

CITY OF HAVERHILL, MASSACHUSETTS

Financial Statements

June 30, 2011

(With Accountants' Report Thereon)

Giusti, Hingston and Company
Certified Public Accountants

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City of Haverhill, Massachusetts
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For the Year Ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS - CITY OF
HAVERHILL, MASSACHUSETTS

Honorable Mayor and
Members of the City Council
City of Haverhill
4 Summer Street
Haverhill, MA 01830

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Haverhill, Massachusetts as of and for the year ended June 30, 2011, (December 31, 2010 for the Contributory Retirement System) which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Haverhill, Massachusetts' management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The City did not have an actuarial valuation performed, for the fiscal year ended June 30, 2011, relating to Other Post Employment Benefits (OPEB), as required by Governmental Accounting Standards Board (GASB) Statement Number 45. The amount, by which this departure would affect the assets, liabilities, expenses and net assets of the governmental activities financial statements, is not reasonably determinable.

In our opinion, except for the effects of not having an actuarial valuation done in accordance with GASB 45, as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Haverhill, Massachusetts as of June 30, 2011 (and the Contributory Retirement System as of December 31, 2010) and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 26, 2012 on our consideration of the City of Haverhill, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants 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* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, retirement system schedules and post employment benefit schedules 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 inquires 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Haverhill,, Massachusetts' financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as whole. In addition, the other supplemental schedules listed in the table of contents are presented for purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the examination of the basic financial statements, and, accordingly, we express no opinion on them.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
March 26, 2012

City of Haverhill, Massachusetts
Management's Discussion and Analysis
June 30, 2011

As management of the City of Haverhill, Massachusetts we offer readers of the City of Haverhill's financial statements this narrative overview and analysis of the financial activities of the City of Haverhill for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with the attached financial statements and notes to the financial statements.

Financial Statements

The City of Haverhill implemented GASB 34 (Governmental Accounting Standards Board Statement number 34). This statement requires all governments to account for and report capital assets in its Financial Statements. In addition, GASB 34 establishes criteria on the form and content of governmental financial statements. The requirements of GASB 34 are explained below and are also further explained in the "Notes to the Financial Statements".

One of the biggest changes created by the GASB 34 Reporting Model relates to the addition of two financial statements. These financial statements are called **Government-wide Financial Statements**. The first statement is called the **Statement of Net Assets** and the second one is called the **Statement of Activities**. A description of these **Government-wide Financial Statements** is provided below and additional information about them can be found in the "Notes to the Financial Statements".

Financial Highlights

- The assets of the City of Haverhill, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$121,775,698 (*net assets*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$10,875,619, or 6 percent of total general fund expenditures.
- The City of Haverhill, Massachusetts' total debt decreased by \$7,700,363 during the current year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Haverhill's June 30, 2011 **basic financial statements**. The City of Haverhill's basic financial statements comprise three components: 1) **government-wide financial statements**, 2) **fund financial statements**, and 3) **notes to the financial statements**. This report also contains other supplementary information in addition to the basic financial statements themselves. Please refer to the Table of Contents for a concise breakdown of the financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Haverhill, Massachusetts' finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all of the City of Haverhill, Massachusetts' assets and liabilities, with the differences between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Haverhill, Massachusetts is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise of the

change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statement activities are explained below:

- **Governmental Activities** – Activities reported here include education, public safety, public works, library and general administration. Property taxes, motor vehicle excise taxes, federal, state and other local revenues finance these activities.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Haverhill, Massachusetts, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Proprietary funds. *Proprietary funds* are shown as internal service funds which are used to account for the health insurance trust fund.

Fiduciary funds. *Fiduciary funds* reflect the private purpose trust funds which account for resources legally held in trust for the City's use and are devoted to education and other activities, and the Haverhill Contributory Retirement System (Pension Trust Fund).

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

The governmental activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same accounting basis and measurement focus. Capital assets and long-term liabilities are not included on the balance sheet of the governmental funds, but are included on the statement of net assets. Capital assets are recorded as expenditures when they are purchased in the governmental funds and depreciated over the useful life in the government-wide financial statements. We have included schedules that provide a crosswalk from the government-wide financial statements to the governmental funds of the fund financial statements:

- Reconciliation of the Governmental funds balance sheet – total fund balances to the statement of net assets.
- Reconciliation of the statement of revenues and expenditures and changes in fund balance of governmental funds to the statement of activities.

Financial Analysis of the Government-wide Financial Statements

Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. The following table reflects the condensed net assets.

Net Assets

	Governmental Activities		Change
	June 30, 2011	June 30, 2010	
Current and Other Assets	\$ 66,455,775	\$ 61,612,408	\$ 4,843,367
Capital Assets	216,211,241	217,703,363	(1,492,122)
Total Assets	<u>282,667,016</u>	<u>279,315,771</u>	<u>3,351,245</u>
Other Liabilities	34,237,088	26,490,775	7,746,313
Long Term Liabilities	126,654,230	129,933,181	(3,278,951)
Total Liabilities	<u>160,891,318</u>	<u>156,423,956</u>	<u>4,467,362</u>
Net Assets:			
Invested in Capital Assets			
Net of Related Debt	166,842,686	164,743,275	2,099,412
Restricted	4,953,142	4,336,064	617,078
Unrestricted	(50,020,130)	(46,187,523)	(3,832,607)
Total Net Assets	<u>\$ 121,775,698</u>	<u>\$ 122,891,816</u>	<u>\$ (1,116,117)</u>

Governmental Activities – The above net assets, entitled Invested in Capital Assets (e.g. land, buildings, equipment, infrastructure, etc.), Net of Related Debt that was needed to acquire or construct the assets represents \$166,842,686 in net assets; and the assets restricted for specific purposes represent \$4,953,142 in net assets. As these two components of net assets exceed total net assets, unrestricted net assets showed a (\$50,020,130) deficit at the end of the year. This deficit does not mean that the City does not have resources available to pay its bills. Rather, it is the result of having long-term commitments that are greater than currently available resources. Part of the reason this unrestricted deficit is so large is because the debt borrowed by the City that is related to the Hale Hospital, has no related capital asset reflected on the Statement of Net Assets. In addition, significant liabilities relating to the closure of the landfill and relating to the GASB 43 and 45, Other Post Employment Benefits liability, are recorded on the Statement of Net Assets in accordance with GASB standards. These liabilities increased the Unrestricted Net Assets deficit.

Changes in Net Assets

The following condensed financial information was derived from the government-wide Statement of Activities. It reflects how the City's net assets have changed during the fiscal year.

	Governmental Activities		
	<u>June 30, 2011</u>	<u>June 30, 2010</u>	<u>Change</u>
Revenues			
Program Revenues:			
Charges for Services	\$ 20,794,191	\$ 20,261,824	\$ 532,367
Operating Grants and Contributions	73,179,540	73,274,956	(95,416)
Capital Grants and Contributions	7,490,241	7,545,900	(55,659)
General Revenues:			
Real Estate and Personal Property Taxes	80,393,146	77,653,734	2,739,412
Excises	5,927,638	5,260,902	666,736
Other Taxes, Assessments and in Lieu Payments	2,801,375	2,693,789	107,586
Intergovernmental Not Restricted to a Specific Program	5,232,333	5,572,961	(340,628)
Earnings on Investment	206,187	234,408	(28,221)
Other Revenue	564,157	889,529	(325,372)
Total Revenues	<u>196,588,808</u>	<u>193,388,003</u>	<u>3,200,805</u>
Expenses			
General Government	3,303,338	3,386,152	(82,814)
Public Safety	17,960,505	18,096,786	(136,281)
Education	83,229,182	83,839,644	(610,462)
Public Works	13,121,663	10,805,321	2,316,342
Human Services	2,203,918	3,600,028	(1,396,110)
Community and Economic Development	2,630,499	2,869,195	(238,696)
Debt Service	927,188	1,872,504	(945,316)
Intergovernmental	5,243,879	4,855,795	388,084
Health Insurance and Other Employee Benefits	28,318,784	25,684,094	2,634,690
Pension Benefits	10,269,955	9,838,385	431,570
Landfill and Other	281,701	3,268,806	(2,987,105)
Water and Sewer	14,243,221	17,606,553	(3,363,332)
Teacher's Retirement on Behalf Payments	15,971,093	14,524,229	1,446,864
Total Expenses	<u>197,704,926</u>	<u>200,247,492</u>	<u>(2,542,566)</u>
Increase (Decrease) in Net Assets Before Special items	(1,116,118)	(6,859,489)	5,743,371
Special Items - Transfers	-	133,728	(133,728)
Increase (Decrease) in Net Assets	<u>\$ (1,116,118)</u>	<u>\$ (6,725,761)</u>	<u>\$ 5,609,643</u>

The above table shows the increase (decrease) in net assets. The 2010 amounts were changed to reflect prior period adjustments.

Governmental Activities – In fiscal year 2011, property tax accounted for approximately 41% of the Governmental revenues.

Financial Analysis of the City's Funds

Governmental Funds

General Fund – Fund Balance - The year-end fund balance of the general fund was \$974,180 less than the prior year's fund balance.

Based upon the balance sheet as of the close of each fiscal year, the Commonwealth of Massachusetts' Department of Revenue (DOR) determines the amount of general fund - fund balance available for appropriation. In general, this amount (commonly known as "free cash") is generated when actual revenues on a cash basis exceed budgeted amounts and expenditures and encumbrances (unpaid commitments) are less than appropriations, or both. The City reports the Water and Sewer funds as a component of the general fund because it has not formally adopted enterprise fund legislation (MGL Chapter 44 Section 53F ½). In addition, the Water and Sewer funds do not meet the criteria established by GASB 34 that would require that the Water and Sewer funds be shown in the financial statements as Enterprise funds. We have listed below a summary of the fund balance and free cash amounts:

Fiscal Year Ended <u>June 30</u>	Total General Fund <u>Fund Balance</u>		<u>Free Cash</u>
2011	\$ 12,974,881	Unassigned Fund Balance · \$ 10,875,619 ***	\$7,367,732
2010	13,949,061	Unreserved Fund Balance · 6,678,969 ***	10,395,039 **
2009	15,598,101	Unreserved Fund Balance · 7,714,039 ***	4,171,615 *
2008	17,039,684	Unreserved Fund Balance · 10,229,045 ***	2,621,400
2007	14,436,550	Unreserved Fund Balance · 9,825,003 ***	2,175,064
2006	14,299,597	Unreserved Fund Balance · 8,284,962 ***	3,339,090

***The Governmental Accounting Standards Board (G.A.S.B.) has issued Statement #54 which became effective for the City for the fiscal year ending June 30, 2011. As a result, the components of fund balance reported in the City's audited balance sheet have new account classifications. The reporting requirements of G.A.S.B. Statement #54 eliminated the "reserved" component of fund balance in governmental funds. Because of the change to fund balance classifications, the unreserved component of fund balance, presented above for the fiscal years ended June 30, 2010 and prior, was calculated in a different manner than the fiscal year ended June 30, 2011 calculation of unassigned fund balance. Please see financial statement footnote number seven for a further explanation of G.A.S.B. Statement Number 54.

** The fiscal year 2010 free cash amount is much higher than the fiscal year 2009 free cash amount because the 2009 amount was reduced for reservations made to the water and wastewater general ledger fund balance accounts, however, the 2010 free cash calculation was not reduced for water and wastewater fund balance reservations.

* The methodology used by the DOR to calculate the general fund free cash for the fiscal year ended June 30, 2009, was changed to include water and wastewater, which had not been included in the prior year certifications.

General Fund Budgetary Highlights

The differences between the original budget and the final amended budget were mostly made up of transfers voted by the City Council.

Capital Asset and Debt Administration

Capital assets. The City of Haverhill, Massachusetts’ investments in capital assets for its governmental type activities as of June 30, 2011, amounts to \$216,211,241 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles. See Capital Asset schedule below:

**Capital Assets at June 30, 2011 and June 30, 2010
(Net of Depreciation)**

	Governmental Activities	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Buildings	\$ 74,308,931	\$ 43,401,479
Equipment	14,799,329	15,839,963
Improvements	1,617,978	487,791
Land	11,429,068	11,429,068
Construction Work in Process	5,503,379	35,897,528
Infrastructure	107,701,636	109,557,329
Vehicles	850,920	1,090,205
Total	<u>\$ 216,211,241</u>	<u>\$ 217,703,363</u>

Debt

The City had \$102,627,118 in debt outstanding on June 30, 2011. This represents a \$7,700,363 decrease (or 7%) from the previous year. The City carries an underlying bond rating of “A1” from Moody’s and “A-“from Standard and Poor’s.

