

**Hampshire County
Retirement System**

**Independent Auditors' Report and
Management's Financial Statements**

December 31, 2015

Ron L. Beaulieu & Company

CERTIFIED PUBLIC ACCOUNTANTS

HAMPSHIRE COUNTY RETIREMENT SYSTEM

DECEMBER 31, 2015

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INDEPENDENT AUDITORS' REPORT

To the Administrator of
Hampshire County Retirement System
Northampton, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Hampshire County Retirement System as of and for the year ended December 31, 2015, and the related notes to the financial statements, as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hampshire County Retirement System, as of December 31, 2015, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3.1 through 3.6 and the schedules of net pension liability on pages 12 through 16 be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Ron L. Beaulieu & Co.

Portland, Maine
November 09, 2016

Management's Discussion and Analysis

Year ended December 31, 2015

This section presents Management's Discussion and Analysis (MD&A) of the Hampshire County Retirement System's (HCRS or the "Plan") financial activity and performance as of and for the year ended December 31, 2015. The MD&A is unaudited and is intended to serve as an introduction to the Plan's basic financial statements, as well as to offer readers of the Plan's financial statements a narrative view and analysis of the HCRS' financial activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The basic financial statements consist of the: (1) Statements of Fiduciary Net Position; (2) Statements of Changes in Fiduciary Net Position; (3) Notes to the Financial Statements; and (4) Required Supplementary Information.

The Statements of Fiduciary Net Position report the Plan's assets, liabilities, and net position restricted for pensions at the end of the calendar year calculated using the following formula: $\text{Assets} - \text{Liabilities} = \text{Net position restricted for pensions}$.

The Statements of Fiduciary Net Position report the financial position of the Plan at a given point in time, in this case, December 31. Over time, the increase or decrease in fiduciary net position serves as a useful indicator of the Plan's financial health.

The Statements of Changes in Fiduciary Net Position report additions to and deductions from the Plan during the calendar year. The formula here is: $\text{Additions} - \text{Deductions} = \text{Net Increase (Decrease) in Plan Fiduciary Net Position}$. The Statements of Changes in Fiduciary Net Position report activity occurring over a specific period of time, in this case, the year beginning January 1 and ending December 31.

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the Plan's financial statements.

The Required Supplementary Information following the Notes to the Financial Statements consists of the schedules of changes in net pension liability and related ratios, investment returns, contributions, and notes to schedule of contributions.

These statements and schedules are prepared in conformity with U.S. generally accepted accounting principles, including the new accounting and financial reporting requirements found in GASB Statement No. 67.

FINANCIAL HIGHLIGHTS

The fiduciary net position of the Plan as of December 31, 2015) totaled \$256.9 million, a decrease of \$1.5 million, or -0.59% from December 31, 2014. The decrease in net fiduciary net position is due to negative cash flow. Investment returns were positive but small (0.32%). There was an \$1.2 million (5.62%) increase in benefits paid with 68 new retirees and 44 deceased retirees. There was an increase of 211 new active members with 158 active members withdrawing or transferring to other systems. Refunds to terminated members and Transfers to other systems increased by \$324,414 (10.2%). Total contributions increased by \$1.4 million (5.5%) and Total deductions increased by \$1.7 million (6.32%)

Fiduciary net position is the residual of the Plan's assets in excess of the Plan's liabilities as of the date of the Statements of Fiduciary Net Position. The Plan's assets are held in trust to meet future benefit payments. For reporting purposes in accordance with the Government Accounting Standards Board (GASB), as of December 31, 2015, the Plan's fiduciary net position as a percentage of the total pension liability was 55.3% with a funding schedule to become 100% funded in 2034.

FINANCIAL ANALYSIS

Total assets are comprised of cash and cash equivalents; investments at fair value; and receivables comprised of contributions due from plan members and investments sold but not yet received. Total Assets as of December 31, 2015 was \$257 million a decrease of \$1.5 million (-0.58%) from December 31, 2014. The large cash position is unusual and was due to the timing in receipt and redeployment of investments resulting from rebalancing to asset allocation targets.

Total liabilities as of December 31, 2015 were approximately \$97,240 and total liabilities as of December 31, 2014 were approximately \$80,258. Total liabilities are comprised of payables for benefits payments due, accrued employee payroll and accrued compensated absences.

