

**ROSELLI, CLARK & ASSOCIATES**  
Certified Public Accountants

**FALMOUTH CONTRIBUTORY  
RETIREMENT SYSTEM**  
(a Component Unit of the  
Town of Falmouth, Massachusetts)

Basic Financial Statements and  
Supplementary Information

Year Ended December 31, 2020



**FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM  
(A Component Unit of the Town of Falmouth, Massachusetts)**

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DECEMBER 31, 2020**

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## **INDEPENDENT AUDITORS' REPORT**

To the Falmouth Retirement Board  
Falmouth Contributory Retirement System  
Falmouth, Massachusetts

We have audited the accompanying financial statements of the Falmouth Contributory Retirement System (the "System"), a component unit of the Town of Falmouth, Massachusetts, as of and for the year ended December 31, 2020, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. 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 auditors consider 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.

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the System as of December 31, 2020, and the respective changes in financial 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 listed under the required supplementary information section listed in the 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 sufficient evidence to express an opinion or provide any assurance.



Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
May 20, 2021

## MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Falmouth Contributory Retirement System's (the "System") financial performance provides an overview of the System's financial activities for the calendar year ended December 31, 2020. You should read it in conjunction with the basic financial statements, footnotes and required supplementary information that follows this discussion.

### Financial Highlights

The System's funding objective is to meet long-term benefit obligations through contributions and investment income. The System's actuary estimates that the System is approximately 73% funded at December 31, 2020.

The System's fiduciary net position increased nearly \$14.4 million in 2020 to approximately \$171.0 million. Current year additions of nearly \$28.2 million exceeded deductions of approximately \$13.8 million. The current year increase in fiduciary net position was approximately \$8.6 million lower than the prior year. The System's investment performance for 2020, net of investment management fees, was nearly 9.7% versus 17.5% in 2019. The 2020 net investment return for the System exceeded its long-term expected discount rate, which is currently 7.25%.

### Overview of the Financial Statements

The basic financial statements are comprised of the Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, Notes to Financial Statements and Required Supplementary Information. The basic financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP; specifically, GASB Statement No. 67, *Financial Reporting for Pension Plans*.

The Statement of Fiduciary Net Position reports the System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position restricted for pensions. This statement reflects the System's investments at fair value, as well as cash, receivables and other assets and liabilities. Over time, the increase or decrease in fiduciary net position serves as a useful indicator of the System's financial health and condition.

The Statement of Changes in Fiduciary Net Position reports additions to and deductions from the System during the year. This statement reflects contributions by members and participating employers along with deductions for retirement benefits, refunds, withdrawals and administrative expenses. Investment income, including realized and unrealized gains/losses, during the year is also presented.

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

This report also includes Required Supplementary Information following the Notes to the Financial Statements that consist of the schedules of changes in net pension liability and related ratios, investment returns and contributions and the notes to the schedule of contributions.

## Financial Analysis

The condensed comparative Statements of Net Position for the two most recent years are as follows:

	December 31,		Dollar	Percent
	2020	2019	Change	Change
Assets:				
Cash and cash equivalents	\$ 3,300,451	\$ 1,503,604	\$ 1,796,847	119.5%
Investments	167,775,420	155,194,687	12,580,733	8.1%
Receivables and other assets	7,037	1,661	5,376	323.7%
Total Assets	<u>171,082,908</u>	<u>156,699,952</u>	<u>14,382,956</u>	9.2%
Liabilities	<u>43,011</u>	<u>40,721</u>	<u>2,290</u>	5.6%
Fiduciary Net Position	<u>\$ 171,039,897</u>	<u>\$ 156,659,231</u>	<u>\$ 14,380,666</u>	9.2%

Total assets at December 31, 2020 approximated \$171.1 million and principally consisted of investments recorded at fair value. Total asset increased by approximately \$14.4 million in 2020, which was due primarily to a positive investment portfolio performance of nearly 9.7%. Receivables and liabilities are not material to the System at either December 31, 2020 or 2019.

The condensed comparative Statements of Changes in Fiduciary Net Position for the two most recent years are as follows:

	Year Ended December 31,		Dollar	Percent
	2020	2019	Change	Change
Additions:				
Contributions	\$ 13,089,576	\$ 12,905,888	\$ 183,688	1.4%
Investment income, net	<u>15,093,563</u>	<u>23,305,416</u>	<u>(8,211,853)</u>	-35.2%
Total Additions	<u>28,183,139</u>	<u>36,211,304</u>	<u>(8,028,165)</u>	-22.2%
Deductions:				
Benefits and refunds to Plan members	13,467,698	12,868,328	599,370	4.7%
Administrative and other expenses	<u>334,775</u>	<u>340,946</u>	<u>(6,171)</u>	-1.8%
Total Deductions	<u>13,802,473</u>	<u>13,209,274</u>	<u>593,199</u>	4.5%
Change in Fiduciary Net Position	<u>\$ 14,380,666</u>	<u>\$ 23,002,030</u>	<u>\$ (8,621,364)</u>	-37.5%

Fiduciary net position increased nearly \$14.4 million in 2020, primarily as a result of net investment earnings of approximately \$15.1 million for the year.