Outstanding Debt at June 30, 2011 and June 30, 2010

Governmental Activities	<u>2011</u>	<u>2010</u>
Notes Payable	\$ 6,374,159	\$ 8,565,112
General Obligation Bonds Payable	<u>96,252,959</u>	<u>101,762,369</u>
Total Governmental Activities	<u>\$ 102,627,118</u>	<u>\$ 110,327,481</u>

Fiscal Year 2011 Budget

An initiative state statute, commonly known as “Proposition 2 ½”, limits the amount of property taxes that the City can assess in any one year. In general, the City’s property tax levy may increase by 2 ½ percent over the prior year’s tax levy, plus any additional amount derived by new developments or other changes made to existing property. If a community wishes to levy taxes above the limitations imposed by “Proposition 2 ½ “, it is necessary to obtain the approval of a majority of the voters at an election to do an override. A balanced budget was adopted for fiscal year 2011 without the necessity for an override.

City of Haverhill, Massachusetts
Statement of Net Assets
June 30, 2011
(Continued on Page 10)

	Government- Wide Governmental Activities <u>Total</u>
ASSETS	
CURRENT:	
Cash/Investments	\$ 39,583,507
Receivables:	
Real Estate and Personal Property	2,237,760
Motor Vehicle and Other Excise	1,520,948
Tax Liens and Foreclosures	1,917,696
Other	426,666
Due from Other Funds	1,035,969
User Charges	2,142,584
Due from Commonwealth of Massachusetts - SBAB	3,257,758
Due from Commonwealth of Massachusetts - Other	2,703,741
NONCURRENT:	
Due from Commonwealth of Massachusetts - SBAB	11,629,146
Capital Assets:	
Capital Asset, Net	216,211,241
TOTAL ASSETS	282,667,016
 LIABILITIES	
CURRENT:	
Warrants Payable	2,001,305
Other Liabilities (Note 5)	13,031,270
Temporary Loans	6,374,159
Accrued Liabilities	2,337,766
Accrued Interest	928,541
Bonds Payable	9,564,047
NONCURRENT:	
Bonds Payable	86,688,912
Longevity Payable	943,373
Other Accrued Liabilities - GASB 43 and 45	22,307,085
Compensated Absences	2,314,860
Landfill Liabilities	14,400,000
TOTAL LIABILITIES	160,891,318

City of Haverhill, Massachusetts
Statement of Net Assets
June 30, 2011
(Continued from Page 9)

	Government- Wide Governmental Activities <u>Total</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	166,842,686
Restricted for:	
Capital Projects	1,230,395
Special Revenue	3,722,747
Unrestricted (Deficit) (Note 17)	(50,020,130)
TOTAL NET ASSETS	<u><u>\$ 121,775,698</u></u>

City of Haverhill, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2011

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
<i>Governmental Activities:</i>					
General Government	\$ 3,303,338	\$ 1,168,094	\$ 1,805,040	\$ -	\$ (330,204)
Public Safety	17,960,505	720,632	637,964	-	(16,601,909)
Education	83,229,182	1,890,220	51,758,531	6,147,449	(23,432,982)
Public Works	13,121,663	6,351	1,127,289	1,366,816	(10,621,207)
Human Services	2,203,918	973,860	1,008,596	-	(221,462)
Community and Economic Development	2,630,499	859,149	1,298,325	-	(473,025)
Debt Service	927,188	-	-	-	(927,188)
Intergovernmental	5,243,879	-	-	-	(5,243,879)
Health Insurance and Other Employee Benefits	28,318,784	-	-	-	(28,318,784)
Pension Benefits	10,269,955	-	-	-	(10,269,955)
Landfill and Other	281,701	-	-	277,313	(4,388)
Water and Sewer	14,243,221	15,175,885	-	(301,337)	631,327
Teacher's Retirement on Behalf Payments	15,971,093	-	15,543,795	-	(427,298)
Total Governmental Activities	\$ 197,704,926	\$ 20,794,191	\$ 73,179,540	\$ 7,490,241	\$ (96,240,954)
<i>General Revenues:</i>					
					80,393,146
					5,927,638
					2,801,375
					5,232,333
					206,187
					564,157
					95,124,836
					(1,116,118)
					Net Assets:
					122,891,816
					\$ 121,775,698

City of Haverhill, Massachusetts
 Governmental Funds
 Balance Sheet
 June 30, 2011

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash/Investments	\$ 39,583,507	\$ -	\$ 39,583,507
Receivables:			
Real Estate and Property Taxes	2,237,760	-	2,237,760
Motor Vehicle and Other Excise	1,520,948	-	1,520,948
Tax Liens and Foreclosures	1,917,696	-	1,917,696
Other	426,666	-	426,666
Due From Other Funds	-	21,648,138	21,648,138
User Charges	2,142,584	-	2,142,584
Due from Commonwealth of Massachusetts - MSBA	14,886,904	-	14,886,904
Due from Commonwealth of Massachusetts - Other	-	2,703,741	2,703,741
Total Assets	\$ 62,716,065	\$ 24,351,879	\$ 87,067,944
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Warrants Payable	\$ 2,001,305	\$ -	\$ 2,001,305
Due to Other Funds	25,836,374	-	25,836,374
Other Liabilities (Note 5)	6,692	13,024,578	13,031,270
Temporary Loans	-	6,374,159	6,374,159
Deferred Revenue:			
Deferred Revenue - Due from Commonwealth of Massachusetts	14,886,904	-	14,886,904
Deferred Revenue - Other	7,009,909	-	7,009,909
Total Liabilities	49,741,184	19,398,737	69,139,921
Fund Equity:			
Fund Balances:			
Restricted	-	6,571,944	6,571,944
Committed	-	456,275	456,275
Assigned	2,099,262	-	2,099,262
Unassigned	10,875,619	(2,075,077)	8,800,542
Total Fund Balances	12,974,881	4,953,142	17,928,023
Total Liabilities and Fund Balances	\$ 62,716,065	\$ 24,351,879	\$ 87,067,944

City of Haverhill, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2011

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES:</u>			
Real Estate and Personal Property Taxes - Net	\$ 81,018,835	\$ -	\$ 81,018,835
Excises	5,788,961	-	5,788,961
Fees, Departmental and Charges for Services	3,669,083	2,474,346	6,143,429
Intergovernmental	48,400,971	25,214,599	73,615,570
Earnings on Investments	206,187	-	206,187
Other Taxes, Assessments and In Lieu Payments	2,011,291	-	2,011,291
Water and Sewer	15,446,046	-	15,446,046
Teacher's Retirement on Behalf Payments	15,543,795	-	15,543,795
Other Revenue	577,551	139,762	717,313
TOTAL REVENUES	172,662,720	27,828,707	200,491,427
<u>EXPENDITURES:</u>			
Current			
General Government	2,579,568	610,526	3,190,094
Public Safety	16,609,508	1,150,081	17,759,589
Education	60,949,841	21,435,369	82,385,210
Public Works	7,832,879	2,546,418	10,379,297
Human Services	2,239,202	957,731	3,196,933
Community and Economic Development	1,293,743	1,328,886	2,622,629
Debt Service	10,471,867	-	10,471,867
Intergovernmental	5,243,879	-	5,243,879
Health Insurance and Other Employee Benefits	21,867,096	-	21,867,096
Pension Benefits	10,269,955	-	10,269,955
Landfill and Other Expenditures	2,871,387	277,314	3,148,701
Water and Sewer	12,379,509	3,182,194	15,561,703
Teacher's Retirement on Behalf Payments	15,543,795	427,298	15,971,093
TOTAL EXPENDITURES	170,152,229	31,915,817	202,068,046
Excess of Revenues Over (Under) Expenditures	2,510,491	(4,087,110)	(1,576,619)
Other Financing Sources (Uses):			
Operating Transfers In	925	4,258,034	4,258,959
Operating Transfers (Out)	(4,210,496)	(48,463)	(4,258,959)
Proceeds from Borrowing	-	4,053,992	4,053,992
Proceeds from Refunding Bonds	9,680,000	-	9,680,000
Transfer from Agency Fund Escrow for Debt Refunding	1,028,000	-	1,028,000
Refunded Bond Payment	(9,875,000)	-	(9,875,000)
Other Costs Related to Refunded Bond	(833,000)	-	(833,000)
Total Other Financing Sources (Uses)	(4,209,571)	8,263,563	4,053,992
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(1,699,080)	4,176,453	2,477,373
Fund Balance, Beginning	13,949,061	1,501,589	\$ 15,450,650
Prior Period Adjustment	724,900	(724,900)	\$ -
Fund Balance, Beginning as Restated	14,673,961	776,689	15,450,650
Fund Balance, Ending	\$ 12,974,881	\$ 4,953,142	\$ 17,928,023

City of Haverhill, Massachusetts
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Assets
 Fiscal Year Ended June 30, 2011

Total Governmental Fund Balances	\$ 17,928,023
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	216,211,241
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	21,896,813
Internal service funds are used to account for the health insurance trust fund. The assets and liabilities of the internal service fund is included in the governmental activities in the statement of net assets.	2,886,439
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(96,252,959)
Accrued Interest on Bonds	(928,541)
Landfill Accrued Liability	(14,400,000)
Compensated Absences	(2,314,860)
Longevity Liability	(943,373)
OPEB Liability	(22,307,085)
	(49,237,618)
Net Assets of Governmental Activities	\$ 121,775,698

City of Haverhill, Massachusetts
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 Fiscal Year Ended June 30, 2011

Net change in fund balances - total governmental funds	\$ 2,477,373
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the net change in the current period.	(1,492,122)
Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.	(3,902,616)
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	5,509,410
Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	2,762,251
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest is recognized as the interest accrues, regardless of when it is due.	(18,723)
OPEB cost relating to the current year GASB 45 accrual amount	(5,209,163)
Internal Service funds are used to account for the Health Insurance Trust Fund. The net activity of the internal service fund is reported with governmental activities.	<u>(1,242,525)</u>
Change in Net Assets of Governmental Activities	<u>\$ (1,116,115)</u>

City of Haverhill, Massachusetts
 Proprietary Funds
 Statement of Net Assets
 June 30, 2011

	<u>Governmental Activities</u>	<u>Internal Service Fund</u>
ASSETS		
Due from Other Funds	\$ 5,224,205	
TOTAL ASSETS	5,224,205	
LIABILITIES		
Accrued Liabilities	2,337,766	
TOTAL LIABILITIES	2,337,766	
NET ASSETS		
Unrestricted	2,886,439	
TOTAL NET ASSETS	\$ 2,886,439	

City of Haverhill, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Fiscal Year Ended June 30, 2011

	<u>Governmental Activities</u>	<u>Internal Service Fund</u>
Operating Revenues:		
Contributions	<u>\$ 30,328,284</u>	
Total Operating Revenues	<u>30,328,284</u>	
Operating Expenditures:		
Employee Benefits	<u>31,570,809</u>	
Total Operating Expenditures	<u>31,570,809</u>	
Operating Income (Loss)	<u>(1,242,525)</u>	
Net Assets at Beginning of Year	<u>4,128,964</u>	
Net Assets at End of Year	<u><u>\$ 2,886,439</u></u>	

City of Haverhill, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2011

Governmental
Activities

Internal
Service Fund

Cash Flows from Operating Activities:

Net Income (Loss)	<u>\$ (1,242,525)</u>
Net Cash Flows Provided (Used) by Operating Activities	<u>(1,242,525)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u><u>\$ (1,242,525)</u></u>

City of Haverhill, Massachusetts
Statement of Net Assets
Fiduciary Funds
June 30, 2011

