

# **STONEHAM CONTRIBUTORY RETIREMENT SYSTEM**

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

Financial Statements,  
Required Supplementary Information,  
and Other Information

As of and for the Year Ended December 31, 2023

# STONEHAM CONTRIBUTORY RETIREMENT SYSTEM

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## INDEPENDENT AUDITORS' REPORT

To the Retirement Board  
Stoneham Contributory Retirement System  
Town of Stoneham, Massachusetts

### *Opinion*

We have audited the financial statements of the Stoneham Contributory Retirement System (the System), a component unit of the Town of Stoneham, Massachusetts, as of and for the year ended December 31, 2023, and the related notes to the financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the fiduciary net position of the System as of December 31, 2023, and the respective changes in fiduciary net position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *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 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*

The System's 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 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 financial statements.

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 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 Management's Discussion and Analysis, the Schedule of Changes in the Net Pension Liability, and the Schedules of Contributions and Investment Returns, listed in the foregoing 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 evidence sufficient to express an opinion or provide any assurance.

*Marcum LLP*

Merrimack, NH  
October 29, 2024

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Stoneham Contributory Retirement System (the System), we offer readers this narrative overview and analysis of the financial activities of the System for the year ended December 31, 2023.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the financial statements. The financial statements are comprised of the Statement of Fiduciary Net Position, Statement of Changes in Fiduciary Net Position, and Notes to the Financial Statements. This report also contains Required Supplementary Information.

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

The Statement of Changes in Fiduciary Net Position presents information showing how the System's net position restricted for pension changed during the year ended December 31, 2023. It reflects contributions by members and participating employers, investment activity, along with deductions for retirement benefits, refunds, transfers, and administrative expenses.

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

The Required Supplementary Information includes the Schedule of Changes in the Net Pension Liability and the Schedules of Contributions and Investment Returns.

### Financial Highlights

- The System's total net position restricted for pension was \$128,441,656 at December 31, 2023.
- The System's net position increased by \$11,980,611, which is primarily due to investment gains during the year.
- Employer and employee contributions to the plan were \$9,166,596, which represents an increase of \$145,899 over the prior year. The employer share represents 79% of the contributions made to the System.
- Benefits paid to plan participants increased by \$487,728, or 5.7%, from the previous year. At January 1, 2022, latest valuation date, there were 291 retirees and beneficiaries in receipt of pension benefits, as further discussed on page 10.

- The System’s funded ratio (based on the System’s funding valuation) as of the January 1, 2022 actuarial valuation was 88%, with 4 years remaining in its amortization period.

## Financial Statement Analysis

The following is a summary of financial statement data for the current and prior fiscal year:

### FIDUCIARY NET POSITION

	<u>2023</u>	<u>2022</u>
<b>Assets</b>		
Cash and receivables	\$ 139,739	\$ 17,643
Investments	<u>128,313,919</u>	<u>116,456,011</u>
Total Assets	<u>\$ 128,453,658</u>	<u>\$ 116,473,654</u>
<b>Liabilities</b>		
Accounts payable	\$ <u>12,002</u>	\$ <u>12,609</u>
Total Liabilities	12,002	12,609
<b>Net Position</b>		
Restricted for Pension	<u>128,441,656</u>	<u>116,461,045</u>
Total Liabilities and Net Position	<u>\$ 128,453,658</u>	<u>\$ 116,473,654</u>

The System’s total assets as of December 31, 2023 were \$128,453,658 and were mostly comprised of investments. Total assets increased by \$11,980,004, or 10%, from the prior year primarily due to an increase in investment value.

### CHANGES IN FIDUCIARY NET POSITION

	<u>2023</u>	<u>2022</u>
<b>Additions</b>		
Contributions	\$ 10,525,024	\$ 9,099,680
Investment income (loss), net	<u>11,948,410</u>	<u>(10,453,565)</u>
Total Additions, net	22,473,434	(1,353,885)
<b>Deductions</b>		
Benefit payments	9,041,475	8,969,894
Other	<u>1,451,348</u>	<u>305,697</u>
Total Deductions	<u>10,492,823</u>	<u>9,275,591</u>
Change in Net Position	11,980,611	(10,629,476)
<b>Net Position Restricted for Pension</b>		
Beginning of Year	<u>116,461,045</u>	<u>127,090,521</u>
End of Year	<u>\$ 128,441,656</u>	<u>\$ 116,461,045</u>