Contributions to the System's Fiduciary Net Position primarily include employer and employee contributions in addition to transfers from other retirement systems. Contributions for 2020 totaled nearly \$13.1 million versus \$12.9 million in 2019.

Employer contributions represent the largest source of System contributions. In 2020, employer contributions totaled approximately \$9.2 million, or 70%, of total contributions. Employer contributions are actuarially determined. Employee contributions totaled approximately \$3.3 million in 2020, which was approximately \$134,000, or 4%, greater than the prior year. This increase was due primarily to an increase in the number of active members within the System coupled with the effect of normal pay raises.

Other contributions decreased approximately \$495,000 year-over-year. This decrease was due primarily to an approximate \$439,000 decrease in membership transfers from other Massachusetts public pension systems, which is a function of timing and employment trends/movements.

Investment income is presented net of associated investment management expenses. In 2020, the System reported nearly \$15.1 million in net investment income versus \$23.3 million in 2019. The System's money-weighted rates of return for 2020 and 2019 were approximately 9.7% and 17.5%, respectively.

Deductions to the System's Fiduciary Net Position primarily include pension benefits to members and beneficiaries, refunds to inactive members, transfers and reimbursements to other Massachusetts public retirement systems and administrative expenses. Total deductions in 2020 were approximately \$593,000, or 4%, greater than 2019 total deductions.

Pension benefits to members and beneficiaries represents the largest deduction from Fiduciary Net Position for the System. Pension benefits to members and beneficiaries represented over 92% and 91% of total 2020 and 2019 deductions, respectively. Pension benefits to members and beneficiaries increased approximately \$669,000, or 6%, in 2020. This increase was due to a greater average number of beneficiaries paid year-over-year coupled with the normal annual cost-of-living adjustments paid by the System.

The increase in pension benefits to members and beneficiaries was offset by an approximate \$70,000 decrease in transfers and reimbursements to other Massachusetts public retirement systems, which is a function of timing and employment trends/movements.

Administrative expenses were relatively consistent year-over-year.

### **Overall Financial Position**

The System's positive investment performance in 2020 permitted it to maintain an approximate 73% funded ratio at December 31, 2020. The System's 30-year investment return as published by PERAC significantly exceeds the discount rate used by the System in its actuarial studies. Provided the System continues to garner strong investment performances, it is possible that the System will achieve fully funded status on or before the expected date of December 31, 2033 included in the latest actuarial valuation.

The System maintains a large portion of its investments in pooled funds. Approximately 32% of these funds invest in private equity, hedge funds or real estate. The determination of the value of these investments is very subjective and the ultimate amount of gains and losses in some of these funds will not be determined until the underlying assets (i.e., the real estate or stock in the private companies) are sold. Furthermore, these types of investments are not as liquid as investments in savings accounts, money markets, certificates of deposits, government securities or debt and equity securities in publicly-held U.S. corporations. You should refer to Notes 2 and 4 to these financial statements.

Although the System has been successful in garnering the yields necessary to achieve fully funded status in the required time frame, the System (like so many other institutional investors) has experienced a great deal of volatility in its investments. Management believes that the volatility in the worldwide markets may continue for the foreseeable future, particularly as U.S. and global governments and markets address the COVID-19 pandemic. Accordingly, management intends to actively monitor the System's investment positions to best maximize returns while mitigating risk as best as it can.

### **Contacting the System's Financial Management Personnel**

This discussion and analysis is designed to provide the Falmouth Retirement Board, its membership, taxpayers, investors and creditors with a general overview of the System's financial results and to demonstrate the System's accountability for the funding it receives. If you have any questions about this report or need additional financial information, contact the Falmouth Retirement Board at 80 Davis Straits, Suite 102, Falmouth, MA 02540.



**FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM**  
**(A Component Unit of the Town of Falmouth, Massachusetts)**

**STATEMENT OF FIDUCIARY NET POSITION**  
**DECEMBER 31, 2020**

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Assets:	
Cash and cash equivalents	\$ 3,300,451
Investments:	
Mutual funds	114,324,122
Private equity funds	16,746,660
Real estate funds	14,213,676
PRIT	<u>22,490,962</u>
Total investments	<u>167,775,420</u>
Member contributions receivable	<u>7,037</u>
Total Assets	<u>171,082,908</u>
Liabilities:	
Accounts payable and accrued expenses	<u>43,011</u>
Net Position Restricted for Pensions	<u>\$ 171,039,897</u>

See accompanying notes to basic financial statements.

**FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM**  
**(A Component Unit of the Town of Falmouth, Massachusetts)**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**YEAR ENDED DECEMBER 31, 2020**

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Additions:	
Employer contributions	\$ 9,165,711
Employee contributions	3,308,371
Other contributions	<u>609,814</u>
Total contributions	<u>13,083,896</u>
Investment income:	
Interest and dividends	1,643,459
Net appreciation in fair value of investments	15,450,526
Less investment management fees	<u>(2,000,422)</u>
Total net investment income	<u>15,093,563</u>
Other income	<u>5,680</u>
Total Additions	<u>28,183,139</u>
Deductions:	
Benefits and refunds to Plan members:	
Benefits to retirees and survivors	12,712,687
Member refunds	213,392
Transfers and reimbursements to other systems	541,619
Administrative expenses:	
Operations payroll and related personnel costs	195,770
Other	<u>139,005</u>
Total Deductions	<u>13,802,473</u>
Change in Net Position	14,380,666
Net Position Restricted for Pensions:	
Beginning of the year	<u>156,659,231</u>
End of the year	<u><u>\$ 171,039,897</u></u>

See accompanying notes to basic financial statements.

**FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM  
(A Component Unit of the Town of Falmouth, Massachusetts)**

**NOTES TO THE FINANCIAL STATEMENTS  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020**

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**1. DESCRIPTION OF THE PLAN**

**General** – The Falmouth Contributory Retirement System (the “System”) is a cost-sharing, multiple employer defined benefit pension plan established and administered by the Falmouth Retirement Board under the provisions of Chapter 32 of the Massachusetts General Laws (“MGL”) to provide pension benefits for participants. The System is a component unit of the Town of Falmouth. The Town of Falmouth (the “Town”) and the Falmouth Housing Authority (the “FHA”) contribute to the System.

Employees of the Town (with the exception of teachers and certain administrative personnel employed by the School Department who participate in a separate plan) and the FHA are covered by the System. Participation in the System is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

At December 31, 2020, membership in the System consisted of:

Retirees and beneficiaries currently receiving benefits	426
Active plan members	609
Inactive plan members	<u>180</u>
Total	<u>1,215</u>

**Plan Benefits** – Massachusetts contributory retirement system benefits are uniform from one public pension system to another. For employees with service dates beginning before April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant’s highest consecutive three-year average annual rate of regular compensation. For those employees who began their service on or after April 2, 2012, the System provides for retirement allowance benefits up to a maximum of 80% of a participant’s highest consecutive five-year average annual rate of regular compensation. Benefit payments are based upon a participant’s age, length of creditable service, level of compensation and group classification.

The retirement allowance consists of two parts – an annuity and a pension. Participants’ accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement benefit and the annuity is the pension.

Participants who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees may be entitled to receive interest, which has accrued on those contributions. A vested employee who has not reached their eligible retirement age and elects to leave their accumulated total deductions on deposit may apply for benefits upon reaching their eligible retirement age.

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

**Retirement Requirements** – In order to receive retirement benefits, participants must meet one of the following two categories:

- 1) Normal Retirement – Generally, normal retirement occurs between ages 65 and 67. However, most participants with a hire date before April 2, 2012, may retire after twenty years of creditable service or at any time after attaining age 55. For most participants hired on or after April 2, 2012, they must attain the age of 60 before they can retire. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years of creditable service in order to retire at age 55 or 60, as applicable. Participants become vested after ten years of creditable service. Benefits commencing before age 65 are generally provided at a reduced rate. However, members working in certain occupations may retire with full benefits earlier than age 65.
- 2) Disability Retirements – The System provides for both an ordinary and accidental disability retirement. An ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. An accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of their duty.

The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of creditable service, average compensation and veteran status. In addition, certain provisions are in place relative to death benefits for beneficiaries of employees who die in active service.

**Public Availability of Financial Statements** – The Falmouth Retirement Board issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the Falmouth Retirement Board, 80 Davis Straits, Suite 102, Falmouth, Massachusetts 02540.

## 2. SIGNIFICANT ACCOUNTING POLICIES

**Basis of Accounting** – The financial statements of the System have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America, or GAAP. Employer contributions are recognized when due and the employer is legally required to provide the contributions. Member contributions are recognized in the period in which the contributions are due. Investment income is recognized in the period earned. Benefits and refunds are recognized when due and payable in accordance with the terms of the pension plan.

**Use of Estimates** – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Cash and Cash Equivalents** – Cash and cash equivalents include cash on hand, demand deposits and short-term holdings with original maturities of three months or less from the date of acquisition.

**Investments** – The carrying amounts of the System’s investments approximate their fair value. When actively quoted observable prices are not available, the System generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The System categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- *Level 1* – Inputs are quoted prices in active markets for identical investments at the measurement date.
- *Level 2* – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.
- *Level 3* – Inputs reflect the System’s best estimate of what market participants would use in pricing the investment at the measurement date.