Fiduciary net position is the residual of the Plan's assets in excess of the Plan's liabilities as of the date of the Statements of Fiduciary Net Position. Total fiduciary net position held in trust for payment of future pension benefits totaled \$256.9 million which represents an decrease of \$1.5 million or -0.59% from 2014.

ASSETS AND LIABILITIES – FIDUCIARY NET POSITION 2015

	<u>2015</u>	<u>2014</u>	<u>Total \$ Change</u>	<u>Total % Change</u>
Assets				
Cash and cash equivalents	15,207,180	2,141,887	13,065,293	609.99%
Investments	240,599,412	255,811,148	(15,211,736)	-5.95%
Receivables	1,151,029	513,655	637,374	46.12%
Total Assets	256,957,621	258,466,690	(1,509,069)	-0.58%
Liabilities				
Payables	12,432	1,031	11,401	1105.82%
Accrued payroll	5,511	3,954	1,557	39.38%
Accrued compensated absences	79,297	75,273	4,024	5.35%
Total Liabilities	97,240	80,258	16,982	21.16%
Fiduciary Net Position	256,860,381	258,386,432	(1,526,051)	-0.59%

ASSETS AND LIABILITIES – FIDUCIARY NET POSITION 2014

	<u>2014</u>	<u>2013</u>	<u>Total \$ Change</u>	<u>Total % Change</u>
Assets				
Cash and cash equivalents	2,141,887	4,932,273	(2,790,386)	-56.6%
Investments	255,811,148	239,127,751	16,683,397	7.0%
Receivables	513,655	2,674,385	(2,160,731)	-80.8%
Total Assets	258,466,690	246,653,426	11,732,280	4.8%
Liabilities				
Payables	1,031	39,317	(38,286)	-97.4%
Accrued payroll	3,954	2,511	1,443	57.5%
Accrued compensated absences	75,273	70,537	4,721	6.7%
Total Liabilities	80,258	112,365	(32,107)	-28.6%
Fiduciary Net Position	258,386,432	246,622,045	11,764,386	4.8%

REVENUES - ADDITIONS TO PLAN FIDUCIARY NET POSITION

Revenue (Additions to the HCRS' fiduciary net position) includes contributions from members, employers, non-employer entities, transfers in from other retirement systems and net investment income. For plan year 2015 revenues totaled approximately \$26.2 million compared to \$37.8 million in 2014.

Member contributions comprised of regular contributions and makeup/redeposit purchases of prior service totaled approximately \$7.3 million, an increase of \$144,916 (2.0%). There were 211 new members enrolled in 2015 with 158 members terminating service. There was an overall gain of 53 new members, with a net decline in active membership (9) with 62 members retiring. Member contributions are expected to increase annually as new members paying a higher percentage of salary replace retiring members contributing at a lower percentage of salary and due to increases in annual salaries of current members.

Employer contributions are determined by the actuary based on a biennial evaluation and funding schedule. The funding schedule is a 4% increasing phase-in schedule with a target date for full funding in 2034. Employer contributions for calendar year 2015 totaled \$18.6 million, an increase of \$1.1 million (6.8%) over calendar year 2014.

Non-employer contributions, comprised primarily of Commonwealth's COLA reimbursement for pre-1996 retirees, totaled \$135,964, a decrease of \$91,124 (-40.13%) due to declining population of eligible retirees. COLA reimbursements for pre-1996 retirees are expected to decrease annually as that group declines in numbers.

Transfers from other systems are comprised of both member contributions (annuity savings) of members transferring to HCRS and 3(8)(c) reimbursements of pension payments for retirees with service liabilities from other retirement systems. Transfers from other systems totaled \$1.2 million, an increase of \$179,833 (16.9%). Transfer from other systems varies with numbers of employees changing jobs and employers within the Commonwealth.

Net Investment Earnings, comprised of the net change in fair value of investments and interest earned on investments minus investment expenses was negative \$1.1 million. In comparison 2014's net investment earnings was \$12 million on December 31, 2014. Investments are well diversified into domestic and global fixed income, domestic and international equities, real estate and alternative investments. Overall investment performance for 2015 was a positive 0.32%. Decline in investment performance is relative to overall decline and volatility of the global market environment. HCRS maintains a well-diversified portfolio in a relatively conservative approach with a long-term (30 year) horizon. Actuarially, investment gains/losses are smoothed over a 5 year period. HCRS's long-term target return rate is 7.875%. 1985-2015 annualized returns are 8.19%.

