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

Watertown Contributory Retirement System  
149 Main Street  
Watertown, Massachusetts 02472

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

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

Statement of Fiduciary Net Position

December 31, 2015

ASSETS

Cash and short-term investments	\$ 685,587
Investments	139,369,496
Accounts receivable	<u>611,502</u>
Total Assets	<u>\$ 140,666,585</u>

LIABILITIES AND NET POSITION

Accrued payroll	\$ 14,941
Other liabilities	<u>25,033</u>
Total Liabilities	39,974
Net position restricted for pensions	<u>140,626,611</u>
Total Liabilities and Net Position	<u>\$ 140,666,585</u>

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

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

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

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2015

Additions:	
Contributions:	
Employers	\$ 14,023,496
Plan members	3,193,041
Other systems and Commonwealth of Massachusetts	448,997
Other	<u>88,090</u>
Total contributions	17,753,624
Investment income:	
Appreciation in fair value of investments	2,572,719
Less: management fees	<u>(959,314)</u>
Net investment gain	<u>1,613,405</u>
Total additions	19,367,029
Deductions:	
Benefit payments to plan members and beneficiaries	12,583,524
Refunds to plan members	145,990
Transfers to other systems	258,898
Administrative expenses	<u>371,938</u>
Total deductions	<u>13,360,350</u>
Net increase (decrease)	6,006,679
Net position restricted for pensions:	
Beginning of year	<u>134,619,932</u>
End of year	<u>\$ 140,626,611</u>

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

## WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

### Notes to Financial Statements

#### 1. Description of Plan

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

Membership of the plan consisted of the following at December 31, 2015 (the latest actuarial valuation):

Retirees and beneficiaries receiving benefits	419
Terminated plan members entitled to but not yet receiving benefits	138
Active plan members	<u>574</u>
Total	<u>1,131</u>
Number of participating employers	2

#### Participant Contributions

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

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

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

### Employer Contributions

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

### Participant Retirement Benefits

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

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

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

### Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deduc-

tions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

## **2. Nature of Operations and Summary of Significant Accounting Policies**

### *Nature of Operations*

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

### *Summary of Significant Accounting Policies*

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2015 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

### Basis of Accounting

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

### Investments

#### *Investment Policy*

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

#### *Rate of Return*

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 0.782%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### 3. Cash and Short-Term Investments

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

As of December 31, 2015, \$371,677 of the System's bank balance of \$909,137 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

### 4. Investments

#### A. Credit Risk

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

The total value of investments of \$139,369,496 is held in debt and equity mutual funds which are exempt from rating disclosure.

#### B. Custodial Credit Risk

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

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

#### C. Concentration of Credit Risk

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

The System does not have an investment in one issuer greater than 5% of total investments.

*D. Interest Rate Risk*

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

*E. Foreign Currency Risk*

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

*F. Fair Value*

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

All investments at fair value of \$139,369,496 are measured based on net asset value.

Description	Value	Unfunded Commitments	Redemption Frequency (If currently eligible)	Redemption Notice Period
Pooled Domestic Equity Funds	\$ 36,519,610	\$ -	80% monthly; 20% daily	77% 7-30 business days; 23% 5 business days
Pooled International Equity Funds	25,144,887	-	41% monthly; 59% daily	41% 5 business days; 59% 1-7 business days
Pooled Global Equity Funds	21,653,342	-	60% daily; 40% monthly	60% 1 day; 40% 30 days
Pooled Domestic Fixed Income Funds	23,939,393	-	78% daily; 12% monthly	78% 5 business days; 12% 30 days
Pooled Global Fixed Income Funds	2,718,946	-	Daily	10 business days
Pooled Alternative Investments	4,917,131	4,123,662	N/A - illiquid	N/A - illiquid
Pooled Real Estate Funds	13,789,130	-	95% monthly; 5% illiquid	95% 5 business days; 5% illiquid
PRIT Absolute	<u>10,687,057</u>	-	Quarterly	30 days
	\$ 139,369,496			

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 represents primarily legal amounts due from employers for pension appropriation not received until after December 31, 2015.

6. **Accrued Payroll/Other Liabilities**

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

7. **Contingencies**

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

8. **Net Pension Liability of Participating Employers**

The net pension liability was based on an actuarial valuation dated January 1, 2015, and rolled forward to December 31, 2015.

The components of the net pension liability of the participating employers at December 31, 2015 were as follows:

A. **Net Pension Liability of Employers**

Total pension liability	\$ 183,505,868
Plan fiduciary net position	<u>(140,626,611)</u>
Employers' net pension liability	<u>\$ 42,879,257</u>
Plan fiduciary net position as a percentage of total pension liability	76.63%

*B. Actuarial Assumptions*

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

Valuation Date	1/1/2015
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	3.50%
Inflation rate	3.00%
Post-retirement cost-of-living adjustment	3.00%

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

Mortality rates were based on both pre-retirement and post-retirement RP-2000 Mortality Table for males and females, adjusted to 2015 with Scale AA. Mortality for disabled members is represented by the RP-2000 Mortality Table set forward two years for all disabled members.