The remaining investments not categorized under the fair value hierarchy are shown at net asset value (“NAV”). These are investments in non-governmental entities for which a readily determinable fair value is not available, such as member units or an ownership interest in partners’ capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

### 3. SYSTEM ADMINISTRATION

The System is administered by a five-person Board consisting of the Town Accountant (or similar position), two members elected by the participants in or retired from the service of the System, one member appointed by the Town’s Board of Selectmen and one member appointed by the other members of the Board.

At December 31, 2020, the Board was comprised as follows:

		<u>Term Expires</u>
Ex-Officio Member:	Ms. Jennifer P. Mullen, Town Finance Director	No Specified Date
Appointed Member:	Mr. Paul J. Slivinski	June 30, 2021
Elected Member:	Mr. Russell R. Ferreira (Chairman)	October 30, 2022
Elected Member:	Mr. Craig B. O’Malley	May 25, 2023
Fifth Member (non-member):	Ms. Ellen K. Philbin	June 30, 2021

The Board is required to meet at least once a month and keep a record of its proceedings. The Board annually submits a financial statement of condition for the System with the Commissioner of the Massachusetts Public Employee Retirement Administration Commission, or PERAC. All retirement allowances are approved by the Board. Expenses incurred by the System must be approved by at least two members of the Board.

#### 4. DEPOSITS AND INVESTMENTS

MGL and PERAC regulations require the System to invest funds only in preapproved investment instruments, which include, but are not necessarily limited to, bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, certain corporate bonds and equities and investment pools.

***Custodial Credit Risk: Deposits*** – Deposits are subject to the risk of bank failure. The System may be unable to recover the full amount of its deposits in any one bank institution in the event of a bank failure. The System’s policy for custodial credit risk of deposits is to rely on Federal Deposit Insurance Corporation insurance coverage for the first \$250,000 of deposits held at each financial institution. All of the System’s bank deposits were fully insured at December 31, 2020.

***Investment Policy*** – The investment of the System’s funds is the responsibility of the Board. The Board manages its investments using an investment policy, which was updated in September 2019. The investment objective is to fully fund the System by generating sufficient long-term, inflation-adjusted capital appreciation while providing sufficient liquidity to meet short-term withdrawal requirements. The Board seeks to generate long-term investment performance that meets or exceeds actuarially-targeted rates of return (currently at 7.25%). Furthermore, the Board establishes investment benchmarks by asset class to compare its actual performance against.

The System’s investment policy requires diversification within its investment portfolio. The System’s portfolio target weights and the long-term expected rates of return for each of these asset classes were as follows:

<u>Asset Class</u>	<u>Target Policy Range</u>	<u>Long-Term Expected Rate of Return</u>
Domestic equity	33.0% to 43.0%	7.6% to 10.1%
International equity	10.0% to 20.0%	7.6%
Fixed income	14.5% to 24.5%	2.6% to 8.7%
Real Estate/ Real Assets	7.5% to 12.5%	7.5%
Private equity	5.0% to 10.0%	13.1%
Hedge funds	7.5% to 12.5%	7.3%
Cash	0.0% to 3.0%	nil

***Custodial Credit Risk: Investments*** – Custodial credit risk for investments is the risk that in the event of a failure of the counterparty the System will not be able to recover the value of its investments or collateral securities that are in the possession of the outside party. The System’s policy for custodial credit risk of investments intends that all investments are either insured and/or registered in the name of the System. At December 31, 2020, the System was not exposed to custodial credit risk on its investments.

***Foreign Currency Risk: Investments*** – Foreign currency risk is the risk that fluctuations in exchange rates will adversely affect the fair value of an investment or deposit. The System did not directly hold any investments denominated in foreign currency at December 31, 2020.

**Fair Value Measurements: Investments** – The following table presents the System’s investments carried at fair value on a recurring basis at December 31, 2020:

<u>Investments by Fair Value Level</u>	December 31, 2020	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Mutual funds:				
Domestic fixed income mutual funds	\$ 29,289,383	\$ 29,289,383	\$ -	\$ -
Domestic equity mutual funds	74,174,157	74,174,157	-	-
International equity mutual funds	<u>10,860,582</u>	<u>10,860,582</u>	-	-
Total investments by fair value level	<u>114,324,122</u>	<u>\$ 114,324,122</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at NAV:				
Private equity funds	16,746,660			
Real estate funds	14,213,676			
PRIT funds	<u>22,490,962</u>			
Total investments measured at the NAV	<u>53,451,298</u>			
Total investments measured at fair value	<u>\$ 167,775,420</u>			
Investments Measured at NAV		Unfunded		
<u>By Asset Class</u>	<u>Fair Value</u>	<u>Commitments</u>		
Private equity funds	\$ 16,746,660	\$ 1,380,165		
Real estate funds	14,213,676	2,620,000		
PRIT funds	<u>22,490,962</u>	<u>4,966,423</u>		
	<u>\$ 53,451,298</u>	<u>\$ 8,966,588</u>		

Investments measured at NAV include comingled/pooled funds in private equity or venture funds, real estate and investments in the State Treasurer investment pool, or PRIT.