The amount needed to finance benefits is accumulated through the collection of employers' and employees' contributions, transfers from other systems, receipts from Massachusetts General Laws (MGL) Chapter 32 Section 3(8)c reimbursements, Commonwealth of Massachusetts reimbursements for pre-1998 COLA, and through earnings on investments. Employers' contributions in 2023 remained the same as 2022. The System had net investment income of \$11,948,410 for 2023 comparing to a net investment loss of \$(10,198,795) due to unfavorable market performance in 2022. Investments rebounded in 2023. The System invests in the Pension Reserves Investment Trust (PRIT), managed by the Pension Reserves Investment Management Board (PRIM). PRIT represents 47% of the investment portfolio at December 31, 2023. PRIT investments were up 11% in 2023 with Global Equity realizing the biggest gain. The 2022 PRIT returns were negative in 2022 as equity and bond indices were down globally, as reported by PRIM. Russell Investments managed 53% of the investment portfolio at December 31, 2023. That portfolio was managed by SEI through January 2023. Those investments rebounded similar to PRIT investments.

The primary deductions of the System include the payment of pension benefits to participants and beneficiaries, refunds and transfers of member contributions, reimbursement payments in accordance with MGL, Chapter 32, Section 3(8)c, and the costs of administering the System. Total deductions for calendar year 2023 were \$10,492,823, which represents an increase of \$1,217,232, or 13%. The payment of pension benefits, excluding refunds, increased by \$487,728, or 5.7% over the previous year.

### **Requests for Information**

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

Mr. Christopher Delisi, Retirement Director  
Stoneham Contributory Retirement System  
35 Central Street  
Stoneham, Massachusetts 02180

**STONEHAM CONTRIBUTORY RETIREMENT SYSTEM**  
(A Component Unit of the Town of Stoneham, Massachusetts)

Statement of Fiduciary Net Position

December 31, 2023

**Assets**

Cash and short-term investments	\$ 120,987
Investments:	
Equity mutual funds	43,188,502
Fixed income mutual funds	24,649,610
External investment pool	60,475,807
Accounts receivable	<u>18,752</u>
Total Assets	<u>\$ 128,453,658</u>

**Liabilities**

Accounts payable	\$ 12,002
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**Net Position**

Restricted for pension benefits	<u>128,441,656</u>
Total Liabilities and Net Position	<u>\$ 128,453,658</u>

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

**STONEHAM CONTRIBUTORY RETIREMENT SYSTEM**  
(A Component Unit of the Town of Stoneham, Massachusetts)

Statement of Changes in Fiduciary Net Position

For the Year Ended December 31, 2023

**Additions**

Contributions:

Employers	\$ 7,252,723
Plan members	1,913,873
Workers compensation settlement	29,500
Transfers from other systems	905,881
Reimbursements from other systems and Commonwealth of Massachusetts	<u>423,047</u>
Total Contributions	10,525,024

Investment Income:

Appreciation in fair value of investments	12,476,016
Less: Management fees	<u>(527,606)</u>
Net Investment Income	<u>11,948,410</u>
Total Additions, net	22,473,434

**Deductions**

Benefit payments to plan members and beneficiaries	9,041,475
Transfers to other systems	511,653
Reimbursements to other systems	446,649
Administrative expenses	<u>493,046</u>
Total Deductions	<u>10,492,823</u>
Change in Net Position	11,980,611

**Net Position Restricted for Pension Benefits**

Beginning of Year	<u>116,461,045</u>
End of Year	<u>\$ 128,441,656</u>

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

## STONEHAM CONTRIBUTORY RETIREMENT SYSTEM

Notes to Financial Statements  
For the Year Ending December 31, 2023

### 1. Plan Description

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

Membership of the plan consisted of the following at January 1, 2022:

Retirees and beneficiaries receiving benefits	291
Inactive members entitled to a return of employee contributions	116
Active plan members	<u>309</u>
Total	<u>716</u>
Number of participating employers	2

#### ***Participant Contributions***

The employees' contribution percentages are determined by their date of entry into the System and are as follows:

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

In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. For members who entered the System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

### ***Participant Retirement Benefits***

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

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest 3-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest 5-year average annual rate of regular compensation on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100%, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are four classes of membership in the retirement system, but one of these classes, Group 3, is made up exclusively of the Massachusetts State Police. The other three classes are as follows:

- Group 1 – General employees, including clerical, administrative, technical, and all other employees not otherwise classified.
- Group 2 – Certain specified hazardous duty positions.
- Group 4 – Police officers, firefighters, and other specified hazardous positions.

