



**Powers &
Sullivan, LLC**
CPAs AND ADVISORS

ANDOVER CONTRIBUTORY RETIREMENT SYSTEM

***AUDIT OF SPECIFIC ELEMENTS, ACCOUNTS
AND ITEMS OF FINANCIAL STATEMENTS***

YEAR ENDED DECEMBER 31, 2022

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***Audit of Specific Elements, Accounts and
Items of Financial Statements***

Independent Auditor's Report

To the Honorable Andover Retirement Board
Andover Contributory Retirement System
Andover, Massachusetts

Report on the Audit of the Schedule of Employer Allocations and Schedule of Pension Amounts by Employer

Opinion

We have audited the accompanying schedule of employer allocations of the Andover Contributory Retirement System (ACRS) as of and for the year ended December 31, 2022, and the related notes. We have also audited the total for all entities of the rows titled net pension liability (asset), total deferred outflows of resources, total deferred inflows of resources, total contributions and total pension expense included in the accompanying schedule of pension amounts by employer of the ACRS Pension Plan as of and for the year ended December 31, 2022, and the related notes.

In our opinion, the accompanying schedule of employer allocations and schedule of pension amounts by employer present fairly, in all material respects, the employer allocations and net pension liability (asset), total deferred outflows of resources, total deferred inflows of resources, total contributions and total pension expense for the total of all participating entities for the Andover Contributory Retirement System as of and for the year ended December 31, 2022, 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 Auditor's Responsibilities for the Audit of the Schedules section of our report. We are required to be independent of the ACRS 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.

Auditor's Responsibilities for the Audit of the Schedules

Our objectives are to obtain reasonable assurance about whether the schedule of employer allocations and the specified row totals included in the schedule of pension amounts by employer as a whole are free from material

misstatement, whether due to fraud or error, and to issue an auditor's 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 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 purposes of expressing an opinion on the effectiveness of the ACRS'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.

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 Town of Andover, Massachusetts, which includes the Andover Contributory Retirement System reported as a fiduciary component unit, as of and for the year ended June 30, 2023 (except for the Andover Contributory Retirement System which is as of and for the year ended December 31, 2022), and our report thereon, dated December 12, 2023, expressed an unmodified opinion on those financial statements.

Restriction on Use

This report is intended solely for the information and use of the Andover Contributory Retirement System management, the Andover Contributory Retirement System employers and their auditors and is not intended to be and should not be used by anyone other than these specified parties.



January 3, 2024

SCHEDULE OF EMPLOYER ALLOCATIONS

FOR THE YEAR ENDED DECEMBER 31, 2022

Employer	FY2023 Total Pension Liability	Proportionate Share of Total Pension Liability
Town of Andover.....	\$ 381,211,604	98.98%
Andover Housing Authority.....	<u>3,938,183</u>	<u>1.02%</u>
Total.....	<u>\$ 385,149,787</u>	<u>100.00%</u>

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

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

FOR THE YEAR ENDED DECEMBER 31, 2022

	<u>Town of Andover</u>	<u>Andover Housing Authority</u>	<u>Totals</u>
<u>Net Pension Liability</u>			
Beginning net pension liability (asset).....	\$ (9,274,101)	\$ 2,285,667	\$ (6,988,434)
Ending net pension liability.....	\$ 39,524,218	\$ 2,100,670	\$ 41,624,888
<u>Deferred Outflows of Resources</u>			
Differences between expected and actual experience.....	\$ 1,487,207	\$ 15,364	\$ 1,502,571
Net difference between projected and actual investment earnings on pension plan investment.....	21,526,043	22,037	21,548,080
Changes of assumptions.....	<u>9,170,094</u>	<u>94,733</u>	<u>9,264,827</u>
Total Deferred Outflows of Resources.....	<u>\$ 32,183,344</u>	<u>\$ 132,134</u>	<u>\$ 32,315,478</u>
<u>Deferred Inflows of Resources</u>			
Differences between expected and actual experience.....	\$ 5,468,806	\$ 56,497	\$ 5,525,303
Changes of assumptions.....	<u>2,054,725</u>	<u>21,227</u>	<u>2,075,952</u>
Total Deferred Inflows of Resources.....	<u>\$ 7,523,531</u>	<u>\$ 77,724</u>	<u>\$ 7,601,255</u>
<u>Pension Expense</u>			
Share of pension expense.....	<u>\$ 15,594,384</u>	<u>\$ 161,101</u>	<u>\$ 15,755,485</u>