REVENUES - ADDITIONS TO PLAN FIDUCIARY NET POSITION 2015

	<u>2015</u>	<u>2014</u>	<u>Total \$ change</u>	<u>Total % change</u>
<i>Contributions</i>				
Employer contributions	18,626,735	17,436,197	1,190,538	6.83%
Member contributions	7,322,347	7,177,431	144,916	2.02%
Non-employer entities	135,964	227,088	(91,124)	-40.13%
Transfer from other systems	1,247,378	1,067,545	179,833	16.85%
Total Contributions	27,332,424	25,908,261	1,424,163	5.5%
<i>Investment earnings</i>				
Net increase(decrease) in fair value of investments	943,203	14,029,972	(13,086,769)	-93.28%

Interest	22,340	21,476	864	4.02%
Gross investment earnings	965,543	14,051,488	(13,085,905)	-93.13%
Less investment expenses	2,070,064	2,092,209	(22,145)	-1.06%
Net Investment Earnings	(1,104,521)	11,959,239	(13,063,760)	-109.24%
Total Additions (Revenues)	26,227,903	37,867,500	(11,639,597)	-30.74%
REVENUES - ADDITIONS TO PLAN FIDUCIARY NET POSITION 2014				
	<u>2014</u>	<u>2013</u>	<u>Total \$ change</u>	<u>Total % change</u>
<i>Contributions</i>				
Employer contributions	17,436,197	16,004,397	1,431,800	8.9%
Member contributions	7,177,431	7,040,511	136,920	1.9%
Non-employer entities	227,088	252,013	(24,925)	-9.9%
Transfer from other systems	1,067,545	1,317,726	(250,181)	-19%
Total Contributions	25,908,261	24,614,647	1,293,614	5.3%
<i>Investment earnings</i>				
Net increase(decrease) in fair value of investments	14,029,972	28,208,660	(14,178,688)	-50.3%
Interest	21,476	16,403	5,073	30.9%
Gross investment earnings	14,051,488	28,225,063	(14,173,615)	-50.2%
Less investment expenses	2,092,209	2,134,192	(41,983)	-2.0%
Net Investment Earnings	11,959,239	26,090,871	(14,131,632)	--54.2%
Total Additions (Revenues)	37,867,500	50,705,518	(12,838,018)	-25.3%

EXPENSES – DEDUCTIONS TO PLAN FIDUCIARY NET POSITION

Deductions to HCRS' fiduciary net position include benefits paid, refund of contributions to terminated members, transfers to other retirement systems and administrative expenses. Total Deductions for 2015 totaled approximately \$27.8million compared to \$26.1 million in 2014, an overall increase of 6.3%.

Benefits paid totaled \$23.4 million, an increase of \$1.2 million (5.6%) due to new retirees and cost of living adjustments (3% on first \$13,000). There was a net increase of 24 retirees (68 new retirees and 44 deceased retirees). The increase in benefits paid 5.6% was a smaller increase than in 2014 which was 6.7%

Overall 158 members terminated from the system by either taking a refund of contributions or transferring to other systems. Refunds to members terminating employment and withdrawing contributions totaled approximately \$946,870 an increase of \$145,555 (18.16%). Members who withdraw from service decreases pension liability.

Transfers to other systems are comprised of member contributions (annuity savings) of active members and 3(8)(c) reimbursement of benefit payments (service liability) of former members who retired from other systems. Transfers to other systems totaled approximately \$2.5 million, an increase of \$178,859 (7.5%). The increase in transfers to other systems was relatively the same as the increase in transfers from other systems in 2015.

Administrative expenses totaled \$835,479, an increase of \$80,482. The increase in administrative expense was due to a single one-time purchase to upgrade/modernize the filing system.