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

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

### ***Methods of Payment***

A member may elect to receive his or her retirement allowance in one of three forms of payment as follows:

- Option A – Total annual allowance, payable in monthly installments, commencing at retirement and terminating at the member’s death.
- Option B – A reduced annual allowance, payable in monthly installments, commencing at retirement and terminating at the death of the member—provided, however, that if the total amount of the annuity portion received by the member is less than the amount of his or her accumulated deductions, including interest, the difference or balance of his accumulated deductions will be paid in a lump sum to the retiree’s beneficiary or beneficiaries of choice.
- Option C – A reduced annual allowance, payable in monthly installments, commencing at retirement. At the death of the retired employee, 2/3 of the allowance is payable to the member’s designated beneficiary (who may be the spouse, or former spouse who has not remarried, child, parent, sister, or brother of the employee) for the life of the beneficiary. For members who retired on or after January 12, 1988, if the beneficiary pre-deceases the retiree, the benefit payable increases (or “pops up” to Option A) based on the factor used to determine the Option C benefit at retirement. For members who retired prior to January 12, 1988, if the System has accepted Section 288 of Chapter 194 of the Acts of 1998 and the beneficiary pre-deceases the retiree, the benefit payable “pops up” to Option A in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

### ***Participant Refunds***

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

### ***Employer Contributions***

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

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

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2023 conform to generally accepted accounting principles for PERS. The significant accounting policies of the System are summarized below.

***Reporting Entity***

The System is governed by a 5-member board. The 5 members include 2 appointed by the Town, 2 elected by the members and retirees, and a 5<sup>th</sup> member chosen by the other 4 members with the approval of PERAC. Because of the significance of its operational and financial relationship with the Town, the System is included as a pension trust fund in the Town's basic financial statements.

***Basis of Accounting***

The System follows accounting policies mandated by the Commonwealth of Massachusetts. The accounting records are maintained on the accrual basis of accounting. Contributions from the Town of Stoneham and Stoneham Housing Authority employees are recognized as revenue in the period in which employees provide services to the respective member unit.

***Investments******Investment Policy***

Investments are reported at fair value. Fair value is defined as price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

***Rate of Return***

For the year ended December 31, 2023, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 10.11%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested throughout the year.

***Use of Estimates***

The preparation of financial statements in conformity with U.S. 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 financial statement date and the reported amounts of increases and decreases in net position from operations during the reporting period. Actual results could differ from those estimates.

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

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned. MGL Chapter 32 Sections 23 (b) and (c) limit the System's deposits to the Pension Reserves Investment Trust (PRIT), or a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company. The System does not have a deposit policy for custodial credit risk. Cash deposits with the bank are subject to custodial credit risk to the extent those balances exceed applicable Federal Deposit Insurance Corporation (FDIC) limitations. At December 31, 2023, the balances in excess of FDIC were fully collateralized.

### **4. Investments**

The System invests in equity mutual funds and fixed income mutual funds managed by SEI Investments Company through January 2023 and by Russell Investments (RI) from February 2023. The System also invests in PRIT, an external state investment pool. Fair value is the same as the value of the pool share. PRIT, created under MGL, Chapter 32, Section 22 in December 1983, is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board (PRIM). PRIM chooses an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under MGL, Chapter 30B.

#### ***Credit Risk***

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

The systems' investments in fixed income mutual funds of \$20,689,652 in RITC Fixed Income Fund and \$3,959,958 in RITC High Yield Bond Fund had weighted average duration of 6.3 years and 3.3 years, respectively. Due to PRIT's nature, any underlying holdings in fixed income securities in that external investment pool are not subject to credit risk disclosure.

***Custodial Credit Risk***

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

The System's investments in equity mutual funds and fixed income mutual funds are subject to custodial credit risk as investments are held by the pledging financial institution's trust department or agent but not in the System's name. The System's investments in PRIT (state investment pool), are not subject to custodial credit risk disclosure.

***Concentration of Credit Risk***

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

All the System's investments are in either in mutual funds or PRIT, which are not subject to concentration of credit risk disclosure.

***Reasonable Possibility of Changes in Value***

Due to the level of risk associated with certain investments, it is reasonably possible that changes in the value of the investment portfolio could occur in the near term. Such changes could materially affect the amounts reported in the financial statements.

***Fair Value***

The System categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72).

The hierarchy is based on the valuation inputs used to measure the fair value of an asset. The hierarchy categorizes the inputs to valuation techniques used for fair value measurement into Level 1, 2, and 3. The System does not hold Level 1, 2, or 3 investments.

The net asset value (NAV) per share is the amount of net assets attributable to each share outstanding at the close of the period. Investments measured using NAV for fair value are not subject to level classification.