Private equity and real estate holdings generally include investments in which the System is a general partner in a private equity, venture capital fund or similar investment vehicle. The value of these investments are recorded at values determined in good faith by the general partners of the private equity and venture capital firms after consideration of pertinent information, including current financial position and operative results, price-earnings multiples and available market prices of similar companies’ securities, the nature of the securities, marketability, restrictions on disposition and other appropriation and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot reasonably be determined until individual securities are liquidated. In addition, fair values of real estate funds are generally based on independent, third-party appraisals. By their very nature, these investments are illiquid and typically cannot be resold or redeemed. Distributions from each fund will be received as the underlying investments are liquidated. It is expected that the underlying assets for the funds will be liquidated over an average of ten years.

PRIT is administered by the Commonwealth of Massachusetts’ Pension Reserve Investment Management Board. The specific investments held by the System include the PRIT Hedge Fund, PRIT Private Equity Fund and PRIT Real Estate Fund, each of which consists of a diverse set of investments that include private equity, venture capital and real estate. The determination of the fair value of these investments is very subjective and the period-end values are reported to the System as NAV. Investments in the PRIT funds are more liquid than investments in private equity and real

estate holdings, but generally cannot be resold to third parties. The System may liquidate its investment in the PRIT funds at any time with less than thirty days notice. Distributions from the PRIT funds may be received regularly and, upon receipt, are deposited into an accompanying short-term cash investment account.

Because of the inherent uncertainty of valuations used in many of the System's investments measured at NAV, estimated values may differ significantly from the values that would have been used had a readily available market for positions in privately held companies or the real estate existed at December 31, 2020. These differences could have a material effect on the System's financial statements.

**Concentration of Credit Risk: Investments** – The following investments held by the System at December 31, 2020 represent approximately 65.7% of the System's total investments:

Rhumblin Russell 1000 Funds	13.8%
SSGA Passive Bond Market Index SL Fund	13.4%
Aristotle Capital Small Cap Equity Fund	11.8%
LMCG Mid-Cap Core Fund	11.0%
PRIT Hedge Fund	9.2%
Dimensional Fund Advisors International Core Equity Portfolio	6.5%
HGK Trinity Street International Equity Fund GP, LLC	6.4%

**Interest Rate Risk: Investments** – Debt securities are subject to interest rate risk. Debt securities may be adversely affected by changes in interest rates, which may negatively affect the fair value of individual debt instruments. The System does not have a formal investment policy that limits investments maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Credit Risk: Investments** – This is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. As previously noted, MGL and PERAC have enacted regulations to reduce this risk. In evaluating its credit risk, the System relies on credit ratings assigned by nationally recognized credit rating agencies like Moody's Investors Services and Standard and Poor's Financial Services. The System does voluntarily self-impose certain investment restrictions; however, those can be changed at the Board's discretion. None of the System's investments were subject to credit quality ratings from leading credit rating agencies.

At December 31, 2020, uninsured short-term investment funds with fair values of \$3,245,533 were reported as cash equivalents. These funds represent temporary holdings of excess cash resources. The System intends to reinvest these amounts in less than one year. Accordingly, the fair values of these amounts have been classified as cash equivalents in these financial statements.

**Rate of Return** – The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts invested. The 2020 money-weighted rate of return was approximately 9.65%.



## 5. FUNDING

**Employer Contributions** – Under MGL, participating employers are assessed their share of the total retirement cost based on an independent actuarial study. Employer contributions totaled \$9,165,711 in 2020.

**Employee Contributions** – Employee contribution rates vary based on when an employee commenced their creditable service. Active members contribute 5%, 7%, 8% or 9% of their gross regular compensation depending on when their creditable service commenced. Employees hired on or after January 1, 1979 contribute an additional 2% of their regular gross compensation over \$30,000.

**Cost of Living Adjustments** – Cost-of-living adjustments granted between 1981 and 1997 and any increase in other pension benefits imposed by the Commonwealth of Massachusetts during those years are the financial responsibility of the Commonwealth. The Commonwealth is expected to continue funding the cost-of-living amounts granted over this period for the duration of their selected retirement option. Cost-of-living adjustments granted after 1997 must be approved and funded by the System. Cost-of-living adjustments cannot exceed the greater of the CPI or 3%. The System approved a 3% cost-of-living adjustment on the first \$14,000 of pension benefits.

## 6. NET PENSION LIABILITY

The System is statutorily required to adopt the funding schedule that will fully amortize the unfunded actuarial accrued liability by June 30, 2040. As of the latest actuarial valuation, the System has selected a funding schedule that fully amortizes the unfunded actuarial accrued liability by June 30, 2034.

