CITY OF HAVERHILL, MASSACHUSETTS

Financial Statements

June 30, 2012

(With Accountants' Report Thereon)

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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, 2012, (December 31, 2011 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.

In our opinion, 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, 2012 (and the Contributory Retirement System as of December 31, 2011) 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 25, 2013 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 information (Schedule of Indebtedness) listed in the table of contents is presented for purpose of additional analysis and is 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 or provide any assurance on it.

Giusti, Hingston and Company

Giusti, Hingston and Company Certified Public Accountants March 25, 2013

City of Haverhill, Massachusetts Management's Discussion and Analysis June 30, 2012

As management of the City of Haverhill, 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, 2012. 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 \$102,696,947 (*net assets*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$11,888,581, or 7 percent of total general fund expenditures.
- The City of Haverhill, Massachusetts' total debt decreased by \$6,862,595 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, 2012 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

	<u>June</u>	June 30, 2012		June 30, 2011		Change	
Current and Other Assets	\$	49,018,019	\$	66,455,775	\$	(17,437,756)	
Capital Assets	2	10,353,481		216,211,241		(5,857,760)	
Total Assets	2	59,371,500		282,667,016		(23,295,516)	
Current Liabilities		22,443,417		34,237,088		(11,793,671)	
Long Term Liabilities	1	34,231,136		130,354,230		3,876,906	
Total Liabilities	1	56,674,553		164,591,318		(7,916,765)	
Net Assets:							
Invested in Capital Assets							
Net of Related Debt	1	62,190,891		166,842,686		(4,651,795)	
Restricted		1,535,121		4,953,142		(3,418,021)	
Unrestricted	(61,029,065)		(53,720,130)		(7,308,935)	
Total Net Assets	\$ 1	02,696,947	\$	118,075,698	\$	(15,378,751)	

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 \$162,190,891 in net assets; and the assets restricted for specific purposes represent \$1,535,121 in net assets. As these two components of net assets exceed total net assets, unrestricted net assets showed a (\$61,029,065) 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.

		Governmen			
	<u>J</u> 1	ane 30, 2012	<u>J</u>	une 30, 2011	Change
Revenues					
Program Revenues:					
Charges for Services	\$	19,698,718	\$	20,794,191	\$ (1,095,473)
Operating Grants and Contributions		74,577,676		73,179,540	1,398,136
Capital Grants and Contributions General Revenues:		5,910,580		7,490,241	(1,579,661)
Real Estate and Personal Property Taxes		83,423,189		80,393,146	3,030,043
Excises		6,196,540		5,927,638	268,902
Other Taxes, Assessments and in Lieu					
Payments		2,594,395		2,801,375	(206,980)
Intergovernmental Not Restricted to					
a Specific Program		7,038,661		5,232,333	1,806,328
Earnings on Investment		97,073		206,187	(109,114)
Other Revenue		1,548,158		564,157	 984,001
Total Revenues		201,084,990		196,588,808	4,496,182
Expenses					
General Government		3,295,898		3,303,338	(7,440)
Public Safety		20,114,203		17,960,505	2,153,698
Education		85,339,712		83,229,182	2,110,530
Public Works		11,256,418		13,121,663	(1,865,245)
Human Services		3,611,500		2,203,918	1,407,582
Community and Economic Development		2,699,874		2,630,499	69,375
Debt Service		444,604		927,188	(482,584)
Intergovernmental		5,117,944		5,243,879	(125,935)
Health Insurance and Other Employee Benefits		32,617,192		28,318,784	4,298,408
Pension Benefits		11,177,543		10,269,955	907,588
Landfill		3,414,910		833,000	2,581,910
Other Expenditures		2,313,989		3,148,701	(834,712)
Water and Sewer		18,695,202		14,243,221	4,451,981
Teacher's Retirement on Behalf Payments		16,364,752		15,971,093	 393,659
Total Expenses		216,463,741		201,404,926	 15,058,815
Increase (Decrease) in Net Assets	\$	(15,378,751)	\$	(4,816,118)	\$ (10,562,633)

The above table shows the increase (decrease) in net assets (including prior period adjustments).