*C. Target Allocations*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's targeted asset allocation as of December 31, 2015, are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Real Return Arithmetic Basis</u>	<u>Long-term Expected Real Rate of Return</u>
Core Fixed Income	20.00%	2.20%	0.44%
High Yield Fixed Income	2.50%	3.75%	0.09%
Global Fixed Income	2.50%	2.50%	0.06%
Domestic Large Cap	25.00%	5.55%	1.39%
Domestic Small Cap	5.00%	5.85%	0.29%
International Equity	22.50%	5.85%	1.32%
Real Estate	10.00%	4.10%	0.41%
Hedge Funds	7.50%	3.70%	0.28%
Private Equity	5.00%	7.75%	0.39%
Total	<u>100.00%</u>		4.67%
Inflation			<u>3.00%</u>
Expected arithmetic nominal return			<u>7.67%</u>

D. Discount Rate

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the Board's funding policy, which establishes the contractually required rates by Statute. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

E. Sensitivity of Discount Rate

The following presents the net pension liability of the participating employers calculated using the discount rate of 8%, as well as what the participating employers' net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7%) or 1 percentage-point higher (9%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Discount (9.00%)
Participating employers' net pension liability	\$ 61,032,095	\$ 42,879,257	\$ 27,251,796

F. Deferred Outflows/Inflows of Resources

The following schedule reflects the deferred outflows/inflows of resources for the System for the year ended December 31, 2015:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 8,685,569	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	<u>5,973</u>	<u>5,973</u>
Total	<u>\$ 8,691,542</u>	<u>\$ 5,973</u>

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

	<u>Measurement Year</u>	<u>Amortization Period</u>	<u>Beginning Balance on Prior Measurement Period Deferrals</u>	<u>Current Measurement Period Additions</u>	<u>Amortization of Amounts Recognized in Current Period Pension Expense</u>	<u>End of Year Balance</u>
<b><u>Deferred (Inflows) of Resources:</u></b>						
Changes in proportion and differences between contributions and proportionate share of contributions	2016	5	\$ -	\$ 7,466	\$ (1,493)	\$ 5,973
Total Deferred (Inflows) of Resources			<u>\$ -</u>	<u>\$ 7,466</u>	<u>\$ (1,493)</u>	<u>\$ 5,973</u>
<b><u>Deferred Outflows of Resources:</u></b>						
Net difference between projected and actual earnings on pension plan investments	2015	4	\$ 1,880,502	\$ -	\$ (470,126)	\$ 1,410,376
Net difference between projected and actual earnings on pension plan investments	2016	5	-	9,093,991	(1,818,798)	7,275,193
Changes in proportion and differences between contributions and proportionate share of contributions	2016	5	<u>-</u>	<u>7,466</u>	<u>(1,493)</u>	<u>5,973</u>
Total Deferred Outflows of Resources			<u>\$ 1,880,502</u>	<u>\$ 9,101,457</u>	<u>\$ (2,290,417)</u>	<u>\$ 8,691,542</u>

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

Year ended June 30:	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2017	\$ 2,290,417	\$ 1,493
2018	2,290,417	1,493
2019	2,290,417	1,493
2020	<u>1,820,290</u>	<u>1,493</u>
Total	<u>\$ 8,691,542</u>	<u>\$ 5,973</u>

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

**Schedule of Changes in the Net Pension Liability**

(Unaudited)

	<u>2015</u>	<u>2014</u>
<b>Total pension liability</b>		
Service cost	\$ 3,895,599	\$ 3,745,767
Interest on unfunded liability - time value of \$	14,615,997	14,213,781
Benefit payments, including refunds of member contributions	<u>(13,810,095)</u>	<u>(13,081,678)</u>
Net change in total pension liability	4,701,501	4,877,870
Total pension liability - beginning	<u>178,804,367</u>	<u>173,926,497</u>
<b>Total pension liability - ending (a)</b>	<b><u>\$ 183,505,868</u></b>	<b><u>\$ 178,804,367</u></b>
 <b>Plan fiduciary net position</b>		
Contributions - employer	\$ 14,023,496	\$ 12,465,133
Contributions - member	3,193,042	3,186,332
Net investment income	1,842,184	7,674,151
Benefit payments, including refunds of member contributions	(13,288,770)	(12,587,850)
Administrative expense	(300,358)	(279,447)
Other	<u>537,085</u>	<u>487,925</u>
Net change in plan fiduciary net position	6,006,679	10,946,244
Plan fiduciary net position - beginning	<u>134,619,932</u>	<u>123,673,688</u>
<b>Plan fiduciary net position - ending (b)</b>	<b><u>\$ 140,626,611</u></b>	<b><u>\$ 134,619,932</u></b>
 <b>Net pension liability (asset) - ending (a-b)</b>	<b><u>\$ 42,879,257</u></b>	<b><u>\$ 44,184,435</u></b>

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

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

**Schedules of Net Pension Liability, Contributions, and Investment Returns**

(Unaudited)

**Schedule of Net Pension Liability**

	<u>2015</u>	<u>2014</u>
Total pension liability	\$ 183,505,868	\$ 178,804,367
Plan fiduciary net position	<u>140,626,611</u>	<u>134,619,930</u>
Net pension liability (asset)	<u>\$ 42,879,257</u>	<u>\$ 44,184,437</u>
Plan fiduciary net position as a percentage of the total pension liability	76.6%	75.3%
Covered payroll	\$ 31,539,610	\$ 30,326,548
Participating employer net pension liability (asset) as a percentage of covered payroll	136.0%	145.7%

**Schedule of Contributions**

	<u>2015</u>	<u>2014</u>
Actuarially determined contribution	\$ 14,023,496	\$ 12,448,496
Contributions in relation to the actuarially determined contribution	<u>14,023,496</u>	<u>12,448,496</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 31,539,610	\$ 30,326,548
Contributions as a percentage of covered payroll	44.5%	41.0%

**Schedule of Investment Returns**

*Year Ended December 31*

	<u>2015</u>	<u>2014</u>
Annual money weighted rate of return, net of investment expense	0.78%	6.42%

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



## Independent Auditors' Report

To the Retirement System Board  
Town of Watertown, Massachusetts

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

### **Report on Schedules**

We have audited the accompanying schedule of employer allocations of the Watertown Contributory Retirement System as of and for the year ended December 31, 2015. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying schedule of pension amounts by employer of the Watertown Contributory Retirement System as of and for the year ended December 31, 2015.

