

**NORFOLK COUNTY RETIREMENT SYSTEM**

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**FINANCIAL STATEMENTS  
YEAR ENDED DECEMBER 31, 2014**

# NORFOLK COUNTY RETIREMENT SYSTEM

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Dorothy F. Di Pesa, CPA  
John F. Oteri, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Board of the Norfolk County  
Retirement System  
Canton, Massachusetts

### Report on Financial Statements

We have audited the accompanying financial statements of Norfolk County Retirement System (the System) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the System's basic 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 misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 opinion.

## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the fiduciary net position of Norfolk County Retirement System as of December 31, 2014, and the changes in fiduciary net position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

## Emphasis of Matter

As discussed in Note 2 to the basic financial statements, the System adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans-an Amendment of GASB Statement No. 25*. Our opinion is not modified with respect to this matter.

## Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 5 and the supplementary Schedule of Changes in Net Pension Liability, Investment Return, and Contributions, and the notes to the required supplementary information on pages 21 through 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

## Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2015 on our consideration of the System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Respectfully submitted,

DI PESA & COMPANY

*Di Pesa & Company*

Certified Public Accountants  
Quincy, Massachusetts  
October 28, 2015

# **NORFOLK COUNTY RETIREMENT SYSTEM**

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## **REQUIRED SUPPLEMENTARY INFORMATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**DECEMBER 31, 2014**

The following discussion provides an overview and analysis of the fiduciary net position and changes in fiduciary net position of the Norfolk County Retirement System (the System or Plan) by management for the year ended December 31, 2014.

#### **Overview of the Financial Statements**

The System's financial statements comprise a statement of fiduciary net position, statement of changes in fiduciary net position, and notes to the financial statements.

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

The Statement of Changes in Fiduciary Net Position presents information showing how the System's net position restricted for pension benefits changed during the year ended December 31, 2014. It reflects in total the contributions by members and participating employers, along with deductions for retirement benefits, refunds and withdrawals, and administrative expenses. Investment income from investing and securities lending activities is also presented.

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

The Required Supplementary Information includes management's discussion and analysis and schedule of employers' contributions.

#### **Financial Highlights and Analysis**

- The net position restricted for pension benefits is available for payment of monthly retirement benefits and other qualified distributions to the System's participants. Net position restricted for pension benefits was \$782 million at December 31, 2014 compared to \$753 million at December 31, 2013. The increase in net position of \$29 million resulted primarily from an increase in the fair value of portfolio investments and investment income.

# NORFOLK COUNTY RETIREMENT SYSTEM

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## REQUIRED SUPPLEMENTARY INFORMATION

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

DECEMBER 31, 2014

#### Norfolk County Retirement System 2014 Performance Summary

- The net performance for the Norfolk County Retirement System ("Norfolk") for 2014 was 5.07%. This performance was behind the Primary and Secondary Investment Policy Benchmarks, which had 2014 returns of 6.16% and 6.38%, respectively.
- Domestic Equity managers represented 34.5% of the portfolio as of December 31, 2014. Over half of the domestic equity assets were allocated to large capitalization equity mandates and the remaining assets were allocated to mid and small capitalization managers. Domestic equities had a 2014 net return of 7.87% behind the Russell 3000 index that returned 12.56% in 2014.
- International Equity managers represented 12.6% of the portfolio as of December 31, 2014. Approximately 56% of the international equity assets were allocated to developed markets and the remaining to emerging markets. International equity managers' net return was -7.03% behind the MSCI AC World ex US (NET) benchmark return of -3.87%.
- Domestic Fixed Income Managers represented 18.1% of the portfolio as of December 31, 2014. The overall net return for these managers was 6.78% for the year. These managers outperformed the Barclays Aggregate Bond Index that returned 5.23% for the year.
- International Fixed Income Managers represented approximately 3.5% of total allocation as of the end of 2014. Overall these managers had a net return of -3.31% underperforming the Citigroup Non- US World Government Index that returned -1.19%.
- Real estate investment managers had a net return of 12.09% in 2014 and represented 11.1% of the total portfolio as of year-end 2014. Norfolk's real estate exposure is a combination of core, value-add and opportunistic managers. The real estate allocation outperformed the NCREIF Property Index that returned 11.82% in 2014.
- Private equity had a net return of 8.6% in 2014. Norfolk remains committed to the private equity portfolio and plans continued investment. During 2014, Norfolk made an additional commitment to a private equity co-investment manager.
- Hedge funds had a net return of 5.46% in 2014. For the same period, the HFRI Hedge Fund-of-Funds Composite Index returned 3.33%.

