

Hampshire County Retirement System

**Independent Auditors' Report and
Management's Schedule of
Employer Allocations and
Schedule of Pension Amounts
By Employer**

December 31, 2014

Ron L. Beaulieu & Company

CERTIFIED PUBLIC ACCOUNTANTS

HAMPSHIRE COUNTY RETIREMENT SYSTEM

DECEMBER 31, 2014

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INDEPENDENT AUDITORS' REPORT

To the Administrator of
Hampshire County Retirement System
Northampton, Massachusetts

Report on the Schedules

We have audited the accompanying schedule of employer allocations of Hampshire County Retirement System as of and for the year ended December 31, 2014 and 2013, and the related notes. We have also audited the total for all entities of the columns titled net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense (specified column totals) included in the accompanying schedule of pension amounts by employer of Hampshire County Retirement System as of and for the year ended December 31, 2014, the total for all entities of the column titled net pension liability included in the accompanying schedules of pension amounts by employer of Hampshire County Retirement System as of December 31, 2013 (collectively, the specified column totals), and the related notes.

Management's Responsibility for the Schedules

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

Auditor's Responsibility

Our responsibility is to express opinions on the schedule of allocations and the specified column totals included in the schedule of pension amounts by employer based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the schedule of employer allocations and specified column totals included in the schedule of

pension amounts by employer in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting polices used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the schedule of employer allocations and specified column totals included in the schedule of pension amounts by employer.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the schedules referred to above present fairly, in all material respects, the employer allocations and net pension liability, total deferred outflows of resources, total deferred inflows of resources, and total pension expense for the total of all participating entities for Hampshire County Retirement System, as of and for the years ended December 31, 2014, and the employer allocations and net pension liability for the total of all participating entities for Hampshire County Retirement System as of and for the year ended December 31, 2013, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Hampshire County Retirement System as of and for the year ended December 31, 2014, and our report thereon, dated October 29, 2015, expressed an unmodified opinion on those financial statements.

Restriction of Use

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

Ron L. Beaulieu & Co.

Portland, Maine
January 12, 2016

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
SCHEDULE OF EMPLOYER ALLOCATIONS
AS OF AND YEARS ENDED DECEMBER 31,**

Employer	2014		2013	
	Actual Employer Contributions	Employer Allocation Percentage	Actual Employer Contributions	Employer Allocation Percentage
Hampshire Council of Governments	\$ 211,344	1.21222%	\$ 218,386	1.36463%
Town of Amherst	4,696,387	26.93750%	4,396,020	27.46935%
Amherst Housing Authority	139,219	0.79853%	117,712	0.73555%
Amherst-Pelham Regional School District	1,027,805	5.89527%	961,035	6.00521%
Town of Belchertown	2,243,094	12.86591%	2,053,059	12.82892%
Belchertown Housing Authority	5,982	0.03431%	18,586	0.11614%
Belchertown Water District	31,869	0.18279%	27,879	0.17421%
Town of Chesterfield	72,125	0.41369%	66,600	0.41616%
Chesterfield/Goshen Regional School District	65,416	0.37521%	58,856	0.36777%
Town of Cummington	36,902	0.21166%	34,074	0.21292%
Foothills Health District	6,709	0.03848%	6,196	0.03872%
Gateway Regional School District	511,587	2.93436%	489,433	3.05831%
Town of Goshen	51,998	0.29825%	48,014	0.30002%
Town of Granby	800,570	4.59190%	744,938	4.65488%
Granby Housing Authority	21,805	0.12507%	13,940	0.08711%
Town of Hadley	827,802	4.74810%	744,184	4.65017%
Hadley Housing Authority	6,836	0.03921%	12,867	0.08040%
Hampshire County Regional Housing Authority	5,032	0.02886%	4,647	0.02904%
Hampshire County Regional School District	385,063	2.20864%	359,627	2.24720%
Town of Hatfield	399,206	2.28976%	385,078	2.40623%
Hatfield Housing Authority	8,387	0.04811%	7,744	0.04839%
Town of Huntington	87,837	0.50381%	86,800	0.54239%
Town of Middlefield	36,902	0.21166%	32,526	0.20324%
Town of Pelham	230,857	1.32415%	76,542	0.47829%
Town of Plainfield	41,933	0.24052%	38,721	0.24196%
Quabbin Health District	44,512	0.25531%	41,500	0.25932%
South Hadley Fire District #1	451,203	2.58801%	422,833	2.64215%
South Hadley Fire District #2	196,248	1.12564%	161,079	1.00653%
Town of South Hadley	2,173,774	12.46831%	2,025,558	12.65708%
South Hadley Housing Authority	41,933	0.24052%	38,721	0.24196%
So Hadley-Granby-Easthampton Veterans District	11,742	0.06735%	10,842	0.06775%
Town of Southamptn	572,670	3.28471%	495,677	3.09733%
Town of Ware	1,496,250	8.58217%	1,377,740	8.60907%
Ware Housing Authority	47,175	0.27059%	31,723	0.19823%
Town of Westhampton	154,315	0.88512%	136,298	0.85168%
Town of Williamsburg	226,971	1.30186%	195,941	1.22437%
Town of Worthington	64,933	0.37244%	61,984	0.38732%
Total	\$ 17,434,393	100.00000%	\$ 16,003,360	100.00000%

