PERAC AUDIT REPORT

Haverhill
Contributory Retirement System

JAN. 1, 2008 - DEC. 31, 2009

PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION
COMMONWEALTH OF MASSACHUSETTS

TABLE OF CONTENTS

Letter from the Executive Director 1

Explanation of Findings and Recommendations 2

Statement of Ledger Assets and Liabilities 3

Statement of Changes in Fund Balances 4

Statement of Receipts 5

Statement of Disbursements 6

Investment Income 7

Schedule of Allocation of Investments Owned 8

Supplementary Investment Regulations 9

Notes to Financial Statements:

- Note 1 - Summary of Plan Provisions 11
- Note 2 - Significant Accounting Policies 18
- Note 3 - Supplementary Membership Regulations 20
- Note 4 - Administration of the System 23
- Note 5 - Actuarial Valuation and Assumptions 24
- Note 6 - Membership Exhibit 25

PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

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October 27, 2011

The Public Employee Retirement Administration Commission has completed an examination of the Haverhill Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2008 to December 31, 2009. 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, with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiners Carol Niemira, James Tivnan, and James Ryan 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

FIVE MIDDLESEX AVENUE, SUITE 304 | SOMERVILLE, MA 02145
PH 617 666 4446 | FAX 617 628 4002 | TTY 617 591 8917 | WWW.MASS.GOV/PERAC

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

Investment Approval

The Haverhill Retirement System initiated a temporary investment in the SSGA Russell 2000 Growth Index Securities Lending Fund in March 2008, as a consequence of terminating a small-cap growth manager. Funds were rolled over from the latter prior to submitting and receiving notice from PERAC's Investment Director that required regulatory documents had been received for the SSGA fund, which was liquidated in May 2008.

Recommendation: Haverhill must comply with PERAC's Investment Regulation 840 CMR 16.08. Written acknowledgement from PERAC is required before funding any new investment, including short-term. PERAC Memorandum #12/2005 dated March 7, 2005 entitled "Overview of Investment Regulations Issues" provides explicit guidance on this issue.

Board Response:

This was a miscommunication between PERAC's Investment Director and the Retirement Board. The Board takes full responsibility in that regard. The Board will continue to comply with 840 CMR 16.08, as they have in the past.

FINAL DETERMINATION:

PERAC Audit staff will follow up in six (6) months to ensure appropriate actions have been taken regarding all findings.

STATEMENT OF LEDGER ASSETS AND LIABILITIES

	AS OF DECEMBER 31, 2009	2008
Net Assets Available For Benefits:		
Cash	$1,322,910	$2,767,706
Fixed Income Securities	14,465,321	17,288,806
Equities	38,886,735	28,649,825
Pooled Domestic Equity Funds	8,356,008	6,968,224
Pooled International Equity Funds	21,963,694	15,308,368
Pooled Domestic Fixed Income Funds	19,098,176	14,800,932
Pooled Alternative Investment Funds	4,243,824	3,556,022
Pooled Real Estate Funds	16,757,454	17,886,198
Hedge Funds	12,187,593	12,849,603
PRIT Cash Fund	0	0
PRIT Core Fund	0	0
Interest Due and Accrued	183,167	232,000
Prepaid Expenses	0	0
Accounts Receivable	255,312	735,200
Premises and Equipment, Net	0	0
Accounts Payable	(384,598)	(799,768)
Total	$137,335,596	$120,243,116
Fund Balances:		
Annuity Savings Fund	$37,023,726	$36,215,467
Annuity Reserve Fund	20,711,497	20,927,419
Pension Fund	7,511,985	7,578,898
Military Service Fund	16,828	16,221
Expense Fund	0	0
Pension Reserve Fund	72,071,559	55,505,111
Total	$137,335,596	$120,243,116

