

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, 2021



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

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DECEMBER 31, 2021**

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INDEPENDENT AUDITORS' REPORT

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

Opinion

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, 2021, and the related notes to the financial statements, which collectively comprise the System's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position 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.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements 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 opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements 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 financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 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 generally accepted auditing standards 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 financial statements.

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In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, 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 financial statements.
- 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

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.

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 in the accompanying table of contents be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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
July 5, 2022

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, 2021. 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 over 82% funded at December 31, 2021.

The System's fiduciary net position increased nearly \$29.3 million in 2021 to approximately \$200.3 million. Current year additions of nearly \$44.4 million exceeded deductions of approximately \$15.1 million. The current year increase in fiduciary net position was approximately \$14.9 million greater than the prior year. The System's investment performance for 2021, net of investment management fees, was nearly 17.3% versus 9.7% in 2020. The 2021 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
	2021	2020	Change	Change
Assets:				
Cash and cash equivalents	\$ 5,959,525	\$ 3,300,451	\$ 2,659,074	80.6%
Investments	194,409,811	167,775,420	26,634,391	15.9%
Receivables and other assets	4,934	7,037	(2,103)	-29.9%
Total Assets	<u>200,374,270</u>	<u>171,082,908</u>	<u>29,291,362</u>	17.1%
Liabilities	<u>72,215</u>	<u>43,011</u>	<u>29,204</u>	67.9%
Fiduciary Net Position	<u>\$ 200,302,055</u>	<u>\$ 171,039,897</u>	<u>\$ 29,262,158</u>	17.1%

Total assets at December 31, 2021 approximated \$200.4 million and principally consisted of investments recorded at fair value. Total asset increased by approximately \$29.3 million in 2021, which was due primarily to a positive investment portfolio performance of nearly 17.3%. Receivables and liabilities were not material to the System at either December 31, 2021 or 2020.

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
	2021	2020	Change	Change
Additions:				
Contributions	\$ 14,496,228	\$ 13,089,576	\$ 1,406,652	10.7%
Investment income, net	<u>29,854,212</u>	<u>15,093,563</u>	<u>14,760,649</u>	97.8%
Total Additions	<u>44,350,440</u>	<u>28,183,139</u>	<u>16,167,301</u>	57.4%
Deductions:				
Benefits and refunds to Plan members	14,706,831	13,467,698	1,239,133	9.2%
Administrative and other expenses	<u>381,451</u>	<u>334,775</u>	<u>46,676</u>	13.9%
Total Deductions	<u>15,088,282</u>	<u>13,802,473</u>	<u>1,285,809</u>	9.3%
Change in Fiduciary Net Position	<u>\$ 29,262,158</u>	<u>\$ 14,380,666</u>	<u>\$ 14,881,492</u>	103.5%

Fiduciary net position increased nearly \$29.3 million in 2021, primarily as a result of net investment earnings of approximately \$29.9 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 2021 totaled nearly \$14.5 million versus \$13.1 million in 2021.

Employer contributions represent the largest source of System contributions. In 2021, employer contributions totaled approximately \$9.7 million, or 67%, of total contributions. Employer contributions are actuarially determined. Employee contributions totaled approximately \$3.5 million in 2021, which was approximately \$188,000, or 6%, 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 increased approximately \$646,000 year-over-year. This increase was due primarily to an approximate \$519,000 increase 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 2021, the System reported nearly \$29.9 million in net investment income versus \$15.1 million in 2020. The System's money-weighted rates of return for 2021 and 2020 were approximately 17.3% and 9.7%, 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 2021 were approximately \$1.3 million, or 9%, greater than 2020 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 90% and 92% of total 2021 and 2020 deductions, respectively. Pension benefits to members and beneficiaries increased approximately \$910,000, or 7%, in 2021. 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.

Member refunds, transfers and reimbursements to other systems increased over \$329,000 in the aggregate in 2021. This increase was due primarily to an approximately \$256,000 increase in member refunds, which is a function of timing and employment trends/movements.

Administrative expenses increased nearly \$47,000 year-over-year.

Overall Financial Position

The System's positive investment performance in 2021 permitted it to maintain an approximate 82% funded ratio at December 31, 2021. 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 33% 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. 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, 2021

Assets:	
Cash and cash equivalents	\$ 5,959,525
Investments:	
Equity securities	20,426,198
Mutual funds	108,963,153
Private equity funds	17,415,625
Real estate funds	10,393,480
PRIT funds	<u>37,211,355</u>
Total investments	<u>194,409,811</u>
Member contributions receivable	<u>4,934</u>
Total Assets	<u>200,374,270</u>
Liabilities:	
Accounts payable and accrued expenses	<u>72,215</u>
Net Position Restricted for Pensions	<u><u>\$ 200,302,055</u></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, 2021