# **NORFOLK COUNTY RETIREMENT SYSTEM**

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## **REQUIRED SUPPLEMENTARY INFORMATION**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**

**DECEMBER 31, 2014**

#### **Other Information**

This financial report is designed to provide a general overview of the System's finances. Questions concerning the information provided in this report or requests for additional financial information should be addressed to the Norfolk County Retirement Board, 480 Neponset Street #15, Canton, MA 02021.

NORFOLK COUNTY RETIREMENT SYSTEM

STATEMENT OF FIDUCIARY NET POSITION

DECEMBER 31, 2014

ASSETS

CASH AND CASH EQUIVALENTS \$ 21,714,455

INVESTMENTS, AT FAIR VALUE:

Equities	223,376,987
Fixed Income	124,147,923
Pooled Funds:	
Equity	178,089,096
Fixed Income	38,262,969
Private Equity	48,984,595
Real Estate	97,150,232
Hedge	45,272,364

TOTAL INVESTMENTS, AT FAIR VALUE 755,284,166

RECEIVABLES AND OTHER ASSETS:

Member Contributions	1,792,081
Intergovernmental	2,723,307
Interest and Dividend Income Due	1,654,533
Receivable for Investments Sold	88,487
Miscellaneous	4,741

TOTAL RECEIVABLES 6,263,149

TOTAL ASSETS 783,261,770

LIABILITIES

LIABILITIES:

Accounts Payable	904,954
Payable for Investments Purchased	409,788

TOTAL LIABILITIES 1,314,742

NET POSITION RESTRICTED FOR PENSION BENEFITS \$ 781,947,028

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



NORFOLK COUNTY RETIREMENT SYSTEM

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STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED DECEMBER 31, 2014

**ADDITIONS:**

Contributions:

Employer	\$ 48,383,549
Member	<u>26,322,747</u>
Total Contributions	<u>74,706,296</u>

Investment Income:

Net Appreciation in Fair Value of Investments	29,983,636
Interest and Dividends	<u>10,912,343</u>
Total Investment Income	40,895,979
Less Investment Expenses	<u>6,356,063</u>
Net Investment Income	<u>34,539,916</u>
Other	<u>2,021,260</u>

**TOTAL ADDITIONS**

111,267,472

**DEDUCTIONS:**

Benefits Paid	78,946,097
Refunds of Contributions	2,149,374
Administrative Expenses	<u>1,077,892</u>

**TOTAL DEDUCTIONS**

82,173,363

**CHANGE IN NET POSITION**

29,094,109

**NET POSITION RESTRICTED FOR PENSION BENEFITS:**

**BEGINNING OF YEAR**

752,852,919

**END OF YEAR**

\$ 781,947,028

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

**NORFOLK COUNTY RETIREMENT SYSTEM**

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**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 1 – PLAN DESCRIPTION**

The Norfolk County Retirement System (the System or the Plan) is a cost-sharing multiple-employer contributory defined benefit governmental pension plan established under Chapter 32 of the Massachusetts General Laws (“MGL”) covering all employees of governmental member units deemed eligible by the Norfolk County Retirement Board (the Board), with the exception of school department employees who serve in a teaching capacity. The pensions of such school employees are administered by the Commonwealth of Massachusetts’ Teachers Retirement System. Membership in the Plan is mandatory immediately upon the commencement of employment for all non-teaching permanent, full time employees.

The System is governed by a five member Board who establish the policies under which the System operates. Board members also approve all of the System’s financial transactions, including the approval of retirement benefits to members.

The day-to-day operations of the System are managed by the Executive Director. The legislative body for the System is an Advisory Council consisting of full-time treasurers or other qualified officials of the member units. The Advisory Council meets at least twice annually and is responsible for supervising and certifying the procedures involved in the election of members to the retirement board.