See Independent Auditors' Report and management's notes to schedules.

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
SCHEDULE OF PENSION AMOUNTS BY EMPLOYER
AS OF AND YEARS ENDED DECEMBER 31,**

Employer	2014 Deferred Outflows of Resources		2014 Deferred Inflows of Resources		2014 Pension Expense			
	December 31, 2013 Net Pension Liability	December 31, 2014 Net Pension Liability	Net Difference Between Projected and Actual Investment Earnings on Pension Plan and Actual Experience	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Assumptions	Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Assumptions	Total Deferred Inflows Resources	Total Deferred Amounts from Changes in Proportion	Total Pension Expense
Hampshire Council of Governments	2,449,529	2,261,352	\$ -	\$ -	\$ -	\$ 250,194	\$ (23,383)	\$ 201,629
Town of Amherst	49,307,841	50,250,949	1,594,056	-	-	873,081	(81,596)	4,918,523
Amherst Housing Authority	1,320,322	1,489,629	47,254	-	-	103,387	9,662	157,885
Amherst Pelham Regional School District	10,779,430	10,997,417	348,859	-	-	180,477	(16,867)	1,077,409
Town of Belchertown	23,038,079	24,000,888	761,354	-	-	60,722	6,575	2,399,836
Belchertown Housing Authority	268,473	64,004	(2,030)	-	-	134,332	(12,554)	(6,185)
Belchertown Water District	340,988	340,988	10,817	-	-	14,085	1,316	32,245
Town of Chesterfield	747,013	771,724	24,461	-	-	4,055	(379)	76,410
Chesterfield/Goshen Regional School District	660,152	699,941	22,203	-	-	12,213	1,141	70,767
Town of Cummington	362,194	394,844	12,525	-	-	2,068	(193)	39,095
Foodfalls Health District	69,503	71,783	2,277	-	-	384	(37)	7,106
Gateway Regional School District	5,489,706	5,473,944	(173,644)	-	-	203,475	(19,016)	525,658
Town of Goshen	538,540	595,375	17,649	-	-	2,906	(272)	55,089
Town of Granby	8,355,570	8,566,026	271,731	-	-	103,387	(9,662)	842,683
Granby Housing Authority	156,364	233,314	7,401	-	-	103,387	5,824	29,039
Town of Hadley	8,347,116	8,857,412	280,974	-	-	160,761	15,024	896,363
Hadley Housing Authority	144,319	73,145	(2,320)	-	-	67,617	(6,319)	959
Hampshire County Regional Housing Authority	52,127	53,837	1,708	-	-	295	(28)	5,329
Hampshire County Regional School District	4,033,753	4,120,139	130,699	-	-	63,300	(6,916)	404,050
Town of Hatfield	4,319,214	4,271,466	(135,499)	-	-	191,196	(17,869)	407,155
Hatfield Housing Authority	86,861	88,747	2,847	-	-	460	(43)	8,887
Town of Huntington	973,597	938,840	(29,814)	-	-	63,333	(6,919)	87,598
Town of Middlefield	364,818	394,844	12,525	-	-	39,288	1,292	40,580
Town of Pelham	858,537	2,470,155	78,358	-	-	13,823	129,772	375,560
Town of Plainfield	434,321	448,682	14,233	-	-	8,930	(221)	44,424
Quabbin Health District	465,483	476,272	15,108	-	-	2,364	(615)	46,775
South Hadley Fire District #1	4,742,694	4,827,841	153,148	-	-	6,563	(8,306)	472,079
South Hadley Fire District #2	1,806,734	2,099,841	66,611	-	-	88,876	18,274	227,214
Town of South Hadley	23,259,189	23,259,189	737,826	-	-	309,884	(28,961)	2,285,398
South Hadley Housing Authority	434,321	448,682	14,233	-	-	2,364	(221)	44,424
So Hadley-Granby-Easthampton Veterans District	121,612	125,639	3,986	-	-	657	(61)	12,440
Town of Southampton	5,559,748	6,127,510	194,376	-	-	609,706	28,748	638,454
Town of Ware	15,453,393	16,009,733	507,859	-	-	44,159	(4,127)	1,598,869
Ware Housing Authority	355,825	504,776	16,012	-	-	50,227	11,101	61,328
Town of Westhampton	1,528,777	1,651,160	52,378	-	-	164,295	5,130	169,425
Town of Williamsburg	2,197,760	2,428,574	77,039	-	-	241,650	11,889	253,539
Town of Worthington	695,244	694,574	(22,040)	-	-	24,426	(2,283)	66,849
Total	\$ 179,501,303	\$ 186,546,446	\$ 5,917,608	\$ -	\$ -	\$ 2,619,883	\$ 18,561,928	\$ 18,561,928