Governmental Activities – In fiscal year 2012, property tax accounted for approximately 46% 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 \$1,885,719 more 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	Total				
Ended	General Fund				
<u>June 30</u>	Fund Balance				Free Cash
2012	\$ 14,860,600	Unassigned Fund Balance \$	11 888 581	***	Not Yet Certified

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

***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 then the fiscal year's ended June 30, 2011 and June 30, 2012 calculation of unassigned fund balance. Please see financial statement footnote number seven for a further explanation of G.A.S.B. Statement Number 54.

General Fund Budgetary Highlights

The differences between the original budget and the final amended budget were mostly made up of transfers

^{**} 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.

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, 2012, amounts to \$210,353,481 (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, 2012 and June 30, 2011 (Net of Depreciation)

	Governmental Activities						
	<u>J</u>	June 30, 2011					
D 111	Φ.	71 00 5 5 2 0	* 5.4.6 00.004				
Buildings	\$	71,806,628	\$ 74,308,931				
Equipment		14,014,784	14,799,329				
Improvements		2,175,919	1,617,978				
Land		11,429,068	11,429,068				
Construction Work in Process		6,798,236	5,503,379				
Infrastructure		103,467,468	107,701,636				
Vehicles		661,378	850,920				
Total	\$	210,353,481	\$ 216,211,241				

Debt

The City had \$95,764,523 in debt outstanding on June 30, 2012. This represents a \$6,862,595 decrease (or 7%) from the previous year. The City's bond rating improved during the fiscal year ended June 30, 2012. Moody's Investor Services reaffirmed the City's A-1 bond rating and removed the negative outlook, that the firm had previously placed on the City, upgrading the bond outlook to stable. Removal of the negative outlook is based on Moody's expectation that the City's financial position will stabilize as a result of recently settled collective bargaining agreements and an overall improved economic environment and focus on improving reserve levels.

Outstanding Debt at June 30, 2012 and June 30, 2011

Governmental Activities		<u>2012</u>			<u>2011</u>			
Notes Payable General Obligation Bonds Payable	\$	6,100,687 89,663,836	_	\$	6,374,159 96,252,959			
Total Governmental Activities	\$	95,764,523	_	\$	102,627,118			

Fiscal Year 2012 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 2012 without the necessity for an override.

City of Haverhill, Massachusetts Statement of Net Assets June 30, 2012 (Continued on Page 10)

(Continued on Fage 10)					
	Government- Wide Governmental Activities Total				
ASSETS					
CURRENT:					
Cash/Investments	\$ 26,915,612				
Receivables:					
Real Estate and Personal Property	2,708,233				
Motor Vehicle and Other Excise	1,600,861				
Tax Liens and Foreclosures	1,913,204				
Other	168,552				
Due from Other Funds	1,189,045				
User Charges	1,865,303				
Due from Commonwealth of Massachusetts - SBAB	2,255,641				
Due from Commonwealth of Massachusetts - Other NONCURRENT:	1,028,063				
Due from Commonwealth of Massachusetts - SBAB Capital Assets:	9,373,505				
Capital Asset, Net	210,353,481				
TOTAL ASSETS	259,371,500				
LIABILITIES CURRENT:					
Warrants Payable	897,474				
Other Liabilities	2,294,740				
Temporary Loans	6,100,687				
Accrued Liabilities	3,830,045				
Accrued Interest	908,058				
Bonds Payable	8,412,413				
NONCURRENT:					
Bonds Payable	81,251,423				
Longevity Payable	1,183,059				
Other Accrued Liabilities - GASB 43 and 45	30,542,877				
Compensated Absences	2,396,778				
Landfill Liabilities	18,856,999				
TOTAL LIABILITIES	156,674,553				