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)	$34,623,597	$21,907,063	$7,360,276	$15,558	$0	$110,354,756	$174,261,251
Receipts	3,566,945	629,945	11,195,064	663	1,900,686	(47,770,282)	(30,476,979)
Interfund Transfers	(1,313,084)	1,294,874	7,097,573	0	0	(7,079,363)	0
Disbursements	(661,991)	(2,904,463)	(18,074,015)	0	(1,900,686)	0	(23,541,156)
Ending Balance (2008)	36,215,467	20,927,419	7,578,898	16,221	0	55,505,111	120,243,116
Receipts	3,559,515	607,446	11,251,806	607	1,714,886	23,707,062	40,841,322
Interfund Transfers	(2,174,136)	2,172,204	7,142,546	0	0	(7,140,614)	0
Disbursements	(577,121)	(2,995,572)	(18,461,264)	0	(1,714,886)	0	(23,748,842)
Ending Balance (2009)	$37,023,726	$20,711,497	$7,511,985	$16,828	$0	$72,071,559	$137,335,596

STATEMENT OF RECEIPTS

	FOR THE PERIOD ENDING DECEMBER 31, 2009	2008
Annuity Savings Fund:		
Members Deductions	$3,194,736	$3,175,215
Transfers from Other Systems	105,568	129,184
Member Make Up Payments and Re-deposits	83,830	58,918
Member Payments from Rollovers	0	0
Investment Income Credited to Member Accounts	175,381	203,627
Sub Total	3,559,515	3,566,945
Annuity Reserve Fund:		
Investment Income Credited to the Annuity Reserve Fund	607,446	629,945
Pension Fund:		
3 (8) (c) Reimbursements from Other Systems	201,095	192,480
Received from Commonwealth for COLA and Survivor Benefits	423,342	461,723
Pension Fund Appropriation	10,621,368	10,540,861
Settlement of Workers' Compensation Claims	6,000	0
Sub Total	11,251,806	11,195,064
Military Service Fund:		
Contribution Received from Municipality on Account of Military Service	526	570
Investment Income Credited to the Military Service Fund	81	93
Sub Total	607	663
Expense Fund:		
Expense Fund Appropriation	0	0
Investment Income Credited to the Expense Fund	1,714,886	1,900,686
Sub Total	1,714,886	1,900,686
Pension Reserve Fund:		
Federal Grant Reimbursement	55,417	55,639
Pension Reserve Appropriation	0	0
Interest Not Refunded	6,088	11,064
Miscellaneous Income	0	0
Excess Investment Income (Loss)	23,645,557	(47,836,984)
Sub Total	23,707,062	(47,770,282)
Total Receipts, Net	$40,841,322	($30,476,979)

STATEMENT OF DISBURSEMENTS

	FOR THE PERIOD ENDING DECEMBER 31, 2009	2008
Annuity Savings Fund:		
Refunds to Members	$320,929	$370,354
Transfers to Other Systems	256,192	291,637
Sub Total	577,121	661,991
Annuity Reserve Fund:		
Annuities Paid	2,934,545	2,856,714
Option B Refunds	61,027	47,749
Sub Total	2,995,572	2,904,463
Pension Fund:		
Pensions Paid:		
Regular Pension Payments	13,841,607	13,791,608
Survivorship Payments	376,172	391,548
Ordinary Disability Payments	227,448	257,297
Accidental Disability Payments	2,772,368	2,639,330
Accidental Death Payments	422,181	428,350
Section 101 Benefits	99,703	106,653
3 (8) (c) Reimbursements to Other Systems	391,024	281,819
State Reimbursable COLA's Paid	311,890	157,448
Chapter 389 Beneficiary Increase Paid	18,871	19,963
Sub Total	18,461,264	18,074,015
Military Service Fund:		
Return to Municipality for Members Who Withdrew Their Funds	0	0
Expense Fund:		
Board Member Stipend	15,000	15,000
Salaries	180,107	186,776
Legal Expenses	33,331	31,211
Medical Expenses	0	0
Travel Expenses	1,221	2,720
Administrative Expenses	48,581	57,373
Professional Services	45,500	0
Education and Training	500	0
Furniture and Equipment	1,922	224
Management Fees	1,070,697	1,283,922
Custodial Fees	159,937	184,100
Consultant Fees	125,089	109,623
Service Contracts	20,706	24,216
Fiduciary Insurance	12,294	5,522
Sub Total	1,714,886	1,900,686
Total Disbursements	$23,748,842	$23,541,156

