PERAC AUDIT REPORT

Hampshire County Contributory Retirement System

JAN. 1, 2008 - DEC. 31, 2010

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

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COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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JOSEPH E. CONNARTON, *Executive Director*

October 24, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Hampshire County Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2008 to December 31, 2010. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00. Additionally, all supplementary regulations approved by PERAC and on file at PERAC are listed in this report.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission.

We commend the Hampshire County Retirement Board for the exemplary operation of the system.

In closing, I acknowledge the work of examiners Scott Henderson and Kimberly Clairemont who conducted this examination, and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,

Joseph E. Connarton

Joseph E. Connarton
Executive Director

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STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31,		
	2010	2009	2008
Net Assets Available For Benefits:			
Cash	$4,539,175	$6,160,382	$6,403,821
Fixed Income Securities	0	20,850,321	17,090,801
Pooled Domestic Equity Funds	43,931,276	49,289,041	38,726,983
Pooled International Equity Funds	34,434,112	22,778,394	15,473,851
Pooled Global Equity Funds	33,745,037	26,263,898	21,027,556
Pooled Domestic Fixed Income Funds	33,671,645	11,250,288	5,156,283
Pooled Global Fixed Income Funds	5,606,317	5,270,517	6,492,382
Pooled Alternative Investment Funds	8,404,680	6,051,594	19,424,760
Pooled Real Estate Funds	8,923,101	5,002,578	6,752,054
Hedge Funds	17,348,747	15,824,157	0
PRIT Cash Fund	0	0	0
PRIT Core Fund	0	0	0
Interest Due and Accrued	5	175,792	143,822
Accounts Receivable	631,657	296,812	446,175
Accounts Payable	(11,736)	(4)	(7,386)
Total	$191,224,016	$169,213,772	$137,131,102
Fund Balances:			
Annuity Savings Fund	$63,272,157	$61,574,814	$59,375,685
Annuity Reserve Fund	18,937,572	16,872,478	15,359,511
Pension Fund	0	1,045,706	0
Military Service Fund	55,323	48,595	43,477
Expense Fund	0	0	0
Pension Reserve Fund	108,958,964	89,672,178	62,352,429
Total	$191,224,016	$169,213,772	$137,131,102

STATEMENT OF CHANGES IN FUND BALANCES

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2008)	$55,984,063	$14,980,727	$1,915,003	$38,071	$0	$108,934,381	$181,852,245
Receipts	6,969,010	445,465	9,962,730	5,406	1,305,473	(45,344,994)	(26,656,910)
Interfund Transfers	(2,117,039)	2,016,061	1,337,935	0	0	(1,236,958)	0
Disbursements	(1,460,350)	(2,082,742)	(13,215,669)	0	(1,305,473)	0	(18,064,234)
Ending Balance (2008)	59,375,685	15,359,511	0	43,477	0	62,352,429	137,131,102
Receipts	6,888,182	464,002	15,768,556	5,119	1,365,935	27,253,258	51,745,052
Interfund Transfers	(3,448,348)	3,381,857	0	0	0	66,491	0
Disbursements	(1,240,705)	(2,332,892)	(14,722,850)	0	(1,365,935)	0	(19,662,382)
Ending Balance (2009)	61,574,814	16,872,478	1,045,706	48,595	0	89,672,178	169,213,772
Receipts	7,334,235	518,511	12,910,567	6,728	1,449,855	21,433,682	43,653,578
Interfund Transfers	(4,179,567)	4,150,047	2,176,415	0	0	(2,146,895)	0
Disbursements	(1,457,326)	(2,603,463)	(16,132,688)	0	(1,449,855)	0	(21,643,333)
Ending Balance (2010)	$63,272,157	$18,937,572	$0	$55,323	$0	$108,958,964	$191,224,016