### **Management's Responsibility for the Schedules**

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

### **Auditors' Responsibility**

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

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

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

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

### **Opinions**

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for the Watertown Contributory Retirement System as of and for the year ended December 31, 2015, 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, 2015 and is not intended to be and should not be used by anyone other than these specified parties.

*Melanson Heath*

March 21, 2017

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

**SCHEDULE OF EMPLOYER ALLOCATIONS**

<u>Employer</u>	FY 2017 Required Employer <u>Contributions</u>	Employer Allocation <u>Percentage</u>
Town	\$ 15,061,356	98.129%
Housing	<u>287,140</u>	<u>1.870%</u>
Total	<u>\$ 15,348,496</u>	<u>100.00%</u>

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

TOWN OF WATERTOWN, MASSACHUSETTS  
CONTRIBUTORY RETIREMENT SYSTEM

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

As of and for the year ended December 31, 2015

Entity	Net Pension Liability	Deferred Outflows of Resources			Deferred Inflows of Resources		Pension Expense		
		Changes in Proportion and differences between contributions and proportionate shares of Contributions	Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Total Deferred Outflows of Resources	Changes in Proportion and differences between contributions and proportionate shares of Contributions	Total Deferred Inflows of Resources	Proportionate Share of Pension Expense	Change in Proportional Share of Contributions	Total Employer Pension Expense
Town	\$ 42,077,071	\$ -	\$ 8,523,079	\$ 8,523,079	\$ 5,973	\$ 5,973	\$ 6,328,678	\$ 6,328,678	\$ 6,328,678
Housing	802,187	5,973	162,490	168,463	-	-	123,658	123,658	123,658
Total for All Entities	\$ 42,879,258	\$ 5,973	\$ 8,685,569	\$ 8,691,542	\$ 5,973	\$ 5,973	\$ 6,450,336	\$ 6,450,336	\$ 6,450,336

Contributions as a percentage of covered payroll



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

Financial Statements,  
Required Supplementary Information,  
and Other Information

For the Year Ended December 31, 2014  
(With Independent Auditors' Report Thereon)

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## INDEPENDENT AUDITORS' REPORT

To the Retirement System Board  
Town of Watertown, Massachusetts

### Additional Offices:

Nashua, NH  
Manchester, NH  
Greenfield, MA  
Ellsworth, ME

We have audited the accompanying financial statements of the Watertown, Massachusetts Contributory Retirement System (the System), as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of the System as of December 31, 2014, 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.

### **Emphasis of Matter**

In 2014, the System adopted Governmental Accounting Standards Board Statement No. 67, *Financial Reporting for Pension Plans*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

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

*Melanson Heath*

November 22, 2016

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the Watertown Contributory Retirement System, we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2014. Unless otherwise noted, all amounts in the Management's Discussion and Analysis are expressed in thousands.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

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

The Statement of Changes in Fiduciary Net Position presents information showing how the System's net position available for benefits changed during the year ended December 31, 2014. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds and transfers, and administrative expenses. Investment income during the period is also presented showing income from investing.

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

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

### **B. FINANCIAL HIGHLIGHTS**

- The System's total net position available for benefits was \$134,620 at December 31, 2014.
- The System's net position increased by \$10,946 which is primarily due to the increase in the fair market value of the investments.

- Employer and employee contributions to the plan were \$16,139 which represents a \$1,956 increase over the preceding year. The employer share of contributions represents 77% of the total contributions.
- Benefits paid to plan participants were \$11,984. At December 31, 2014, there were 413 retirees and beneficiaries in receipt of pension benefits.
- The System's funded ratio as of the December 31, 2014 actuarial report was 75.29%.

**C. FINANCIAL STATEMENT ANALYSIS**

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

**FIDUCIARY NET POSITION**

	<u>2014</u>	<u>2013</u>
Assets:		
Cash and receivables	\$ 14,359	\$ 1,756
Investments	<u>120,324</u>	<u>121,971</u>
Total assets	134,683	123,727
Liabilities:		
Accrued payroll and other	<u>63</u>	<u>53</u>
Net Position	\$ <u><u>134,620</u></u>	\$ <u><u>123,674</u></u>

**CHANGES IN FIDUCIARY NET POSITION**

	<u>2014</u>	<u>2013</u>
Additions:		
Contributions	\$ 16,139	\$ 14,183
Investment Income, net	<u>7,756</u>	<u>16,599</u>
Total Additions	23,895	30,782
Deductions:		
Benefit payments	11,984	11,440
Refunds	224	76
Transfers	380	445
Administrative	<u>361</u>	<u>344</u>
Total Deductions	<u>12,949</u>	<u>12,305</u>
Changes in net position	10,946	18,477
Net position - beginning of year	<u>123,674</u>	<u>105,197</u>
Net position - end of year	\$ <u><u>134,620</u></u>	\$ <u><u>123,674</u></u>

The System's total assets as of December 31, 2014 were \$134,683 and comprised mostly cash and investments. Total assets increased \$10,956 or 9% from the prior year primarily due to investment performance. Total liabilities as of December 31, 2014 were \$63 and were mostly comprised of accrued payroll. Total liabilities increased by \$10 or 17% over the prior year.