EXPENSES – DEDUCTIONS TO PLAN FIDUCIARY NET POSITION - 2015

	<u>2015</u>	<u>2014</u>	<u>Total \$ change</u>	<u>Total % change</u>
Benefits Paid	23,410,439	22,164,495	1,245,944	5.62%
Refunds to terminated members	946,870	801,315	145,555	18.16%
Transfers to other systems	2,561,166	2,382,307	178,859	7.51%
Administrative expenses	835,479	754,997	80,482	10.66%
Total Deductions (Expenses)	27,753,954	26,103,114	1,650,840	6.32%

EXPENSES – DEDUCTIONS TO PLAN FIDUCIARY NET POSITION - 2014

	<u>2014</u>	<u>2013</u>	<u>Total \$ change</u>	<u>Total % change</u>
Benefits Paid	22,164,495	20,768,313	1,396,182	6.7%
Refunds to terminated members	801,315	771,934	29,381	3.8%
Transfers to other systems	2,382,307	2,185,893	196,414	9.0%
Administrative expenses	754,997	751,211	3,786	0.5%
Total Deductions (Expenses)	26,103,114	24,477,351	1,625,763	6.6%

CHANGES IN FIDUCIARY NET POSITION – SUMMARY

Changes in fiduciary net position as of December 31, 2015 were a net decrease of \$1.5 million, bringing net asset balance to \$256.9 million. The decline in total additions is primarily due to the overall decline in global markets from 2014. The increase in total deductions is primarily due to increase in benefits paid with net gain of 21 retirees.

CHANGES IN FIDUCIARY NET POSITION – SUMMARY 2015

	<u>2015</u>	<u>2014</u>	<u>Total \$ change</u>	<u>Total % change</u>
Total Additions (Revenues)	26,227,903	37,867,500	(11,639,597)	-30.74%
Total Deductions (Expenses)	27,753,954	26,103,114	1,650,840	6.32%
Net Position Change	(1,526,051)	11,764,386	(13,290,437)	-112.97%

CHANGES IN FIDUCIARY NET POSITION – SUMMARY 2014

	<u>2014</u>	<u>2013</u>	<u>Total \$ change</u>	<u>Total % change</u>
Total Additions (Revenues)	37,867,500	50,705,518	(12,838,018)	-25.3%
Total Deductions (Expenses)	26,103,114	24,477,351	1,625,763	6.6%
Net Position Change	11,764,386	26,228,167	(14,463,781)	-55.1%

TOTAL FUND BALANCE AT FAIR VALUE

Total ending fund balance as of December 31, 2015 was \$256.9 million; this was a 0.59% decrease from December 31, 2014. Overall investment returns were slightly positive at 0.32% and increase in contributions was also positive at 5.3% but combined with an increase in total expenses of 6.6 % the net result was a decrease of \$1.5 million (-0.59%) on December 31, 2015.

TOTAL FUND BALANCE AT FAIR VALUE 2015

	<u>2015</u>	<u>2014</u>	<u>Total \$ change</u>	<u>Total % change</u>
Beginning Fund Balance	258,386,432	246,622,046	11,764,386	4.77%
Ending Fund Balance	256,860,381	258,386,432	(1,526,051)	-0.59%

TOTAL FUND BALANCE AT FAIR VALUE 2014

	<u>2014</u>	<u>2013</u>	<u>Total \$ change</u>	<u>Total % change</u>
Beginning Fund Balance	246,622,046	220,393,879	26,228,167	11.8%
Ending Fund Balance	258,386,432	246,622,046	11,764,386	4.8%

OVERALL FINANCIAL POSITION

HCRS maintains a well-diversified portfolio of assets in domestic and global fixed income, domestic and international equities, real estate and alternative investments. The Board has as its primary purpose to grow Plan assets at a rate sufficient to meet promised benefits to members while minimizing the risks associated with achieving that growth. The Board's asset allocation is relatively conservative with an emphasis on protecting assets in down markets rather than capturing up markets. The Board attempts to outperform actuarial assumptions to reduce the unfunded liability as soon as practicable. However, at no time should the Plan be exposed to unreasonable risk levels.

The Board has adopted a funding schedule in accordance with Massachusetts General Laws, Chapter 32, Section 22 (6a) in order to be 100% funded in the year 2034. Actuarially, investment gains/losses are smoothed over a 5 year period. HCRS's long-term target return rate is 7.875%. 1985-2015 annualized returns are 8.19%. As of December 31, 2015, the Plan's funding ratio was 55.3%.