The components of the System's net pension liability at December 31, 2020 (dollar amounts in thousands) were as follows:

Total pension liability	\$ 234,768
Plan fiduciary net position	<u>171,040</u>
Net pension liability	<u>\$ 63,728</u>
Plan fiduciary net position as a percentage of total pension liability	72.9%

The total pension liability was determined by an actuarial valuation as of January 1, 2020 and rolled forward to December 31, 2020. The significant actuarial assumptions used in the actuarial valuation report were as follows:

Actuarial cost method:	Individual entry age normal
Amortization method:	Top payments increase 6.31% per year until FY 2032 with a final amortization payment in FY 2033 (formerly 5.86%).
Remaining amortization period:	12 years from July 1, 2021
Asset valuation method:	Market value
Investment rate of return:	7.25% per annum
Projected salary increases:	Service based table with ultimate ranges of 4.25%, and 4.75% for groups 1 and 4, respectively

Cost of living adjustments:	3% on the first \$14,000 of benefits.
Mortality rates:	Pre-retirement rates reflect the RP-2014 Blue Collar Employees table projected generationally with Scale MP-2018 (gender distinct). Post-retirement rates reflect the RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2018 (gender distinct).
Disabled life mortality:	For disabled retirees, the mortality rate is assumed to be in accordance with RP-2014 Blue Collar Health Annuitant Table set forward one year and projected generationally with Scale MP-2018 (gender distinct).

**Discount Rate** – The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made at rates equal to the actuarially-determined contribution rates and the member rate. Based on those assumptions, the System’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.

**Expected Real Rate of Return** – The long-term expected rate of return on System investments was determined using a building-block method in which best-estimate ranges of expected future 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 rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the System’s target allocation as of December 31, 2020 are summarized in the investment policy table in Note 4.

**Sensitivity Analysis** – The following illustrates the net position liability at December 31, 2020 calculated using the current discount rate of 7.25%, as well as the projection of what the net position liability would be if it were calculated using a discount rate that is 1.0% lower or higher than the current rate (dollar amounts in thousands):

Current Discount Rate	Net Pension Liability At		
	1% Decrease	Current Rate	1% Increase
7.25%	\$ 90,011	\$ 63,728	\$ 41,442

**7. LEGALLY REQUIRED RESERVE ACCOUNTS**

Net position restricted for pensions at December 31, 2020 were comprised of the following legally required reserves:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity Savings Fund	\$ 34,873,852	Active members' contribution balance
Annuity Reserve Fund	11,167,183	Retirement members' contribution balance
Military Service Fund	10,314	Members' contributions while on military leave
Pension Fund	9,244,022	Amounts appropriated to fund future retirement
Pension Reserve Fund	<u>115,744,526</u>	Remaining net position
Total	<u>\$ 171,039,897</u>	

**8. COMMITMENTS AND CONTINGENCIES**

**General** – The System is subject to a variety of claims that arise from time to time in the ordinary course of business. Although management of the System currently believes that resolving claims against the System, individually or in aggregate, will not have a material adverse impact on the System’s financial position or its results of operations, these matters are subject to inherent uncertainties and management’s views of these matters may change in the future.

**Facility Lease** – In 2013, the System entered into a ten-year, non-cancellable facility lease with a third party for its office. Future minimum annual rental expense obligations due under this facility lease, which includes rent and common area maintenance fees, as are as follows:

<u>Calendar Year</u>	<u>Lease Payments</u>
2021	\$ 41,323
2022	42,165
2023	<u>32,762</u>
	<u>\$ 116,250</u>

**COVID-19** – The COVID-19 pandemic has resulted in global economic slowdowns and disruptions that have and could continue to affect U.S. and global markets and economies. The System’s ability to meet its long-term investment return objectives and targets is highly dependent on these markets and economies. The global response to the COVID-19 pandemic is beyond the System’s control and the likelihood and extent of further market volatility cannot be predicted.