Additions:	
Employer contributions	\$ 9,744,067
Employee contributions	3,496,188
Other contributions	<u>1,255,443</u>
Total contributions	<u>14,495,698</u>
Investment income:	
Interest and dividends	2,206,475
Net appreciation in fair value of investments	28,688,933
Less investment management fees	<u>(1,041,196)</u>
Total net investment income	<u>29,854,212</u>
Other income	<u>530</u>
Total Additions	<u>44,350,440</u>
Deductions:	
Benefits and refunds to Plan members:	
Benefits to retirees and survivors	13,622,387
Member refunds	469,593
Transfers and reimbursements to other systems	614,851
Administrative expenses:	
Operations payroll and related personnel costs	205,462
Other	<u>175,989</u>
Total Deductions	<u>15,088,282</u>
Change in Net Position	29,262,158
Net Position Restricted for Pensions:	
Beginning of the year	<u>171,039,897</u>
End of the year	<u><u>\$ 200,302,055</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, 2021**

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, 2021, membership in the System consisted of:

Retirees and beneficiaries currently receiving benefits	442
Active plan members	642
Inactive plan members	<u>188</u>
Total	<u>1,272</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, 2021, 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	No Specified Date
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, 2024

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, 2021.

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, 2021, 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, 2021.

Fair Value Measurements: Investments – The following table presents the System’s investments carried at fair value on a recurring basis at December 31, 2021:

<u>Investments by Fair Value Level</u>	December 31, 2021	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Equity securities	\$ 20,426,198	\$ 20,426,198	\$ -	\$ -
Mutual funds:				
Domestic fixed income mutual funds	33,767,546	33,767,546	-	-
Domestic equity mutual funds	56,714,920	56,714,920	-	-
International equity mutual funds	<u>18,480,687</u>	<u>18,480,687</u>	-	-
Total investments by fair value level	<u>129,389,351</u>	<u>\$ 129,389,351</u>	<u>\$ -</u>	<u>\$ -</u>
Investments measured at NAV:				
Private equity funds	17,415,625			
Real estate funds	10,393,480			
PRIT funds	<u>37,211,355</u>			
Total investments measured at the NAV	<u>65,020,460</u>			
Total investments measured at fair value	<u>\$ 194,409,811</u>			
Investments Measured at NAV		Unfunded		
<u>By Asset Class</u>	<u>Fair Value</u>	<u>Commitments</u>		
Private equity funds	\$ 17,415,625	\$ 1,194,650		
Real estate funds	10,393,480	120,000		
PRIT funds	<u>37,211,355</u>	<u>3,289,530</u>		
	<u>\$ 65,020,460</u>	<u>\$ 4,604,180</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, 2021. 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, 2021 represent approximately 58.4% of the System's total investments:

SSGA Passive Bond Market Index SL Fund	13.6%
LMCG Mid-Cap Core Fund	10.1%
PRIT Hedge Fund	10.0%
Rhumblin Russell 1000 Funds	6.4%
Dimensional Fund Advisors Global Real Estate Securities Portfolio	6.4%
HGK Trinity Street International Equity Fund GP, LLC	6.3%
PRIT Real Estate Fund	5.6%

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, 2021, uninsured short-term investment funds with fair values of \$5,895,726 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 2021 money-weighted rate of return was approximately 17.3%.

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 \$9,744,067 in 2021.

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 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, 2021 (dollar amounts in thousands) were as follows:

Total pension liability	\$ 242,958
Plan fiduciary net position	<u>200,302</u>
Net pension liability	<u>\$ 42,656</u>
Plan fiduciary net position as a percentage of total pension liability	82.4%

The total pension liability was determined by an actuarial valuation as of January 1, 2020 and rolled forward to December 31, 2021. 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, 2021 are summarized in the investment policy table in Note 4.

Sensitivity Analysis – The following illustrates the net position liability at December 31, 2021 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%	\$ 69,856	\$ 42,656	\$ 19,643

7. LEGALLY REQUIRED RESERVE ACCOUNTS

Net position restricted for pensions at December 31, 2021 were comprised of the following legally required reserves:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity Savings Fund	\$ 36,452,590	Active members' contribution balance
Annuity Reserve Fund	10,865,348	Retirement members' contribution balance
Military Service Fund	10,325	Members' contributions while on military leave
Pension Fund	8,639,092	Amounts appropriated to fund future retirement
Pension Reserve Fund	<u>144,334,700</u>	Remaining net position
	<u>\$ 200,302,055</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, noncancellable 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>
2022	\$ 42,165
2023	<u>32,762</u>
	<u>\$ 74,927</u>

* * * * *

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)