(Continued)

SCHEDULE OF PENSION AMOUNTS BY EMPLOYER

FOR THE YEAR ENDED DECEMBER 31, 2022

	Town of Andover	Andover Housing Authority	Totals
<u>Contributions</u>			
Statorily required contribution.....	\$ 6,253,956	\$ 160,081	\$ 6,414,037
Contribution in relation to statorily required contribution.....	<u>(6,253,956)</u>	<u>(160,081)</u>	<u>(6,414,037)</u>
Contribution deficiency/(excess).....	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
Contributions as a percentage of covered payroll.....	15.04%	27.56%	15.22%
<u>Deferred (Inflows)/Outflows Recognized in Future Pension Expense</u>			
June 30, 2024.....	\$ 2,933,661	\$ 42,829	\$ 2,976,490
June 30, 2025.....	6,906,229	62,578	6,968,807
June 30, 2026.....	5,220,227	(35,400)	5,184,827
June 30, 2027.....	<u>9,599,696</u>	<u>(15,597)</u>	<u>9,584,099</u>
Total Deferred Inflows/(Outflows) Recognized in Future Pension Expense.....	\$ <u>24,659,813</u>	\$ <u>54,410</u>	\$ <u>24,714,223</u>
<u>Discount Rate Sensitivity</u>			
1% decrease (4.75%).....	\$ 86,161,145	\$ 2,582,462	\$ 88,743,607
Current discount rate (5.75%).....	\$ 39,524,218	\$ 2,100,670	\$ 41,624,888
1% increase (6.75%).....	\$ 347,595	\$ 1,695,948	\$ 2,043,543
Covered Payroll.....	\$ 41,572,121	\$ 580,881	\$ 42,153,002
			(Concluded)

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

NOTE 1 – Plan Description

The Andover Contributory Retirement System (ACRS) is a multiple-employer, cost-sharing, contributory defined benefit pension plan covering all employees of the governmental member units deemed eligible by the Andover Contributory Retirement Board (Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts' Teachers Retirement System. Membership in the ACRS is mandatory immediately upon the commencement of employment for all permanent employees working a minimum of 20 hours per week. The ACRS has two participating employers.

The ACRS is governed by a five-member board comprised of the Town Accountant (ex-officio), two members elected by the ACRS's participants, one member appointed by the Select Board and one member appointed by the Board members.

The ACRS is a component unit of the Town of Andover and is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. That report may be obtained by contacting the Town Accountant located at 36 Bartlet Street, Andover, Massachusetts 01810.

NOTE 2 – Schedule of Employer Allocations

Governmental Accounting Standards Board (GASB) Statement #68 requires employers participating in a cost-sharing pension plan to recognize pension liabilities as employees provide services to the government and earn their pension benefits. Employers participating in cost-sharing plans are required to recognize their proportionate share of the plan's collective pension amounts for all benefits provided through the plan including the net pension liability (asset), deferred outflows of resources, deferred inflows of resources, pension expense, and contributions.

GASB Statement #68 requires the allocation of the collective pension amounts be consistent with the manner in which contributions to the plan are determined. As permissible under GASB Statement #68, the Schedule of Employer Allocations is used to demonstrate the allocation of Andover Contributory Retirement System's collective pension amounts.

Massachusetts General Law (MGL) Chapter 32 Section 22 Paragraph 7c dictates that Massachusetts cost sharing defined benefit pension plans allocate the annual required pension fund appropriation to employer units based on their proportionate share of the aggregate of the annual rates of regular compensation of all members in service of the system. The Public Employee Retirement Administration Commission (PERAC) approves each system's proportionate share of the annual required contribution. PERAC can accept alternative allocation methodologies and as such the ACRS has elected to use an actuarial based allocation methodology.