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
STATEMENTS OF FIDUCIARY NET POSITION
DECEMBER 31,**

ASSETS	2015
Cash	\$ 15,207,180
Investments at fair value	240,599,412
Receivables:	
Members receivable, net	<u>1,151,029</u>
Total receivables	<u>1,151,029</u>
TOTAL ASSETS	<u>256,957,621</u>
 LIABILITIES	
Accounts payable	12,432
Accrued payroll	5,511
Accrued compensated absences	<u>79,297</u>
TOTAL LIABILITIES	<u>97,240</u>
 NET POSITION	
Restricted for pension benefits	<u><u>\$ 256,860,381</u></u>

See accompanying independent auditors' report and notes to financial statements.

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
STATEMENTS OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED DECEMBER 31,**

ADDITIONS TO NET ASSETS ATTRIBUTED TO	2015
Contributions:	
Employer	\$ 18,626,735
Plan member	7,322,347
Nonemployer entities	135,964
Transfers from other systems	1,247,378
Total contributions	<u>27,332,424</u>
Investment earnings	
Net increase (decrease) in fair value of investments	943,203
Interest	22,340
Total investment earnings	<u>965,543</u>
Less investment expenses	<u>2,070,064</u>
Net investment earnings	<u>(1,104,521)</u>
TOTAL ADDITIONS	<u><u>26,227,903</u></u>
 DEDUCTIONS TO NET ASSETS ATTRIBUTED TO	
Benefits paid	23,410,439
Refunds of contributions	946,870
Transfers to other systems	2,561,166
Administrative expenses	835,479
TOTAL DEDUCTIONS	<u><u>27,753,954</u></u>
 NET INCREASE (DECREASE) IN NET POSITION	 (1,526,051)
 NET POSITION - BEGINNING	 <u>258,386,432</u>
 NET POSITION - ENDING	 <u><u>\$ 256,860,381</u></u>

See accompanying independent auditors' report and notes to financial statements.

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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 2015.

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 FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 - DESCRIPTION OF PLAN (CONTINUED)

Membership of each group as of December 31, 2015:

Group	Active members	Inactive (retired) members receiving benefits	Inactive (retired) members entitled to benefits but not yet receiving benefits	Total
Group 1	1,600	990	529	3,119
Group 2 & 4	392	214	143	749
	<u>1,992</u>	<u>1,204</u>	<u>672</u>	<u>3,868</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 \$18,626,735, for the years ended December 31, 2015.

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 FINANCIAL STATEMENTS
DECEMBER 31, 2015**

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 financial statements are prepared using the accrual method of accounting.

Investment Policy

The provisions of Massachusetts General Laws Chapter 32, section 23(2) generally govern the investment practices of the system. The Board establishes the Investment Policy and Asset Allocation of the Plan. The Board retains an investment consultant to advise them on developing and implementing the Policy, and to closely monitor the individual performance of investment managers and the performance of the overall investment strategy.

Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is the 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.

Interest income is recorded on the accrual basis. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought, sold, and held.

Payments of Benefits

Benefits are recorded when paid.

NOTE 3 - RISKS AND UNCERTAINTIES

Nature of Operations

The operations of the Plan are subject to the administrative directives, rules and regulations of state regulatory agencies, including, but not limited to Public Employee Retirement Administration Commission (PERAC). Such administrative directives, rules and regulations are subject to change by an act of Legislature and any administrative change mandated by PERAC. Such changes may occur with little notice or inadequate funding to pay for the related costs, including the additional administrative burden, to comply with a change.

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 - RISKS AND UNCERTAINTIES (CONTINUED)

Current Vulnerabilities Due to Certain Concentrations

Deposits

Custodial credit risk for deposits is the risk that in an event of a bank failure, deposits may not be recovered. The Plan does not have a deposit policy to manage custodial credit risk.

At December 31, 2015, the Plan held deposits of \$15,432,394 at a local bank. The Federal Deposit Insurance Corporation (FDIC) insures \$250,000 of that balance. The remaining balance is collateralized.

Investments

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of fiduciary net position.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the plan administrator to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Significant Estimates

None of the estimates used in preparing the financial statements were significant.

NOTE 4 - PARTICIPANT CONTRIBUTIONS RECEIVABLE

Participant contributions receivable are stated at the amount the administrator expects to collect from balances outstanding at year-end. Balances that are still outstanding after the administrator has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to participant contributions receivable. The allowance for uncollectible accounts was estimated to be \$0 at December 31, 2015.