The System's investments in mutual funds and PRIT are not publicly traded funds and are valued using NAV:

Description	Amount	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
Collective Investment Trusts :				
RITC World Equity Fund	\$ 7,469,725	\$ -	Daily	1 day
RITC High Yield Bond Fund	3,959,958	-	Daily	3 days
RITC Russell 1000 Index Fund	6,522,918	-	Daily	3 days
RITC Large Cap Defensive Equity Fund	6,756,071	-	Daily	1 day
RITC International Fund	10,224,506	-	Daily	1 day
RITC Emerging Mkts Fund	4,022,732	-	Daily	1 day
RITC Fixed Income Fund	20,689,652	-	Daily	1 day
RITC Small Cap Fund	2,749,018	-	Daily	1 day
RITC Global Real Estate SECS Fund	2,734,186	-	Daily	1 day
RITC Global Listed Infrastructure	2,709,346	-	Daily	1 day
External investment pools:				
PRIT General Allocation	32,803,872	-	Monthly	30 days
PRIT Core Real Estate	8,452,364	-	Monthly	30 days
PRIT Hedge Fund	10,530,959	-	Monthly	30 days
PRIT Private Equity VY 2016	493,925	513,809	Not eligible	N/A
PRIT Private Equity VY 2017	1,669,999	143,450	Not eligible	N/A
PRIT Private Equity VY 2018	1,478,374	215,726	Not eligible	N/A
PRIT Private Equity VY 2019	1,565,644	276,934	Not eligible	N/A
PRIT Private Equity VY 2020	1,368,096	258,760	Not eligible	N/A
PRIT Private Equity VY 2021	1,440,786	141,358	Not eligible	N/A
PRIT Private Equity VY 2022	548,460	1,295,931	Not eligible	N/A
PRIT Private Equity VY 2023	123,328	1,824,594	Not eligible	N/A
Total	\$ 128,313,919	\$ 4,670,562		

Private Equity/Pooled Alternative Investments (PRIT): PRIM expects to achieve portfolio diversification by investing in private equity and alternative debt, with managers representing various investment styles and concentrating on a variety of industries and locations. PRIM will make commitments to private equity funds over a sustained period of time, thereby limiting the portfolio's exposure to funds that are raised in the same year. PRIM will allocate its private equity investments broadly over two categories: Special Equity and Venture Capital.

Hedge Funds (PRIT): Hedge funds represent a distinctive investment style that is different from traditional, long-only asset classes. A fundamental difference is that hedge fund managers emphasize absolute, rather than relative returns, and they may also use a wider range of investment techniques, such as leverage, short selling, and derivatives to achieve their objectives. The Hedge Fund portfolio should have a low correlation with other asset classes and therefore help diversify. The objective for the hedge fund portfolio is to reduce the volatility of the total fund while continuing to generate returns in a variety of market environments.

Core Fund/General Allocation (PRIT): Over the long-term, asset allocation is the single greatest contributor of return and risk to the PRIT Fund. At reasonable intervals of not more than three to five years, PRIM will complete a comprehensive review of its Asset Allocation Plan and its underlying assumptions, including: the Commonwealth's current and projected pension assets and liabilities; long-term capital markets rate of return assumptions; and PRIM's risk tolerances. The PRIM Board shall examine the Asset Allocation Plan annually and shall consider adjustments to the Plan as may be appropriate given the Plan's long-term nature and objectives.

Real Estate Funds: The Real Estate portfolio is designed to provide stable income returns, low risk, and added diversification. While equity and bond-related indexes tend to suffer during periods of rising inflation, core real estate funds should exhibit returns during periods that are relatively similar to those they deliver during periods of expected inflation.

Domestic Equity Funds (RI): U.S. equity fund investment focuses on long-term capital appreciation while aiming to exhibit less volatility to outperform their benchmark on a risk adjusted basis.

Global or International Equity Funds (RI): International and global equity funds provide the potential for long-term growth of capital and aims to maximize total return. The managed volatility fund seeks to avoid high volatility stocks and selected only low-volatility stocks in an effort to deliver attractive risk-adjusted returns. The international and global funds aim to outperform the MSCI Emerging Markets Index Net over a full market cycle.

Domestic Fixed Income Fund: U.S. fixed income funds are designed to provide current income and capital appreciation through a variety of diversified strategies. The funds seek favorable returns comparable to the broad fixed income market as measured by the Bloomberg U.S. Aggregate Bond Index. U.S. High Yield Bond funds seek to provide current income and capital appreciation. The funds aim to outperform the ICE Bank of America Developed Markets High Yield Constrained Index over an interest rate cycle. The funds invest primarily in a diversified portfolio of non-investment grade rated debt instruments with a credit rating below BBB.