The System was 75.29% funded based on its actuarial valuation of December 31, 2014 with 8 years remaining in its amortization period.

The amount needed to finance benefits is accumulated through the collection of employers' and employee's contributions, reimbursements from the Commonwealth of Massachusetts for pre-1998 COLA and through earnings on investments. Contributions and net investment gain for calendar year 2014 resulted in a net gain of \$23,895. Employer's contributions increased by \$1,575. The System had net investment gain of \$7,756 versus a gain of \$16,599 in 2013.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions, and the costs of administering the System. Total deductions for 2014 were \$12,949, which represents an increase of 5.2% over deductions of \$12,305 in 2013. The payment of pension benefits increased by \$544 or 4.8% over the previous year. The increase (decrease) in these expenses resulted primarily from the annual COLA increases received by retirees and their beneficiaries.

#### **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  
Town Hall  
149 Main Street  
Watertown, Massachusetts 02472

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

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

Statement of Fiduciary Net Position

December 31, 2014

ASSETS

Cash and short-term investments	\$ 14,114,394
Investments	120,323,871
Accounts receivable	<u>244,170</u>
Total Assets	<u>\$ 134,682,435</u>

LIABILITIES AND NET POSITION

Other liabilities	<u>62,503</u>
Total Liabilities	62,503
Net position restricted for pensions	<u>134,619,932</u>
Total Liabilities and Net Position	<u>\$ 134,682,435</u>

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

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

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

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2014

Additions:	
Contributions:	
Employers	\$ 12,448,496
Plan members	3,186,332
Other systems and Commonwealth of Massachusetts	477,925
Other	<u>26,637</u>
Total contributions	16,139,390
Investment income:	
Appreciation in fair value of investments	8,688,556
Less: management fees	<u>(932,311)</u>
Net investment loss	<u>7,756,245</u>
Total additions	23,895,635
Deductions:	
Benefit payments to plan members and beneficiaries	11,984,345
Refunds to plan members	223,657
Transfers to other systems	379,849
Administrative expenses	<u>361,537</u>
Total deductions	<u>12,949,388</u>
Net increase	10,946,247
Net position restricted for pensions:	
Beginning of year	<u>123,673,685</u>
End of year	<u>\$ 134,619,932</u>

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

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

**Notes to Financial Statements**

**1. Description of Plan**

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

Membership of each plan consisted of the following at December 31, 2014:

Retirees and beneficiaries receiving benefits	413
Terminated plan members entitled to but not yet receiving benefits	121
Active plan members	533
Total	1,067
Number of participating employers	2

**Participant Contributions**

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

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

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

#### Employer Contributions

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

#### Participant Retirement Benefits

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

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

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

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

### Participant Refunds

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

## **2. Nature of Operations and Summary of Significant Accounting Policies**

### *Nature of Operations*

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

### *Summary of Significant Accounting Policies*

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2014 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

### Basis of Accounting

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

## Investments

### *Investment Policy*

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

### *Rate of Return*

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 6.4%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

### **3. Cash and Short-Term Investments**

*Custodial Credit Risk - Deposits.* Custodial credit risk is the risk that in the event of a bank failure, the 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, 2014, \$13,848,928 of the System's bank balance(s) of \$14,354,484 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

### **4. Investments**

#### *A. Credit Risk*

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

Presented below is the actual rating as of year-end for each investment type (in thousands).

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>
Pooled domestic equities	\$ 22,887	\$ 22,887
Pooled international equities	21,660	21,660
Pooled global equity funds	19,492	19,492
Pooled domestic fixed income	24,235	24,235
Pooled global fixed income	3,397	3,397
Pooled alternative	4,160	4,160
Pooled real estate	14,102	14,102
PRIT* Absolute	<u>10,391</u>	<u>10,391</u>
Total investments	\$ <u>120,324</u>	\$ <u>120,324</u>

*\*Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust 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.*

**B. Custodial Credit Risk**

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

The System manages this risk by investing in PRIT, having Securities Investor Protection Corporation (SIPC), excess SIPC coverage and by holding assets in separately identifiable trust accounts.

**C. Concentration of Credit Risk**

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

The System does not have an investment in one issuer greater than 5% of total investments.

*D. Interest Rate Risk*

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

*E. Foreign Currency Risk*

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

**5. Accounts Receivable**

Annually PERAC determines the amount of employer contributions (pension appropriation) to be made to the System. The accounts receivable balance represents legal amounts due from employers for the fiscal 2015 pension appropriation but not received until after December 31, 2014.

**6. Other Liabilities**

This balance represents accrued payroll, as well as, administrative and legal expenses paid by the System after December 31, 2014.

