

WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM

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

FOR THE YEAR ENDED DECEMBER 31, 2021



CPAs | CONSULTANTS | WEALTH ADVISORS

[CLAconnect.com](https://www.CLAconnect.com)

WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM

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

FOR THE YEAR ENDED DECEMBER 31, 2021

TABLE OF CONTENTS

	Page
Independent Auditors' Report	1
Schedule of Employer Allocations	4
Schedule of Pension Amounts by Employer	5
Notes to Schedules	6



INDEPENDENT AUDITORS' REPORT

Honorable Retirement Board
Winchester Contributory Retirement System

Report on the Audit of the Schedules

Opinions

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

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and ending net pension asset, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for the System as of and for the year ended December 31, 2021, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Schedules

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

Auditors' Responsibilities for the Audit of the Schedules

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the schedule of employer allocations and the specified totals included in the schedule of pension amounts by employer, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the schedule of employer allocations and the specified totals included in the schedule of pension amounts by employer.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the schedule of employer allocations and the specified totals included in the schedule of pension amounts by employer.

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

Other Matter

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the Town of Winchester, Massachusetts (the Town) as of and for the year ended June 30, 2022, and our report thereon dated December 16, 2022 expressed an unmodified opinion on those financial statements. The Winchester Contributory Retirement System is reported as a pension trust fund in the financial statements of the Town.

Honorable Retirement Board
Winchester Contributory Retirement System

Restriction on Use

Our report is intended solely for the information and use of 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

CliftonLarsonAllen LLP

Boston, Massachusetts
December 16, 2022

**WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM
 SCHEDULE OF EMPLOYER ALLOCATIONS
 FOR THE YEAR ENDED DECEMBER 31, 2021**

Employer	Actuarially Determined Employer Contributions	Employer Allocation Percentage
Town of Winchester	\$ 5,828,164	99.08%
Winchester Housing Authority	54,117	0.92%
Totals	\$ 5,882,281	100.00%

**WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM
SCHEDULE OF PENSION AMOUNTS BY EMPLOYER
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>Town of Winchester</u>	<u>Winchester Housing Authority</u>	<u>Totals</u>
<u>Net Pension Liability (Asset)</u>			
Beginning Net Pension Liability (Asset)	\$ 15,372,872	\$ 163,128	\$ 15,536,000
Ending Net Pension Liability (Asset)	(6,685,918)	(62,082)	(6,748,000)
<u>Deferred Outflows of Resources</u>			
Assumption Changes	<u>\$ 143,666</u>	<u>\$ 1,334</u>	<u>\$ 145,000</u>
<u>Deferred Inflows of Resources</u>			
Difference Between Expected and Actual Experience	\$ 285,350	\$ 2,650	\$ 288,000
Net Difference Between Projected and Actual Investment Earnings	<u>20,574,953</u>	<u>191,047</u>	<u>20,766,000</u>
Total Deferred Inflows of Resources	<u>\$ 20,860,303</u>	<u>\$ 193,697</u>	<u>\$ 21,054,000</u>
Pension Expense	<u>\$ (3,752,160)</u>	<u>\$ (34,840)</u>	<u>\$ (3,787,000)</u>

**WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM
NOTES TO SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2021**

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 Select Board 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 9% of annual covered compensation. Members hired on or after January 1, 1979 will contribute an additional 2% of regular compensation in excess of \$30,000. 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, 2021, active member contributions totaled \$2,459,680 and employer contributions totaled \$5,882,281.

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, 2021**

NOTE 3 – ACTUARIAL ASSUMPTIONS AND METHODS

The total pension liability in the January 1, 2021 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was rolled forward to December 31, 2021:

Actuarial cost method:	Entry age normal
Amortization method:	Increasing payments 7.70% per year
Remaining amortization period:	7 years
Asset valuation method:	Market value
Investment rate of return:	7.0%, net of pension plan investment expense, including inflation
Inflation rate:	2.50%
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 \$14,000 in benefits
Mortality rates:	Pre-Retirement-RP-2014 Blue Collar Employees Table projected generationally with Scale MP-2018 (gender distinct)
	Healthy Retiree-RP-2014 Blue Collar Healthy Annuitant Table projected generationally with Scale MP-2018 (gender distinct)
	Disabled Retiree - RP-2014 Blue Collar Healthy Annuitant Table set forward one year projected generationally with Scale MP-2018 (gender distinct)

NOTE 4 – NET PENSION LIABILITY

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

Total pension liability.....	\$ 170,149,340
Plan fiduciary net position.....	<u>(176,897,340)</u>
Net pension asset.....	<u><u>\$ (6,748,000)</u></u>
Plan fiduciary net position as a percentage of the total pension liability.....	103.97%

**WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM
NOTES TO SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2021**

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.

Discount Rate

The discount rate used to measure the total pension liability was 7.0%. 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>Long-Term Expected Real Rate of Return</u>
Global Equity.....	38.00%	4.22%
Fixed Income.....	23.00%	0.70%
Private Equity.....	15.00%	7.70%
Real Estate.....	10.00%	3.60%
Timber/Natural Resources.....	4.00%	4.20%
Portfolio Completion Strategies.....	10.00%	3.00%
Total.....	<u>100.00%</u>	

**WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM
NOTES TO SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2021**

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 7.0%, 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 (6.0%) or 1-percentage-point higher (8.0%) than the current rate:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
System's net pension liability (asset).....	\$ 12,540,000	\$ (6,748,000)	\$ (23,100,000)

NOTE 5 – DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

The recognition period for amortizing the deferred outflows and 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, 2021, the System reported deferred outflows of resources related to pensions of \$145,000 and deferred inflows of resources related to pensions of \$21,054,000

The net amount reported as deferred outflows/inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:	Amount
2023.....	\$ (4,778,000)
2024.....	(7,242,000)
2025.....	(5,108,000)
2026.....	(3,781,000)
Total	\$ (20,909,000)

**WINCHESTER CONTRIBUTORY RETIREMENT SYSTEM
NOTES TO SCHEDULES
FOR THE YEAR ENDED DECEMBER 31, 2021**

NOTE 6 – EMPLOYER ALLOCATIONS

Employers' proportionate shares of the pension amounts by employer were calculated on the basis of actuarially determined employer contributions for the year ended December 31, 2021. The change in proportion on the basis of actuarially determined employer contributions for the year ended December 31, 2020 and the year ended December 31, 2021 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.

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.