As of December 31, 2014, the Plan’s membership consisted of:

Retirees and beneficiaries	3,106
Active participants	5,089
Inactive with a vested right to benefits or to receive refund of their contributions	2,511

The number of participating employers was 41.

The System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of MGL. The Public Employee Retirement Administration Commission (PERAC) is the state agency responsible for oversight of the Commonwealth’s public retirement systems.

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

## NORFOLK COUNTY RETIREMENT SYSTEM

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### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014

#### **NOTE 1 – PLAN DESCRIPTION** (Continued)

There are three classes of membership in the retirement system: group 1, group 2, and group 4. Group 1 consists of general employees which includes clerical and administrative positions. Group 2 consists of positions that have been specified as hazardous. Lastly, group 4 consists of police officers, firefighters, and other hazardous positions.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service if hired after 1978 and if classified in groups 1 or 2. A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance upon reaching the age of 60 with 10 years of service if in group 1, 50 years of age with 10 years of service if in group 2, and 55 years of age if hired prior to 1978 or if classified in group 4. Normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55).

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

Active members contribute between 5 and 9% of their gross regular compensation. Members joining the System after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Public Employee Retirement Administration Commission's (PERAC) actuary. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth of Massachusetts' state law during those years are borne by the Commonwealth and are deposited into the Pension Fund. Cost-of-living adjustments granted after 1997 must be approved by the System and all costs are borne by the System.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current-year pension assessment. In past years, retirement systems were paying only the actual retirement benefits that were due each year. Systems had no statutory authorization to put aside money for the future benefits of employees who are currently employed. Large unfunded liabilities resulted from operating under this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations. In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the Retirement System's unfunded liabilities, and in some Systems have actually reduced such liability.

## NORFOLK COUNTY RETIREMENT SYSTEM

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### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014

#### **NOTE 1 – PLAN DESCRIPTION** (Continued)

Administrative expenses, which were previously appropriated from the governmental entities whose employees are members of the system, are now paid from excess investment income.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, with at least ten years of creditable service, such employees are entitled to receive one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

#### **NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **Basis of Accounting**

The accompanying financial statements are prepared using the accrual basis of accounting in conformity with U.S. generally accepted accounting principles (GAAP), as prescribed by the Governmental Accounting Standards Board (GASB).

##### **Investments**

Investments are reported at fair value. Fair values of securities held directly are based on quotations from national securities exchanges, except for pooled funds, alternative investments, real estate, and hedge funds, for which fair values are estimated as detailed below.

*Pooled Equity and Fixed Income Funds* – The fair value of shares in managed investment pools is based on unit values reported by the managers of those respective funds.

*Pooled Private Equity Funds* – Pooled private equity funds include holdings through equity interests in various limited partnerships. These investments are carried at the limited partnership interest or redemption value, the equivalent of net asset value, which approximates fair value. Values assigned to such investments are based on available information and do not necessarily represent amounts that may ultimately be realized in liquidation. Liquidation values depend largely on future circumstances, including marketability, and frequently cannot reasonably be estimated until at, or near, the liquidation date.

*Pooled Real Estate Funds* – Real estate investments consist of interests in commercial properties held by various partnerships and other limited liability entities, some of which utilize debt financing. Fair values of such holdings are reported based on net asset values of the entities, which are estimated using third-party appraisals and other information provided by the property managers.

## NORFOLK COUNTY RETIREMENT SYSTEM

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### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014

#### NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

##### Investments (Continued)

*Pooled Hedge Funds* – The fair value of shares in managed hedge funds is based on unit values reported by the managers of those respective funds.

##### Investments Sold and Investments Purchased

Receivables for investments sold represent amounts due from brokers for unsettled security sales transactions at year end. Liabilities for investments purchased represent amounts due to brokers for unsettled purchases at year end.

##### Revenue Recognition

Contributions are recognized as additions in the period when they become due pursuant to formal statutory obligations. Investment income is recognized when earned.

##### Benefit Payments and Refunds of Contributions

Benefits and refunds to Plan members and beneficiaries are recognized as expenses when due and payable in accordance with the terms of the Plan.