INVESTMENT INCOME

	FOR THE PERIOD ENDING DECEMBER 31, 2009	2008
Investment Income Received From:		
Cash	$7,825	$55,729
Fixed Income	904,253	1,003,437
Equities	580,192	760,485
Pooled or Mutual Funds	1,214,146	1,961,937
Commission Recapture	3,176	2,976
Total Investment Income	2,709,592	3,784,563
Plus:		
Realized Gains	5,766,425	2,059,459
Unrealized Gains	31,059,875	14,735,449
Interest Due and Accrued - Current Year	183,167	232,000
Sub Total	37,009,467	17,026,908
Less:		
Paid Accrued Interest on Fixed Income Securities	(77,433)	(59,946)
Realized Loss	(5,190,419)	(17,395,107)
Unrealized Loss	(8,075,857)	(48,155,600)
Interest Due and Accrued - Prior Year	(232,000)	(303,450)
Sub Total	(13,575,709)	(65,914,103)
Net Investment Income (Loss)	26,143,351	(45,102,632)
Income Required:		
Annuity Savings Fund	175,381	203,627
Annuity Reserve Fund	607,446	629,945
Military Service Fund	81	93
Expense Fund	1,714,886	1,900,686
Total Income Required	2,497,794	2,734,352
Net Investment Income (Loss)	26,143,351	(45,102,632)
Less: Total Income Required	2,497,794	2,734,352
Excess Income (Loss) To The Pension Reserve Fund	$23,645,557	($47,836,984)

SCHEDULE OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

	AS OF DECEMBER 31, 2009	
	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS
Cash	$1,322,910	1.0%
Fixed Income	14,465,321	10.5%
Equities	38,886,735	28.3%
Pooled Domestic Equity Funds	8,356,008	6.1%
Pooled International Equity Funds	21,963,694	16.0%
Pooled Domestic Fixed Income Funds	19,098,176	13.9%
Pooled Alternative Investment Funds	4,243,824	3.1%
Pooled Real Estate Funds	16,757,454	12.2%
Hedge Funds	12,187,593	8.9%
PRIT Cash Fund	0	0.0%
PRIT Core Fund	0	0.0%
Grand Total	$137,281,714	100.0%

For the year ending December 31, 2009, the rate of return for the investments of the Haverhill Retirement System was 19.90%. For the five-year period ending December 31, 2009, the rate of return for the investments of the Haverhill Retirement System averaged 4.16%. For the 25-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the rate of return on the investments of the Haverhill Retirement System was 10.29%.

The composite rate of return for all retirement systems for the year ending December 31, 2009 was 18.22%. For the five-year period ending December 31, 2009, the composite rate of return for the investments of all retirement systems averaged 3.97%. For the 25-year period ending December 31, 2009, since PERAC began evaluating the returns of the retirement systems, the composite rate of return on the investments of all retirement systems averaged 9.30%.

SUPPLEMENTARY INVESTMENT REGULATIONS

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

September 19, 2007
16.08
Notwithstanding the provisions of any statute or regulation to the contrary, specifically including the provisions of 840 CMR 21.01, the Haverhill Retirement Board is hereby granted an exemption from restrictions on investment for the purposes of investing seven million dollars ($7,000,000) of the Haverhill Retirement System's assets in the Eaton Vance Loan Opportunities Fund, Ltd., a private placement investment.

