

WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM

**INDEPENDENT AUDITORS' REPORT ON
PENSION PLAN SCHEDULES**

FOR THE YEAR ENDED DECEMBER 31, 2014

WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM

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Independent Auditors' Report

To the Honorable Retirement Board
Winchester Contributory Retirement System

Report on Schedules

We have audited the accompanying schedule of employer allocations of the Winchester Contributory Retirement System as of and for the year ended December 31, 2014, and the related notes. We have also audited the total for all entities of the rows titled ending net pension liability, total deferred outflows of resources, total deferred inflows of resources, and pension expense as of and for the year ended December 31, 2014 and the beginning net pension liability, as of and for the year ended December 31, 2013 (specified row totals) included in the accompanying schedule of pension amounts by employer of the Winchester Contributory Retirement System, and the related notes.

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.

Auditor's Responsibility

Our responsibility is to express opinions on the schedule of employer allocations and the specified row 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 row 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 row 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 row 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 row 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 row 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 ending net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the participating employers of the Winchester Contributory Retirement System as of and for the year ended December 31, 2014, and the beginning net pension liability for the participating employers of the Winchester Contributory Retirement System as of and for the year ended December 31, 2013, 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 Winchester Contributory Retirement System management, the Retirement Board, the participating employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.



CliftonLarsonAllen LLP

Boston, Massachusetts
February 1, 2016

**WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM
 SCHEDULE OF EMPLOYER ALLOCATIONS
 FOR THE YEAR ENDED DECEMBER 31, 2014**

Employer	Actuarially Determined Employer Contributions	Employer Allocation Percentage
Town of Winchester	\$ 3,889,699	99.14%
Winchester Housing Authority	33,742	0.86%
Totals	\$ 3,923,441	100.00%

**WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF PENSION AMOUNTS BY EMPLOYER
FOR THE YEAR ENDED DECEMBER 31, 2014**

	Town of Winchester	Winchester Housing Authority	Totals
<u>Net Pension Liability</u>			
Beginning Net Pension Liability	\$ 20,713,515	179,681	20,893,196
Ending Net Pension Liability	\$ 19,335,901	167,731	19,503,632
<u>Deferred Outflows of Resources</u>			
Net Difference Between Expected and Actual Experience	\$ -	-	-
Assumption Changes	\$ -	-	-
Net Difference Between Projected and Actual Investment Earnings	\$ -	-	-
Change in Allocated Proportion	\$ -	-	-
Total Deferred Outflows of Resources	\$ -	-	-
<u>Deferred Inflows of Resources</u>			
Net Difference Between Expected and Actual Experience	\$ -	-	-
Assumption Changes	\$ -	-	-
Net Difference Between Projected and Actual Investment Earnings	\$ 175,478	1,522	177,000
Change in Allocated Proportion	\$ -	-	-
Total Deferred Inflows of Resources	\$ 175,478	1,522	177,000
Pension Expense	\$ 2,611,348	22,652	2,634,000

**WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM
NOTES TO SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2014**

NOTE 1 – DESCRIPTION OF THE ENTITY

The Winchester Contributory Retirement System (System) was established to provide retirement benefits to eligible employees of its member employers. The System is governed by a five-member board comprised of the Town Comptroller (ex-officio), two members elected by the System's participants, a fourth member appointed by the Board of Selectmen and a fifth member appointed by the Retirement Board's members.

Plan Description

The System is a cost-sharing multiple-employer public employee retirement system established under Massachusetts General Laws (MGL), Chapter 32, and is regulated by the Massachusetts Public Employee Retirement Administration Commission (PERAC). The System is a defined benefit pension plan that covers eligible employees of its member employers.

Benefits

The System provides retirement, disability and death benefits to plan members and beneficiaries, pursuant to Massachusetts General Law Chapter 32, up to a maximum of 80% of the average of a member's three or five highest consecutive years' regular compensation. In addition to regular compensation, benefits are based upon a member's age, length of creditable service and group classification. Members become vested after ten years of creditable service. A normal retirement allowance may be received after the completion of 20 years of service or upon reaching age 55 or 60, with 10 years of service. Normal retirement for most employees occurs at age 65 or 67, except for certain hazardous duty and public safety employees who attain normal retirement at age 55 or 57.

Contributions

Chapter 32 of MGL governs the contributions of plan members and the Town. Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on annual covered payroll.

For the year ended December 31, 2014, active member contributions totaled \$1,822,431 and employer contributions totaled \$3,906,569. Contributions to the System from the Town were \$3,889,699 for the year ended December 31, 2014.