##### Intergovernmental, Reimbursements and Transfers to Other Systems

When members transfer to or from other Massachusetts public retirement systems, their cumulative contributions are transferred from the prior employer to the respective Massachusetts public retirement system, and are recognized as receipts or expenses when paid.

##### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of additions and deductions during the reporting period. Actual results could differ from estimates. Fair values of real estate, alternative investment and hedge fund holdings are generally estimated absent readily available market values, and such estimates may be materially different from values that would have been used if a ready market existed.

##### Recent Accounting Pronouncements

The System has implemented GASB No. 67, *Financial Reporting for Pension Plans-an amendment of GASB Statement No. 25* effective January 1, 2014. This statement replaces GASB No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for Defined Contribution Plans*, and specifies the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through the pension plan. GASB Statement No. 67 requires plans to calculate a net pension liability to be measured as the total pension liability less the amount of the pension plan's fiduciary net position.

## NORFOLK COUNTY RETIREMENT SYSTEM

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### NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2014

#### **NOTE 3 – PLAN ADMINISTRATION**

The System is administered by a five-person Board of Retirement.

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 PERAC.

The Advisory Council consists of the full time treasurers, elected or appointed, for each town, unit or district within the System. The members of the Advisory Council elect the second member of the Board of Retirement as well as a Chair from among its members. The Advisory Council is required by statute to meet twice per year.

The investment of the System's funds is the responsibility of the Board. Disability retirement allowances must be approved by the 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.

Board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts. The MACRS program for the System provides \$50,000,000 fiduciary protection for Trustees and employees, as well as a \$1,000,000 fidelity policy for crime coverage.

#### **NOTE 4 – CASH DEPOSITS AND INVESTMENTS**

The following disclosures represent essential risk information about the System's deposits and investments.

##### **Custodial Credit Risk – Deposits**

Custodial credit risk is the risk that in the event of bank failure, the System's deposits may not be returned. The System carries deposits that are insured by FDIC insurance up to \$250,000 per financial institution. The System evaluates each financial institution and assesses the level of risk of each institution and only uses those institutions with an acceptable level of risk. At December 31, 2014, the System had cash balances at two financial institutions in excess of FDIC limits of approximately \$4,775,000.

##### **Investment Policy**

The provisions of M.G.L. Chapter 32 § 23 (2) and the Plan's own investment policy govern the System's investment practice. The Board retains an investment consultant to assure that strategic investment diversification is attained, to employ investment managers with expertise in their respective asset classes, and to closely monitor the implementation and performance of the respective investment strategies.

The System is currently invested in stocks (domestic and foreign), fixed income securities (domestic and foreign), private equity, real estate and hedge funds.

**NORFOLK COUNTY RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 4 – CASH DEPOSITS AND INVESTMENTS** (Continued)

**Custodial Credit Risk - Investments**

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the System would not be able to recover the value of investment or securities. The System's investments are held by the System's custodian and registered in the System's name. All of the System's securities are held by the System's custodial bank in the System's name, except for investments in pooled funds, which by their nature, do not have securities that are used as evidence of the investment.

**Interest Rate Risk**

The following is a listing of the System's fixed income investments (in thousands) and related maturity schedule (in years) as of December 31, 2014:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
U.S. Treasury Notes	\$ 3,397	\$ 1,134	\$ 2,263	\$ -	\$ -
U.S. Agencies	9,109	246	539	1,183	7,141
Domestic Corporate	90,616	427	19,001	28,998	42,190
International Corporate	12,125	-	2,563	5,533	4,029
International Government	<u>8,901</u>	<u>280</u>	<u>2,294</u>	<u>5,288</u>	<u>1,039</u>
	<u>\$124,148</u>	<u>\$ 2,087</u>	<u>\$26,660</u>	<u>\$41,002</u>	<u>\$54,399</u>

The System's guidelines do not specifically address limits on maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The managers of each fixed income portfolio are responsible for determining the maturity and commensurate returns of their portfolio.