HAMPSHIRE COUNTY RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 5 - ACCRUED COMPENSATED ABSENCES

Summarized below are the accrued vacation and sick leave liabilities at December 31, 2015:

	Balance 1/1/2015	Additions	Deletions	Balance 12/31/2015	Current Portion
Accrued compensated absences	\$ 75,273	\$ 4,024	\$ -	\$ 79,297	\$ -
Totals	<u>\$ 75,273</u>	<u>\$ 4,024</u>	<u>\$ -</u>	<u>\$ 79,297</u>	<u>\$ -</u>

NOTE 6 - 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>2015</u>
Total pension liability	\$464,531,742
Plan fiduciary net position	<u>256,860,381</u>
Net pension liability (asset)	<u>\$207,671,361</u>

Fiduciary net position as a % of total pension liability 55.3%

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 is fixed at \$13,000.
- 7) Experience studies are based on data provided from Hampshire County Retirement Board as of December 31, 2013.

NOTE 7 - OPERATING LEASE

The Plan leases office space. Future minimum annual rental payments are as follows:

2016	\$39,549
2017	\$41,625
2018	\$43,844
2019	\$18,665
2020	\$ -

Operating lease rent expense totaled \$38,185 for the years ended December 31, 2015.

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 8 - TAX STATUS

The internal Revenue Service has determined and informed the Plan by a letter, that the Plan and related trust are designed in accordance with applicable section of the Internal Revenue Code (IRC). The Plan Administrator and the Plan's Board believe that the Plan is designed and is currently being operated in compliance with the applicable requirements of the IRC.

The plan is not subject to examinations by compliance authorities.

NOTE 9 - MANAGEMENT REVIEW

Management has reviewed subsequent events as of November 09, 2016, the date the financial statements were available to be issued. At that time, there were no material subsequent events.

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY - LAST TEN FISCAL YEARS
DECEMBER 31, 2015**

	2015	2014	2013	2012	2011
Total pension liability					
Service cost	\$ 10,269,070	\$ 9,850,427	*	*	*
Interest	34,842,587	33,371,689	*	*	*
Changes of benefit terms	-	-	*	*	*
Differences between expected and actual experience	-	-	*	*	*
Changes of assumptions	-	-	*	*	*
Benefit payments, including refunds	(25,512,793)	(24,412,587)	*	*	*
Net change in total pension liability	\$ 19,598,864	\$ 18,809,529	*	*	*
Total pension liability - beginning	444,932,878	426,123,349	*	*	*
Total pension liability - ending	\$ 464,531,742	\$ 444,932,878	*	*	*
Fiduciary net position					
Contributions - employer	\$ 18,626,735	\$ 17,436,197	*	*	*
Contributions - member	7,322,347	7,177,431	*	*	*
Contributions - nonemployer	135,964	227,088	*	*	*
Transfers from other systems	1,247,378	1,067,545	*	*	*
Net investment earnings	(1,104,521)	11,959,239	*	*	*
Benefits paid	(23,410,439)	(22,164,495)	*	*	*
Refunds of contributions	(946,870)	(801,315)	*	*	*
Transfers to other systems	(2,561,166)	(2,382,307)	*	*	*
Administrative expenses	(835,479)	(754,997)	*	*	*
Net change in fiduciary net position	\$ (1,526,051)	\$ 11,764,386	*	*	*
Fiduciary net position - beginning	258,386,432	246,622,046	*	*	*
Fiduciary net position - ending	\$ 256,860,381	\$ 258,386,432	*	*	*
Net pension liability (asset) - ending	\$ 207,671,361	\$ 186,546,446	*	*	*