February 14, 2007
17.03
Notwithstanding the provisions of the Public Employee Retirement Administration Commission regulations, the Haverhill Retirement Board may invest funds of the Retirement System (the "System") in the fund known as the Institutional Retirement Trust (IRT) International Equity Trust (the "Fund"), and effective as of the date of the initial investment by the System of any of its assets in the Fund, while the assets of the System are so invested, the activities and investments of the Fund, directly or indirectly, shall be deemed to satisfy the prohibited transaction rules set forth in 840 CMR 16.00 et seq. and 840 CMR 17.03 to the extent such activities satisfy the prohibited transaction rules set forth in Section 406 of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA"), taking into account ERISA Section 408(b)(8) as well as other statutory exemptions under ERISA, and Prohibited Transaction Class Exemption 84-14, as amended, Prohibited Transaction Class Exemption 91-38, and other available class exemptions.

October 17, 2002
16.08
In accordance with PERAC Investment Guideline 99-3, the Haverhill Retirement Board is authorized to sell its remaining position in North Bridge Venture Partners II (NBVPII) back to the General Partner and to reinvest the proceeds in North Bridge Venture Partners V. This transaction is intended to benefit the Limited Partners by closing the books on NBVPII, eliminating risks due to possible dilution and market uncertainty. It would benefit the General Partner by creating a consolidated, more efficient administrative structure.

March 26, 2001
21.01
In accordance with PERAC Guideline 99-1, the Haverhill Retirement System authorizes Fisher Investments, its small cap value manager, to utilize options up to 7% of its portfolio value. As specified in the Guideline, the manager's use of options is solely for the purpose of limiting the account's exposure to the equity market's volatility. The Board believes that the use of options as a management tool is preferable to having the manager sell stocks outright from its portfolio.

SUPPLEMENTARY INVESTMENT REGULATIONS (Continued)

January 31, 2000
16.02
The Haverhill Retirement Board hereby adopts the terms of the declaration of trust establishing the Institutional Retirement Trust, a Collective Trust of Institutional Trust Company for Participating Pension and Profit Sharing Trusts, collective trust fund sponsored by INVESCO Trust Company, as such declaration of trust is amended from time to time, and agrees that the terms of the declaration of trust, as amended, shall be incorporated into and made part of the retirement plan as administered by the Haverhill Retirement Board. The sole purpose of this special regulation is to satisfy the requirement of the Internal Revenue Service Revenue Ruling 81-100 that each plan that invests in a collective trust established under Revenue Ruling 81-100 incorporate the terms of the collective trust, and this special regulation shall be construed accordingly.

NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF PLAN PROVISIONS

The plan is a contributory defined benefit plan covering all Haverhill 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

NOTES TO FINANCIAL STATEMENTS (Continued)

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. Employees who first become members on or after January 1, 1984, may receive only limited interest on their contributions if they voluntarily terminate their service. Those who leave service with less than 5 years receive no interest; those who leave service with greater than 5 but less than 10 years receive 50% of the interest credited.

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 $729.84 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 $729.84 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 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 cost-of-living adjustment. The total Cost-of-Living adjustment for periods from 1981 through 1996 is paid for by the Commonwealth of Massachusetts.

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

Creditable Service:
August 8, 2006
Members of the Haverhill Retirement System shall receive creditable service for service rendered consistent with this regulation in the following manner:

For a member in service who is employed in a full-time capacity while an employee in the City of Haverhill, or in any member unit of the Haverhill Retirement System, he/she will receive one year of creditable service for each full calendar year in which the employee is receiving regular compensation for said service.

For a member in service who is employed in a permanent part-time capacity (20 hours per week or greater) throughout his/her entire career while an employee in the City of Haverhill, or in any member unit of the Haverhill Retirement System, he/she will receive one year of creditable service for each full calendar in which the employee is receiving regular compensation for said service.

For a member in service who has been employed in both a full-time and part-time capacity (part-time consisting of less than 20 hours per week) while an employee in the City of Haverhill, or in any member unit of the Haverhill Retirement System, he/she will receive full- time credit for full-time service, and prorated credit for part-time service based on the permanent part-time equivalency of 20 hours for the position, with 87 hours in any calendar year equaling to one month of creditable service for that year.