	Pension Trust Fund As of <u>December 31, 2010</u>	Private Purpose Trust Funds
ASSETS		
Cash and Equivalent	\$ 2,934,091	\$ 7,169,377
Due from(to) Other Funds	-	(1,035,969)
Receivables:		
Dividend and Interest	226,852	-
Employee Contributions	85,068	-
Due from Other Systems	611,551	-
Investments Sold - Funds Not Received	196,956	-
Total Receivables	1,120,427	-
Investments at Fair Value:		
Stocks	35,543,127	-
Fixed Income Securities	20,167,434	-
Real Estate and Other Investments	88,893,541	-
Total Investments	144,604,102	-
TOTAL ASSETS	148,658,620	6,133,408
LIABILITIES		
Accounts Payable	207,627	-
Amounts Due to Other Systems	449,434	-
Investments Purchased - Not Yet Paid For	303,743	-
TOTAL LIABILITIES	960,804	-
NET ASSETS		
Net Assets Held in Trust	\$ 147,697,816	\$ 6,133,408

City of Haverhill, Massachusetts
Statement of Changes in Net Assets
Fiduciary Funds
Year Ended June 30, 2011

	Pension Trust Fund As of <u>December 31, 2010</u>	Private Purpose Trust <u>Funds</u>
Additions:		
Contributions:		
Employer	\$ 11,075,372	\$ -
Employee	3,236,820	-
Private Donations and Earnings on Investments	-	22,442
Intergovernmental	455,539	-
Total Contributions	14,767,731	22,442
Transfers from Other Systems	611,057	-
Net Investment Income (Loss):		
Net Appreciation in the Fair Value of Plan Assets and Gains and (Losses)	15,995,241	247,758
Miscellaneous Income	6,000	-
Interest and Dividends	3,629,696	-
Total Investment Income (Loss)	19,630,937	247,758
Less Investment Expense	1,350,945	-
Net Investment Income (Loss)	18,279,992	247,758
Total Additions (Reductions)	33,658,780	270,200
Deductions:		
Benefit Payments to Retirees, Survivors, and Disability Retirees	21,475,490	-
Refunds to Members Leaving the Plan	544,888	-
Transfers to Other Systems	702,480	-
Administrative Expenses	377,482	-
Scholarships and Other Expenses	-	208,393
Total Deductions	23,100,340	208,393
Net Increase (Decrease)	10,558,440	61,807
Net Assets Held In Trust:		
Beginning of Year	137,139,376	6,071,601
End of Year	\$ 147,697,816	\$ 6,133,408

City of Haverhill, Massachusetts
Notes to the Financial Statements
June 30, 2011

1. Summary of Significant Accounting Policies

(A) Reporting Entity

The accompanying financial statements present the financial position of the City of Haverhill as of June 30, 2011. The report includes all the services provided by the City to its residents and businesses within its boundaries. The City of Haverhill was founded in 1641 and was incorporated in 1869. The City is governed by an elected Mayor and City Council. Municipal services provided include education, public safety, recreation, public works, library and general administration. Criteria used in determining the scope of the reporting entity included the City's ability to significantly influence operations, selection of governing authority, designation of management, financial interdependency and accountability for fiscal matters. All operations of the City that meet the preceding criteria are included in the reporting entity. Included in the financial statements is the City of Haverhill Retirement System (the System) as of June 30, 2011.

(B) Blended Component Units

The following component unit is, while a separate entity in substance, part of the governmental operations of the City and data from this unit is therefore combined with data of the City as the primary government. Component units are required to be included in the City's reporting entity if its operational and financial relationships with the City are significant.

The Retirement System - Substantially all employees of the City, except teachers and certain administrative personnel employed by the School Department, participate in the System. The System was established under the Authority of Chapter 32 of the Massachusetts General Laws, as amended, and is an independent retirement system which functions for the benefit of these employees. The powers of the System are vested in the Retirement Board. Complete financial statements for the System can be obtained from the City of Haverhill Contributory Retirement System, 4 Summer Street, Haverhill, Massachusetts 01830.

The financial statements of the Haverhill Housing Authority (the "Authority") are not included in the financial statements because the City does not exercise significant oversight over the Authority.

(C) Government-wide and fund financial statements

The **government-wide financial statements** (i.e., the **statement of net assets** and the **statement of activities**) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and

other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

(D) Measurement focus, basis of accounting, and financial statement presentation

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These revenues are recognized when they become measurable and available as net current assets. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise tax, amounts due under grants, charges for services and investment income. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end. Revenues from other financing sources are recognized when received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, sick pay, and other employee amounts which are not to be liquidated from expendable and available resources; and (2) principal and interest on general long-term debt which are recognized when due.

Agency fund assets and liabilities are accounted for on the modified accrual basis of accounting.

(E) Financial Statement Presentation

The accounting policies of the City of Haverhill, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2011 conform to generally accepted accounting principles for local government units, except as indicated hereafter, as amended by Statement 1, Governmental Accounting and Financial Reporting Principles, issued by the National Council on Governmental Accounting.

The City reports the General Fund as the only major governmental fund. The general fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the Water and Sewer funds as a component of the general fund because it has not formally adopted enterprise fund legislation (MGL Chapter 44 Section 53F ½). In addition, the Water and Sewer funds do not meet the criteria established by GASB 34 that would require that the Water and Sewer funds be shown in the financial statements as Enterprise funds.

The trust and agency funds are used to account for assets held by the City in a trustee capacity (“Trust Funds”) or as an agent (“Agency Funds”) for individuals, private organizations and other governmental units. These include expendable trust funds, and non-expendable trust funds. Expendable trust funds allow for the principal and earnings to be spent for a particular purpose, whereas, non-expendable trust funds allow only the earnings to be spent. The agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

The capital projects funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds, special assessment funds or trust funds).

The above agency funds, capital projects funds and special revenue funds have been combined together and represent the “non major governmental funds” in the governmental funds financial statements, with the exception of the private-purpose trust funds (explained below) which have been separated and are shown separately in the fund financial statements.

The fiduciary funds - private-purpose trust funds are used to account for resources legally held in trust for the City’s use. All resources of the fund, including earnings on invested resources, may be used to support the organization’s activities.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

(F) Budgets and Appropriations

The proposed annual appropriations for the General Fund of the City are submitted for consideration by the Mayor at the Annual City Council Meeting which is held 170 days after the official formation of government each year (typically from May 1 to June 15). Public hearings are held in the 45-day period after the Annual City Council Meeting is held. If a budget is not approved by the City Council within that time frame, the budget submitted by the Mayor becomes law. Supplemental appropriations may also be voted at special City Council meetings. The City has an administration and finance committee which submits reports on proposed appropriations at City Council meetings. The City does not vote on annual appropriations for the special revenue and capital projects funds.

The Financial Statement that reflects the annual operating budget is prepared using a basis (budgetary basis) which differs from generally accepted accounting principles (GAAP basis). In order to provide a meaningful comparison of actual results with the budget, the actual and budget amounts are presented in accordance with the non GAAP method in the Statement of Revenues, Expenditures, Budget and Actual (Budgetary Basis) General Fund.

The major differences between GAAP and budgetary basis are as follows:

1. Encumbrances are reported as a reservation of fund balance (GAAP basis) as opposed to being recorded as expenditure (budgetary basis).
2. Revenue recognition, including the provision for abatements - real estate and personal property tax revenues are recognized when measurable and available (GAAP basis) as opposed to being recognized on a cash basis (budgetary basis).
3. Appropriation of unreserved fund balance is classified as another financing source for the budgetary basis; it is not reflected in the GAAP basis amounts.

An annual budget is legally adopted only for the General Fund. All financial orders are initiated or recommended by the Mayor. Expenditures may not legally exceed appropriations at the department level. Each department head may transfer, without City Council approval, appropriation balances from one expenditure account to another within the department or budget with the approval of the Mayor and City Auditor. The City Council and the department head, however, must approve any transfer of unencumbered appropriation balances between departments.

At the close of each fiscal year, unencumbered appropriation balances (appropriations less expenditures and encumbrances) lapse or revert to the unreserved fund balance. Unencumbered appropriation balances in the Capital Projects Fund, however, do not lapse at the end of the fiscal year.

It is unlawful to authorize an expenditure in excess of the amounts which have been appropriated by the City Council.

(G) Cash and Cash Equivalents

Cash and cash equivalents consist substantially of interest-bearing deposits with financial institutions and investments with original maturities of three months or less.

(H) Investments

Effective January 1, 1997, and applied retroactively to January 1, 1996, the City adopted the provisions of GASB Statement No. 25, "Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans," and GASB Statement No. 27, "Accounting for Pensions by State and Local Governmental Employers." Aside from changing the reporting format of the basic financial statements and the required supplementary information, GASB No's. 25 and 27 require, in most cases, that investments in equity securities with readily determinable fair values and all investments in debt securities which are held by municipal retirement systems be reported at fair value based on quoted market prices.

Prior to the adoption of these standards, equity securities held by the Contributory Retirement System were recorded at their fair market values based on quoted market prices. Debt securities, however, were valued at amortized cost, which is the original cost of the investment adjusted for bond premium amortization or discount accretion over the expected life of the investment.

The deferred compensation plan invests in mutual funds which are recorded at their quoted market value.

(I) Restricted Assets

Assets within the individual funds, which can be designated by the City for any use within the fund's purpose, are considered to be unrestricted assets. Assets which are restricted for specific uses by bonded debt requirements, grant provisions, state law, or other requirements are classified as restricted assets.

(J) Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant, and equipment of the primary government is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	20-40
Equipment	5-15
Improvements	20-40
Infrastructure	50
Vehicles	5-10

(K) Other Assets

Inventories, prepaid expenses and other current assets, and unamortized bond issue costs are recorded as other assets when the City has such items. Inventories, consisting of materials and supplies, would be stated at the lower of cost (first-in, first-out method) or market.

(L) Compensated Absences

Compensated absences incurred by governmental fund types are recorded in the funds if they normally will be liquidated with then expendable available resources.

(M) Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in Governmental Funds. Open encumbrances at year end are reported as reservations of fund balances. Encumbrances do not constitute expenditures or liabilities, except for budgetary purposes.

Certain unexpended and unencumbered appropriations for incomplete projects are carried over to succeeding years. Such continuing appropriations are accounted for similar to encumbrances.

(N) Transfers

Transfers of resources from a fund receiving revenue to the fund through which the resources are to be expended are recorded as operating transfers and are reported as other financing sources (uses).

(O) Risk Financing

The City does insure for casualty, theft, tort claims and other losses, however, the City does not insure workers' compensation. In addition, the City is self-insured for all group health insurance.

(P) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Q) On Behalf Payments

During fiscal year 1996, the City was required to adopt GASB Statement No. 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance." GASB No. 24 requires the City of Haverhill, Massachusetts to recognize, as income, certain payments made on behalf of the City by the Commonwealth of Massachusetts. Specifically, the Commonwealth makes contributions to a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board (the "State Plan") on behalf of the City's teaching employees; the City is not legally required to contribute to the State Plan, which is fully funded by the Commonwealth.

For the fiscal year ended June 30, 2011, the Commonwealth paid \$15,543,795 to the State Plan on behalf of employees of the City. Accordingly, the accompanying financial statements include the required adjustments, which have increased both revenues and expenditures by this same amount. The net effect of this adjustment did not change the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2011, or fund balances at June 30, 2011.

(R) Prior Period Adjustment

A prior period adjustment was made to the fund financial statements in the amount of \$724,900. The reason for this adjustment is that the new standards relating to GASB 54 require that the stabilization fund be reported in the financial statements as part of the general fund instead of the special revenue fund. This adjustment moves the stabilization fund balance into the general fund for financial statement purposes.

2. Deposits and Investments

i. Deposits

Custodial Credit Risk - Deposits

Custodial Credit Risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2011, \$ 26,781,897 of the City's bank balance of \$42,757,216 was uninsured and uncollateralized.

ii. Investments

a) As of June 30, 2011, the City had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>Over 5</u>
U.S. Treasury / Agency Securities	\$ 3,165,387	\$ 3,165,387	\$ -	\$ -
Mutual Funds	290,072	290,072	-	-
Corporate Bonds and Other	<u>1,844,705</u>	<u>1,284,379</u>	<u>-</u>	<u>560,326</u>
Total	<u>\$ 5,300,164</u>	<u>\$ 4,739,838</u>	<u>\$ -</u>	<u>\$ 560,326</u>

2. Deposits and Investments (Continued)

b) Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

c) Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City does not have a formal policy relating to credit risk.

d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not have a formal policy that limits the amount it may invest in a single user (State law limits the amount that may be deposited in a financial institution without collateralization).