## **5. Contingencies**

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

## 6. Subsequent Events

Management has evaluated subsequent events through October 29, 2024, which is the date the financial statements were available to be issued.

## 7. Net Pension Liability of Participating Employers

The net pension liability was based on an actuarial valuation dated January 1, 2022 and rolled forward to December 31, 2023.

### ***Net Pension Liability of Employers***

The components of the net pension liability of the participating employers at December 31, 2023 were as follows:

Total pension liability	\$	139,575,157
Less: Plan fiduciary net position		<u>(128,441,656)</u>
Employers' net pension liability	\$	<u>11,133,501</u>
Plan fiduciary net position as a percentage of total pension liability		92.0%

### ***Actuarial Assumptions***

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

Valuation date	1/1/2022
Actuarial cost method	Entry Age Normal Cost Method
Remaining amortization period	6 years

#### Actuarial assumptions:

Investment rate of return	7.00%
Projected salary increases	4.50%
Post-retirement cost-of-living adjustment	3% on first \$15,000

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

Mortality rates were based on RP-2014 table adjusted to 2006 and projected generationally with MP-2021. Mortality rates for disabled retirees follows the same table as non-disabled retirees, set forward two years.

*Changes of Assumptions*

Discount rate decreased from 7.25% to 7.00%, while mortality improvement scale was updated from MP-2019 to MP-2021 and COLA base increased from \$13,000 to \$15,000. These changes increased the liability by \$4.0 million.

**Target Allocations**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation of 2.6%. Best estimates of geometric real rates of return for each major asset class included in the System’s targeted asset allocation as of December 31, 2023, are summarized in the following table.

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
US bonds - core	20.5%	3.10%
US bonds - dynamic	1.5%	3.90%
High yield bonds	3.0%	5.10%
Global equity	15.5%	5.10%
US large cap	11.0%	3.90%
US small cap	2.0%	3.40%
International equity developed	8.0%	5.60%
Emerging markets equity	3.0%	7.50%
Real estate	2.0%	4.40%
Private real estate	10.5%	5.40%
Global infrastructure	2.0%	4.50%
Timberland	1.0%	4.40%
Marketable alternatives	10.0%	5.70%
Private equity	10.0%	6.90%

***Discount Rate***

The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from participating employers will be made based on the actuarially determined rates based on the Board’s funding policy, which establishes the contractually required rates by Statute. Based on those assumptions, the System’s fiduciary net position was projected to be available to make all the projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

***Sensitivity of Discount Rate***

The following presents the net pension liability of the participating employers calculated using the discount rate of 7.00%, as well as what the participating employers’ net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower or 1 percentage-point higher than the current rate:

1% Decrease <u>(6.00%)</u>	Current Discount Rate <u>(7.00%)</u>	1% Increase <u>(8.00%)</u>
\$25,943,197	\$11,133,501	(\$1,415,662)

### **Deferred Outflows/Inflows of Resources**

The following summarizes changes in deferred outflows/inflows for the year ended December 31, 2023:

	Measurement Year	Amortization Period	Beginning Balance on Prior Measurement Period <u>Deferrals</u>	Current Measurement Period <u>Additions</u>	Amortization of Amounts Recognized in Current Period <u>Pension Expense</u>	End of Year <u>Balance</u>
<b>Deferred Outflows of Resources</b>						
Difference between expected and actual experience:	2020	4.7	\$ 1,814,973	\$ -	\$ (1,067,631)	\$ 747,342
Change in assumptions:	2022	4.7	2,198,496	-	(594,188)	1,604,308
Net differences between projected and actual earnings on pension plan investments:	2023	5.0	-	(3,594,107)	718,821	(2,875,286)
	2022	5.0	15,729,001	-	(3,932,250)	11,796,751
	2021	5.0	(5,959,924)	-	1,986,641	(3,973,283)
	2020	5.0	59,243	-	(29,621)	29,622
	2019	5.0	(1,778,629)	-	1,778,629	-
Changes in proportion and differences between contributions and proportionate share of contributions:	2023	4.7	-	30,414	(6,471)	23,943
	2022	4.7	43,216	-	(11,680)	31,536
	2021	4.7	75,541	-	(27,978)	47,563
	2020	4.7	4,044	-	(2,431)	1,613
	2019	4.3	<u>5,100</u>	<u>-</u>	<u>(5,100)</u>	<u>-</u>
Total Deferred Outflows of Resources			12,191,061	(3,563,693)	(1,193,259)	7,434,109
<b>Deferred Inflows of Resources</b>						
Difference between expected and actual experience:	2022	4.7	4,730,167	-	(1,278,423)	3,451,744
Change in assumptions:	2023	4.7	-	-	-	-
	2020	4.7	610,802	-	(359,295)	251,507
Changes in proportion and differences between contributions and proportionate share of contributions:	2023	4.7	-	30,414	(6,471)	23,943
	2022	4.7	43,216	-	(11,680)	31,536
	2021	4.7	75,541	-	(27,978)	47,563
	2020	4.7	4,044	-	(2,431)	1,613
	2019	4.3	<u>5,100</u>	<u>-</u>	<u>(5,100)</u>	<u>-</u>
Total Deferred Inflows of Resources			<u>5,468,870</u>	<u>30,414</u>	<u>(1,691,378)</u>	<u>3,807,906</u>
Total Collective Deferred Outflows/(Inflows) of Resources			\$ <u>6,722,191</u>	\$ <u>(3,594,107)</u>	\$ <u>498,119</u>	\$ <u>3,626,203</u>