See Independent Auditors' Report and management's notes to schedules.

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
NOTES TO SCHEDULES
DECEMBER 31, 2014**

NOTE 1 - DESCRIPTION OF PLAN

The following description of the Hampshire County Retirement System (the Plan), a cost sharing multiemployer plan serving 37 employers, provides only general information. Participants should refer to the Plan agreement for a complete description of the Plan's provisions.

General

The Plan is a defined benefit plan covering all member unit employees deemed eligible by the retirement board, with the exception of the school department employees who serve in a teaching capacity.

Plan Amendments

The Plan did not adopt any significant plan amendments during 2014.

Administration of the Plan

The Plan is administered by a five person Board of Retirement consisting of the Chairperson who shall be appointed by the other four board members, a second member appointed by the Advisory Council, a third and fourth member who shall be elected by the members in or retired from the service of the Plan, and a fifth member, who shall not be a member of the Plan, appointed by the other four board members. The Board of Retirement has the authority to amend or establish policies that are not governed by Massachusetts Law or the Public Employee Retirement Administration Commission.

Contributions

Participation in the plan is required for all full-time employees. There are three classes of membership:

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.

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
NOTES TO SCHEDULES
DECEMBER 31, 2014**

NOTE 1 - DESCRIPTION OF PLAN (CONTINUED)

Membership of each group as of December 31, 2014:

<u>Group</u>	Active members	Inactive (retired) members receiving benefits	Inactive (retired) members entitled to benefits but not yet receiving benefits	Total
Group 1	1,619	969	531	3,119
Group 2 & 4	403	211	157	771
	<u>2,022</u>	<u>1,180</u>	<u>688</u>	<u>3,890</u>

Member contributions vary depending on the most recent date of membership:

Prior to 1975:	5% of compensation
1975-1983:	7% of compensation
1984-6/30/96:	8% of compensation
7/1/96-present:	9% of compensation
1979 to present:	an additional 2% of compensation in excess of \$30,000

Upon termination, a member may withdraw their contributions plus statutory interest.

Employers were required to contribute \$17,436,197, for the years ended December 31, 2014.

Payment of Benefits

Once a member has met one of the conditions below, they are eligible to receive benefits:

Tier 1 (Membership prior to April 2, 2012):

- 1) Completion of 20 years of service, or
- 2) Reach age 55 if hired prior to 1978, or classified as Group 4, or
- 3) Reach age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 and 2, or
- 4) Disabled or death

Tier 2 (Membership on or after April 2, 2012):

- 1) If classified as Group 1, attain age 60 with 10 years of creditable service, or
- 2) If classified as Group 2, attain age 55 with 10 years creditable service, or
- 3) If classified as Group 4, attain age 55, or
- 4) Disabled or death

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
NOTES TO SCHEDULES
DECEMBER 31, 2014**

NOTE 1 - DESCRIPTION OF PLAN (CONTINUED)

The amount of benefit is determined by their benefit rate and cannot exceed 80% of the member's highest three year average compensation. The benefit amount may be adjusted for a cost of living adjustment by annual vote of the Retirement Board. Cost of Living adjustment may be granted in an amount determined by the Retirement Board up to a maximum of 3% on the first \$13,000.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The schedules are prepared using the accrual method of accounting.