Contributory Retirement System

Investments

According to GASB Statement No. 40 - "Deposit and Investment Risk Disclosures", disclosures must be made for certain investments that have fair values that are highly sensitive to changes in interest rates. As of December 31, 2010, the City of Haverhill Retirement System investments that are required to be disclosed in accordance with GASB Statement No. 40, are noted below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>Over 5</u>
U. S. Government Obligations	\$ 4,035,744	\$ 818,124	\$ 900,011	\$ 2,317,609
Foreign Government Obligations	5,561,633	392,562	1,242,609	3,926,462
Corporate Bonds	<u>10,570,056</u>	<u>1,504,918</u>	<u>4,072,120</u>	<u>4,993,018</u>
Total	<u>\$ 20,167,433</u>	<u>\$ 2,715,604</u>	<u>\$ 6,214,740</u>	<u>\$ 11,237,089</u>

3. Property Taxes

Levy - Real estate and personal property taxes are levied each January 1 for the following fiscal year ending June 30. Bills are due quarterly on August 1, November 1, February 1 and May 1 or thirty days subsequent to the mailing date. The City is allowed to take delinquent tax accounts into tax title subsequent to the mailing of the notice of demand on delinquent taxes and the failure of efforts to collect the taxes by the Deputy Tax Collector. Interest accrues on delinquent taxes at the rate of 14% per annum, and is recognized as revenue when received.

Lien - Real property (land and buildings) is subject to a lien for the taxes assessed upon it, subject to any paramount federal lien and bankruptcy and insolvency laws. (In addition, real property is subject to a lien for certain unpaid municipal charges or fees.) If the property has been transferred, an unenforceable lien expires on the third October 1 after the fiscal year levied. If the property has not been transferred by the third October 1, an unendorsed lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien where it could not be enforced because of a legal impediment.

Personal Liability - The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by the sale or taking of the property by the City.

Limitations - The City is subject to certain limitations on the amount of property taxes it may levy. Levies are generally limited to 2 1/2% of the City's total assessed valuation of real property. In addition, the assessed valuation of real property is limited to an annual increase of 2 1/2%.

4. Accounts Receivable

(A) Assets

i Accounts Receivable

The accounts receivable on the Financial Statements are listed below by levy.

General Fund

Property Taxes Receivable:

Real Estate Taxes

2011	\$ 2,017,463
2010	<u>96,206</u>

Total Real Estate Taxes	<u>\$ 2,113,669</u>
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Personal Property Taxes

2011	35,486
2010	22,700
2009	23,971
2008	11,205
2007 & Prior	<u>30,729</u>

Total Personal Property Taxes	<u>124,091</u>
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Total Property Taxes Receivable	<u><u>\$ 2,237,760</u></u>
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Tax Liens and Foreclosures	<u><u>\$ 1,917,696</u></u>
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Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2011	\$ 660,870
2010	160,296
2009	83,304
2008	70,561
2007 & Prior	<u>529,992</u>

Total Motor Vehicle Excise Taxes	<u>1,505,023</u>
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4. Accounts Receivable (Continued)

Boat Excise Taxes		
2011	2,332	
2010	2,057	
2009	1,833	
2008	1,721	
2007 & Prior	7,930	
Total Boat Excise Taxes		<u>15,873</u>
Farm Excise Taxes		<u>52</u>
Total Motor Vehicle and Other Excise Taxes		<u>\$ 1,520,948</u>
Other Accounts Receivable		<u>\$ 426,666</u>
User Charges - Water and Sewer		<u>\$ 2,142,584</u>

Due from Commonwealth of Massachusetts

Because of a pronouncement issued by the Governmental Accounting Standards Board (GASB), the account titled "Due from Commonwealth of Massachusetts" is shown on the Fund Financial Statements balance sheet under the General Fund column. This pronouncement, known as GASB 33, relates to certain revenue recognition issues and setting up certain receivable accounts.

The \$14,886,904 General Fund Due from Commonwealth of Massachusetts-MSBA (Massachusetts School Building Authority) amount relates to the total amount due to the City of Haverhill relating to school building projects. The amount due to the City was determined under Chapter 645 of the Acts of 1948. The City either constructed a new school building or made major improvements to an existing school building and the state entered into a grant agreement with the City to reimburse the City for a predetermined percentage of allowable costs and interest expense. The reimbursement to the City for its portion of the debt service and allowable costs is made in equal installments over the life of the bond issue and is subject to only the appropriation of the state legislature. In July of 2004, the governor signed Chapter 208 and Chapter 210 of the Acts of 2004 into law, which makes substantial changes to the School Building Assistance (SBA) Program. This legislation (Ch. 208) transfers responsibility for the School Building Assistance Program from the Department of Education to the Massachusetts School Building Authority (MSBA), under the Office of the State Treasurer. The authority is a new and independent governing body comprised of seven members. The legislation under Chapter 210 dedicates 1 percent of the sales tax receipts to help fund School Building projects. The authority shall examine applications for assistance and designate a school project as approved if it meets the following requirements. The school project will be viewed with respect to its site, type of construction, sufficiency of accommodations, open space preservation, urban development, urban sprawl, energy efficiency and otherwise. The project must be necessary to meet educational standards of the curriculum frameworks established by the Board of Education. The project must have a value over its useful life and be within the capacity of the authority to finance within revenues projected to be available to the trust. A major feature of the new law is the up front cash grant program. When a project is approved for funding, the program will make a single payment of 75% of the full amount of the state's reimbursement. The balance of the state share will be paid when the project audit is completed.

The Non Major Governmental Funds column amount of \$2,703,741, Due from Commonwealth of Massachusetts, includes an amount due to the City as of June 30, 2011 relating to Chapter 90 highway repair and improvement projects. Under the Chapter 90 program, the Massachusetts Highway Department enters into an agreement with the City to reimburse the City for certain highway repair projects. When the city has incurred expenses to repair and improve the roads which have been predetermined in the grant agreement with the state, the paperwork is submitted to the state to be reimbursed for these expenses.

5. Other Liabilities

The account titled "Other Liabilities", reflected in the financial statements is made up to two components. The first part relates to agency fund accounts set up in the general ledger for items such as payroll withholdings, escrow and bid deposit accounts and other agency type accounts. The total in these agency accounts, as of June 30, 2011 is \$2,415,915. The second component to this account is made up of an irrevocable escrow bank account that was set up to be used to deposit proceeds received relating to a debt refunding done during fiscal year 2011. These funds will be used to provide for future payment of the refunded debt. The balance in this account as of June 30, 2011 was \$10,615,355. The total of the two components of the other liabilities account reflected on the financial statements is \$13,031,270.

6. Debt

Temporary Loans

At June 30, 2011, the City had outstanding Bond Anticipation Notes (BAN's) and State Aid Anticipation Notes (SAAN's) used to finance various capital projects. All such notes are included in temporary loans in the Capital Projects Fund (Non Major Funds Column), as noted below:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance End of Year</u>
<u>Governmental Activities:</u>				
BAN's	\$ 6,570,746	\$ 4,574,158	\$ 6,570,746	\$ 4,574,158
SAAN's	1,994,366	1,800,000	1,994,365	1,800,001
Total	<u>\$ 8,565,112</u>	<u>\$ 6,374,158</u>	<u>\$ 8,565,111</u>	<u>\$ 6,374,159</u>

Long Term Debt

General obligation bonds outstanding at June 30, 2011 bear interest at various rates.

(A) Changes in Long Term Debt – the following is a summary of bond transactions for the year ended June 30, 2011:

	<u>Governmental Activities</u>
Balance 7/01/2010	\$ 101,762,369
Add: New Issues	4,053,992
Add: Refunding Issue	9,680,000
Less: Maturities	(9,368,402)
Less: Refunding Bonds	(9,875,000)
Balance 6/30/2011	<u>\$ 96,252,959</u>

(B) Summary of Debt Service Requirements to Maturity:

	Governmental Activities	
	<u>Principal</u>	<u>Interest</u>
2012	\$ 9,564,047	\$ 3,814,018
2013	8,230,365	3,430,565
2014	8,411,540	3,076,007
2015	8,697,487	2,739,686
2016	8,583,423	2,377,195
2017-2021	30,889,027	7,230,378
2022-2026	14,794,961	2,357,450
2027-2031	4,752,109	720,241
2032-2036	2,330,000	103,738
	<u>\$ 96,252,959</u>	<u>\$ 25,849,278</u>

On January 27, 2011 the City issued \$9,680,000 of State Qualified Refunding Bonds with an average interest rate of 4.3 % to advance refund \$ 9,875,000 of outstanding hospital debt with an average rate of 6.75 %. The net proceeds (after payment of underwriting fees, insurance and other issuance costs) were deposited into an irrevocable escrow bank account to provide for future payment of the refunded debt. The principal and interest costs on the refunded debt and the refunding debt are detailed below:

	Refunded Bonds Principal <u>and Interest</u>	Refunding Bonds Principal <u>and Interest</u>
2012	\$ 666,562	\$ 455,552
2013	1,357,431	1,189,255
2014	1,357,481	1,189,533
2015	1,358,987	1,193,198
2016	1,356,781	1,190,250
2017	1,355,694	1,190,690
2018	1,355,388	1,189,410
2019	1,360,357	1,191,303
2020	1,354,932	1,186,368
2021	1,360,275	1,194,390
2022	1,359,881	1,195,153
Total	<u>\$ 14,243,769</u>	<u>\$ 12,365,102</u>

(C) Long -Term Debt Authorizations

General Obligation Bonds authorized and unissued at June 30, 2011 are summarized as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
7/29/1998	Wastewater	\$ 50,000
2/3/1999	1999 School Remodeling	2,680,000
12/2/1999	Sewer	1,520,000
11/2/2001	MWPAT	22,432
1/17/2002	Planning CSO	200,000
3/13/2003	2003 School Remodeling High School	3,341,136
5/2/2003	MWPAT	4,995
6/16/2003	CSO Project MWPAT	969,063
3/23/2004	Landfill Closure	719,351
8/26/2004	2005 Departmental Equipment	142,000
5/24/2005	Sewer	422,901
5/24/2005	Watermain Improvement	2,248,354
10/13/2005	2006 Greenleaf School Boiler	995
10/13/2005	High Street Fire Station Roof	10,000
10/13/2005	2006 Whittier School Roof	15,000
12/6/2005	2005 Parking Deck	280
12/20/2006	2007 Park Dept Building Repairs	53,000
1/16/2007	2007 School Books	125,325
6/24/2008	Landfill Closure	600,000
6/25/2009	Water Pumps	1,491,960
3/23/2010	Water Meters	1,600,000
12/21/2010	Bridge Repairs	205,499
4/19/2011	South Main St. Water	349,112
	Total	<u>\$ 16,771,403</u>

7. Components of Fund Balance

Fund Balance Classification Policies and Procedures

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This Statement (effective for fiscal year 2011) establishes accounting and financial reporting standards for all governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications.

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to the constraints on the specific purposes for which the amounts in those funds can be spent.

GASB 54 requires the fund balance amounts to be reported within one of the fund balance categories listed below:

1. Nonspendable, includes amounts that cannot be spent because they are (a) not in spendable form (such as fund balance associated with inventories) or are (b) legally or contractually required to stay intact (i.e. corpus of a permanent trust fund),
2. Restricted, constraints are placed on the use of resources that can be spent only for the specific purposes that are either (a) imposed by creditors, grantors or contributors, or (b) imposed by law through constitutional provisions or through enabling legislation,
3. Committed, includes amounts that can be used only for the specific purposes determined by a formal action of the City Council (the City’s highest level of decision-making authority),
4. Assigned, intended (by the City Council, Mayor or City Auditor) to be used by the government for specific purposes, but do not meet the criteria to be classified as restricted or committed, and
5. Unassigned, the residual classification for the government’s general fund and includes all spendable amounts not contained in the restricted, committed or assigned categories.

The City Council is the highest level of decision making authority in the City. Committed fund balance cannot be used for any other purposes without formal vote taken by the City Council.

Details of Fund Balance Classifications

The following schedule shows the detail of the fund balance classifications displayed in the aggregate on the City’s balance sheet.