For a member who is employed in a part-time capacity (less than 20 hours per week) throughout his/her entire career while an employee in the City of Haverhill, or in any member unit of the Haverhill Retirement System, he/she shall not be allowed membership with the Haverhill Retirement System. If he/she becomes eligible for membership with the Haverhill Retirement System prior to retirement, this past service shall be prorated based on the permanent part-time equivalency of 20 hours for the position, with 87 hours in any calendar year equaling to one month of creditable service for that year.

In the case of School Department or City employees whose full-time employment requires them to work from on or about September 1 to on or about June 30, said employees shall receive one month of creditable service for each full month the employee is receiving regular compensation, with 10 months being the equivalent of one year of creditable service. Exception being made for the first year of membership that unless said member has been employed as of January of said year, no creditable service will be given for the months of July and August of that year.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

Any member who purchases past part-time service rendered shall have said service prorated based on 20 hours being considered a full week of service for permanent part-time employees with 87 hours in any calendar year equaling to one month of creditable service for that year.

Any member of the Haverhill Retirement System who has purchased and received creditable service prior to the effective date of this regulation will not be affected by this regulation.

April 24, 2002
Any current member of the Haverhill Retirement System who contacted the Board and attempted to make application for the purchase of creditable service pursuant to the terms and conditions of chapter 71 of the acts of 1996, as amended by chapter 188 of the acts of 1996, and who otherwise failed to go forward in such application process because the Board was only considering a lump-sum payment within 180 days of the effective date of the legislation or notice of eligibility, may pay into the annuity savings fund of the Haverhill Retirement System the appropriate make-up payment. Such payment may be in installments at an interest rate to be determined by the Board provided that such installments are completed before the member's effective date of retirement. Interest will commence 180 days after the effective date of the legislation or notice of eligibility. In support thereof, the member must submit an affidavit attesting to reason or reasons why the member failed to complete the process. The Board reserves the right to reject the application after a hearing to which the applicant shall receive notice to attend.

July 2, 2001
Veteran's Buyback: All members entitled to the Veteran's Buy Back, must make application within the one hundred-eighty (180) days as required under Chapter 71 of the Acts of 1996. They shall then have the option of paying for this creditable service at any time, up to their date of retirement, in one lump sum payment.

Miscellaneous:
July 5, 2005
The Haverhill Retirement Board has determined that it is necessary and in the best interest of its active and retired members, beneficiaries and survivors, to grant access to the name, address, telephone numbers and/or social security numbers of those individuals for the sole and limited purposes of assisting in the proper administration of G.L. c. 32 and 32B, and the issuance of monthly benefit checks. The Board recognizes the need to protect the privacy of its active and retirement members, beneficiaries and survivors, and to that end will only allow access to personal information to the City of Haverhill's Treasurer's Department, Human Resources Department, Data Processing Department, Benefits Coordinator and School Department.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS (Continued)

The Board will also grant access [for the purpose of mailings but will not allow the release of] the names and addresses of its active and retired members to candidates who are seeking an elected seat on the Board. The following procedure must be undertaken for access to be granted:

1. All information must be in sealed pre-stamped envelopes or on pre-paid Postcards;

2. Information must be supplied to the Staff one week prior to mailing; and

3. Address labels will be generated and affixed by the Retirement Staff with a cost to the candidate for the labels and one hour of office time at the lowest office rate. All information will be mailed by the Haverhill Retirement Office Staff. All other requests for the addresses or other personal information of the active and retired member, beneficiaries and survivors will be evaluated on a case-by-case basis [consistent with applicable law], and this supplemental regulation may be amended from time to time, subject to PERAC's approval, to address the needs of the members, beneficiaries and survivors and the City of Haverhill.

August 19, 2002
The Haverhill Retirement System has adopted Travel Supplemental Regulations under the provisions of G.L. c. 7, § 50 and G.L. c. 32, § 21(4). (Regulation available upon written request or from the PERAC website: http://www.mass.gov/per)

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the City Auditor who shall be a member ex-officio, a second member appointed by the governing authority, 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.