**7. Net Pension Liability of Participating Employers**

The net pension liability was based on an actuarial valuation dated January 1, 2014, and rolled forward to January 1, 2015 (December 31, 2014). The components of the net pension liability of the participating employers at December 31, 2014 were as follows:

*A. Net Pension Liability of Employers*

Total pension liability	\$ 178,804,369
Plan fiduciary net position	<u>134,619,932</u>
Employers' net pension liability	\$ <u>44,184,437</u>
Plan fiduciary net position as a percentage of total pension liability	75.29%

*B. Actuarial Assumptions*

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

Valuation Date	1/1/2014
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	8.00%
Projected salary increases	3.5% per year including longevity
Cost of living increases	3% of the lesser of the pension amount and \$12,000 per year
Post-retirement cost-of-living adjustment	3.00%

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

Mortality rates were based on both pre-retirement and post retirement RP-2000 Mortality Table for males and females, adjusted to 2015 with Scale AA. Mortality for disabled members is represented by the RP-2000 Mortality Table set forward two years for all disabled members.

*C. Target Allocations*

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the System's targeted asset allocation as of December 31, 2014, are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	0.0%	2.25%
Fixed Income:		
Core fixed income	20.0%	3.50%
High yield	2.5%	5.25%
Global bond	2.5%	4.00%
Domestic Equity:		
Large cap	26.0%	7.75%
Small cap	4.0%	8.05%
International equity	22.5%	8.00%
Real Estate:		
Core real estate	8.5%	6.75%
Global REIT (via PRIT Real Estate Allocation)	1.5%	6.75%
Hedge funds	7.5%	6.50%
Private equity	5.0%	8.75%
Total	<u>100.0%</u>	

*D. Discount Rate*

The discount rate used to measure the total pension liability was 8%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the Board's funding policy, which establishes the contractually required rates by Statute. Based on those assumptions, the System's fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*E. Sensitivity of Discount Rate*

The following presents the net pension liability of the participating employers calculated using the discount rate of 8%, as well as what the participating employers' net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (7%) or 1 percentage-point higher (9%) than the current rate:

	1% Decrease <u>7.00%</u>	Current Discount Rate <u>8.00%</u>	1% Discount <u>9.00%</u>
Participating employers' net pension liability	\$ 61,872,191	\$ 44,184,437	\$ 28,957,358

F. Deferred Outflows of Resources

The following schedule reflects the deferred outflows of resources for the System for the year ended December 31, 2014:

	<u>Deferred Outflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 1,880,502

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

Year ended June 30:

2015	\$ 470,125
2016	470,125
2017	470,125
2018	<u>470,127</u>
Total	<u>\$ 1,880,502</u>

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

**Schedule of Changes in the Net Pension Liability  
(Unaudited)**

	<u>2014</u>
<b>Total pension liability</b>	
Service cost	\$ 3,745,769
Interest on unfunded liability - time value of \$	14,213,781
Benefit payments, including refunds of member contributions	(12,587,851)
Interest on benefit payments	<u>(493,827)</u>
Net change in total pension liability	4,877,872
Total pension liability - beginning	<u>173,926,497</u>
<b>Total pension liability - ending (a)</b>	<b><u>\$ 178,804,369</u></b>
<b>Plan fiduciary net position</b>	
Contributions - employer	\$ 12,465,133
Contributions - member	3,186,332
Net investment income	7,674,151
Benefit payments, including refunds of member contributions	(12,587,851)
Administrative expense	(279,447)
Other	<u>487,929</u>
Net change in plan fiduciary net position	10,946,247
Plan fiduciary net position - beginning	<u>123,673,685</u>
<b>Plan fiduciary net position - ending (b)</b>	<b><u>\$ 134,619,932</u></b>
<b>Net pension liability (asset) - ending (a-b)</b>	<b><u>\$ 44,184,437</u></b>

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

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

**Schedules of Net Pension Liability, Contributions, and Investment Returns  
(Unaudited)**

**Schedule of Net Pension Liability**

	<u>2014</u>
Total pension liability	\$ 178,804,369
Plan fiduciary net position	<u>134,619,932</u>
Net pension liability (asset)	<u>\$ 44,184,437</u>
Plan fiduciary net position as a percentage of the total pension liability	75.29%
Covered employee payroll	\$ 30,326,548
Participating employer net pension liability (asset) as a percentage of covered employee payroll	145.70%

**Schedule of Contributions**

	<u>2014</u>
Actuarially determined contribution	\$ 12,198,496
Contributions in relation to the actuarially determined contribution	<u>12,198,496</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered employee payroll	\$ 30,326,548
Contributions as a percentage of covered employee payroll	40.22%

**Schedule of Investment Returns**

*Year Ended December 31*

	<u>2014</u>
Annual money weighted rate of return, net of investment expense	6.40%

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



## Independent Auditors' Report

To the Retirement System Board  
Town of Watertown, Massachusetts

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

### **Report on Schedules**

We have audited the accompanying schedule of employer allocations (page 21) of the Watertown Contributory Retirement System as of and for the year ended December 31, 2013 and 2014. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying schedule of pension amounts by employer (page 22) of the Watertown Contributory Retirement System as of and for the year ended December 31, 2014 and for the total of the column titled 12/31/13 net pension liability.

### **Management's Responsibility for the Schedules**

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

### **Auditors' Responsibility**

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

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

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

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

### **Opinions**

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability as of and for the years ended December 31, 2013 and 2014 and 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, 2014, 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 the Watertown Contributory Retirement System management, the Retirement Board, System employers and their auditors as of and for the year ended December 31, 2014 and is not intended to be and should not be used by anyone other than these specified parties.