NOTE 2 – BASIS OF PRESENTATION

The schedule of employer allocations and schedule of pension amounts by employer (Schedules) are presented on the accrual basis of accounting in accordance with accounting principles generally accepted in the U.S. The Schedules present amounts that are elements of the System's financial statements or its participating employers. Accordingly, they do not purport to be a complete presentation of the System's financial statements.

The preparation of the Schedules requires management to make estimates and assumptions related to the reported amounts. Actual results could vary from the estimates used.

**WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM
NOTES TO SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2014**

NOTE 3 – ACTUARIAL ASSUMPTIONS AND METHODS

The total pension liability in the January 1, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was rolled forward to December 31, 2014:

Actuarial cost method:	Entry age normal
Amortization method:	Increasing payments 2.5% per year
Remaining amortization period:	16 years
Asset valuation method:	Market value
Investment rate of return:	7.75%, net of pension plan investment expense, including inflation
Inflation rate:	Not explicitly assumed
Salary increases:	4.25% per year for Group 1 and 4.75% per year for Group 4
Cost of living adjustment:	3.0% on the first \$12,000 in benefits
Mortality rates:	Pre-Retirement - RP-2000 Employee Mortality Table projected 20 years with Scale AA Healthy Retiree - RP-2000 Healthy Annuitant Mortality Table projected 15 years with Scale AA (gender distinct) Disabled Retiree - RP-2000 Healthy Annuitant Mortality Table projected 15 years with Scale AA (gender distinct), set forward 2 years

NOTE 4 – NET PENSION LIABILITY

The components of the net pension liability of the System at December 31, 2014, were as follows:

Total pension liability.....	\$ 123,198,000
Plan fiduciary net position.....	<u>(103,694,368)</u>
Net pension liability.....	<u>\$ 19,503,632</u>
Plan fiduciary net position as a percentage of the total pension liability.....	84.17%

The total pension liability is calculated by the System’s actuary and plan fiduciary net position is reported in the Town of Winchester, Massachusetts’ (Town) financial statements. The net pension liability is disclosed in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 67 in the Town’s notes to financial statements and required supplementary information.

**WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM
NOTES TO SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2014**

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Long-Term Expected Rate of Return

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Target Allocation Range</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income.....	35%	+/- 20%	5.30%
Domestic Equities.....	35%	+/- 10%	8.30%
International Equities.....	20%	+/- 10%	9.00%
Real Estate.....	5%	+/- 5%	6.00%
Alternatives.....	5%	+/- 5%	6.00%

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the System calculated using the discount rate of 7.75%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
System's net pension liability....\$	33,071,000	\$ 19,503,632	\$ 7,796,000

**WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM
NOTES TO SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2014**

NOTE 5 – DEFERRED INFLOWS OF RESOURCES

The recognition period for amortizing the deferred inflows of resources is set forth by Governmental Accounting Standards Board Statement No. 68, paragraph 71. Depending on the type of deferral, the amortization periods are defined as either a fixed 5 year period or the Average Expected Remaining Service Life (AERSL) of all plan members, measured at the beginning of the measurement period.

At December 31, 2014, deferred inflows of resources represent the net difference between projected and actual investment earnings in the amount of \$177,000. The amortization period for this deferral is a fixed 5 year period. The following schedule reflects the amortization of the net balance of remaining deferred inflows of resources at December 31, 2014.

Year Ended June 30:	Amount
2016.....	\$ 44,250
2017.....	44,250
2018.....	44,250
2019.....	44,250

NOTE 6 – EMPLOYER ALLOCATIONS

Employers' proportionate shares of the pension amounts by employer (including the beginning net pension liability) were calculated on the basis of actuarially determined employer contributions for the year ended December 31, 2014. The difference in proportion on the basis of actuarially determined employer contributions for the year ended December 31, 2013 and the year ended December 31, 2014 is immaterial and therefore is not reported.

Although GASB Statement No. 68 encourages the use of the employer's projected long-term contribution effort to the System, allocating on the basis of current actuarially determined employer contributions is considered acceptable.

The following is a reconciliation of employer contributions from the schedule of employer allocations to the System's financial statements for the year ended December 31, 2014:

	Amount
Employer contributions reported in the Statement of Changes in Fiduciary Net Position.....	\$ 3,906,569
Add: Other.....	16,872
Total employer contributions reported in the Schedule of Employer Allocations.....	\$ 3,923,441

**WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM
NOTES TO SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2014**

NOTE 7 – ADDITIONAL FINANCIAL AND ACTUARIAL INFORMATION

Information contained in these Notes to Schedules was extracted from the audited financial statements of the Town. Additional financial information supporting the preparation of the Schedules (including the unmodified audit opinion on the financial statements) is located in the audited financial statements of the Town. The Town's financial statements are available on request to the Town Comptroller, 71 Mount Vernon Street, Winchester, Massachusetts 01890.