**STONEHAM CONTRIBUTORY RETIREMENT SYSTEM**  
(A Component Unit of the City of Stoneham, Massachusetts)  
Required Supplementary Information  
Schedule of Changes in the Net Pension Liability

(Unaudited)

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
<b>Total Pension Liability</b>										
Service cost	\$ 2,937,022	\$ 2,721,055	\$ 2,603,881	\$ 2,336,615	\$ 2,235,992	\$ 2,139,709	\$ 2,047,568	\$ 1,959,395	\$ 1,892,280	\$ 1,810,794
Interest	9,413,404	9,613,327	9,382,079	8,944,825	8,759,422	8,742,692	8,513,362	8,358,786	8,240,349	8,016,557
Differences between expected and actual experience	-	(6,008,591)	-	5,017,867	-	(110,760)	-	-	-	-
Changes of benefit terms	-	1,306,085	-	-	-	-	-	(2,284,697)	-	-
Changes of assumptions	-	2,792,685	-	(1,688,687)	-	5,107,777	-	1,365,326	-	-
Benefit payments, including refunds of member contributions	<u>(8,630,938)</u>	<u>(8,890,913)</u>	<u>(8,936,057)</u>	<u>(8,757,563)</u>	<u>(8,319,945)</u>	<u>(7,610,099)</u>	<u>(7,777,887)</u>	<u>(7,206,972)</u>	<u>(6,760,615)</u>	<u>(7,373,458)</u>
Net Change in Total Pension Liability	3,719,488	1,533,648	3,049,903	5,853,057	2,675,469	8,269,319	2,783,043	2,191,838	3,372,014	2,453,893
Total Pension Liability - Beginning	<u>135,855,669</u>	<u>134,322,021</u>	<u>131,272,118</u>	<u>125,419,061</u>	<u>122,743,592</u>	<u>114,474,273</u>	<u>111,691,230</u>	<u>109,499,392</u>	<u>106,127,378</u>	<u>103,673,485</u>
Total Pension Liability - Ending (a)	<u>\$ 139,575,157</u>	<u>\$ 135,855,669</u>	<u>\$ 134,322,021</u>	<u>\$ 131,272,118</u>	<u>\$ 125,419,061</u>	<u>\$ 122,743,592</u>	<u>\$ 114,474,273</u>	<u>\$ 111,691,230</u>	<u>\$ 109,499,392</u>	<u>\$ 106,127,378</u>
<b>Plan Fiduciary Net Position</b>										
Contributions - employers	\$ 7,252,723	\$ 7,252,723	\$ 7,041,479	\$ 6,465,692	\$ 6,805,992	\$ 6,578,380	\$ 6,099,564	\$ 5,690,889	\$ 5,276,670	\$ 4,892,601
Contributions - members	1,913,873	1,767,974	1,721,248	1,677,755	1,626,284	1,497,813	1,469,429	1,376,935	1,323,924	1,394,426
Net investment income (loss)	11,754,301	(10,453,565)	17,867,753	7,304,415	15,275,904	(4,634,357)	13,113,308	6,476,051	427,356	5,239,667
Benefit payments, including refunds of member contributions	(8,630,938)	(8,890,913)	(8,936,057)	(8,757,563)	(8,319,945)	(7,610,099)	(7,777,887)	(7,206,972)	(6,760,615)	(7,373,458)
Administrative expenses	<u>(309,348)</u>	<u>(305,695)</u>	<u>(265,180)</u>	<u>(258,931)</u>	<u>(280,429)</u>	<u>(261,640)</u>	<u>(250,143)</u>	<u>(282,419)</u>	<u>(239,647)</u>	<u>(229,368)</u>
Net Change in Plan Fiduciary Net Position	11,980,611	(10,629,476)	17,429,243	6,431,368	15,107,806	(4,429,903)	12,654,271	6,054,484	27,688	3,923,868
Plan Fiduciary Net Position - Beginning	<u>116,461,045</u>	<u>127,090,521</u>	<u>109,661,278</u>	<u>103,229,910</u>	<u>88,122,104</u>	<u>92,552,007</u>	<u>79,897,736</u>	<u>73,843,252</u>	<u>73,815,564</u>	<u>69,891,696</u>
Plan Fiduciary Net Position - Ending (b)	<u>\$ 128,441,656</u>	<u>\$ 116,461,045</u>	<u>\$ 127,090,521</u>	<u>\$ 109,661,278</u>	<u>\$ 103,229,910</u>	<u>\$ 88,122,104</u>	<u>\$ 92,552,007</u>	<u>\$ 79,897,736</u>	<u>\$ 73,843,252</u>	<u>\$ 73,815,564</u>
Net Pension Liability - Ending (a-b)	<u>\$ 11,133,501</u>	<u>\$ 19,394,624</u>	<u>\$ 7,231,500</u>	<u>\$ 21,610,840</u>	<u>\$ 22,189,151</u>	<u>\$ 34,621,488</u>	<u>\$ 21,922,266</u>	<u>\$ 31,793,494</u>	<u>\$ 35,656,140</u>	<u>\$ 32,311,814</u>
Plan fiduciary net position as a percentage of the total pension liability	92.02%	85.72%	94.62%	83.54%	82.31%	71.79%	80.85%	71.53%	67.44%	69.55%
Covered payroll	\$ 19,010,439	\$ 18,109,327	\$ 17,924,392	\$ 17,055,524	\$ 16,149,414	\$ 15,393,845	\$ 15,158,456	\$ 14,457,252	\$ 13,761,993	\$ 13,086,805
Participating employer net pension liability as a percentage of covered payroll	58.6%	107.1%	40.3%	126.7%	137.4%	224.9%	144.6%	219.9%	259.1%	246.9%