*Melanson Heath*

November 22, 2016

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

**SCHEDULE OF EMPLOYER ALLOCATIONS**

<u>Employer</u>	FY2015 Actual Employer Contributions*	Employer Allocation Percentage
Town of Watertown	\$ 12,224,091	98.160388%
Watertown Housing Authority	<u>224,405</u>	<u>1.839612%</u>
Total	\$ <u>12,448,496</u>	<u>100.00%</u>

<u>Employer</u>	FY2014 Actual Employer Contributions	Employer Allocation Percentage
Town of Watertown	\$ 10,578,163	97.283919%
Watertown Housing Authority	<u>295,333</u>	<u>2.716081%</u>
Total	\$ <u>10,873,496</u>	<u>100.00%</u>

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

\*The fiscal year 2015 actual employer allocations were recognized as revenue in the System's calendar year-end December 31, 2014 financial statements.

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

**SCHEDULE OF PENSION AMOUNTS BY EMPLOYER**

As of and for the year ended December 31, 2014

Entity	12/31/2013 Net Pension Liability	12/31/2014 Net Pension Liability	Deferred Outflows of Resources Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments	Total Deferred Outflows of Resources	Deferred Inflows of Resources Total Deferred Inflows of Resources	Pension Expense Total Employer Pension Expense
Town of Watertown	\$ 48,887,904	\$ 43,371,615	\$ 1,845,908	\$ 1,845,908	\$ -	\$ 5,396,868
Watertown Housing Authority	1,364,907	812,822	34,594	34,594	-	101,142
<b>Total for All Entities</b>	<b>\$ 50,252,811</b>	<b>\$ 44,184,437</b>	<b>\$ 1,880,502</b>	<b>\$ 1,880,502</b>	<b>\$ -</b>	<b>\$ 5,498,010</b>

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

**WATERTOWN, MASSACHUSETTS  
CONTRIBUTORY RETIREMENT SYSTEM**

**Financial Statements**

**For the Year Ended December 31, 2013**

**(With Independent Auditors' Report Thereon)**

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INDEPENDENT AUDITORS' REPORT

To the Retirement System Board  
Town of Watertown, Massachusetts

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

**Report on the Financial Statements**

We have audited the accompanying statement of net position available for benefits of the Watertown Contributory Retirement System (the System), as of and for the year ended December 31, 2013, and the related statement of changes in net position available for benefits for the year then ended. The System is considered to be a component unit of the Town of Watertown's financial statements.

**Management's Responsibility for the Financial Statements**

The Watertown Retirement Board 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.

**Auditor's 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no

such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the statement of net position available for benefits as of December 31, 2013, and the respective changes in net position available for benefits for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

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

*Melanson Heath*

May 19, 2015

## **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, 2013.

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

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

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

The Statement of Changes in Plan Net Position Available for Benefits presents information showing how the System's net position available for benefits changed during the year ended December 31, 2013. It reflects contributions by members and participating employers along with deductions for retirement benefits, refunds and transfers, and administrative expenses. Investment income during the period is also presented showing income from investing.

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

The Required Supplemental Information includes this management's discussion and analysis and schedules of funding progress and employers' contributions.

### **B. FINANCIAL HIGHLIGHTS**

- The System's total net position available for benefits was \$123,673,685 at December 31, 2013.
- The System's net position increased by \$18,476,287 which is primarily due to the increase in the fair market value of the investments.
- Employer and employee contributions to the plan were \$14,182,712 which represents a \$1,093,781 increase over the preceding year. The employer share of contributions represents 76% of the total contributions.
- Benefits paid to plan participants were \$11,439,758. At December 31, 2013, there were 401 retirees and beneficiaries in receipt of pension benefits.
- The System's funded ratio as of the January 1, 2013 actuarial report was 63.3%.

### C. FINANCIAL STATEMENT ANALYSIS

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

#### NET POSITION

	<u>2013</u>	<u>2012</u>
Current and other assets	\$ <u>123,727</u>	\$ <u>105,217</u>
Total assets	123,727	105,217
Other liabilities	<u>53</u>	<u>20</u>
Total liabilities	53	20
Net assets:		
Available for benefits	<u>123,674</u>	<u>105,197</u>
Total net position	\$ <u><u>123,674</u></u>	\$ <u><u>105,197</u></u>

#### CHANGES IN NET POSITION

	<u>2013</u>	<u>2012</u>
Revenues:		
Contributions	\$ 14,183	\$ 13,089
Investment income gain	<u>16,599</u>	<u>11,417</u>
Total revenues	30,782	24,506
Expenses:		
Benefits	11,440	11,224
Refunds	76	110
Transfers	445	82
Administrative	<u>344</u>	<u>327</u>
Total expenses	<u>12,305</u>	<u>11,743</u>
Change in net position	18,477	12,763
Net position - beginning of year	<u>105,197</u>	<u>92,434</u>
Net position - end of year	\$ <u><u>123,674</u></u>	\$ <u><u>105,197</u></u>

The System's total assets as of December 31, 2013 were \$123,727,215 and comprised mostly cash and investments. Total assets increased by \$18,510,452 or 18% from the prior year primarily due to investment performance. Total liabilities as of December 31, 2013 were \$53,530 and comprised mostly accrued payroll.