Each member unit's proportionate share of the total pension liability has been calculated based on each member unit's actual current employees, retirees and inactive participants. Each member's share of the ACRS's net position at year end is calculated by starting with the balance carried forward from the prior year. Each member unit is then credited with the actual required contribution received during the year along with any excess contributions received. Each member unit's share is reduced by the actual payment made to their specific retirees. Net investment income is allocated based on each member's money-weighted rate of return. All other shared expenses are allocated based on the proportionate share of benefits paid. The difference between the total pension liability and the net position is reported as the net pension liability (asset).

When a member unit accepts an Early Retirement Incentive Program (E.R.I. or ERIP), PERAC completes an analysis of the costs and liabilities attributable to the additional benefits payable in accordance with the ERIP. For

employers that accept the ERIP, the increase in the liability attributable to each employer is amortized and separately identified in the System's actuarially determined funding schedule. Neither of the member units have accepted an ERIP.

NOTE 3 – Schedule of Pension Amounts by Employer

The Schedule of Pension Amounts by Employer presents the net pension liability (asset), the various categories of deferred outflows of resources and deferred inflows of resources, and pension expense, and contributions for all participating employers including differences between expected and actual economic experience, differences between projected and actual investment earnings, net changes in proportionate share of contributions, and changes of assumptions.

NOTE 4 – Pension Plan Information

Benefits Provided

The ACRS provides retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The ACRSs provide retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the ACRS.

Contributions

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences as mandated by statute. The member units are required to pay into the ACRS 100% of the actuarially determined contribution that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

Pension Liabilities

The net pension liability (asset) was measured as of December 31, 2022, and the total pension liability used to calculate the net pension liability (asset) was determined by an actuarial valuation as of January 1, 2023. The proportion of the net pension liability (asset) was based on the proportion of the total pension liability relative to the proportion of the total pension liability attributable to all participating members.

Investment Policy

The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan 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.

The long-term expected rate of return on pension plan investments was selected by the Town. This rate is within a reasonable range for a 10-year expected return calculated using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation less investment expense and a risk factor. The ACRS’s expected future real rate of return is added to the expected inflation rate to produce the long-term nominal expected rate of return. Best estimates of the arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of December 31, 2022, are summarized in the following table:

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Domestic equity.....	40.00%	4.50%
International equity.....	15.00%	5.05%
Private equity.....	5.00%	7.60%
Real estate.....	12.50%	3.10%
Fixed income.....	25.00%	3.14%
Portfolio Completion Strategies.....	2.50%	3.90%
Total.....	100.00%	

Actuarial Assumptions

The total pension liability in the January 1, 2023, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was rolled back to December 31, 2022:

Valuation date.....	January 1, 2023
Actuarial cost method.....	Entry Age Normal Cost Method
Inflation rate.....	2.40%
Projected salary increases.....	Group 1: 6.00% - 4.25%, based on service Group 4: 7.00% - 4.75%, based on service
Cost of living adjustments.....	3.00% of first \$13,000 of the annual retirement allowance as of July 1, 2022 and will be increasing to \$14,000 July 1, 2023
Mortality Rates.....	Mortality rates were based on the RP-2014 Blue Collar Mortality Table with full generational mortality improvement using Scale MP-2021. For disabled lives, the mortality rates were based on the RP-2014 Blue Collar Mortality Table set forward one year with full generational mortality improvement using Scale MP-2021.
Investment rate of return/Discount rate.....	5.75%, net of pension plan investment expense, including inflation

Rate of Return

For the year ended December 31, 2022, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was -8.74%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount Rate

The discount rate used to measure the total pension liability was 5.75% as of December 31, 2022, and December 31, 2021. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued Town of Andover, Massachusetts' annual comprehensive financial report.

Changes of Assumptions

The mortality improvement rates were updated since the last measurement date.

Changes in plan provisions

Effective July 1, 2022, the COLA base was increased from \$12,000 to \$13,000 and effective July 1, 2023, the COLA base will increase from \$13,000 to \$14,000. All other benefit provisions remained the same from the prior measurement date.

NOTE 5 – Subsequent Events

Management has evaluated subsequent events through January 3, 2024, which is the date the schedules were available to be issued.