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Annuity Savings Fund:			
Members Deductions	$6,211,182	$6,201,060	$6,154,897
Transfers from Other Systems	770,104	249,345	338,790
Member Make Up Payments and Re-deposits	83,533	52,717	89,072
Member Payments from Rollovers	71,376	99,281	61,041
Investment Income Credited to Member Accounts	198,040	285,779	325,211
Sub Total	7,334,235	6,888,182	6,969,010
Annuity Reserve Fund:			
Investment Income Credited to the Annuity Reserve Fund	518,511	464,002	445,465
Pension Fund:			
3 (8) (c) Reimbursements from Other Systems	674,095	469,984	446,831
Received from Commonwealth for COLA and Survivor Benefits	318,974	350,225	375,052
Pension Fund Appropriation	11,910,748	14,939,893	9,140,847
Settlement of Workers' Compensation Claims	6,750	8,455	0
Sub Total	12,910,567	15,768,556	9,962,730
Military Service Fund:			
Contribution Received from Municipality on Account of Military Service	6,580	4,887	5,165
Investment Income Credited to the Military Service Fund	147	232	241
Sub Total	6,728	5,119	5,406
Expense Fund:			
Expense Fund Appropriation	0	0	0
Investment Income Credited to the Expense Fund	1,449,855	1,365,935	1,305,473
Sub Total	1,449,855	1,365,935	1,305,473
Pension Reserve Fund:			
Federal Grant Reimbursement	0	0	22,907
Pension Reserve Appropriation	830,485	743,195	492,775
Interest Not Refunded	9,253	6,813	11,473
Miscellaneous Income	0	0	0
Excess Investment Income (Loss)	20,593,944	26,503,250	(45,872,150)
Sub Total	21,433,682	27,253,258	(45,344,994)
Total Receipts, (Net)	$43,653,578	$51,745,052	($26,656,910)

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31,		
	2010	2009	2008
Annuity Savings Fund:			
Refunds to Members	$855,159	$625,200	$588,262
Transfers to Other Systems	602,167	615,505	872,088
Sub Total	1,457,326	1,240,705	1,460,350
Annuity Reserve Fund:			
Annuities Paid	2,563,547	2,243,569	2,041,764
Option B Refunds	39,917	89,323	40,979
Sub Total	2,603,463	2,332,892	2,082,742
Pension Fund:			
Pensions Paid:			
Regular Pension Payments	12,039,180	10,885,109	10,226,362
Survivorship Payments	565,887	579,555	570,243
Ordinary Disability Payments	60,667	46,455	23,835
Accidental Disability Payments	1,804,231	1,666,802	1,615,089
Accidental Death Payments	231,518	208,706	225,161
Section 101 Benefits	74,028	76,366	66,035
3 (8) (c) Reimbursements to Other Systems	1,357,178	1,259,857	488,943
State Reimbursable COLA's Paid	0	0	0
Chapter 389 Beneficiary Increase Paid	0	0	0
Sub Total	16,132,688	14,722,850	13,215,669
Military Service Fund:			
Return to Municipality for Members Who Withdrew Their Funds	0	0	0
Expense Fund:			
Board Member Stipend	44,401	39,632	39,844
Salaries	355,858	346,474	340,423
Legal Expenses	12,582	12,171	6,980
Medical Expenses	340	83	105
Travel Expenses	23,109	18,786	20,432
Administrative Expenses	81,580	110,806	84,581
Professional Services	28,000	3,000	0
Education and Training	8,740	12,240	0
Furniture and Equipment	17,827	722	7,700
Management Fees	710,235	621,060	620,249
Custodial Fees	42,868	40,770	50,969
Consultant Fees	67,500	105,000	80,000
Rent Expenses	35,840	35,840	35,840
Fiduciary Insurance	20,975	19,352	18,350
Sub Total	1,449,855	1,365,935	1,305,473
Total Disbursements	$21,643,333	$19,662,382	$18,064,234