**Credit Risk**

The System allows investment managers to apply discretion under the Prudent Person rule. Investments are made, as a prudent person would be expected to act with discretion and intelligence, to seek reasonable income, preserve capital and, in general, avoid speculative investments.

The System's fixed income investments as of December 31, 2014 were rated by Standard & Poor's and/or an equivalent national rating organization and the ratings are presented below (in thousands) using the Standard & Poor's rating scale:

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>CC to D</u>	<u>Not Rated</u>
U.S. Agencies	\$ 9,109								\$ 9,109
Domestic Corporate	90,616	2,227	1,543	10,248	32,185	26,438	7,004	4,030	6,941
International Corporate	12,125	963	313	1,232	3,768	4,540	927	-	382
International Government	8,901	1,843	965	1,799	941	-	-	-	3,353
	<u>\$120,751</u>	<u>\$ 5,033</u>	<u>\$ 2,821</u>	<u>\$13,279</u>	<u>\$36,894</u>	<u>\$30,978</u>	<u>\$7,931</u>	<u>\$ 4,030</u>	<u>\$ 19,785</u>

**NORFOLK COUNTY RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 4 – CASH DEPOSITS AND INVESTMENTS** (Continued)

**Credit Risk** (Continued)

In addition to the above schedules, as of December 31, 2014, the System had approximately \$3.3 million invested in U.S. government securities, which are explicitly guaranteed by the U.S. government.

**Concentration Risk**

Other than investments in three pooled funds, the System has no individual investment at fair value that exceeds 5% of total investments at December 31, 2014. The System adheres to the provisions of MGL Chapter 32 § 23, the rules and regulations of PERAC, and the Plan's own investment policy when managing concentration risk.

**Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Similar to the investments in domestic equities, the System employs or encourages its investment advisor to employ diversification, asset allocation, and quality strategies. Risk of loss arises from changes in currency exchange rates. The System's exposure to foreign currency risk as of December 31, 2014 is presented on the following table (in thousands):

<u>Currency</u>	<u>Cash and</u>		<u>Equity</u>	<u>Fixed</u>	<u>Pooled</u>	<u>Total</u>	
	<u>Cash</u>			<u>Income</u>	<u>Funds</u>		
	<u>Equivalents</u>	<u>Equity</u>				<u>Total</u>	
Argentine Peso	\$	-	\$	-	\$	511	\$ 511
Australian Dollar		3	167	155	1,170	1,495	1,495
Brazilian Real		-	361	602	7,601	8,564	8,564
Canadian Dollar		4	4,997	-	39	5,040	5,040
Chinese Yuan Renminbi		-	-	-	3,706	3,706	3,706
Columbian Peso		-	-	-	1,275	1,275	1,275
Danish Kroner		-	239	-	286	525	525
Egyptian Pound		-	-	-	341	341	341
Euro Currency		-	16,879	2,630	3,611	23,120	23,120
Hong Kong Dollar		-	1,541	-	1,407	2,948	2,948
Hungarian Forint		-	-	-	723	723	723
Indian Rupee		-	-	-	2,598	2,598	2,598
Indonesian Rupiah		-	-	-	2,894	2,894	2,894
Israeli Shekel		-	-	-	550	550	550
Japanese Yen		4	5,286	-	4,444	9,734	9,734
Macanese Pataca		-	-	-	511	511	511
Malaysian Ringgit		-	-	-	608	608	608
Mexican Peso		17	-	502	1,300	1,819	1,819
New Russian Ruble		-	-	-	4,856	4,856	4,856