The System was 63.3% funded based on its actuarial valuation of January 1, 2013 with 9 years remaining in its amortization period.

The amount needed to finance benefits is accumulated through the collection of employer's and employees' contributions, reimbursements from the Common-

wealth of Massachusetts for pre-1998 COLA and through earnings on investments. Contributions and net investment gain for calendar year 2013 resulted in a net gain of \$30,781,150. Employer's contributions increased by \$1,287,598. The System had net investment gain of \$16,598,438 versus a gain of \$11,417,358 in 2012.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds of contributions, and the costs of administering the System. Total deductions for 2013 were \$12,304,863, which represents an increase of 4.8% over deductions of \$11,742,697 in 2012. The payment of pension benefits increased by \$215,742 or 1.9% over the previous year. The increase in these expenses resulted primarily from the annual COLA increases received by retirees and their beneficiaries.

#### **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  
Town Hall  
149 Main Street  
Watertown, Massachusetts 02472

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

Statement of Net Position Available for Benefits

December 31, 2013

ASSETS

Cash and short-term investments	\$ 1,420,448
Investments	121,971,147
Accounts receivable	<u>335,620</u>
Total Assets	<u>\$ 123,727,215</u>

LIABILITIES AND NET POSITION

Other liabilities	\$ <u>53,530</u>
Total Liabilities	53,530
Total net position available for benefits	<u>123,673,685</u>
Total Liabilities and Net Position	<u>\$ 123,727,215</u>

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

WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

Statement of Changes in Net Position Available for Benefits

For the Year Ended December 31, 2013

Additions:	
Contributions:	
Employers	\$ 10,873,496
Plan members	2,770,416
Other systems and Commonwealth of Massachusetts	516,029
Other	<u>22,771</u>
Total contributions	14,182,712
Investment income:	
Appreciation in fair value of investments	17,399,557
Less: management fees	<u>(801,119)</u>
Net investment income	<u>16,598,438</u>
Total additions	30,781,150
Deductions:	
Benefit payments to plan members and beneficiaries	11,439,758
Refunds to plan members	76,144
Transfers to other systems	445,304
Administrative expenses	<u>343,657</u>
Total deductions	<u>12,304,863</u>
Net increase	18,476,287
Net position available for benefits	
Beginning of year	<u>105,197,398</u>
End of year	<u>\$ 123,673,685</u>

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

## WATERTOWN CONTRIBUTORY RETIREMENT SYSTEM

### Notes to Financial Statements

#### 1. Description of Plan

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

Membership of each plan consisted of the following at December 31, 2013:

Retirees and beneficiaries receiving benefits	401
Terminated plan members entitled to but not yet receiving benefits	121
Active plan members	<u>518</u>
Total	<u>1,040</u>
Number of participating employers	2

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 after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

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

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

The Town's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions:

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2001	\$ 4,244,346	100%
2002	\$ 4,586,000	100%
2003	\$ 5,296,038	100%
2004	\$ 5,422,000	100%
2005	\$ 5,551,000	100%
2006	\$ 6,602,724	100%
2007	\$ 6,770,135	100%
2008	\$ 7,276,020	100%
2009	\$ 7,422,874	100%
2010	\$ 7,682,371	100%
2011	\$ 8,608,733	100%
2012	\$ 8,965,000	100%
2013	\$ 9,335,898	100%
2014	\$ 10,277,718	100%

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. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. For an employee to be eligible for service retirement (also referred to as superannuation), one of the following conditions must be met: (1) completion of 20 years of service, (2) for an employee hired prior to January 1, 1978, attainment of age 55 as an active member, (3) for an employee hired on or after January 1, 1978, attainment of age 55 as an active member and completion of 10 years of service, or (4) for a Group 1 employee hired on or after April 2, 2012, attainment of age 60 and completion of 10 years of service. 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.

Employees who resign from service are entitled to request a refund of their accumulated total deductions. Members are eligible for refund under the following conditions: (1) The member is leaving service and does not intend to take a position in the service of the Commonwealth of any political subdivision thereof subject to the provisions of G.L. c.32 SS 1-28 and does not intend to seek to be restored to the position from which he/she was terminated; (2) The member is leaving service as above and is otherwise entitled to receive a retirement allowance but the normal yearly amount of the allowance would be

less than \$360, the member MUST receive a refund; (3) If a member is employed by two or more governmental units and enrolled in the retirement systems pertaining to each governmental unit, upon ending service in one unit, the member is entitled to a refund of the accumulated total deductions from the system in which service has ended provided that the member has contributed a lesser amount to the Annuity Savings Fund of the system in which service has ended.

Members who entered into service on or after January 1, 1984 are subject to the following limitations with respect to the refund of interest credited to their annuity accounts: (1) If the member has less than 120 months (10 years) of creditable service and has voluntarily withdrawn from service, the member will receive 3% interest on accumulated total deductions; (2) If the member has more than 120 months (10 years) of creditable service and has voluntarily withdrawn from service, the member will receive 100% interest of the regular interest on accumulated total deductions; (3) If the member was involuntarily terminated from service, the member will receive 100% of the regular interest on accumulated total deductions, regardless of his or her amount of creditable service. No interest shall be included in the accumulated total deductions paid to the member for any period after the expiration of two years from the end of the month preceding the date of his or her termination of service.