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2010	2009	2008
Investment Income Received From:			
Cash	$16,077	$50,134	$81,178
Fixed Income	666,309	996,791	1,259,144
Pooled or Mutual Funds	2,872,983	2,400,051	3,351,008
Commission Recapture	0	0	0
Total Investment Income	3,555,369	3,446,976	4,691,330
Plus:			
Realized Gains	2,188,595	1,021,070	2,962,937
Unrealized Gains	40,426,127	44,793,131	12,937,769
Interest Due and Accrued - Current Year	5	175,792	143,822
Sub Total	42,614,727	45,989,993	16,044,528
Less:			
Paid Accrued Interest on Fixed Income Securities	(24,246)	(39,022)	(46,975)
Realized Loss	(692,891)	(1,725,114)	(1,385,525)
Unrealized Loss	(22,516,669)	(18,909,812)	(62,900,263)
Interest Due and Accrued - Prior Year	(175,792)	(143,822)	(198,854)
Sub Total	(23,409,598)	(20,817,772)	(64,531,617)
Net Investment Income (Loss)	22,760,497	28,619,198	(43,795,759)
Income Required:			
Annuity Savings Fund	198,040	285,779	325,211
Annuity Reserve Fund	518,511	464,002	445,465
Military Service Fund	147	232	241
Expense Fund	1,449,855	1,365,935	1,305,473
Total Income Required	2,166,554	2,115,948	2,076,391
Net Investment Income (Loss)	22,760,497	28,619,198	(43,795,759)
Less: Total Income Required	2,166,554	2,115,948	2,076,391
Excess Income (Loss) To The Pension Reserve Fund	$20,593,944	$26,503,250	($45,872,150)

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2010	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$4,539,175	2.4%
Pooled Domestic Equity Funds	43,931,276	23.0%
Pooled International Equity Funds	34,434,112	18.1%
Pooled Global Equity Funds	33,745,037	17.7%
Pooled Domestic Fixed Income Funds	33,671,645	17.7%
Pooled Global Fixed Income Funds	5,606,317	2.9%
Pooled Alternative Investment Funds	8,404,680	4.4%
Pooled Real Estate Funds	8,923,101	4.7%
Hedge Funds	17,348,747	9.1%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	0	0.0%
Grand Total	$190,604,090	100.0%

For the year ending December 31, 2010, the rate of return for the investments of the Hampshire County Retirement System was 13.44%. For the five-year period ending December 31, 2010, the rate of return for the investments of the Hampshire County Retirement System averaged 4.86%. For the 26-year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Hampshire County Retirement System was 8.52%.

The composite rate of return for all retirement systems for the year ending December 31, 2010 was 13.67%. For the five-year period ending December 31, 2010, the composite rate of return for the investments of all retirement systems averaged 4.39%. For the 26-year period ending December 31, 2010, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.46%.

SUPPLEMENTARY INVESTMENT REGULATIONS

The Hampshire County Retirement System submitted the following supplementary investment regulations, which were approved by the Public Employee Retirement Administration Commission on:

March 23, 2011
16.08
In accordance with Investment Guideline 99-3, the Hampshire County Retirement Board is authorized to invest in Ascent Venture Partners V. The Board has been a satisfied investor in Ascent's two predecessor partnerships. The management team and strategy remain the same. The Board has submitted updated regulatory documents as well as financial data pertaining to its existing investments.

September 16, 2010
16.04
The Hampshire County Retirement Board is granted an exemption from 840 CMR 16.04 which requires the board to designate a custodian bank to hold all its investment assets. This exemption reflects the following facts:

1) the Board now invests totally in commingled investment funds and

2) the Board has an experienced staff that has already been performing cash management functions in-house and is in the process of implementing an in-house accounting and tracking system.

This supplemental regulation supersedes the one previously approved on March 26, 2004 and which is hereby revoked.

This supplemental regulation is subject to revision or cancellation if and when the Board reverts to one or more separate account investment mandates.

August 15, 2008
Notwithstanding the provision of the Code of Massachusetts Regulation 840 CMR 21.01(2), (3)(a) & (b), (4)(a) & (b), and (5), the Hampshire County Retirement System through its duly constituted Retirement Board may invest funds of the Retirement System in the fund known as Shenkman Capital Management, Inc., General Partner of Credos Floating Rate Fund, L.P.