See Independent Auditors' Report and Notes to Financial Statements.

**STONEHAM CONTRIBUTORY RETIREMENT SYSTEM**  
(A Component Unit of the City of Stoneham, Massachusetts)

Required Supplementary Information  
Schedules of Contributions and Investment Returns  
(Unaudited)

<b>Schedule of Contributions</b>	<u>FY 2023</u>	<u>FY 2022</u>	<u>FY 2021</u>	<u>FY 2020</u>	<u>FY 2019</u>	<u>FY 2018</u>	<u>FY 2017</u>	<u>FY 2016</u>	<u>FY 2015</u>	<u>FY 2014</u>
Actuarially determined contribution	\$ 7,252,723	\$ 7,252,723	\$ 7,041,479	\$ 6,465,692	\$ 6,805,992	\$ 6,578,380	\$ 6,099,564	\$ 5,690,889	\$ 5,276,670	\$ 4,892,601
Contributions in relation to the actuarially determined contribution	<u>(7,252,723)</u>	<u>(7,252,723)</u>	<u>(7,041,479)</u>	<u>(6,465,692)</u>	<u>(6,805,992)</u>	<u>(6,578,380)</u>	<u>(6,099,564)</u>	<u>(5,690,889)</u>	<u>(5,276,670)</u>	<u>(4,892,601)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>									
Covered payroll	\$ 19,010,439	\$ 18,109,327	\$ 17,924,392	\$ 17,055,524	\$ 16,149,414	\$ 15,393,845	\$ 15,158,456	\$ 14,457,252	\$ 13,761,993	\$ 13,086,805
Contributions as a percentage of covered payroll	38.2%	40.0%	39.3%	37.9%	42.1%	42.7%	40.2%	39.4%	38.3%	37.4%
<b>Schedule of Investment Returns</b>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money weighted rate of return, net of investment expense	10.1%	-8.2%	16.3%	7.1%	17.3%	-5.0%	16.3%	8.9%	0.5%	7.6%

See Independent Auditors' Report and Notes to Financial Statements.