\* \* \* \* \*

**FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM**  
(A Component Unit of the Town of Falmouth, Massachusetts)

**REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

*(dollar amounts are in thousands)*

	2020	2019	2018	2017	2016	2015	2014
Total pension liability:							
Service cost	\$ 5,034	\$ 5,044	\$ 4,827	\$ 4,433	\$ 4,242	\$ 4,015	\$ 3,842
Interest	16,609	15,991	14,841	14,772	13,692	13,578	13,035
Changes in benefit terms	-	-	2,300	-	-	-	-
Differences between expected and actual experience	(5,491)	-	(1,072)	-	(1,237)	-	-
Changes in assumptions	1,000	-	6,870	-	8,600	-	-
Benefit payments, including refunds	(12,885)	(12,111)	(12,123)	(11,599)	(10,561)	(10,364)	(9,730)
Net change in total pension liability	4,267	8,924	15,643	7,606	14,736	7,229	7,147
Total pension liability - beginning of year	230,501	221,577	205,934	198,328	183,592	176,363	169,216
Total pension liability - end of year (a)	<u>\$ 234,768</u>	<u>\$ 230,501</u>	<u>\$ 221,577</u>	<u>\$ 205,934</u>	<u>\$ 198,328</u>	<u>\$ 183,592</u>	<u>\$ 176,363</u>
Plan fiduciary net position:							
Contributions - employer	\$ 9,166	\$ 8,622	\$ 8,110	\$ 7,661	\$ 7,296	\$ 6,949	\$ 6,618
Contributions - employee	3,308	3,174	3,014	3,010	2,902	2,801	2,768
Contributions - nonemployer contributing entities	610	1,105	815	664	837	306	543
Net investment income	15,094	23,305	(9,499)	18,635	10,545	138	7,139
Benefit payments, including refunds	(13,468)	(12,868)	(12,829)	(12,338)	(11,422)	(10,713)	(10,155)
Administrative expenses	(335)	(341)	(328)	(319)	(295)	(298)	(284)
Other	6	5	-	11	5	4	21
Net change in plan fiduciary net position	14,381	23,002	(10,717)	17,324	9,868	(813)	6,650
Plan fiduciary net position - beginning of year	156,659	133,657	144,374	127,050	117,182	117,995	111,345
Plan fiduciary net position - end of year (b)	<u>\$ 171,040</u>	<u>\$ 156,659</u>	<u>\$ 133,657</u>	<u>\$ 144,374</u>	<u>\$ 127,050</u>	<u>\$ 117,182</u>	<u>\$ 117,995</u>
Net pension liability - end of year (a) - (b)	<u>\$ 63,728</u>	<u>\$ 73,842</u>	<u>\$ 87,920</u>	<u>\$ 61,560</u>	<u>\$ 71,278</u>	<u>\$ 66,410</u>	<u>\$ 58,368</u>
Plan fiduciary net position as a percentage of the total pension liability	72.85%	67.96%	60.32%	70.11%	64.06%	63.83%	66.90%
Covered payroll	\$ 32,168	\$ 29,951	\$ 29,951	\$ 28,417	\$ 28,417	\$ 27,478	\$ 27,478
Net pension liability as a percentage of covered payroll	198.11%	246.54%	293.55%	216.63%	250.83%	241.68%	212.42%

These schedules are presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

**FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM**  
**(A Component Unit of the Town of Falmouth, Massachusetts)**

**REQUIRED SUPPLEMENTARY INFORMATION - UNAUDITED**

**SCHEDULE OF CONTRIBUTIONS**  
*(dollar amounts are in thousands)*

For Fiscal Year Ended June 30,	Actuarially Determined Contribution	Contributions in Relation to the		Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
		Actuarially Determined Contribution	Contribution			
2020	\$ 9,166	\$ 9,166	\$ -	\$ 32,168	28.5%	
2019	8,662	8,662	-	29,951	28.9%	
2018	8,110	8,110	-	29,951	27.1%	
2017	7,661	7,661	-	28,417	27.0%	
2016	7,296	7,296	-	28,417	25.7%	
2015	6,949	6,949	-	27,478	25.3%	
2014	6,618	6,618	-	27,478	24.1%	

**SCHEDULE OF INVESTMENT RETURNS**

For Fiscal Year Ended June 30,	Annual Money- Weighted Rate of Return *
2020	9.65%
2019	17.46%
2018	-6.63%
2017	14.87%
2016	9.11%
2015	33.00%
2014	6.56%
2013	19.18%
2012	12.93%

\* Net of investment expenses.

These schedules are presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is completed, information is presented for those years in which information is available.

See accompanying independent auditors' report.

**FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM  
(A Component Unit of the Town of Falmouth, Massachusetts)**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020**

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**A. CHANGES OF BENEFIT TERMS**

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the System's benefit terms in 2020.

**B. SIGNIFICANT ACTUARIAL ASSUMPTIONS AND METHODS**

The significant actuarial assumptions used in the most current actuarial valuation report included:

Actuarial cost method:	Individual entry age normal
Amortization method:	Top payments increase 6.31% per year until FY 2032 with a final amortization payment in FY 2033 (formerly 5.86%).
Remaining amortization period:	12 years from July 1, 2021
Asset valuation method:	Market value
Investment rate of return:	7.25% per annum
Projected salary increases:	Service based table with ultimate ranges of 4.25%, and 4.75% for groups 1 and 4, respectively
Cost of living adjustments:	3% on the first \$14,000 of benefits.
Mortality rates:	Pre-retirement rates reflect the RP-2014 Blue Collar Employees table projected generationally with Scale MP-2018 (gender distinct). Post-retirement rates reflect the RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2018 (gender distinct).
Disabled life mortality:	For disabled retirees, the mortality rate is assumed to be in accordance with RP-2014 Blue Collar Health Annuitant Table set forward one year and projected generationally with Scale MP-2018 (gender distinct).

**C. CHANGES IN ACTUARIAL ASSUMPTIONS**

In 2020, the System modified a number of actuarial assumptions from those used in its previous valuation. The most significant changes were to actuarial mortality tables.