Ex-officio Member:	Charles Benevento		
Appointed Member:	Donald J. Shea	Term Expires:	4/27/2013
Elected Member:	William J. Klueber, Chairperson	Term Expires:	12/11/2013
Elected Member:	Lewis F. Poore, Jr.	Term Expires:	7/1/2011
Appointed Member:	James P. Cleary, III	Term Expires:	1/29/2012

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:

Treasurer - Custodian:	)	Fiduciary liability coverage provided to a limit of
Ex-officio Member:	)	$50,000,000 under a master MACRS-sponsored
Elected Members:	)	policy issued through a layered program with
Appointed Members:	)	Travelers Casualty & Surety Co., National Union
Staff Employees:	)	Fire, and Arch Insurance Co. Separate fidelity
	)	coverage pertaining to ERISA/Crime to a limit of
	)	$1,000,000 issued through Travelers.

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

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

The actuarial liability for active members was	$92,340,350
The actuarial liability for inactive and retired members was	191,819,310
The total actuarial liability was	284,159,660
System assets as of that date were	146,003,639
The unfunded actuarial liability was	$138,156,021
The ratio of system's assets to total actuarial liability was	51.4%
As of that date the total covered employee payroll was	$35,788,543

The normal cost for employees on that date was	8.87% of payroll
The normal cost for the employer (including administrative expenses) was	5.45% of payroll

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

Investment Return:	8.25% per annum
Rate of Salary Increase:	2.00% in 2010, 3.00% in 2011, and increasing 0.50% per annum to 5.00% in 2015 and thereafter

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	$146,003,639	$284,159,660	$138,156,021	51.4%	$35,788,543	386.0%
1/1/2009	$144,291,739	$282,521,561	$138,229,822	51.1%	$38,301,434	360.9%
1/1/2008	$167,717,317	$275,805,310	$108,087,993	60.8%	$36,828,302	293.5%
1/1/2007	$160,749,194	$262,172,666	$101,423,472	61.3%	$36,870,523	275.1%
1/12006	$155,992,609	$256,457,734	$100,465,125	60.8%	$35,282,797	284.7%
1/12005	$152,334,152	$247,959,579	$95,625,427	61.4%	$33,472,330	285.7%

NOTE 6 - MEMBERSHIP EXHIBIT

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Retirement in Past Years										
Superannuation	41	178	86	80	23	12	16	28	19	30
Ordinary Disability	1	2	0	1	1	0	1	0	1	0
Accidental Disability	0	3	3	1	1	2	1	1	4	7
Total Retirements	42	183	89	82	25	14	18	29	24	37
Total Retirees, Beneficiaries and Survivors	1,031	1,053	1,198	1,146	1,193	1,209	1,172	1,165	1,102	1,097
Total Active Members	1,795	1,354	1,251	987	1,025	1,012	966	970	943	921
Pension Payments										
Superannuation	$6,601,591	$7,746,492	$10,684,152	$11,542,672	$13,045,716	$13,182,399	$13,242,067	$13,616,462	$13,791,608	$13,841,607
Survivor/Beneficiary Payments	342,047	395,732	385,126	467,442	242,093	405,600	396,626	429,365	391,548	376,172
Ordinary Disability	208,485	213,566	200,807	216,225	204,522	206,970	215,566	212,739	257,297	227,448
Accidental Disability	1,832,473	2,029,026	2,308,890	2,374,025	2,427,752	2,443,996	1,857,483	2,599,723	2,639,330	2,772,368
Other	472,517	477,208	450,851	400,841	511,694	729,606	689,178	724,740	994,233	1,243,669
Total Payments for Year	$9,457,113	$10,862,024	$14,029,826	$15,001,205	$16,431,777	$16,968,571	$16,400,920	$17,583,029	$18,074,015	$18,461,264

PERAC
Five Middlesex Avenue | Third Floor
Somerville, MA | 02145
Ph: 617.666.4446 | Fax: 617.628.4002
TTY: 617.591.8917 | Web: www.mass.gov/perac