Basis of Allocation

The Schedule of Employer Allocations is prepared using the historical measure basis of actual contributions.

NOTE 3 - NET PENSION LIABILITY

The net pension liability is the actuarial total liability less the fiduciary net position. The components of the net pension liability are as follows:

	<u>2014</u>	<u>2013</u>
Total pension liability	\$444,932,878	\$426,123,349
Plan fiduciary net position	258,386,432	246,622,046
Net pension liability (asset)	<u>\$186,546,446</u>	<u>\$179,501,303</u>

The following are significant assumptions used to measure the total pension liability and projected cash flows:

- 1) Discount rate is estimated to be 7.875% per year based on prior results
- 2) Inflation is estimated to be 3%
- 3) Asset allocation is estimated to be 23% cash, receivables, payables, and fixed income; and 77% equities, alternative investments, hedges, and real estate.
- 4) Increase in salaries will be 5.9% per year
- 5) Mortality was based upon the RP2000 Table project 19 years with scale BB
- 6) Cost of Living Allowance base was increased from \$12,000 to \$13,000.
- 7) Experience studies are based on data provided from Hampshire County Retirement Board as of December 31, 2013.

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
NOTES TO SCHEDULES
DECEMBER 31, 2014**

NOTE 4 – COMPONENTS OF SCHEDULES OF PENSION AMOUNTS BY EMPLOYER

Net Pension Liability

The Net Pension Liability is the product of the Total Net Pension Liability multiplied by the Employer Allocation Percentage for the years ended December 31, 2014 and 2013.

Net Difference between Projected and Actual Investment Earnings on Pension Plan Investments

The difference between the actual earnings on plan investments compared to the plan's expected rate of return of 7.875% is amortized over a closed period of 5 years. The amount of the difference between projected and actual earnings for the years ended December 31, 2014 is \$7,397,011. The first year of amortization, \$1,479,402, is recognized as pension expense, and the remaining amount, \$5,917,608, is shown as a deferred outflow of resources. Each employer's proportionate share of this amount is the product of the Total Net Difference Between Projected and Actual Investment Earnings on Pension Plan Investments multiplied by the Employer's Allocation Percentage for the year ended December 31, 2014, as shown in the schedules of employer allocations.

Changes in Proportion and Differences Between Employer Contributions and Proportionate Share of Contributions

The Changes in Proportion are the December 31, 2014 Net Liability multiplied by the December 31, 2013 Employer Allocation Percentage less the current year Net Pension Liability. The changes in proportion are amortized over the average expected remaining service life of members, which is 11.7 years in 2014. The first year is recognized as pension expense and the remaining years are shown as either deferred outflows of resources or deferred inflows of resources.

Pension Expense

Each employer's proportionate share of the collective pension expense is equal to the Total Pension Expense multiplied by the Employer's Allocation Percentage for the year ended December 31, 2014, as shown in the schedules of employer allocations.

Subsequent to the measurement date of the pension liability, there were adjustments made to the financial statements of the Plan.

Below is the reconciliation between the Actuarial Certification report and the Schedule of Pension Amounts by Employer:

Actuarial Certification Report	\$ 18,569,055
Year end accruals	<u>(7,127)</u>
Total Pension Expense	<u>\$ 18,561,928</u>

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
NOTES TO SCHEDULES
DECEMBER 31, 2014**

NOTE 5 – FUTURE RECOGNITION OF DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

<u>Total</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>Thereafter</u>
\$ 5,917,608	1,479,402	1,479,402	1,479,402	1,479,402	-	-

NOTE 6 - MANAGEMENT REVIEW

Management has reviewed subsequent events as of January 12, 2016, the date the schedules were available to be issued. At that time, there were no material subsequent events.