	<u>General Fund</u>	Non Major <u>Funds</u>	<u>Total</u>
Fund Balances:			
Restricted for:			
General Government	\$ -	\$ 303,273	303,273
Public Safety	-	457,188	457,188
Education	-	2,450,395	2,450,395
Public Works	-	50,304	50,304
Human Services	-	236,411	236,411
Community Development	-	46,022	46,022
Landfill and Other	-	181	181
Water and Sewer	-	3,028,170	3,028,170
Total Restricted	-	6,571,944	6,571,944

	<u>General Fund</u>	Non Major <u>Funds</u>	<u>Total</u>
Committed to:			
General Government	-	400,533	400,533
Public Safety	-	24,168	24,168
Public Works	-	29,795	29,795
Human Services	-	1,779	1,779
Total Committed	<u>-</u>	<u>456,275</u>	<u>456,275</u>
Assigned to:			
Reduce the Tax Rate	1,400,000	-	1,400,000
General Government	43,528	-	43,528
Public Safety	72,867	-	72,867
Education	173,430	-	173,430
Public Works	93,136	-	93,136
Human Services	4,482	-	4,482
Community Development	720	-	720
Landfill and Other	1,210	-	1,210
Water and Sewer	309,889	-	309,889
Total Assigned	<u>2,099,262</u>	<u>-</u>	<u>2,099,262</u>
Unassigned	<u>10,875,619</u>	<u>(2,075,077)</u>	<u>8,800,542</u>
Total Fund Balances	<u>\$ 12,974,881</u>	<u>\$ 4,953,142</u>	<u>\$17,928,023</u>

8. Budget Basis of Accounting

The budget amounts appearing in the financial statements are taken from the City's annual recap sheet and include only those amounts which pertain to June 30, 2011. The budget amounts include special City Council meeting votes applicable to June 30, 2011.

The expenditures on this statement are presented on a budgetary Non-GAAP basis. The difference between GAAP (Generally Accepted Accounting Principles) and Non-GAAP presentation is as follows:

	<u>Revenues</u>
As Reported Budget Basis	\$ 156,209,146
Adjustments:	
Sixty Day Property Tax Accrual - Net	905,487
Other adjustment	4,289
Teacher Retirement on Behalf Payments	<u>15,543,795</u>
As Reported GAAP Statement	<u>\$ 172,662,717</u>

	<u>Expenditures</u>
As Reported Budget Basis	\$ 154,609,054
Adjustments:	
July 1, 2010 Encumbrances	(698,642)
June 30, 2011 Encumbrances	699,262
Other Adjustments	(1,240)
Teacher Retirement on Behalf Payments	15,543,795
As Reported GAAP Statement	<u><u>\$ 170,152,229</u></u>

9. Contributory Retirement System

System Description - The following brief description of the City of Haverhill Contributory Retirement System (the "System"), a component unit of the City, is provided for general information purposes only. Participants should refer to the General Laws of the Commonwealth (principally Chapter 32) and the rules, regulations and procedures adopted by the Public Employee Retirement Administration Commission of the Commonwealth of Massachusetts ("PERAC") and by the City of Haverhill Retirement Board (the "Board") for more complete information.

The System is a single employer contributory defined benefit plan covering City employees deemed eligible by 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 State Teachers' Retirement Board.

Participation in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees. Massachusetts Contributory Retirement System benefits are uniform from system to system. The System provides for retirement allowance benefits up to a maximum of 80% of a participant's highest three-year average annual rate of regular compensation. Benefit payments are based upon a participant's age, length of creditable service, level of compensation, and group classification. The City has elected to remove the \$30,000 pay cap as allowed under Massachusetts General Laws Chapter 697, Section 67, Act of 1987, also known as the Pension Reform Act of 1987.

Non-teaching employees of the City who are employed on a basis which anticipates work at an annual rate to exceed 1,000 hours are eligible to participate in the System. Full-time employees are eligible immediately and part-time employees are eligible six months after the date of employment.

Contributions by the City for participants vest at a rate of 10% per year and become fully vested after ten years of creditable service. Participants' contributions are fully vested at all times. A superannuation allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts, an annuity and a pension. Participants' accumulated total contributions and a portion of the interest those contributions generate constitute the annuity. The differential between the total retirement benefit and the annuity benefit is the pension benefit. The average retirement benefit is approximately 80% - 85% pension and 15% - 20% annuity.

Active participants contribute either 5%, 7%, 8%, or 9% of their gross regular compensation. The percentage rate is keyed to the date upon which an employee's participation commenced. Active participants who were hired on or after January 1, 1979 contribute an additional 2% of salary in excess of \$30,000. All deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by PERAC's actuary (.6% currently). When a participant's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund.

From time to time, the Massachusetts Legislature may grant cost-of-living increases to benefits being paid to retirees. These increases are expressed as a percentage of the retiree's allowance subject to a maximum dollar increase. Since 1982, cost-of-living increases granted to members of local retirement systems have been the financial responsibility of the Commonwealth. Effective for fiscal year 1997 and subsequent fiscal years, the responsibility for funding and approving cost of-living adjustments for (nonteacher) systems is the responsibility of the System.

The employer contribution by the City is determined actuarially to cover normal cost, interest on unfunded prior service cost liability, amortization of the unfunded vested benefits for participants and amortization of the liability arising from the removal of the \$30,000 pay cap. When the amount needed to fund retirement benefits to be paid during the year exceeds the actuarially determined contribution requirement, the City's contribution to the Plan is the amount needed to fund retirement benefits to be paid during the year. The City also contributes the amount necessary for the Plan's administrative expenses.

Participants who become permanently and totally disabled from further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors, including whether the disability is work-related, the participant's age, years of creditable service, level of compensation, veteran's status, and group classification.

Participants who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total contributions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either 0%, 50% or 100% of the regular interest which has accrued upon those contributions. Survivor benefits are extended to eligible beneficiaries of participants whose deaths occur prior to or following retirement.

The System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of the Commonwealth, if such member has paid the stipulated contributions specified in sections or provisions of such laws.

Annual Required Contribution – The City's annual required contribution for the fiscal year ended June 30, 2010 was as follows:

Annual Required Contribution ("ARC")	<u>\$10,621,368</u>
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The annual required contribution for the current year was determined as part of the January 1, 2008 actuarial valuation using the individual entry age normal cost method. The actuarial assumptions included (a) 8.5% investment rate of return and (b) projected salary increases of 5% to 5.5% per year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period.

10. Other Retirement Plans

The majority of the teaching employees of the School Department participate in a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board (the "State Plan"). The City does not contribute to this plan.

Teaching employees of the School Department who meet certain requirements and are employed on a basis which anticipates work at an annual rate to exceed 1,000 hours are required to participate in the State Plan.

For participants who became members of the State Plan prior to January 1, 1978, benefits become vested after 20 or more years of creditable service or upon reaching the age of 55. Benefits relating to participants who became members of the State Plan subsequent to December 31, 2004 become vested

after 20 or more years of creditable service or after 10 or more years of creditable service and having reached the age of 55.

Teaching employees contribute 5% of regular compensation if they became a member of the State Plan prior to January 1, 1975, 7% if they became a member from January 1, 1975 to December 31, 1983, 8% if they became a member on or after January 1, 1984, or 9% if they became a member on or after January 1, 1996.

In addition, if they became a member on or after January 1, 1979, employees are required to contribute an additional 2% of regular compensation in excess of \$30,000.

The Commonwealth is obligated to fund the State Plan. State law requires that public employee retirement systems in the Commonwealth be funded on a pay-as-you-go basis, that is, an amount necessary to pay pensions actually falling due must be funded each year. This amount funded by the Commonwealth to the State Plan is not analyzed by community; funding is made in total for participating employees throughout the Commonwealth.

11. Other Postemployment Benefits (OPEB) Disclosures – GASB 43 and 45

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 (GASB 43) – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and Statement No. 45 (GASB 45), “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions”. These statements require the City to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis. Certain information that is required to be disclosed by GASB 43 and 45, is noted below. In addition, certain other Required Supplementary Information (RSI), required by GASB 43 and 45, is presented following the notes to the financial statements.

Plan Description. In addition to providing pension benefits described above, the City provides the majority of retired employees with payments for a portion of their health care and life insurance benefits. All of the City retirees receiving a pension from the City of Haverhill Retirement System or the Massachusetts Teachers Retirement System are eligible for post retirement medical benefits. Currently there are approximately 1160 active employees and 1838 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan. The benefits are provided primarily through Blue Cross of Massachusetts, Inc.

Funding Policy. The City pays 75% of the total premiums for indemnity and Medicare supplement plans, 85% for HMO plans (80% for employees who retired after May 1, 2008) and 50% of the premiums for life insurance, with the employees paying the remaining percentage. Benefits paid by the City are on a pay-as-you-go basis. The contribution requirements of plan members and the City are established and may be amended from time to time.

Annual OPEB Cost and OPEB Obligation. The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the City, an amount that has been actuarially determined in accordance with the parameters of GASB 43 and 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to

amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the fiscal year ended June 30, 2011, the amount actually contributed to the plan, and the City's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$17,880,087
Interest on Net OPEB Obligation	-
Adjustment to Annual Required Contribution	-
Annual OPEB Cost (Expense)	17,880,087
Contributions Made	(12,670,924)
Increase in Net OPEB Obligation	5,209,163
Net OPEB Obligation (NOO)- Beginning of Year	17,097,922
Net OPEB Obligation (NOO)- End of Year	<u>\$22,307,085</u>
Percentage of Annual OPEB Cost Contributed	71%

Funding Status and Funding Progress. As of December 31, 2008, the most recent actuarial valuation date, no funding to the plan has been made. The Actuarial Accrued Liability (AAL) for benefits was \$299,042,035, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$299,042,345.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used to include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the December 31, 2008, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 5.0 percent investment rate of return (net of administrative expenses), and an annual healthcare cost trend rate of 9 percent, reduced by decrements to an ultimate rate of 5 percent after five years. The actuarial value of assets was determined using market value. The UAAL is being amortized over a thirty year amortization period.

12. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code ("IRC") Section 457. The plan, available to all City employees except teachers, permits employees to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseen emergency.

All amounts of compensation deferred under the plan, all property and rights which may be purchased by the City with such amounts, and all income attributable to such amounts, property or rights shall remain solely the property and rights of the City (without being restricted to the provision of benefits under this

plan) subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the City that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the City's general creditors; however, plan assets have not been used in the past to satisfy such claims. The value of the plan assets as of June 30, 2011 was \$17,558,144.

In August 1996, the provisions of IRC Section 457 were amended to require that eligible deferred compensation plans must hold its assets and income in a trust.

13. Risk Management

The City is self-insured for all group health insurance and is exposed to various risks of losses related to health insurance. Claim expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. To limit the City's exposure to loss, the City has a stop loss policy that becomes effective on any individual case that exceeds \$175,000 (per person, per incident). This stop loss provision relates only to health related claims.

The City is also exposed to various risks of losses related to workers' compensation. The reserve for the workers' compensation is generally determined by management based on historical experience. The City funds its obligations for workers' compensation claims on a claims-made basis.

14. Commitments and Contingent Liabilities

The City has been contacted by the Massachusetts Department of Environmental Protection (the "DEP") to discuss the responsibility for closure of the Old Haverhill Landfill (the "Landfill") on Groveland Road.

The Landfill was listed on the National Priorities List under the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA") (the Federal Superfund statute). The contact with the DEP focused on the City's obligation to conduct final closure of the Landfill in accordance with state solid waste requirements, notwithstanding its status as a listed Federal Superfund Site. Portions of the Landfill are owned by Bardon-Trimount Corporation ("Bardon") and the Massachusetts Electric Company. The DEP also contacted Bardon to discuss the intentions of both the City and Bardon with respect to a settlement and closure under the solid waste program.

The City's financial exposure with respect to responsibility for Landfill closure will be affected by several factors, including the relative allocation of costs shared by Bardon and the City, the ability of the owners to recover assessment and remediation costs from other parties associated with Landfill operations, and the specific methods of Landfill closure determined to be acceptable by regulatory authorities. The City has recorded a liability of \$14,400,000 in the Financial Statements which represents legal counsel's best estimate of the City's liability for the Landfill closure and post closure costs.