	2010	2009	2008	2007	2006
Total pension liability					
Service cost	*	*	*	*	*
Interest	*	*	*	*	*
Changes of benefit terms	*	*	*	*	*
Differences between expected and actual experience	*	*	*	*	*
Changes of assumptions	*	*	*	*	*
Benefit payments, including refunds	*	*	*	*	*
Net change in total pension liability	*	*	*	*	*
Total pension liability - beginning	*	*	*	*	*
Total pension liability - ending	*	*	*	*	*
Fiduciary net position					
Contributions - employer	*	*	*	*	*
Contributions - member	*	*	*	*	*
Contributions - nonemployer	*	*	*	*	*
Transfers from other systems	*	*	*	*	*
Net investment earnings	*	*	*	*	*
Benefits paid	*	*	*	*	*
Refunds of contributions	*	*	*	*	*
Transfers to other systems	*	*	*	*	*
Administrative expenses	*	*	*	*	*
Net change in fiduciary net position	*	*	*	*	*
Fiduciary net position - beginning	*	*	*	*	*
Fiduciary net position - ending	*	*	*	*	*
Net pension liability (asset) - ending	*	*	*	*	*

* – Information not available.

See accompanying independent auditors' report and management's notes to required supplementary information.

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF NET PENSION LIABILITY - LAST TEN FISCAL YEARS
DECEMBER 31, 2015**

	2015	2014	2013	2012	2011
Total pension liability	\$ 464,531,742	\$ 444,932,878	*	*	*
Fiduciary net position	256,860,381	258,386,432	*	*	*
Net pension liability (asset)	<u>\$ 207,671,361</u>	<u>\$ 186,546,446</u>	<u>*</u>	<u>*</u>	<u>*</u>
Fiduciary net position as a percentage of the total pension liability	55.3%	58.1%	*	*	*
Covered-employee payroll	\$ 80,914,245	\$ 77,139,934	*	*	*
Net pension liability (asset) as a percentage of covered-employee payroll	256.7%	241.8%	*	*	*

	2010	2009	2008	2007	2006
Total pension liability	*	*	*	*	*
Fiduciary net position	*	*	*	*	*
Net pension liability (asset)	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Fiduciary net position as a percentage of the total pension liability	*	*	*	*	*
Covered-employee payroll	*	*	*	*	*
Net pension liability (asset) as a percentage of covered-employee payroll	*	*	*	*	*

* – Information not available

See accompanying independent auditors' report and management's notes to required supplementary information.

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS - LAST TEN FISCAL YEARS
DECEMBER 31, 2015**

	2015	2014	2013	2012	2011
Actuarially determined contribution	\$ 18,620,753	\$ 17,349,877	*	*	*
Contributions in relation to the actuarially determined contribution	18,620,753	17,349,877	*	*	*
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>*</u>	<u>*</u>	<u>*</u>
Covered-employee payroll	\$ 80,914,245	\$ 79,029,000	*	*	*
Contributions as a percentage of covered-employee payroll	23.0%	22.0%	*	*	*

	2010	2009	2008	2007	2006
Actuarially determined contribution	*	*	*	*	*
Contributions in relation to the actuarially determined contribution	*	*	*	*	*
Contribution deficiency (excess)	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>	<u>*</u>
Covered-employee payroll	*	*	*	*	*
Contributions as a percentage of covered-employee payroll	*	*	*	*	*

* – Information not available

See accompanying independent auditors' report and management's notes to required supplementary information.

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF INVESTMENT RETURNS - LAST TEN FISCAL YEARS
DECEMBER 31, 2015**

	2015	2014	2013	2012	2011
Annual money-weighted rate of return, net of investment expenses	-0.68%	4.84%	*	*	*

	2010	2009	2008	2007	2006
Annual money-weighted rate of return, net of investment expenses	*	*	*	*	*

* – Information not available

See accompanying independent auditors' report and management's notes to required supplementary information.

**HAMPSHIRE COUNTY RETIREMENT SYSTEM
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
DECEMBER 31, 2015**

NOTE 1 – METHODS AND ASSUMPTIONS USED IN CALCULATIONS OF ACTUARIALLY DETERMINED CONTRIBUTIONS

The actuarially determined contribution rates in the schedule of contributions are calculated as of December 31, 2013. The following actuarial methods and assumptions were used to determine contribution rates reported in that schedule:

Actuarial cost method:	Entry Age Normal
Amortization method:	Closed – approximate level percent of payroll
Remaining amortization period:	19 years
Asset valuation method:	Market value adjusted by accounts payable and receivables adjusted to phase in over 5 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 90% of the adjusted market value nor more than 110% of the adjusted market value.
Inflation:	3.000%
Salary increases:	5.900%
Investment rate of return:	7.875%