City of Haverhill, Massachusetts Statement of Net Assets June 30, 2012 (Continued from Page 9)

Government-
Wide
Governmental
Activities
Total

NET ASSETS

Invested in Capital Assets, Net of Related Debt	162,190,891
Restricted for:	
Capital Projects	(1,015,330)
Special Revenue	2,550,451
Unrestricted (Deficit) (Note 17)	 (61,029,065)
TOTAL NET ASSETS	\$ 102,696,947

City of Haverhill, Massachusetts Statement of Activities Fiscal Year Ended June 30, 2012

Net (Expenses)
Revenues and
Changes in

		Program Revenues						Net Assets
Functions/Programs	Expenses		ges for	Operating Grants and Contributions		Capital Grants and Contributions		Total Governmental Activities
Governmental Activities:	*							
General Government	\$ 3,295,898	\$ 1.	,256,769	\$	482,784	\$ 684,12	28	\$ (872,217)
Public Safety	20,114,203		690,348		1,154,847	,	_	(18,269,008)
Education	85,339,712		,943,587	:	53,357,869	3,257,75	8	(26,780,499)
Public Works	11,256,418		8,114		753,596	1,254,16		(9,240,548)
Human Services	3,611,500		978,228		1,010,488		_	(1,622,785)
Community and Economic Development	2,699,874		825,715		1,453,341		_	(420,818)
Debt Service	444,604		_		-		_	(444,604)
Intergovernmental	5,117,944		_		-		_	(5,117,944)
Health Insurance and Other Employee Benefits	32,617,192		_		-		_	(32,617,192)
Pension Benefits	11,177,543		_		-		_	(11,177,543)
Landfill	3,414,910		_		-		_	(3,414,910)
Other Expenditures	2,313,989		_		-	1,023,01	1	(1,290,978)
Water and Sewer	18,695,202		,995,957		-	(308,47		(5,007,721)
Teacher's Retirement on Behalf Payments	16,364,752		_		16,364,752		_	(0)
Total Governmental Activities	\$ 216,463,741		,698,718	\$	74,577,676	\$ 5,910,58	80	\$ (116,276,767)
		General R	evenues:					
		Real Est	ate and Per	rsonal Pı	roperty Taxes	- Net		83,423,189
		Excises						6,196,540
		Other Ta	ixes, Asses	sments a	and			
		in Lie	u Payment	S				2,594,395
		Intergov	ernmental					7,038,661
		Earnings	on Investi	ments				97,073
		Other Re	evenue				_	1,548,158
		Total Gene	eral Reven	ues, Spe	cial Items and	d Transfers	_	100,898,016
		Change	in Net Ass	ets			_	(15,378,751)
		Net Asse	ets:					
		Beginnii	ng of the Y	ear				121,775,698
			eriod Adju				_	(3,700,000)
		Beginnii	ng of the Y	ear, as F	Restated		_	118,075,698
		End of the	he Year				_	\$ 102,696,947