**INDEPENDENT AUDITORS' REPORT ON AUDIT OF SPECIFIC ELEMENTS, ACCOUNTS  
AND ITEMS OF FINANCIAL STATEMENTS**

To the Falmouth Retirement Board  
Falmouth Contributory Retirement System  
Falmouth, Massachusetts

We have audited the accompanying schedule of employer allocations of the Falmouth Contributory Retirement System (the "System"), a component unit of the Town of Falmouth, Massachusetts, as of and for the year ended December 31, 2020. 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 included in the accompanying schedule of pension amounts by employer of the System as of and for the year ended December 31, 2020, and the related notes thereto.

**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 financial statements 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 and the standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States. 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 schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and the specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and the 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 the 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 of the System as of and for the year ended December 31, 2020, in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of the System as of and for the year ended December 31, 2020 and our report thereon, dated May 20, 2021, expressed an unmodified opinion on those financial statements.

A handwritten signature in cursive script that reads "Roselli, Clark & Associates". The signature is written in black ink and is positioned above the printed name of the firm.

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
May 20, 2021



**FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM**  
**(A Component Unit of the Town of Falmouth, Massachusetts)**

**SCHEDULE OF EMPLOYER ALLOCATIONS**  
**YEAR ENDED DECEMBER 31, 2020**

Employer	Actual Employer Contributions	Employer Allocation Percentage
Town of Falmouth	\$ 8,952,150	97.7%
Falmouth Housing Authority	213,561	2.3%
Total	\$ 9,165,711	100.0%

See notes to schedule of employer allocation and schedule of pension amounts by employer.

**FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM**  
**(A Component Unit of the Town of Falmouth, Massachusetts)**

**SCHEDULE OF PENSION AMOUNTS BY EMPLOYER**  
**YEAR ENDED DECEMBER 31, 2020**

	Town of Falmouth	Falmouth Housing Authority	Total
Net pension liability	<u>\$ 62,262,256</u>	<u>\$ 1,465,744</u>	<u>\$ 63,728,000</u>
Deferred outflows of resources:			
Changes of assumptions	\$ 4,244,088	\$ 99,912	\$ 4,344,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>181,000</u>	<u>-</u>	<u>181,000</u>
Total deferred outflows of resources	<u>\$ 4,425,088</u>	<u>\$ 99,912</u>	<u>\$ 4,525,000</u>
Deferred inflows of resources:			
Differences between actual and expected experience	\$ 4,824,426	\$ 113,574	\$ 4,938,000
Net difference between projected and actual investment earnings on pension plan investments	4,920,172	115,828	5,036,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>-</u>	<u>181,000</u>	<u>181,000</u>
Total deferred inflows of resources	<u>\$ 9,744,598</u>	<u>\$ 410,402</u>	<u>\$ 10,155,000</u>
Pension expense (income):			
Proportionate share of plan pension expense	\$ 7,043,888	\$ 165,823	\$ 7,209,711
Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions	<u>54,936</u>	<u>(54,936)</u>	<u>-</u>
Total employer pension expense (income)	<u>\$ 7,098,824</u>	<u>\$ 110,887</u>	<u>\$ 7,209,711</u>

See notes to schedule of employer allocation and schedule of pension amounts by employer.

**FALMOUTH CONTRIBUTORY RETIREMENT SYSTEM  
(A Component Unit of the Town of Falmouth, Massachusetts)**

**NOTES TO PENSION PLAN SCHEDULES  
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2020**

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**A. INTRODUCTION**

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, establishes financial reporting requirements for governments that provide employees with pension benefits. GASB 68 requires employers to recognize a net pension liability or net pension asset as employees earn pension benefits. Employers participating in the Falmouth Contributory Retirement System (the “Retirement System”) will recognize their proportionate share of the collective pension amounts for all benefits provided by the Retirement System.

**B. METHOD OF PROPORTIONATE SHARE ALLOCATION**

The basis for the proportionate share allocation by employer as found in the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer is consistent with the manner in which employer contributions to the Retirement System are determined. The net pension liability, deferred outflows of resources, deferred inflows of resources and pension expense is based upon actual historical employer contributions to the Retirement System from the census data submitted to the Retirement System for pay periods ending December 31, 2020.

**C. EXPECTED FUTURE AMORTIZATION OF DEFERRED BALANCES**

The following table summarizes the expected amortization of the deferred outflows of resources and inflows of resources into pension expense:

Measurement Period Ended December 31,	Town of Falmouth	Falmouth Housing Authority	Total
2021	\$ (466,189)	\$ (90,811)	\$ (557,000)
2022	766,279	(39,279)	727,000
2023	(3,997,550)	(152,450)	(4,150,000)
2024	<u>(1,622,050)</u>	<u>(27,950)</u>	<u>(1,650,000)</u>
	<u>\$ (5,319,510)</u>	<u>\$ (310,490)</u>	<u>\$ (5,630,000)</u>