Shenkman Capital Management, Inc., General Partner of Credos Floating Rate Fund, L.P., shall not be subject to the existing provisions of 840 CMR 21.01(2), (3)(a) & (b), (4)(a) & (b), and (5), but shall be subject to the prohibited investment provisions under ERISA guidelines.

The prohibited investment provisions that apply to the Shenkman Capital Management, Inc., General Partner of Credos Floating Rate Fund, L.P., portfolio shall be defined relying upon ERISA statutory exemptions and the administrative class exemptions and regulations, specifically QPAM Exemption 84-14, as amended ("PTCE 84-14"), Prohibited Transaction Class Exemption 91-38 ("PTCE 91-38") issued by the Department of Labor and other ERISA applicable regulations.

Notwithstanding the provision of the Code of Massachusetts Regulation 840 CMR 21.01(2), (3)(a) & (b), (4)(a) & (b), and (5), the Hampshire County Retirement System through its duly constituted Retirement Board may invest funds of the Retirement System in the fund known as Primus High Yield Bond Fund, L.P. Shenkman Capital Management, Inc., General Partner.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

Primus High Yield Bond Fund, L.P. Shenkman Capital Management, Inc., General Partner, shall not be subject to the existing provisions of 840 CMR 21.01(2), (3)(a) & (b), (4)(a) & (b), and (5), but shall be subject to the prohibited investment provisions under ERISA guidelines.

The prohibited investment provisions that apply to the Primus High Yield Bond Fund, L.P. Shenkman Capital Management, Inc., General Partner, portfolio shall be defined relying upon ERISA statutory exemptions and the administrative class exemptions and regulations, specifically QPAM Exemption 84-14, as amended ("PTCE 84-14"), Prohibited Transaction Class Exemption 91-38 ("PTCE 91-38") issued by the Department of Labor and other ERISA applicable regulations.

August 16, 2007
21.01(2)(3)(4)(5)
Notwithstanding the provisions of any statute or regulations of the Public Employee Retirement Administration Commission to the contrary, including the provisions of 840 CMR 21.01(2)(3)(4) and (5), the Hampshire County Retirement Board is hereby granted an exemption from restrictions on investment and may invest a portion of the funds of the Hampshire County Retirement System (the "System") in the fund known as the GMO Global Balanced Asset Allocation Fund of Grantham, Mayo, Van Otterloo & Company LLC.

July 20, 2007
21.01(2)(3)(4)(5)
Notwithstanding the provisions of any statute or regulations of the Public Employee Retirement Administration Commission to the contrary, including the provisions of 840 CMR 21.01(2)(3)(4) and (5), the Hampshire County Retirement Board is hereby granted an exemption from restrictions on investment and may invest a portion of the funds of the Hampshire County Retirement System (the "System") in the fund known as the EB Daily Valued Global Alpha I Fund of Mellon Capital Management Corporation.

Notwithstanding the provisions of any statute or regulations of the Public Employee Retirement Administration Commission to the contrary, including the provisions of 840 CMR 21.01(2)(3)(4) and (5), the Hampshire County Retirement Board is hereby granted an exemption from restrictions on investment and may invest a portion of the funds of the Hampshire County Retirement System (the "System") in the fund known as the PIMCO All Asset Fund.

August 9, 2005
16.04
Update to 3/26/04 approval: PRIT Alternative Investments Vintage Year 2005 and PRIT Core Real Estate Portfolio have been added.

June 10, 2005
16.04
Update to 3/26/04 approval: Per board's request, Henderson Real Estate Investors (RESA) and Sentinel Realty Partners VII have been removed.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

March 26, 2004
16.04
The Hampshire County Retirement System is authorized to act as custodian of the records of investment of the Board's assets invested in Real Estate and Alternative Investments. The Hampshire County Retirement Board shall insure that the Commission will be provided the reports and information required pursuant to 840 CMR 4.00. This exemption shall apply to the Board's following investments:

Ascent Venture Partners III
Ascent Venture Partners IV
Henderson Real Estate Investors (RESA)
Intercontinental Real Estate Investment Fund III
L&B Property Fund IV
Sentinel Realty Partners II

Please be further advised that these supplemental regulations are made retroactive for those years not yet audited by PERAC