In August 1998, the City received information that the DEP has recommended to the U.S. Environmental Protection Agency (the "EPA") that additional field investigation work be conducted at the Haverhill DPW facility on Primrose Street. Under the terms of an Administrative Consent Order entered into with the EPA in 1997, the City had conducted assessment and removal of hazardous waste stored at the DPW facility. This information suggested that additional assessment would be necessary. At this time it is not possible to determine whether the information received from the EPA will result in further legal proceedings with either the DEP or the EPA. The City is currently responding to the communications.

In addition, the City is involved in an enforcement action involving the EPA concerning the cleanup of the Beede Waste Oil Superfund (Site) in Plaistow, New Hampshire. Various municipal departments of the City generated hazardous substances (waste oil) which was sent to the site, along with numerous

other responsible parties. The City and EPA have had discussions with regard to a comprehensive resolution of the outstanding claim. It is anticipated that the City will seek to bond sufficient funds to pay any judgment which may be entered, less revenue from the water and wastewater departments, the Haverhill Housing Authority (a separate legal entity), along with some funds coming from accounts maintained by the City to cover obligations from the former Haverhill Municipal (Hale) Hospital.

Various legal actions and other claims are pending against the City. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2011 cannot be ascertained, management believes that any resulting liability should be covered by insurance and will not materially affect the financial statements of the City.

In addition to the above matters, the City is also liable for prior year outstanding electricity invoices to National Grid. These invoices relate to a meter that was replaced during a school renovation project, which National Grid did not bill the School for. The School Department has obtained a settlement agreement with National Grid, dated March 10, 2009, where the City is required to pay \$233,000 to National Grid. \$38,000 of this amount was due and payable on or before March 15, 2009 and an additional \$65,000 was due and payable on or before September 30, 2009 and also on or before September 30, 2010. The final installment of \$65,000 is payable on or before September 30, 2011.

The City has received federal and state grants for specific purposes that are subject to review and audit by the grantors or their representatives. Such audits could lead to requests for reimbursement to the grantor agent for expenditures disallowed under terms of the grants. City officials are not aware of any potential disallowances.

15. Interfund Transfers in Fund Financial Statements

Interfund transfers are listed below:

	Transfers <u>In</u>	Transfers <u>(Out)</u>	<u>Total</u>
General	\$ 925	\$ (4,210,496)	\$ (4,209,571)
Non-major Governmental	4,258,034	(48,463)	4,209,571
Total	<u>\$ 4,258,959</u>	<u>\$ (4,258,959)</u>	<u>\$ -</u>

Interfund receivables and payables (Due From/To Other Funds) are established in the accounting records of the City because the actual cash received and disbursed is accounted for in the general fund (these accounts are presented on the balance sheet in the financial statements). For example, when money is received from the federal government, relating to a federal grant (which is accounted for in the special revenue fund), the money received is accounted for by debiting cash in the general fund, but at the same time an entry is made which credits “due to the special revenue fund”, which keeps the general fund in balance. A corresponding “due from the general fund” account is debited in the special revenue fund. In addition, the correct special revenue fund revenue account is credited in the special revenue fund, to keep this fund in balance. This type of accounting system is in accordance with generally accepted accounting principles. During the fiscal year ended June 30, 2011 the accounting system refers to the due to/from accounts in the general ledger as “pooled cash”.

16. Subsequent Year Authorization

The City has voted fiscal year 2012 budget amounts totaling \$173,072,060. Fiscal year 2012 budgetary amounts which are not reflected in the accompanying financial statements will be financed by the following sources:

Property Taxes	\$83,720,334
Estimated Receipts, Other Revenue	
Sources and Other Available Funds	<u>89,351,726</u>
Total	<u><u>\$173,072,060</u></u>

17. Net Assets – Unrestricted (Deficit)

Governmental Activities – The net assets, entitled Invested in Capital Assets (e.g. land, buildings, equipment, infrastructure, etc.), Net of Any Related Debt, that was needed to acquire or construct the assets represents \$166,842,686 in net assets; and the assets restricted for specific purposes represent \$4,953,142 in net assets. As these two components of net assets exceed total net assets, unrestricted net assets showed a (\$50,020,130) deficit at the end of the year. This deficit does not mean that the City does not have resources available to pay its bills. Rather, it is the result of having long-term commitments that are greater than currently available resources. Part of the reason this unrestricted deficit is so large is because the debt borrowed by the City that is related to the Hale Hospital, has no related capital asset reflected on the Statement of Net Assets. In addition, significant liabilities relating to the closure of the landfill and relating to the GASB 43 and 45 Other Post Employment Benefits liability are recorded on the Statement of Net Assets in accordance with GASB standards. These liabilities increased the Unrestricted Net Assets deficit.

18. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements and Adjustments</u>	<u>Ending Balance</u>
<u>Government Activities:</u>				
<u>General Fund</u>				
<u>Cost:</u>				
Buildings	\$ 84,160,665	\$ 33,091,058	\$ -	\$117,251,723
Equipment	1,242,890	-	-	1,242,890
Improvements	3,085,569	1,227,782	-	4,313,351
Land	9,848,436	-	-	9,848,436
Construction Work in Process	31,942,471	-	(31,942,471)	(0)
Infrastructure	136,237,976	-	-	136,237,976
Vehicles	6,012,054	-	-	6,012,054
Totals - Cost	<u>272,530,062</u>	<u>34,318,840</u>	<u>(31,942,471)</u>	<u>274,906,431</u>

18. Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements and adjustments</u>	<u>Ending Balance</u>
<u>Government Activities:</u>				
<u>General Fund</u>				
<u>Less Accumulated Depreciation:</u>				
Buildings	40,819,564	2,178,725	-	42,998,289
Equipment	786,362	122,230	-	908,592
Improvements	2,597,778	97,595	-	2,695,373
Infrastructure	66,177,465	2,611,903	-	68,789,368
Vehicles	4,980,705	213,680	-	5,194,385
Totals- Accumulated Depreciation	<u>115,361,874</u>	<u>5,224,133</u>	<u>-</u>	<u>120,586,007</u>
General Fund - Capital Assets, Net	<u>\$ 157,168,188</u>	<u>\$ 29,094,707</u>	<u>\$ (31,942,471)</u>	<u>\$154,320,424</u>
<u>General Fund - Water and Sewer Assets</u>				
<u>Cost:</u>				
Buildings	\$ 171,720	\$ -	\$ -	\$ 171,720
Equipment	24,871,614	-	-	24,871,614
Improvements	319,757	-	-	319,757
Construction Work in Process	3,955,057	1,548,322	-	5,503,379
Land	1,580,632	-	-	1,580,632
Infrastructure	86,057,198	2,344,948	-	88,402,146
Vehicles	935,825	-	-	935,825
Totals - Cost	<u>117,891,804</u>	<u>3,893,270</u>	<u>-</u>	<u>121,785,074</u>
<u>Less Accumulated Depreciation for:</u>				
Buildings	111,343	4,881	-	116,224
Equipment	9,488,179	918,404	-	10,406,583
Improvements	319,757	-	-	319,757
Infrastructure	46,560,381	1,588,738	-	48,149,119
Vehicles	876,969	25,605	-	902,574
Totals- Accumulated Depreciation	<u>57,356,629</u>	<u>2,537,628</u>	<u>-</u>	<u>59,894,257</u>
General Fund - Water and Sewer Capital Assets, Net	<u>60,535,175</u>	<u>1,355,642</u>	<u>-</u>	<u>61,890,817</u>
Total General Fund Capital Assets, Net	<u>\$ 217,703,363</u>	<u>\$ 30,450,349</u>	<u>\$ (31,942,471)</u>	<u>\$216,211,241</u>

***REQUIRED SUPPLEMENTARY
INFORMATION***

City of Haverhill, Massachusetts
Statement of Revenues and Expenditures - Budget and Actual
General Fund (Budgetary Basis)
Fiscal Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
<u>Revenues</u>				
Real Estate and Personal Property Taxes - Net	\$ 80,418,962	\$ 80,418,962	\$ 80,113,349	\$ (305,613)
Excises	5,633,750	5,633,750	5,788,961	155,211
Fees, Departmental and Charges for Services	3,658,422	3,658,422	3,669,083	10,661
Intergovernmental	48,319,254	48,319,254	48,400,972	81,718
Earnings on Investments	174,923	174,923	206,187	31,264
Other Taxes, Assessments and In Lieu Payments	1,960,071	1,960,071	2,011,291	51,220
Water and Sewer	13,239,266	13,239,266	15,446,046	2,206,780
Other Revenue	425,615	425,615	573,257	147,642
	<u>153,830,263</u>	<u>153,830,263</u>	<u>156,209,146</u>	<u>2,378,883</u>
Total Revenues				
<u>Expenditures</u>				
General Government	2,474,788	2,550,104	2,532,132	17,972
Public Safety	17,002,051	16,946,118	16,562,249	383,869
Education	61,142,290	61,142,290	61,123,271	19,019
Public Works	6,094,600	6,687,583	7,849,779	(1,162,196)
Human Services	2,334,000	2,334,000	2,242,743	91,257
Community and Economic Development	1,282,367	1,326,757	1,294,463	32,294
Debt Service	10,724,626	10,508,487	10,471,867	36,620
Intergovernmental	5,086,944	5,086,944	5,243,879	(156,935)
Health Insurance and Other Employee Benefits	22,133,001	22,012,786	21,868,306	144,480
Pension Benefits	10,291,027	10,291,027	10,269,955	21,072
Other Expenditures	4,033,634	3,370,528	2,869,309	501,219
Water and Sewer	12,883,823	14,158,745	12,281,101	1,877,644
	<u>155,483,151</u>	<u>156,415,369</u>	<u>154,609,054</u>	<u>1,806,315</u>
Total Expenditures				
Excess of Revenues Over (Under) Expenditures	<u>(1,652,888)</u>	<u>(2,585,106)</u>	<u>1,600,092</u>	<u>4,185,198</u>
<u>Other Financing Sources (Uses):</u>				
Other Available Funds	2,738,667	6,713,511	6,713,511	-
Operating Transfers In	-	-	925	925
Operating Transfers Out	(1,085,779)	(4,128,405)	(4,210,496)	(82,091)
	<u>1,652,888</u>	<u>2,585,106</u>	<u>2,503,940</u>	<u>(81,166)</u>
Total Other Financing Sources (Uses)				
Excess Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,104,032</u>	<u>\$ 4,104,032</u>

City of Haverhill Retirement System
(A Component Unit of the City of Haverhill, Massachusetts)
Required Supplementary Information-Schedule of Funding Progress
Year Ended December 31, 2010

Schedule I

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability("AAL")	Unfunded Actuarial Accrued Liability ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2010	\$ 146,003,639	\$ 284,159,660	\$ 138,156,021	51.4%	\$ 35,788,543	386.0%
January 1, 2009	144,291,740	282,521,561	138,229,821	51.1%	38,301,434	360.9%
January 1, 2008	167,717,317	271,423,257	103,705,940	61.8%	37,172,147	279.0%
January 1, 2007	160,749,194	262,172,666	101,423,472	61.3%	36,870,523	275.1%
January 1, 2006	155,995,609	256,457,734	100,462,125	60.8%	35,282,797	284.7%
January 1, 2005	152,334,152	247,959,579	95,625,427	61.4%	33,472,330	285.7%

City of Haverhill Retirement System
(A Component Unit of the City of Haverhill, Massachusetts)
Note to Schedule of Funding Progress
Year Ended December 31, 2010

1. Actuarial Assumptions - The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the date indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date:

- * January 1, 2010

Actuarial Cost Method:

- * Entry Age Normal Cost Method

Amortization Method:

- * Unfunded liability amortized in payments increasing 4.0% annually

Remaining Amortization Period:

- * 22 years remaining as of July 1, 2010

Asset Valuation Method:

- * 5-year smoothing of investment returns greater (less) than expected.