**NORFOLK COUNTY RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 4 – CASH DEPOSITS AND INVESTMENTS** (Continued)

<u>Currency</u>	<u>Cash and Equivalents</u>	<u>Equity</u>	<u>Fixed Income</u>	<u>Pooled Funds</u>	<u>Total</u>
New Zealand Dollar	-	-	71	169	240
Norwegian Krone	-	-	396	315	711
Pakistani Rupee	-	-	-	596	596
Philippine Peso	-	-	-	639	639
Polish Zloty	-	-	125	-	125
Pound Sterling	1	10,389	734	3,573	14,697
Romanian Leu	-	-	-	565	565
Serbian Dinar	-	-	-	310	310
Singapore Dollar	-	1,184	-	371	1,555
South African Rand	-	-	10	3,868	3,878
South Korean Won	-	-	332	5,702	6,034
Swedish Krona	-	516	23	643	1,182
Swiss Franc	-	4,708	-	670	5,378
Thai Baht	-	-	102	1,065	1,167
Taiwan New Dollar	-	185	-	1,917	2,102
Turkish Lira	2	-	50	1,917	1,969
Ugandan Shilling	-	-	-	471	471
Uruguayan Peso	-	-	-	380	380
Zambian Kwacha	-	-	-	296	296
Total Securities Subject To					
Foreign Currency Risk	<u>\$ 31</u>	<u>\$ 46,452</u>	<u>\$ 5,732</u>	<u>\$ 61,898</u>	<u>\$ 114,113</u>

NORFOLK COUNTY RETIREMENT SYSTEM

NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014

**NOTE 5 – LEGALLY REQUIRED RESERVES**

The System's legally required reserves are all funded at levels required by state statute and were as follows as of December 31, 2014:

Annuity Savings Fund	\$244,674,496
Annuity Reserve Fund	66,365,653
Military Service Fund	37,764
Pension Fund	2,525,676
Pension Reserve Fund	468,343,439
Expense Fund	-
	<u>\$781,947,028</u>

The *Annuity Savings Fund* is the fund in which member's contributions are deposited. Voluntary contributions, redeposits, 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 from the System with less than 10 years of service is transferred to the Pension Reserve Fund. Upon retirement, a member's 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 10 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 the Military Service 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 *Military Service Fund* contains contributions and interest for members while on military leave for service in the Armed Forces who will receive creditable service for the period of that leave. Creditable service is granted provided the member returns to the same governmental unit within two years of the date of discharge from the military. Upon retirement, a member's contributions and interest are transferred to the Annuity Reserve Fund.

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 the amounts set aside by the system for the purpose of establishing a reserve to meet future pension liabilities. Any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund and Military Service Fund is credited to the Pension Reserve Fund. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain or loss of market valued investments as of the valuation date is credited to the Pension Reserve Fund.

**NORFOLK COUNTY RETIREMENT SYSTEM**

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**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 5 – LEGALLY REQUIRED RESERVES** (Continued)

The *Expense Fund* contains amounts transferred from investment income for the purpose of administering the System.

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

**NOTE 6 – FUNDING POLICY**

Participating employers are required to pay into the System their share of the remaining actuarially determined contribution and plan administration costs, which are apportioned among the participating employers based on an actuarial computation.

The participating employers' budgeted contributions to the System for the employer fiscal years ended June 30, 2015 were as follows (in thousands):

Town of Avon	\$ 937
Avon Housing Authority	17
Town of Bellingham	2,118
Bellingham Housing Authority	30
Town of Canton	3,642
Canton Housing Authority	85
Town of Cohasset	1,589
Cohasset Housing Authority	13
Norfolk County	2,921
Charles River Pollution Control	116
Town of Dover	947
Dover-Sherborn Regional High School	525
Town of Foxboro	3,088
Foxboro Housing Authority	48
Town of Franklin	3,734
Franklin Housing Authority	58
Town of Holbrook	1,521
Holbrook Housing Authority	27
King Philip Regional School District	525
Town of Medfield	1,720
Medfield Housing Authority	18
Town of Medway	1,596
Medway Housing Authority	66
Town of Millis	1,287
Millis Housing Authority	17
Town of Norfolk	1,485
Norfolk Housing Authority	16
Norfolk Mosquito Control	130
Town of Plainville	1,181

**NORFOLK COUNTY RETIREMENT SYSTEM**

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**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 6 – FUNDING POLICY** (Continued)

Town of Randolph	3,948
Randolph Housing Authority	70
Town of Sharon	3,083
Sharon Housing Authority	19
Town of Stoughton	3,853
Stoughton Housing Authority	76
Town of Walpole	3,648
Walpole Housing Authority	48
Town of Westwood	3,287
Town of Wrentham	1,355
Wrentham Housing Authority	20
Dedham Westwood Water District	416
	<u>\$49,280</u>