January 12, 2004
16.08
In accordance with PERAC Investment Guideline 99-3, the Hampshire County Retirement Board is authorized to invest in Ascent Venture Partners IV, L.P. The board has been a satisfied investor in Ascent Venture Partners III and has submitted updated regulatory documents pertaining to its current and future investments with Ascent.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Hampshire County Retirement System member unit employees deemed eligible by the retirement board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

ADMINISTRATION

There are 105 contributory Retirement Systems for public employees in Massachusetts. Each system is governed by a retirement board, and all boards, although operating independently, are governed by Chapter 32 of the Massachusetts General Laws. This law in general provides uniform benefits, uniform contribution requirements, and a uniform accounting and funds structure for all systems.

PARTICIPATION

Participation is mandatory for all full-time employees. Eligibility with respect to part-time, provisional, temporary, seasonal, or intermittent employment is governed by regulations promulgated by the retirement board, and approved by PERAC. Membership is optional for certain elected officials.

There are 3 classes of membership in the Retirement System:

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.

NOTES TO FINANCIAL STATEMENTS (Continued)

MEMBER CONTRIBUTIONS

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

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

RATE OF INTEREST

Interest on regular deductions made after January 1, 1984 is a rate established by PERAC in consultation with the Commissioner of Banks. The rate is obtained from the average rates paid on individual savings accounts by a representative sample of at least 10 financial institutions.

RETIREMENT AGE

The mandatory retirement age for some Group 2 and Group 4 employees is age 65. Most Group 2 and Group 4 members may remain in service after reaching age 65. Group 4 members who are employed in certain public safety positions are required to retire no later than the end of month they attain age 65. There is no mandatory retirement age for employees in Group 1.

SUPERANNUATION RETIREMENT

A member is eligible for a superannuation retirement allowance (service retirement) upon meeting the following conditions:

- completion of 20 years of service, or
- attainment of age 55 if hired prior to 1978, or if classified in Group 4, or
- attainment of age 55 with 10 years of service, if hired after 1978, and if classified in Group 1 or 2

AMOUNT OF BENEFIT

A member's annual allowance is determined by multiplying average salary by a benefit rate related to the member's age and job classification at retirement, and the resulting product by his creditable service. The amount determined by the benefit formula cannot exceed 80% of the member's highest three year average salary. For veterans as defined in G.L. c. 32, § 1, there is an additional benefit of $15 per year for each year of creditable service, up to a maximum of $300.

- Salary is defined as gross regular compensation.
- Average Salary is the average annual rate of regular compensation received during the 3 consecutive years that produce the highest average, or, if greater, during the last three years (whether or not consecutive) preceding retirement.
- The Benefit Rate varies with the member's retirement age, but the highest rate of 2.5% applies to Group 1 employees who retire at or after age 65, Group 2 employees who retire at or after age 60, and to Group 4 employees who retire at or after age 55. A .1% reduction is applied for each year of age under the maximum age for the member's group. For Group 2 employees who terminate from service under age 55, the benefit rate for a Group 1 employee shall be used.

DEFERRED VESTED BENEFIT

A participant who has completed 10 or more years of creditable service is eligible for a deferred vested retirement benefit.

The participant's accrued benefit is payable commencing at age 55, or the completion of 20 years, or may be deferred until later at the participant's option.

WITHDRAWAL OF CONTRIBUTIONS

Member contributions may be withdrawn upon termination of employment. The interest rate for employees who first become members on or after January 1, 1984 who voluntarily withdraw their contributions with less than 10 years of service will be 3%. Interest payable on all other withdrawals will be set at regular interest.

DISABILITY RETIREMENT

The Massachusetts Retirement Plan provides 2 types of disability retirement benefits:

ORDINARY DISABILITY

Eligibility: Non-veterans who become totally and permanently disabled by reason of a non-job related condition with at least 10 years of creditable service (or 15 years creditable service in systems in which the local option contained in G.L. c. 32, § 6(1) has not been adopted).