City of Haverhill, Massachusetts Governmental Funds Balance Sheet June 30, 2012

Jule 30, 20	,12	<u>General</u>	Nonmajor Governmental <u>Funds</u>		G	Total overnmental <u>Funds</u>
<u>Assets</u>						
Cash/Investments	\$	26,915,612	\$	-	\$	26,915,612
Receivables:						
Real Estate and Property Taxes		2,708,233		-		2,708,233
Motor Vehicle and Other Excise		1,600,861		-		1,600,861
Tax Liens and Foreclosures		1,913,204		-		1,913,204
Other		168,552		-		168,552
Due From Other Funds		-		8,902,485		8,902,485
User Charges		1,865,303		-		1,865,303
Due from Commonwealth of Massachusetts - MSBA		11,629,146		-		11,629,146
Due from Commonwealth of Massachusetts - Other		-		1,028,063		1,028,063
Total Assets	\$	46,800,911	\$	9,930,548	\$	56,731,459
Liabilities and Fund Balances Liabilities: Warrants Payable Due to Other Funds Other Liabilities	\$	897,474 11,806,404	\$	- - 2,294,740	\$	897,474 11,806,404 2,294,740
Temporary Loans		_		6,100,687		6,100,687
Deferred Revenue: Deferred Revenue - Due from Commonwealth of Massachusetts		11 (20 14)				11 (20 14)
Deferred Revenue - Other Deferred Revenue - Other		11,629,146 7,607,287		-		11,629,146 7,607,287
Total Liabilities		31,940,311		8,395,427		40,335,738
Total Liabilities		31,940,311		6,393,421		40,333,736
Fund Equity: Fund Balances:						
Restricted		-		2,433,776		2,433,776
Committed		-		116,675		116,675
Assigned		2,972,019		-		2,972,019
Unassigned		11,888,581		(1,015,330)		10,873,251
Total Fund Balances		14,860,600		1,535,121		16,395,721
Total Liabilities and Fund Balances	\$	46,800,911	\$	9,930,548	\$	56,731,459

City of Haverhill, Massachusetts Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances Fiscal Year Ended June 30, 2012

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
REVENUES:			
Real Estate and Personal Property Taxes - Net Excises Fees, Departmental and Charges for Services	\$ 82,636,395 6,116,627 3,648,521	\$ - 2,512,720	\$ 82,636,395 6,116,627 6,161,241
Intergovernmental Earnings on Investments Other Taxes, Assessments and In Lieu Payments Water and Sewer Teacher's Retirement on Behalf Payments	51,072,519 99,806 2,137,209 14,273,238 16,364,752	23,347,404	74,419,923 99,806 2,137,209 14,273,238 16,364,752
Other Revenue TOTAL REVENUES	1,480,023 177,829,090	56,156 25,916,280	1,536,179 203,745,370
EXPENDITURES: Current			
General Government Public Safety Education	2,640,232 18,472,257 63,339,679	1,402,661 1,414,284 20,732,019	4,042,893 19,886,541 84,071,698
Public Works Human Services Community and Economic Development	6,581,576 2,328,217 1,270,163	1,956,276 1,059,339 1,415,412	8,537,852 3,387,556 2,685,575
Debt Service Intergovernmental Health Insurance and Other Employee Benefits	9,989,134 5,117,944 21,757,880	- - -	9,989,134 5,117,944 21,757,880
Pension Benefits Landfill Other Expenditures	11,177,543 - 2,870,065	2,657,911 -	11,177,543 2,657,911 2,870,065
Water and Sewer Teacher's Retirement on Behalf Payments TOTAL EXPENDITURES	 13,194,601 16,364,752 175,104,043	3,026,727	16,221,328 16,364,752 208,768,672
Excess of Revenues Over (Under) Expenditures	2,725,047	(7,748,349)	(5,023,302)
Other Financing Sources (Uses):			
Operating Transfers In Operating Transfers (Out) Proceeds from Borrowing	12,001 (851,329)	1,240,790 (401,462) 3,491,000	1,252,791 (1,252,791) 3,491,000
Proceeds from Refunding Bonds Refunded Bond Payment Other Costs Related to Refunded Bond	2,745,000 (2,705,000) (40,000)	- - -	2,745,000 (2,705,000) (40,000)
Total Other Financing Sources (Uses)	 (839,328)	4,330,328	3,491,000
Excess of Revenues and Other Sources Over (Under)			
Expenditures and Other Uses	 1,885,719	(3,418,021)	(1,532,302)
Fund Balance, Beginning	 12,974,881	4,953,142	\$ 17,928,023
Fund Balance, Ending	\$ 14,860,600	\$ 1,535,121	\$ 16,395,721

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, 2012

Total Governmental Fund Balances	\$ 16,395,721
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	210,353,481
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	19,236,433
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.Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	262,919
Bonds Payable	(89,663,836)
Accrued Interest on Bonds	(908,058)
Landfill Accrued Liability	(18,856,999)
Compensated Absences	(2,396,778)
Longevity Liability	(1,183,059)
OPEB Liability	 (30,542,877)
Net Assets of Governmental Activities	\$ 102,696,947