**NOTE 7 – NET PENSION LIABILITY**

The components of the net pension liability of the System as of December 31, 2014, is as follows:

Total Pension Liability	\$1,300,572,232
Fiduciary Net Position	<u>781,947,028</u>
System's Net Pension Liability	\$ <u>518,625,204</u>

Fiduciary Net Position as a percentage of total pension liability	60.1%
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**Actuarial Assumptions**

The total pension liability was determined by an actuarial valuation as of January 1, 2015 and 2014. The following actuarial assumptions were applied to all periods included in the measurement:

Actuarial cost method:	Entry Age Normal Cost Method
Asset valuation method	Market value
Investment rate of return	8.25%
Projected salary increases	4.0%
Inflation	4.5%
Cost of living increases	3.0% of first \$15,000 of retirement income
Mortality:	The RP-2000 Mortality Table adjusted with Scale AA

**NORFOLK COUNTY RETIREMENT SYSTEM**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 7 – NET PENSION LIABILITY** (Continued)

The long term expected rate of return on Plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic Equity	32.0%	7.7%
International Equities	17.5	6.4
Fixed Income	19.0	1.9
Real Estate	9.0	5.2
Private Equity	8.5	11.9
Hedge Funds	9.0	5.5
Real Assets	<u>5.0</u>	5.5
Total	<u>100.0%</u>	

**Discount Rate**

The discount rate used to measure the total pension liability as of December 31, 2014 was 8.25%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Under Chapter 32 of the MGL, employers are required to make the necessary contributions such that the Plan reaches full funding status by 2040. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current Plan members. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine total pension liability.

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

The following presents the net pension liability of the System as of December 31, 2014, calculated using the discount rate of 8.25%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is one-percentage point lower (7.25%) or one-percentage point higher (9.25%) than the current rate:

	<u>1% Decrease (7.25%)</u>	<u>Current Discount Rate (8.25%)</u>	<u>1% Increase (9.25%)</u>
System's Net Pension Liability	\$650,851,798	\$518,625,204	\$404,984,119

**NORFOLK COUNTY RETIREMENT SYSTEM**

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**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2014**

**NOTE 8 – LEASE COMMITMENTS**

The System leases office space under an operating lease that expires in August 2016. The lease also provides for the payment of common area costs, real estate taxes and utilities. Future minimum lease payments under the lease is as follows:

<u>Year</u>	<u>Amount</u>
2015	\$ 45,000
2016	<u>30,000</u>
Total	\$ <u>75,000</u>

Rent expense for the years ended December 31, 2014 was \$55,434.

**NOTE 9 – UNCERTAINTIES**

The System is, from time to time, involved in legal matters arising in the normal course of its administration of member benefits that, in the opinion of management, will not have a material effect on the net assets of the System.

**NOTE 10 – SUBSEQUENT EVENTS**

The System has performed an evaluation of subsequent events through October 28, 2015, the date the basic financial statements were available to be issued. No material events were identified by the System.

**NORFOLK COUNTY RETIREMENT SYSTEM**

**REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)**

**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**

**DECEMBER 31, 2014**

<b><u>TOTAL PENSION LIABILITY:</u></b>	
Service Cost	\$ 31,799,628
Interest on Liability and Service Cost	105,550,203
Benefit Payments, Including Refunds of Contributions	(81,095,471)
Interest on Benefit Payments	(3,278,900)
	52,975,460
<b><u>NET CHANGE IN TOTAL PENSION LIABILITY</u></b>	<b>52,975,460</b>
<b><u>TOTAL PENSION LIABILITY - BEGINNING OF YEAR</u></b>	<b>1,247,596,772</b>
<b><u>TOTAL PENSION LIABILITY - END OF YEAR (a)</u></b>	<b><u>\$ 1,300,572,232</u></b>
<b><u>CHANGE IN FIDUCIARY NET POSITION</u></b>	
Contributions - Employer	\$ 48,383,549
Contributions - Member	26,322,747
Net Investment Income	34,539,916
Benefit Payments, Including Refunds of Contributions	(81,095,471)
Administrative Expenses	(1,077,892)
Other	2,021,260
	29,094,109
<b><u>NET CHANGE IN FIDUCIARY NET POSITION</u></b>	<b>29,094,109</b>
<b><u>FIDUCIARY NET POSITION - BEGINNING OF YEAR</u></b>	<b>752,852,919</b>
<b><u>FIDUCIARY NET POSITION - END OF YEAR (b)</u></b>	<b><u>\$ 781,947,028</u></b>
<b><u>NET PENSION LIABILITY - END OF YEAR (a) - (b)</u></b>	<b><u>\$ 518,625,204</u></b>
<b><u>FIDUCIARY NET POSITION as a PERCENTAGE OF</u></b>	
<b><u>  TOTAL PENSION LIABILITY</u></b>	60.1%
<b><u>COVERED EMPLOYEE PAYROLL</u></b>	\$ 246,722,941
<b><u>NET PENSION LIABILITY as a PERCENTAGE OF</u></b>	
<b><u>  COVERED EMPLOYEE PAYROLL</u></b>	210.2%