Veterans with ten years of creditable service who become totally and permanently disabled by reason of a non-job related condition prior to reaching "maximum age".

Retirement Allowance: Equal to the accrued superannuation retirement benefit as if the member was age 55. If the member is a veteran, the benefit is 50% of the member's final rate of salary during the preceding 12 months, plus an annuity based upon accumulated member contributions plus credited interest. If the member is over age 55, he or she will receive not less than the superannuation allowance to which he or she is entitled.

ACCIDENTAL DISABILITY

Eligibility: Applies to members who become permanently and totally unable to perform the essential duties of the position as a result of a personal injury sustained or hazard undergone while in the performance of duties. There are no minimum age or service requirements.

Retirement Allowance: 72% of salary plus an annuity based on accumulated member contributions, with interest. Any member injured while working out of title retiring after July 1, 2009, has such allowance based on the salary of the permanent title held on the date of injury. This amount is not to exceed 100% of pay. For those who became members in service after January 1, 1988 or who have not been members in service continually since that date, the amount is limited to 75% of pay. There is an additional pension of $751.80 per year (or $312.00 per year in systems in which the local option contained in G.L. c. 32, § 7(2)(a)(iii) has not been adopted), per child who is under 18 at the time of the member's retirement, with no age limitation if the child is mentally or physically incapacitated from earning. The additional pension may continue up to age 22 for any child who is a full time student at an accredited educational institution. An additional $15.00 per year of service, not to exceed $300 annually may be added to the benefit in systems in which the local option contained in G.L. 32, §. 7(2)(e) has been adopted.

ACCIDENTAL DEATH

Eligibility: Applies to members who die as a result of a work-related injury or if the member was retired for accidental disability and the death was the natural and proximate result of the injury or hazard undergone on account of which such member was retired.

Allowance: An immediate payment to a named beneficiary equal to the accumulated deductions at the time of death, plus a pension equal to 72% of current salary and payable to the surviving spouse, dependent children or the dependent parent, plus a supplement of $751.80 per year, per child (or $312.00 per year in systems in which the local option contained in G.L. c. 32, §. 9(2)(d)(ii) has not been adopted) payable to the spouse or legal guardian until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

The surviving spouse of a member of a police or fire department or any corrections officer who, under specific and limited circumstances detailed in the statute, suffers an accident and is killed or sustains injuries resulting in his death, may receive a pension equal to the maximum salary for the position held by the member upon his death.

In addition, an eligible family member may receive a one time payment of $100,000 from the State Retirement Board.

DEATH AFTER ACCIDENTAL DISABILITY RETIREMENT

Effective November 7, 1996, Accidental Disability retirees were allowed to select Option C at retirement and provide a benefit for an eligible survivor. For Accidental Disability retirees prior to November 7, 1996, who could not select Option C, if the member's death is from a cause unrelated to the condition for which the member received accidental disability benefits, a surviving spouse will receive an annual allowance of $6,000.

DEATH IN ACTIVE SERVICE

Allowance: An immediate allowance equal to that which would have been payable had the member retired and elected Option C on the day before his or her death. For death occurring prior to the member's superannuation retirement age, the age 55 benefit rate is used. The minimum annual allowance payable to the surviving spouse of a member in service who dies with at least two years of creditable service is $3,000, provided that the member and the spouse were married for at least one year and living together on the member's date of death.

The surviving spouse of such a member in service receives an additional allowance equal to the sum of $1,440 per year for the first child, and $1,080 per year for each additional child until all dependent children reach age 18 or 22 if a full time student, unless mentally or physically incapacitated.

COST OF LIVING

If a system has accepted Chapter 17 of the Acts of 1997, and the Retirement Board votes to pay a cost of living increase (COLA) for that year, the percentage is determined based on the increase in the Consumer Price Index used for indexing Social Security benefits, but cannot exceed 3.0%. Section 51 of Chapter 127 of the Acts of 1999, if accepted, allows boards to grant COLA increases greater than that determined by CPI but not to exceed 3.0%. The first $12,000 of a retiree's total allowance is subject to a COLA. The total COLA for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

Under the provisions of Chapter 32, § 103(j) inserted by Section 19 of Chapter 188 of the Acts of 2010, systems may increase the maximum base on which the COLA is calculated in multiples of $1,000. Presently that amount is $12,000. Each increase must be accepted by a majority vote of the Retirement Board and approved by the legislative body.