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, 2012

Net change in fund balances - total governmental funds	\$ (1,532,302)
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.	(5,857,760)
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.	(2,660,380)
the het change in deferred revenue.	(2,000,300)
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.	6,589,123
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.	(1,078,603)
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.	20,483
OPEB cost relating to the current year GASB 45 accrual amount	(8,235,792)
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.	 (2,623,520)
Change in Net Assets of Governmental Activities	\$ (15,378,751)

City of Haverhill, Massachusetts Proprietary Funds Statement of Net Assets June 30, 2012

Governmental
<u>Activities</u>
Internal
Service Fund

ASSETS

 Due from Other Funds
 \$ 4,092,964

 TOTAL ASSETS
 4,092,964

LIABILITIES

Accrued Liabilities 3,830,045

TOTAL LIABILITIES 3,830,045

NET ASSETS

Unrestricted 262,919

TOTAL NET ASSETS \$ 262,919

City of Haverhill, Massachusetts Statement of Revenues, Expenses and Changes in Fund Net Assets Proprietary Funds Fiscal Year Ended June 30, 2012

Governmental	
<u>Activities</u>	

Internal

Service Fund

Operating Revenues:

Contributions	\$ 3	1,440,556
Total Operating Revenues	3	1,440,556
Operating Expenditures:		
Employee Benefits	3	4,064,076
Total Operating Expenditures	3	4,064,076
Operating Income (Loss)	(2,623,520)
Net Assets at Beginning of Year		2,886,439
Net Assets at End of Year	\$	262,919

City of Haverhill, Massachusetts Statement of Cash Flows Proprietary Fund Fiscal Year Ended June 30, 2012

Governmental
Activities

Internal Service Fund

Cash Flows from Operating Activities:

Net Income (Loss) \$ (2,623,520)

Net Cash Flows Provided (Used) by Operating Activities (2,623,520)

Net Increase (Decrease) in Cash and Cash Equivalents \$\((2,623,520) \)

City of Haverhill, Massachusetts Statement of Net Assets Fiduciary Funds June 30, 2012

	Fund As of ember 31, 2011	Private Purpose Trust Funds		
ASSETS				
Cash and Equivalent	\$ 1,951,564	\$	7,304,465	
Due from(to) Other Funds	-		(1,189,046)	
Receivables:				
Dividend and Interest	182,624		-	
Employee Contributions	48,937		-	
Due from Other Systems	298,666		-	
Due from Others	4,836		-	
Investments Sold - Funds Not Received	518,208		-	
Miscellaneous	43			
Total Receivables	 1,053,314			
Investments at Fair Value:				
Stocks	30,728,408		_	
Fixed Income Securities	19,719,412		_	
Real Estate and Other Investments	86,279,713		-	
Total Investments	136,727,533			
TOTAL ASSETS	139,732,411		6,115,419	
LIABILITIES				
Accounts Payable	142,648		_	
Amounts Due to Other Systems	467,619		_	
Investments Purchased - Not Yet Paid For	 153,772			
TOTAL LIABILITIES	764,039		-	
NET ASSETS				
Net Assets Held in Trust	\$ 138,968,372	\$	6,115,419	

City of Haverhill, Massachusetts Statement of Changes in Net Assets Fiduciary Funds Year Ended June 30, 2012