This schedule is intended to present 10 years of data. Additional years will be presented when available.

**NORFOLK COUNTY RETIREMENT SYSTEM**

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**REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)**

**SCHEDULE OF INVESTMENT RETURN**

**DECEMBER 31, 2014**

Annual Money-Weighted Rate of Return, Net of Investment Expense	5.07%
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This schedule is intended to present 10 years of data. Additional years will be presented when available.

See Accompanying Independent Auditors' Report and Notes to Required Supplementary Information



NORFOLK COUNTY RETIREMENT SYSTEM

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REQUIRED SUPPLEMENTARY INFORMATION (Unaudited)

SCHEDULE OF CONTRIBUTIONS

DECEMBER 31, 2014

Actuarially Determined Contribution	\$	49,280,000
Actual Contributions in Relation to Actuarially Determined Contribution		<u>49,280,000</u>
Contribution Deficiency (Excess)	\$	<u><u>-</u></u>
Covered-Employee Payroll		246,722,941
Contributions as a Percentage of Covered-Employee Payroll		20.0%

This schedule is intended to present 10 years of data. Additional years will be presented when available.

# NORFOLK COUNTY RETIREMENT SYSTEM

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## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

DECEMBER 31, 2014

### 1. SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS

The total pension liability presented in the schedule were provided by the System's actuarial consultant, Sherman Actuarial Services, LLC. The net pension liability is measured as the total pension liability less the amount of the fiduciary net position of the System. The related ratios show Plan net position as a percentage of the total pension liability and the net pension liability as a percentage of covered employee payroll.

### 2. SCHEDULE OF INVESTMENT RETURN

The annual money-weighted rate of return is calculated as the internal rate of return on Plan investments, net of Plan investment expense. A money-weighted rate of return expresses investment performance, net of Plan investment expense, adjusted for changing amounts actually invested.

### 3. SCHEDULE OF CONTRIBUTIONS

The actuarially determined contribution amount in the schedule of contributions was calculated as of January 1, 2015. The following actuarial methods and assumptions were used to determine the contribution amount reported in that schedule:

Actuarial Cost Method	Individual entry age normal actuarial cost method
Amortization Method	Open – Level percent of payroll
	Payroll assumed to grow 4% per year
Asset Valuation Method	Assets held by plan are valued at market value as reported to PERAC
Inflation	4.5%
Investment Rate of Return	8.25%
Cost of Living Adjustments	3.0% of first \$15,000 of retirement income
Mortality Table	RP-2000 Mortality Table adjusted with Scale AA



Dorothy F. Di Pesa, CPA  
John F. Oteri, CPA

## **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of the Norfolk County  
Retirement System

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Norfolk County Retirement System, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the Norfolk County Retirement System's basic financial statements, and have issued our report thereon dated October 28, 2015.

### **Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Norfolk County Retirement System's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Norfolk County Retirement System's internal control. Accordingly, we do not express an opinion on the effectiveness of the Norfolk County Retirement System's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Norfolk County Retirement System's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

DI PESA & COMPANY

*Di Pesa & Company*

Certified Public Accountants  
Quincy, Massachusetts

October 28, 2015