METHODS OF PAYMENT

A member may elect to receive his or her retirement allowance in one of 3 forms of payment.

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 remains unmarried for a member whose retirement becomes effective on or after February 2, 1992, 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") 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" in the same fashion. The Option C became available to accidental disability retirees on November 7, 1996.

ALLOCATION OF PENSION COSTS

If a member's total creditable service was partly earned by employment in more than one retirement system, the cost of the "pension portion" is allocated between the different systems pro rata based on the member's service within each retirement system.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Public Employee Retirement Administration Commission.

Cash accounts are considered to be funds on deposit with banks and are available upon demand.

Short Term Investments are highly liquid investments that will mature within twelve months from the date of acquisition.

Investments are reported at their fair value. Securities traded on recognized exchanges are valued at the most recent sales price at year end. If no sale was reported, the mean of the bid and asked price is used when available, or the most recent bid price. Mutual, commingled and pooled funds are valued based on the net asset or unit value at year end. Real estate and alternative investments are valued based on estimates provided by the managers of those respective investments. Purchases and sales of securities are reflected on the date the trade is initiated. Realized gain or loss is largely based on the difference between the cost or the value at the prior year end and the funds realized upon liquidation. Dividend income is generally recorded when received. Interest income is recorded as earned on an accrual basis. Income from alternative investments is recorded as reported by the managing partner. Appreciation or depreciation in the value of investments consists of the unrealized gains and losses reported as the difference between the previous period and the current value.

The system makes estimates and assumptions that affect the reported values of assets and liabilities and the reported amounts added and deducted during the reporting periods. The fair value of real estate and alternative investment holdings are generally estimated in the absence of reliable exchange values. The actual funds realized upon liquidation may differ from these estimates.

The provisions of Massachusetts General Laws Chapter 32, § 23 (2) generally govern the investment practices of the system. The Board retains an investment consultant to closely monitor the implementation and performance of their investment strategy and advise them of the progress toward full funding of the system. That strategy seeks to balance the exposure to common deposit and investment risks related to custody, credit concentrations, interest rate and foreign currency fluctuations.

Operating expenses include the ordinary and necessary cost of investment and professional services and the other miscellaneous administrative expenses of the system.

NOTES TO FINANCIAL STATEMENTS (Continued)

The Annuity Savings Fund is the fund in which members' contributions are deposited. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Hampshire County Retirement System submitted the following supplementary membership regulations, which were approved by the Public Employee Retirement Administration Commission on:

December 12, 1984

1. Employees who work more than 20 hours per week must become members of the retirement system. Employees who have worked 130 days per year and whose pay is at least $3,500.00 must become members of the retirement system.

2. Employees who qualify for membership and who work the minimum of 20 hours per week but less than 40 hours per week shall be granted creditable service prorated on the basis of a 40-hour week.

3. Cafeteria workers and teacher aides who regularly work 5 hours or more per day shall be granted full time creditable service. Full time means 40 hours a week.

4. Call fire fighters and reserve police officers that earn $250.00 or more per year must join the retirement system.

5. Creditable service for reserve police officers and call fire fighters shall be credited as 1 year for each 5 years worked not to exceed 5 years, provided that the call fire fighter or reserve police officer is later appointed a permanent member of the force.

Interest on Refunds
Refunds to former members for interest earned shall be calculated and granted according to actual service time not creditable service time for call fire fighters and intermittent police.

January 13, 2004
The Hampshire County Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). Available upon written request or on the PERAC web site (http://www.mass.gov/perac/03travelreg/hampshiretravelreg.html).

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System 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 such system, and a fifth member appointed by the other four board members.