	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability:								
Service cost	\$ 5,260	\$ 5,034	\$ 5,044	\$ 4,827	\$ 4,433	\$ 4,242	\$ 4,015	\$ 3,842
Interest	16,896	16,609	15,991	14,841	14,772	13,692	13,578	13,035
Changes in benefit terms	-	-	-	2,300	-	-	-	-
Differences in expected and actual experience	-	(5,491)	-	(1,072)	-	(1,237)	-	-
Changes in assumptions	-	1,000	-	6,870	-	8,600	-	-
Benefit payments, including refunds	(13,966)	(12,885)	(12,111)	(12,123)	(11,599)	(10,561)	(10,364)	(9,730)
Net change in total pension liability	8,190	4,267	8,924	15,643	7,606	14,736	7,229	7,147
Total pension liability - beginning of year	234,768	230,501	221,577	205,934	198,328	183,592	176,363	169,216
Total pension liability - end of year (a)	<u>\$ 242,958</u>	<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	\$ 9,744	\$ 9,166	\$ 8,622	\$ 8,110	\$ 7,661	\$ 7,296	\$ 6,949	\$ 6,618
Contributions - employee	3,496	3,308	3,174	3,014	3,010	2,902	2,801	2,768
Contributions - nonemployers	1,255	610	1,105	815	664	837	306	543
Net investment income	29,854	15,094	23,305	(9,499)	18,635	10,545	138	7,139
Benefit payments, including refunds	(14,707)	(13,468)	(12,868)	(12,829)	(12,338)	(11,422)	(10,713)	(10,155)
Administrative expenses	(381)	(335)	(341)	(328)	(319)	(295)	(298)	(284)
Other	1	6	5	-	11	5	4	21
Net change in plan fiduciary net position	29,262	14,381	23,002	(10,717)	17,324	9,868	(813)	6,650
Plan fiduciary net position - beginning of year	171,040	156,659	133,657	144,374	127,050	117,182	117,995	111,345
Plan fiduciary net position - end of year (b)	<u>\$ 200,302</u>	<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>\$ 42,656</u>	<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	82.4%	72.9%	68.0%	60.3%	70.1%	64.1%	63.8%	66.9%
Covered payroll	\$ 32,168	\$ 32,168	\$ 29,951	\$ 29,951	\$ 28,417	\$ 28,417	\$ 27,478	\$ 27,478
Net pension liability as a percentage of covered payroll	132.6%	198.1%	246.5%	293.5%	216.6%	250.8%	241.7%	212.4%

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 Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
2021	\$ 9,744	\$ 9,744	\$ -	\$ 32,168	30.3%
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 *
2021	17.29%
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, 2021**

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 2021.

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).



**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

Opinion

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, 2021 and 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 (the specified column totals) included in the accompanying schedule of pension amounts by employer of the System, and related notes thereto. Collectively, these are referred to as the Schedules.

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, 2021, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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 Schedule 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 opinion.

Responsibilities of Management for the Schedules

Management is responsible for the preparation and fair presentation of the 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 Schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 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 Schedules.

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 Schedules, 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 Schedules.
- 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 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 evaluating the overall presentation of the Schedules.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the System's ability to continue as a going concern for a reasonable period of time.

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 GAAS, the financial statements of the System as of and for the year ended December 31, 2021, and our report thereon, dated July 5, 2022, expressed an unmodified opinion on those financial statements.



Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
July 5, 2022

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

SCHEDULE OF EMPLOYER ALLOCATIONS
YEAR ENDED DECEMBER 31, 2021

Employer	Actual Employer Contributions	Employer Allocation Percentage
Town of Falmouth	\$ 9,510,209	97.6%
Falmouth Housing Authority	233,858	2.4%
Total	\$ 9,744,067	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, 2021

	Town of Falmouth	Falmouth Housing Authority	Total
Net pension liability	\$ 41,632,256	\$ 1,023,744	\$ 42,656,000
Deferred outflows of resources:			
Changes of assumptions	\$ 2,132,560	\$ 52,440	\$ 2,185,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	62,000	-	62,000
Total deferred outflows of resources	\$ 2,194,560	\$ 52,440	\$ 2,247,000
Deferred inflows of resources:			
Differences between actual and expected experience	\$ 3,456,992	\$ 85,008	\$ 3,542,000
Net difference between projected and actual investment earnings on pension plan investments	17,272,272	424,728	17,697,000
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	62,000	62,000
Total deferred inflows of resources	\$ 20,729,264	\$ 571,736	\$ 21,301,000
Pension expense (income):			
Proportionate share of plan pension expense	\$ 2,045,761	\$ 50,306	\$ 2,096,067
Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions	49,642	(49,642)	-
Total employer pension expense (income)	\$ 2,095,403	\$ 664	\$ 2,096,067

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, 2021**

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, 2021.

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
2022	\$ (2,655,568)	\$ (112,432)	\$ (2,768,000)
2023	(7,415,520)	(229,480)	(7,645,000)
2024	(5,042,496)	(103,504)	(5,146,000)
2025	<u>(3,421,120)</u>	<u>(73,880)</u>	<u>(3,495,000)</u>
	<u>\$ (18,534,704)</u>	<u>\$ (519,296)</u>	<u>\$ (19,054,000)</u>