Actuarial Assumptions:

- * Investment rate of return - 8.25%
- * Projected salary increase – 3.0% in 2011, 3.5% in 2012, 4.0% in 2013, 4.5% in 2014 and 5.0% thereafter
- * Cost-of-living adjustments - 3.0% on first \$12,000 of retirement income

City of Haverhill, Massachusetts
 Required Supplementary Information - GASB 43 and 45
 Schedule of Employer Contributions
 Fiscal Year Ended June 30, 2011

Projected Unit Credit, Pay-As-You-Go Assumptions (5.00%)
 Amortization Payments Increasing at 4.5%

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Actual</u> <u>Contributions</u>	<u>Percentage</u> <u>Contributed</u>
2008	\$15,362,934	\$8,846,909	58%
2009	16,700,010	11,226,557	67%
2010	17,405,977	12,297,533	71%
2011	17,880,087	12,670,924	71%

City of Haverhill, Massachusetts
 Required Supplementary Information - GASB 43 and 45
 Schedule of Funding Progress
 Fiscal Year Ended June 30, 2011

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
12/31/2006	\$0	\$247,859,068	\$247,859,068	0%	\$ 69,827,255	355%
12/31/2008	0	299,042,345	299,042,345	0%	77,262,106	387%

This schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Haverhill, Massachusetts
 Required Supplementary Information - GASB 43 and 45
 Net OPEB Obligation (NOO)
 Fiscal Year Ended June 30, 2011

Projected Unit Credit, Pay-As-You-Go Assumptions (5.00%)
 Amortization Payments Increasing at 4.5%

Fiscal Year Ended June 30	Annual Required Contribution (ARC) (a)	Interest on Existing NOO (b)	ARC Adjustment (c)	Annual OPEB Cost (a) + (b) + (c) (d)	Actual Contribution Amount (e)	Net Increase in NOO (d) - (e) (f)
2008	\$15,362,934	\$0	\$0	\$15,362,934	\$8,846,909	\$6,516,025
2009	\$16,612,520	\$325,801	(\$238,311)	\$16,700,010	\$11,226,557	\$5,473,453
2010	\$17,244,995	\$599,474	(\$438,492)	\$17,405,977	\$12,297,533	\$5,108,444
2011	\$17,880,087	\$0	\$0	\$17,880,087	\$12,670,924	\$5,209,163

City of Haverhill, Massachusetts
 Required Supplementary Information - GASB 43 and 45
 Valuation Details
 Fiscal Year Ended June 30, 2011

Valuation Date	December 31, 2008
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Payments increasing at 4.5%
Remaining Amortization Period	30 years open
Asset Valuation Method	Market Value

Actuarial Assumptions:

Investment Rate of Return	5.0%, pay-as-you-go scenario
Inflation Rate	4.5 %
Medical/Drug Cost Trend Rate	9.0 decreasing by .75% per year for 5 years and by .25% for 1 year to an ultimate level of 5.0 % per year
Administrative expense trend rate	3.0%

Plan Membership:

Current retirees, beneficiaries, and dependents	1,838
Current active members	<u>1,160</u>
Total	<u>2,998</u>

City of Haverhill, Massachusetts
Schedule of Indebtedness
June 30, 2011
(Continued on Page 52)

<u>Description</u>	<u>Original Balance</u>	<u>Interest Rate %</u>	<u>Fiscal Year of Issue</u>	<u>Fiscal Year of Maturity</u>	<u>Outstanding Balance 6/30/2011</u>
School Bonds	\$ 10,498,114	4.45	1997	2012	\$ 1,560,000
School Construction	310,000	5.28	1997	2013	29,400
School Planning	950,000	5.20	1997	2015	196,525
School Land Acquisition	400,000	5.30	1997	2016	97,980
School Construction	18,000,000	5.30	1997	2016	9,848,580
Fire Station Remodeling	390,000	5.21	1997	2017	108,400
Construction-Police Station	2,000,000	5.23	1997	2017	588,200
Construction-Library	1,200,000	5.23	1997	2017	355,200
Sewer	445,307	4.45	1997	2012	42,345
Sewer	180,000	5.15	1997	2017	39,095
Drainage	573,000	5.20	1997	2017	152,600
Sludge Composting	100,000	5.23	1997	2017	29,620
Water Bonds	169,693	4.45	1997	2012	17,655
Water Pumping Station	175,000	5.12	1997	2017	34,400
Combined Sewer Overflow	412,225	5.60	1998	2019	200,700
School Roof Remodeling	1,700,000	4.96	1999	2018	620,000
School Bonds	16,653,000	4.96	1999	2019	8,525,000
Water Bonds	4,835,000	4.96	1999	2019	2,440,000
Sludge Dewatering	3,018,888	4.70	2001	2015	1,110,249
Sludge Dewatering	121,428	4.00	2001	2017	52,136
Title V Septic Loan	143,100	0.00	2001	2020	67,653
Combined Sewer Overflow	497,038	5.20	2001	2021	280,000
Hospital Deficit Funding Bonds	15,000,000	4.00	2001	2021	8,945,000
Hospital Deficit Funding Bonds	5,000,000	4.00	2001	2021	2,710,000
Hospital Deficit Funding Bonds	5,000,000	4.00	2002	2022	3,225,000
Hospital Refunding	-	5.94	2002	2012	665,000
Hospital Restructure	9,680,000	5.94	2011	2022	9,680,000
Hospital Deficit Funding Bonds	4,403,000	4.00	2003	2022	3,035,000
Hospital Deficit Funding Bonds	597,000	4.00	2003	2023	410,000
Hospital Deficit Deferral	-	-	-	-	2,967,500
School Remodeling	310,000	4.03	2003	2023	180,000
School Equipment	400,000	4.04	2003	2023	240,000
Fire Dept Equipment	210,000	4.03	2003	2023	120,000
Hospital Equipment	364,000	4.33	2003	2023	360,000
Sewer Tank	597,000	4.03	2003	2023	355,000
Sewer Boiler	200,000	4.04	2003	2023	120,000

City of Haverhill, Massachusetts
Schedule of Indebtedness
June 30, 2011
(Continued on Page 53)

<u>Description</u>	<u>Original Balance</u>	<u>Interest Rate %</u>	<u>Fiscal Year of Issue</u>	<u>Fiscal Year of Maturity</u>	<u>Outstanding Balance 6/30/2011</u>
Sewer Pipes	265,000	3.93	2003	2023	145,000
Sewer Planning	1,446,000	4.02	2003	2023	865,000
MWPAT	95,275	variable	2003	2023	54,361
MWPAT	465,418	variable	2003	2023	312,755
MWPAT	1,391,554	variable	2003	2023	870,751
Water Pump Treatment	978,000	4.02	2003	2023	575,000
MWPAT	94,022	4.43	2004	2034	64,459
MWPAT	631,729	4.43	2004	2034	293,614
MWPAT	675,579	Variable	2005	2025	512,936
MWPAT	11,463,447	Variable	2005	2035	10,003,243
Departmental Equipment	128,000	4.00	2006	2012	25,000
High Street Fire Roof	45,000	4.00	2006	2012	5,000
Parking Deck 1	161,115	4.00	2006	2017	90,000
Parking Deck 2	240,885	4.00	2006	2017	140,000
MWPAT	1,500,000	Variable	2007	2027	1,200,000
MWPAT	269,626	Variable	2007	2027	239,667
Whittier School Roof	710,000	4.00	2007	2017	420,000
Greenleaf School Boiler	53,000	4.00	2007	2017	30,000
MWPAT	191,047	2.00	2007	2024	168,761
MWPAT	4,730,937	2.00	2007	2027	3,936,491
MWPAT	2,150,381	2.00	2008	2028	1,882,810
MWPAT	1,049,821	2.00	2008	2028	1,000,880
High St Fire Station	28,000	3.50%	2010	2024	26,000
Fire Truck	830,000	2.80%	2010	2019	737,000
Ladder Truck	138,000	3.40%	2010	2025	125,000
Rink boards	91,000	2.80%	2010	2020	80,000
School Remodeling I	640,000	3.60%	2010	2026	600,000
School Text Books	327,675	1.40%	2010	2013	218,000
School Remodeling II	2,580,000	3.60%	2010	2026	2,418,000
School Remodeling III	3,650,000	3.60%	2010	2026	3,421,000
School Remodeling IV	500,000	3.80%	2010	2028	472,000
School Remodeling V	1,473,000	3.80%	2010	2029	1,395,000
Water	245,264	2.00	2010	2015	196,000

City of Haverhill, Massachusetts

Schedule of Indebtedness

June 30, 2011

(Continued from Page 52)

<u>Description</u>	<u>Original Balance</u>	<u>Interest Rate %</u>	<u>Fiscal Year of Issue</u>	<u>Fiscal Year of Maturity</u>	<u>Outstanding Balance 6/30/2011</u>
Sewer	187,800	3.90	2010	2029	178,000
Willow Ave Drainage	97,261	3.50	2010	2029	89,000
MWPAT CW-06-38 Landfill	575,500	2.00	2011	2031	575,500
MWPAT CW-08-28 Landfill	743,851	2.00	2011	2031	743,851
MWPAT CW-05-17	978,574	2.00	2011	2031	978,574
MWPAT CW-09-05	1,756,067	2.00	2011	2031	1,756,067
GRAND TOTAL	<u>\$ 148,110,621</u>				<u>\$ 96,252,958</u>

City of Haverhill, Massachusetts
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011
(Continued on Page 55)

	Federal CFDA Number	Expenditures
U.S. Department of Agriculture:		
Food and Nutrition Service:		
School Breakfast Program	10.553	\$ 279,533
National School Lunch Program	10.555	1,272,961
Total U.S. Department of Agriculture		<u>1,552,494</u>
U.S. Department of Housing and Urban Development:		
Community Development Block Grant	14.218	1,191,540
Home Investment Partnership Program	14.239	117,958
ARRA -Community Development Block Grant	14.253	162,789
ARRA-Community Development Block Grant- Neighborhood Stabilization Plan	14.256	347,991
Total Department of Housing and Urban Development		<u>1,820,278</u>
U.S. Department of Justice:		
ARRA - Violence Against Women Act	16.588	16,996
ARRA - Local Law Enforcement Block Grant	16.710	148,596
Edward J. Byne Memorial Justice Assistance Grant	16.738	45,277
ARRA - Police Staffing	16.803	28,488
ARRA - JAG Formula Grant	16.804	10,230
Total U.S. Department of Justice		<u>249,587</u>
U.S. Department of Environmental Protection Agency:		
ARRA - Brownfields Grant	66.818	178,807
Total U.S. Department of Environmental Protection		<u>178,807</u>
U.S. Department of Energy:		
ARRA-Energy Efficiency Recovery Block Grant	81.128	204,795
Total U.S. Department of Energy		<u>204,795</u>
U.S. Department of Education:		
Title I	84.010	1,641,029
SPED 94-142 Allocation	84.027	2,333,936
SPED - Preschool/Early Childhood	84.173	79,480

City of Haverhill, Massachusetts
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2011
(Continued from Page 54)

	<u>Federal CFDA</u>	
	<u>Number</u>	<u>Expenditures</u>
Drug Free Schools	84.186	18,039
Small Learning Communities	84.215L	427,659
21st Century Community Learning	84.287	748,409
Enhanced Ed. Through Tech.	84.318	89,144
Dropout Prevention and Intervention	84.360	355,047
LEP Support	84.365	100,752
Teacher Quality	84.367	445,598
ARRA-Title II D Enhanced Education	84.386	89,613
ARRA-McKinney Homeless	84.387	19,170
ARRA-Title I	84.389	583,724
ARRA-SPED Grants to States	84.391	1,054,824
ARRA-SPED Preschool Grants	84.392	40,112
ARRA-SFSF Education State Grants	84.394	185,867
ARRA-Race to the Top	84.395	325
ARRA-Ed Jobs	84.410	698,990
Total U.S. Department of Education		<u>8,911,718</u>
U.S. Department of Health and Human Services		
Emergency Management Grant	93.008	<u>24,481</u>
Total U.S. Department of Health and Human Services		<u>24,481</u>
U.S. Department of Homeland Security		
Hazard Mitigation Grant-Merrimack Riverbank		
Stabilization	97.039	287,139
Citizens Corps	97.067	6,000
Total U.S. Department of Homeland Security		<u>293,139</u>
Total Schedule of Expenditures of Federal Awards		<u><u>\$ 13,235,299</u></u>

City of Haverhill, Massachusetts
Notes to Schedule of Expenditures of Federal Awards
June 30, 2010

(1) Scope of Audit

The City of Haverhill, Massachusetts (the City) is a governmental agency established by the laws of the Commonwealth of Massachusetts.

All federal grant operations of the City are included in the scope of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The single audit was performed in accordance with the provisions of OMB's Circular A-133, *Compliance Supplement*.