## **2. Summary of Significant Accounting Policies**

The accounting policies of the Watertown Contributory Retirement System (the System) as reflected in the accompanying financial statements for the year ended December 31, 2013 conform to generally accepted accounting principles for public employee retirement systems (PERS). The more significant accounting policies of the System are summarized below:

### Basis of Accounting

The System follows accounting policies mandated by the Commonwealth of Massachusetts. The accounting records are maintained on the accrual basis of accounting. Contributions from the Town's employees are recognized as revenue in the period in which employees provide services to the Town. Investment income is recognized as earned by the pension plan. The net appreciation (depreciation) in the fair value of investments held by the pension plan is recorded as an increase (decrease) to investment income based on the valuation of investments as of the date of the balance sheet.

### Method Used to Value Investments

Investments are reported at fair value in accordance with PERAC requirements.

### Funded Status and Funding Progress

The information presented below is from the Watertown Contributory Retirement System's most recent valuation.

#### Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/13	\$ 104,733	\$ 165,338	\$ 60,605	63.3%	\$ 27,274	222.2%
01/01/12	\$ 101,677	\$ 172,290	\$ 70,613	59.0%	\$ 25,819	273.5%
01/01/11	\$ 100,744	\$ 159,248	\$ 58,505	63.3%	\$ 25,004	234.0%
01/01/10	\$ 89,433	\$ 155,963	\$ 66,530	57.3%	\$ 25,403	261.9%
01/01/09	\$ 78,515	\$ 144,634	\$ 66,119	54.3%	\$ 25,267	261.7%
01/01/08	\$ 97,038	\$ 140,549	\$ 43,511	69.0%	\$ 24,655	176.5%

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

#### Actuarial Methods and Assumptions

The annual required contribution of the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$60.6 million was calculated. The actuarial assumptions included (a) 8.0% investment rate of return and (b) a projected salary increase of 3.5% per year. Liabilities for the cost of living increases have been assumed at an annual increase of 3% on the first \$12,000 of benefits payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.00%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of December 31, 2013, the unfunded actuarially accrued liability is being amortized over ten years using an open group method.

### **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, 2013, \$1,090,130 of the System's bank balance of \$1,595,676 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the System's name.

#### 4. Investments

##### A. Credit Risk

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

Presented below is the actual rating as of year end for each investment type (in thousands).

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>
Corporate equities	\$ 12,392	\$ 12,392
Pooled domestic equities	21,566	21,566
Pooled international equities	20,492	20,492
Pooled global equity funds	20,186	20,186
Pooled domestic fixed income	21,394	21,394
Pooled global fixed income	2,964	2,964
Pooled alternative	3,700	3,700
Pooled real estate	9,436	9,436
PRIT* Absolute	9,841	9,841
Total investments	\$ <u>121,971</u>	\$ <u>121,971</u>

*\*Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust 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.*

##### B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a govern-

ment will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The System does not have policies for custodial credit risk.

All of the System's investments are exposed to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by the System's brokerage firm, which is also the Counterparty to the securities. The System manages this risk with investing in PRIT, having Securities Investor Protection Corporation (SIPC), excess SIPC coverage and because the assets are held in separately identifiable trust accounts.

**C. Concentration of Credit Risk**

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

The System does not have an investment in one issuer greater than 5% of total investments.

**D. Interest Rate Risk**

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

**E. Foreign Currency Risk**

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

**5. Accounts Receivable**

This balance represents the Watertown Housing Authority pension appropriation, open trades, and member payroll deductions not received until after December 31, 2013.

**6. Other Liabilities**

This balance represents accrued payroll, as well as, administrative and legal expenses paid by the System after December 31, 2013.

7. **Implementation of New GASB Standards**

The GASB has issued Statement 67 *Financial Reporting for Pension Plans*, which is required to be implemented in year 2015. Management's current assessment is that this pronouncement will have a significant impact on the System's basic financial statements, requiring significant new disclosures and supplementary information.

**TOWN OF WATERTOWN, MASSACHUSETTS  
SCHEDULE OF FUNDING PROGRESS  
REQUIRED SUPPLEMENTARY INFORMATION**

**December 31, 2013**

**(Unaudited)**

**(Amounts Expressed in thousands)**

**Employees' Retirement System**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
01/01/13	\$ 104,733	\$ 165,338	\$ 60,605	63.3%	\$ 27,274	222.2%
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01/01/09	\$ 78,515	\$ 144,634	\$ 66,119	54.3%	\$ 25,267	261.7%
01/01/08	\$ 97,038	\$ 140,549	\$ 43,511	69.0%	\$ 24,655	176.5%
01/01/07	\$ 89,579	\$ 132,670	\$ 43,091	67.5%	\$ 23,088	186.6%
01/01/06	\$ 77,395	\$ 130,485	\$ 53,090	59.3%	\$ 22,327	237.8%
01/01/04	\$ 72,564	\$ 120,700	\$ 48,136	60.1%	\$ 21,674	222.1%
01/01/02	\$ 70,633	\$ 111,494	\$ 40,861	63.4%	\$ 19,735	207.0%
01/01/01	\$ 66,804	\$ 100,876	\$ 34,072	66.2%	\$ 19,379	175.8%
01/01/00	\$ 67,486	\$ 93,901	\$ 26,415	71.9%	\$ 18,232	144.9%

See Independent Auditors' Report.







**COMMONWEALTH OF MASSACHUSETTS**

**Public Employee Retirement Administration Commission**

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