Chairperson:	Patrick E. Brock	Term Expires:	12/31/2014
Advisory Council Member:	John J. Lillis, III	Term Expires:	12/31/2011
Elected Member:	Edward R. Montleon	Term Expires:	12/31/2011
Elected Member:	Joseph A. Wilhelm, III	Term Expires:	12/31/2013
Appointed Member:	John B. Walsh	Term Expires:	12/16/2015

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by a majority vote of the Board. Payments shall be made only upon vouchers signed by two persons designated by the Board.

The following retirement board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Chairperson – Custodian:	)	Coverage provided to a limit of $50,000,000
Advisory Council Member:	)	under a master MACRS sponsored policy issued
Elected Members:	)	through a layered program with Travelers,
Appointed Member:	)	National Union Fire, and Arch. Separate fidelity
Staff Employees:	)	coverage pertaining to ERISA/Crime to a limit of $1,000,000 issued through Travelers Casualty and Surety Company, deductible $10,000.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by The Segal Group, Inc. as of January 1, 2010.

The actuarial liability for active members was	$150,805,340
The actuarial liability for inactive members was	7,264,242
The actuarial liability for retired members was	154,808,044
The total actuarial liability was	$312,877,626
System assets as of that date were (actuarial value)	179,860,517
The unfunded actuarial liability was	$133,017,109
The ratio of system's assets to total actuarial liability was	57.5%
As of that date the total covered employee payroll was	$68,275,759

The normal cost for employees on that date was	8.9% of payroll
The normal cost for the employer was	5.1% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return:	8.00% per annum
Rate of Salary Increase:	Varies by service and group

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION
AS OF JANUARY 1, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2010	$179,860,517	$312,877,626	$133,017,109	57.5%	$68,275,759	194.8%
1/1/2007	$163,497,369	$257,885,435	$94,388,066	63.4%	$68,107,991	138.6%
1/1/2006	$149,892,383	$254,808,289	$104,915,906	58.8%	$66,219,596	158.4%

NOTE 6 - MEMBERSHIP EXHIBIT

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Retirement in Past Years										
Superannuation	35	32	64	50	23	30	32	46	48	65
Ordinary Disability	1	0	0	0	0	1	0	0	1	1
Accidental Disability	1	4	5	3	1	3	2	2	5	1
Total Retirements	37	36	69	53	24	34	34	48	54	67
Total Retirees, Beneficiaries and Survivors	920	932	973	994	987	992	984	1,007	1,030	1,077
Total Active Members	2,516	2,660	2,627	2,610	2,638	2,665	2,654	2,653	2,408	2,202
Pension Payments										
Superannuation	$6,401,617	$7,032,476	$8,016,849	$8,967,457	$9,244,130	$9,499,194	$9,771,931	$10,226,362	$10,885,109	$12,039,180
Survivor/Beneficiary Payments	379,840	494,591	536,000	504,747	523,179	530,690	540,887	570,243	579,555	565,887
Ordinary Disability	106,941	91,544	79,353	50,506	44,985	48,497	24,377	23,835	46,455	60,667
Accidental Disability	1,122,824	1,121,283	1,245,374	1,362,414	1,374,284	1,613,236	1,561,054	1,615,089	1,666,802	1,804,231
Other	1,020,831	1,540,677	1,331,279	1,253,030	1,266,878	1,408,759	1,321,883	780,139	1,544,929	1,662,724
Total Payments for Year	$9,032,053	$10,280,571	$11,208,855	$12,138,154	$12,453,456	$13,100,376	$13,220,132	$13,215,669	$14,722,850	$16,132,688

NOTE 7 – LEASED PREMISES

The Hampshire County Retirement Board leases approximately 3,326 square feet of space for its offices located at Suite 2, 99 Industrial Drive, Northampton, MA. 01060. They most recently signed a 5-year lease term which will expire February 28, 2014. The landlord is Stephen C. Finn.

The following schedule displays the minimum lease obligations on non-cancelable operating leases as of December 31, 2010:

For the year ending:	Annual Rent
2011	$35,840.04
2012	$35,840.04
2013	$35,840.04
2014 (Through February 28)	$ 5,973.34
Total future minimum lease payments required	$113,493.46

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