## INDEPENDENT AUDITORS' REPORT

To the Retirement Board  
Stoneham Contributory Retirement System  
Town of Stoneham, Massachusetts

### *Opinion*

We have audited the accompanying schedule of employer allocations of the Stoneham Contributory Retirement System (the System) as of and for the year ended December 31, 2023. We have also audited the total for all entities of the titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified totals) included in the accompanying schedule of pension amounts by employer of the Stoneham Contributory Retirement System as of and for the year ended December 31, 2023.

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 Stoneham Contributory Retirement System as of and for the year ended December 31, 2023, 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 these schedules in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the schedules that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibilities for the Audit of the Schedules*

Our objectives are to obtain reasonable assurance about whether the 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 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 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.

*Marcum LLP*

Merrimack, NH  
October 29, 2024

**STONEHAM CONTRIBUTORY RETIREMENT SYSTEM**  
 (A Component Unit of the City of Stoneham, Massachusetts)

Schedule of Employer Allocations

<u>Employer</u>	2023 Actual Employer <u>Contributions</u>	Allocation <u>Percentage</u>
City of Stoneham	\$ 7,075,757	97.56%
Stoneham Housing Authority	<u>176,966</u>	<u>2.44%</u>
Total	\$ <u>7,252,723</u>	<u>100.00%</u>

See actuarial assumptions in the Stoneham Contributory Retirement System audited financial statements.

**STONEHAM CONTRIBUTORY RETIREMENT SYSTEM**  
(A Component Unit of the City of Stoneham, Massachusetts)

Schedule of Pension Amounts by Employer

As of and for the Year Ended December 31, 2023

	<u>Town of Stoneham</u>	<u>Stoneham Housing Authority</u>	<u>Total</u>
<b>Net Pension Liability</b>	\$ 10,861,844	\$ 271,657	\$ 11,133,501
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	\$ 729,107	\$ 18,235	\$ 747,342
Net difference between projected and actual investment earnings on pension plan investments	4,856,345	121,459	4,977,804
Changes of assumptions	1,565,163	39,145	1,604,308
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>71,557</u>	<u>33,098</u>	<u>104,655</u>
Total Deferred Outflows of Resources	<u>\$ 7,222,172</u>	<u>\$ 211,937</u>	<u>\$ 7,434,109</u>
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	\$ 3,367,521	\$ 84,223	\$ 3,451,744
Changes of assumptions	245,370	6,137	251,507
Net difference between projected and actual investment earnings on pension plan investments	-	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>33,098</u>	<u>71,557</u>	<u>104,655</u>
Total Deferred Inflows of Resources	<u>\$ 3,645,989</u>	<u>\$ 161,917</u>	<u>\$ 3,807,906</u>
<b>Pension Expense</b>			
Proportionate share of pension expense	\$ 2,036,651	\$ 50,937	\$ 2,087,588
Net amortization of deferred amounts from changes in proportion and differences between employer contributions and proportionate share of contributions	<u>15,297</u>	<u>(15,297)</u>	<u>-</u>
Total Pension Expense	<u>\$ 2,051,948</u>	<u>\$ 35,640</u>	<u>\$ 2,087,588</u>
<b>Contributions</b>			
Actuarially determined contribution	\$ 7,075,757	\$ 176,966	\$ 7,252,723
Contributions made	<u>(7,075,757)</u>	<u>(176,966)</u>	<u>(7,252,723)</u>
Contribution Deficiency / (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Contributions as a percentage of covered payroll	38.26%	34.14%	38.15%
<b>Deferred Outflows / (Inflows) Recognized in Future Pension Expense</b>			
June 30, 2025	\$ 1,063,110	\$ 4,899	\$ 1,068,009
June 30, 2026	543,755	(1,203)	542,552
June 30, 2027	2,666,069	68,395	2,734,464
June 30, 2028	<u>(696,752)</u>	<u>(22,070)</u>	<u>(718,822)</u>
Total Deferred Outflows / (Inflows) Recognized in Future Pension Expense	<u>\$ 3,576,182</u>	<u>\$ 50,021</u>	<u>\$ 3,626,203</u>
<b>Discount Rate Sensitivity</b>			
1% decrease (6.00%)	\$ 25,310,183	\$ 633,014	\$ 25,943,197
Current discount rate (7.00%)	\$ 10,861,844	\$ 271,657	\$ 11,133,501
1% increase (8.00%)	\$ (1,381,120)	\$ (34,542)	\$ (1,415,662)
<b>Covered payroll</b>	\$ 18,492,027	\$ 518,413	\$ 19,010,440

See actuarial assumptions in the Stoneham Contributory Retirement System's audited financial statements.