(2) Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards includes all of the federal grant transactions of the City.

Federal grant revenues are recognized in the City's governmental funds on the modified accrual basis of accounting whereby revenue is recognized when it becomes available and measurable.

Disbursements of federal grant funds are recorded on the accrual basis.

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Honorable Mayor and
the Members of the City Council
City of Haverhill
4 Summer Street
Haverhill, Massachusetts 01830

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Haverhill, Massachusetts as of and for the year ended June 30, 2011, and have issued our report thereon dated March 26, 2012. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Haverhill's, internal control over financial reporting as a basis for designing our auditing procedures 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 City of Haverhill's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Haverhill's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We consider the deficiency described in the accompanying schedule of findings and questioned costs (2011-1), to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Haverhill's financial statements are free of 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*.

The report is intended solely for the information and use of management, the audit committee, management, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
March 26, 2012

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB
CIRCULAR A-133

Honorable Mayor and
the Members of the City Council
City of Haverhill
4 Summer Street
Haverhill, Massachusetts 01830

Compliance

We have audited the City of Haverhill, Massachusetts' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the City of Haverhill, Massachusetts' major federal programs for the year ended June 30, 2011. The City of Haverhill, Massachusetts', major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Haverhill, Massachusetts' management. Our responsibility is to express an opinion on the City of Haverhill, Massachusetts' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Haverhill, Massachusetts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Haverhill, Massachusetts' compliance with those requirements.

As described in Item 2011-2 in the accompanying schedule of findings and questioned costs, the City of Haverhill, Massachusetts did not comply with certain requirements regarding allowable costs/cost principals, relating to the United States Department of Education, SPED Grant, C.F.D.A. #84.027 (and #84.173, #84.391 and #84.392 clusters), Title 1 (#84.010) (cluster #84.389), Small Learning Community (#84.215L), 21st Century Community Learning (#84.287), Teacher Quality (#84.367), and Education Jobs (#84.410). Compliance with such requirements is necessary, in our opinion, for the City of Haverhill, Massachusetts to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Haverhill, Massachusetts complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the City of Haverhill, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Haverhill, Massachusetts' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Haverhill, Massachusetts', internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Item 2011-2 to be a material weakness.

The City of Haverhill, Massachusetts' response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the City of Haverhill, Massachusetts' response and accordingly we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, others within the organization, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
March 26, 2012

City of Haverhill, Massachusetts
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2011
 (Continued on Page 62)

I Summary of Auditors' Results

1. The opinion on the financial statements was qualified.
2. A significant deficiency in internal control was reported during the audit of the financial statements (see 2011-1).
3. No instances of noncompliance which were material to the financial statements were reported.
4. A significant deficiency in internal control relating to major programs was found during the audit.
5. The opinion on compliance with requirements applicable to major programs was qualified.
6. There was a finding related to major federal award programs as noted in Part III below.
7. The major programs identified were:

<u>Funding Source</u>	<u>CFDA #</u>
U.S. Department of Agriculture	10.553
U.S. Department of Agriculture	10.555
U.S. Department of Housing and Urban Development	14.218
U.S. Department of Housing and Urban Development	14.253
U.S. Department of Education	84.010
U.S. Department of Education	84.027
U.S. Department of Education	84.173
U.S. Department of Education	84.215L
U.S. Department of Education	84.287
U.S. Department of Education	84.367
U.S. Department of Education	84.389
U.S. Department of Education	84.391
U.S. Department of Education	84.392
U.S. Department of Education	84.410

8. The dollar threshold used to distinguish between Type A and Type B programs was \$397,059.
9. The auditee was not audited as low risk.

City of Haverhill, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011
(Continued on Page 63)

II Findings – Financial Statement Audit

2011-1 Cash Reconciliation

The City is continuing the process of reviewing the various cash reconciliation procedures and the matters that need to be addressed in order to be able to complete all of the required steps in a timely manner each month. Our biggest concern continues to be the timeliness of performing the cash reconciliation work. Most bank accounts were reconciled in a timely manner each month, during the fiscal year ended June 30, 2011, however a few accounts were not reconciled in a timely manner and these accounts continue to take a significant amount of time to be reconciled. One of the biggest issues that has slowed down the entire process of reconciling cash each month, relates to the large volume of outstanding checks that must be reviewed and properly accounted for, relating to the City and School payroll bank accounts. In order to save a significant amount of time relating to this issue, we recommend that the City look into the feasibility of requiring all employees to have their payroll checks directly deposited. If this procedure was followed, a significant amount of time could be saved each month when reconciling cash, which would in turn allow other reconciliations items to be reviewed and corrected more timely. The entire process would be able to be performed more efficiently when there is time to correct other reconciliation items.

Another important matter that relates to being able to perform the monthly cash reconciliation work more efficiently has to do with reducing the number of bank accounts as much as possible. In line with this objective, the City has closed over one hundred separate municipal escrow bank accounts, that were then transferred into a new Municipal Escrow bank account which has the ability to keep track of the required separate escrow activity relating to original deposits, investment income, disbursements, beginning and ending balances and any other related detailed activity. By setting up this account, a significant amount of time has been saved in performing the monthly cash reconciliation procedures. However, there are still certain procedures that must be followed for the process to work properly, and if they are not done, monthly reconciliation problems are created. For example, during our review of the TC-Receipts depository account, we found several large bank account transfers that were made into this bank account (from the Municipal Escrow bank account) that were posted in the Budget Sense general ledger accounting system, however these transfers had not yet been made at the banks. These types of reconciliation items must be accounted for and recorded on the monthly reconciliation worksheets for both bank accounts. Until they are corrected, they must be carried forward from month to month, slowing down the reconciliation process. It is important to correct these types of items as soon as possible to help make the entire process more efficient. In order to complete this process for one of the transfers relating to the street lighting escrow account, the Treasurer needs to know which street lighting individual accounts are affected, as well as the specific amounts to be charged to each individual street lighting escrow account. The steps currently being followed should be reviewed in order to make the process as efficient as possible so that the monthly bank account reconciliations for these two bank accounts can be performed in a timely manner each month.

Another important matter to note, that will help with the timeliness of the monthly cash reconciliation process, is that once a proper reconciliation and careful analysis has been performed for a particular bank account, it is important to move onto the next month's reconciliation quickly, instead of spending more time than is necessary searching for small variances, or even for large variances that may become very clear in the next months reconciliation. One reason for this is that very often a reconciling item will automatically

City of Haverhill, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011
(Continued on Page 64)

2011-1

Cash Reconciliation

correct itself in the subsequent month because it simply relates to a timing issue. In addition, often times when you move onto the next month's reconciliation and you have two months of reconciliations to compare to one another, the cause of the variance becomes clear and the prior month can be quickly corrected so the entire process moves along quickly and efficiently. Another goal to strive for is to complete the current month's reconciliation and then move onto the next months reconciliation with the objective of coming up with exactly the same variance as the prior month. When this is accomplished, you can be fairly certain that the current month reconciliation is accurate, which will then allow you to quickly move on to the next month's reconciliation.

Another important area relating to the monthly cash reconciliation process involves the outstanding checks relating to the City vendor bank account. A large number of the outstanding checks shown on the outstanding list were very old. During this past year a significant amount of time has been spent by the Treasurer's office researching the old outstanding checks on the list for matters such as void checks, reissued checks, etc. in an attempt to prepare an accurate list of outstanding checks. Certain corrections and adjustments were made to the list so that the list was accurate. One important additional step that should be taken relating to the outstanding check list involves making a concerted effort to review and correct the list that is prepared by the bank, so that it agrees with the list that has been separately prepared by the Treasurer's office. If the outstanding list prepared by the bank is accurate and can be used by the Treasurer's office when reconciling cash, the entire process will be more efficient.

The normal process that is involved relating to outstanding vendor checks is to contact each active vendor who has an outstanding check on the list to determine whether the check represents a legitimate amount due to the vendor. If the vendor has a valid claim, the outstanding check should be voided and replaced. If there is not a legitimate claim, the check should be voided. Documentation of the communication and how the determination was made should be maintained. If the vendor or individual cannot be contacted, the following procedures should be followed:

1. Annually, the Treasurer should prepare a list of checks that have been outstanding for one year.
2. The checks should be removed from the outstanding list and an entry should be made in the general ledger to increase cash and the unclaimed checks liability account.
3. After a check has been in the unclaimed checks account for two years (outstanding for three years), the abandoned property process should begin.

City of Haverhill, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011
(Continued on Page 65)

2011-1

Cash Reconciliation

4. The Treasurer must notify the owner of any check for \$10 or more of the procedures for claiming it. The notice must be sent by first class mail to the last known address of the owner. The notice is not required if the City's records disclose that the address is inaccurate (i.e. the check was previously sent there and returned undeliverable).
5. The Treasurer must also publish a list of checks that are \$100 or more. In order to comply with M.G.L. Chapter 200A Section 9.A (c), the notice of the checks must be published in a newspaper of general circulation.
6. After the notice/publication requirements have been met, any checks that remain unclaimed (claimants have one year to establish their claim) may be closed to the unreserved fund balance account.

Management Response/Corrective Action Plan

Action Taken:

The city has implemented reconciliation procedures with all but two accounts that fully comply with the above recommendations. The remaining accounts procedures are still being evaluated and determination will be made in the next fiscal year as to the most efficient procedures. The city treasurer's office has taken the steps to close numerous accounts. The treasurer's office is in the process of completing the procedures as listed in Mass General Law (MGL) to 'cleaning up' the outstanding list. The implementations of the above procedure are subject to the limits of the current minimal office staffing levels.

III

Findings and Questioned Costs for Federal Awards

Finding Number

2011-2

Program

U.S. Department of Education - SPED - CFDA #84.027 (Cluster #84.173, #84.391 and #84.392), Title 1 (#84.010) (Cluster #84.389), Small Learning Community (#84.215L), 21st Century Community Learning (#84.287), Teacher Quality (#84.367), and Education Jobs (#84.410)

Finding

Payroll Certifications and Supporting Documentation

During the prior year, all of the payroll certifications and related documentation were properly prepared for all of the Department of Education grants. However, during the fiscal year ended June 30, 2011, payroll certifications were prepared for part of the year, but not for the entire year. During this period the Grant Administrator left for a new position in another school, which is what caused the oversight.

City of Haverhill, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011
(Continued on Page 66)

Finding Number
2011-2

Finding

In absence of signed timesheets to support payroll charges to federal grant programs, the United States Office of Management and Budget (OMB) Circular A-87 specifies that certain certifications must be made as noted below:

1. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.
2. Where employees work on multiple activities or cost objectives a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards:
 - (a) They must reflect an after-the-fact distribution of the actual activity of each employee.
 - (b) They must account for the total activity for which each employee is compensated.
 - (c) They must be prepared at least monthly and must coincide with one or more pay periods.

City of Haverhill, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011
(Continued from Page 65)

Finding Number
2011-2

Finding

- (d) They must be signed by the employee.
- (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards, but, may be used for interim accounting purposes when certain other requirements are met.

We recommend that the School follow the requirements of OMB Circular A-87.

Management Response/Corrective Action Plan

A new employee has been hired who is now assuming the responsibility to insure that these documents are timely prepared and submitted. In addition, we are in the process of researching an automated time keeping system that would allow the affected employees to complete these forms electronically. The grant administrator, administrative assistant for curriculum, and the grants bookkeeper have been made aware of the importance of receiving these documents in a timely manner, and are working together to insure that this happens moving forward. This cross training will also eliminate the possibility that this process could fall through the cracks again in the event that the staffing changes for any reason.

City of Haverhill, Massachusetts
 Summary of Prior Years Findings and Questioned Costs
 For the Year Ended June 30, 2011

Prior Year
 Fiscal Year Ended
 June 30, 2010

<u>Finding Number</u>	<u>Department</u>	<u>C.F.D.A. #</u>	<u>Current Status</u>
2010-1	-	-	<u>Cash Reconciliation and Trust Fund Accounting</u> Please see the fiscal year ended June 30, 2011, Schedule of Findings and Questioned Costs, Item #2011-1.
2010-2	-	-	<u>Debt Reconciliation and Capital Projects Accounting</u> This finding has been corrected for the fiscal year ended June 30, 2011.