	Pension Trust Fund As of			Private rpose Trust
	Dec	ember 31, 2011		<u>Funds</u>
Additions: Contributions:				
Employer	\$	11,802,613	\$	_
Employee	Ψ	3,290,352	Ψ	_
Private Donations and Earnings on Investments		, , , <u>-</u>		27,090
Intergovernmental		426,581		-
Total Contributions		15,519,546		27,090
Transfers from Other Systems		154,153		
Net Investment Income (Loss):				
Net Appreciation in the Fair Value of Plan Assets and Gains and (Losses)		(3,230,929)		_
Interest and Dividends		3,168,050		135,088
increst and Dividends	-	3,100,030		133,000
Total Investment Income (Loss)		(62,879)		135,088
Less Investment Expense		1,214,126		
Net Investment Income (Loss)		(1,277,005)		135,088
Total Additions (Reductions)		14,396,694		162,178
Deductions:				
Benefit Payments to Retirees, Survivors, and Disability Retirees		21,750,335		-
Refunds to Members Leaving the Plan		284,832		-
Transfers to Other Systems		746,348		-
Administrative Expenses Scholarships and Other Expenses		344,623		180,167
Total Deductions		23,126,138		180,167
Total Bedderions	•	23,120,130		100,107
Net Increase (Decrease)		(8,729,444)		(17,989)
Net Assets Held In Trust:				
Beginning of Year		147,697,816		6,133,408
End of Year	\$	138,968,372	\$	6,115,419

City of Haverhill, Massachusetts Notes to the Financial Statements June 30, 2012

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, 2012. 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, 2012.

(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, 2012 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 that 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 an 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) <u>Cash and Cash Equivalents</u>

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, 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, 2012, the Commonwealth paid \$16,364,752 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, 2012, or fund balances at June 30, 2012.

(R) Prior Period Adjustment

A prior period adjustment was made to the government wide statement of activities for \$3,700,000 which relates to the accrued liability for the landfill closure and post closure costs, which is required to be recorded in accordance with generally accepted accounting principles.

2. <u>Deposits and Investments</u>

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, 2012, \$17,436,030 of the City's bank balance of \$29,385,332 was uninsured and uncollateralized.

ii. Investments

a) As of June 30, 2012, the City had the following investments and maturities.

			Investment Maturities (in Years)						ars)
<u>Investment Type</u>	1	Fair Value	L	ess Than 1		<u>1-5</u>			Over 5
U.S. Treasury / Agency Securities	\$	2,729,972	\$	2,729,972	\$		-	\$	-
Mutual Funds		526,768		526,768			-		-
Corporate Bonds and Other		2,499,401		1,940,399			_		559,002
Total	\$	5,756,141	\$	5,197,139	\$		_	\$	559,002

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 it's 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, 2011, the City of Haverhill Retirement System investments that are required to be disclosed in accordance with GASB Statement No. 40, are noted below:

			Investment Maturities (in Years)					
Investment Type		Fair Value	Le	ess Than 1		<u>1-5</u>		Over 5
Debt Related Securities:								
U. S. Government Obligations	\$	2,101,991	\$	100,893	\$	943,419	\$	1,057,679
Foreign Government Obligations		6,324,935		-		1,837,034		4,487,901
Corporate Bonds		11,292,486		1,124,306		4,756,615		5,411,565
Total Debt Related Securities:		19,719,412	\$	1,225,199	\$	7,537,068	\$	10,957,145
				_				
Other Investments:								
Stocks		30,728,408						
Real Estate & Other Investments		86,279,713						
Total Other Investments		117,008,121						
Total other investments	_	117,000,121						
T . 11	Ф	126 727 522						
Total Investments	\$	136,727,533						

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	
2012	\$ 2,168,211
2011	333,727
2010	41,851

Total Real Estate Taxes \$ 2,543,789

4. Accounts Receivable (Continued)

Personal Property Taxes 2012 2011 2010 2009 2008 2007 & Prior Total Personal Property Taxes	\$ 55,018 23,802 22,241 21,453 11,222 30,707	164,444	-
Total Property Taxes Receivable			\$ 2,708,233
Tax Liens and Foreclosures			\$1,913,204
Excise Taxes Receivable:			
Motor Vehicle Excise Taxes 2012 2011 2010 2009 2008 2007 & Prior Total Motor Vehicle Excise Taxes Boat Excise Taxes 2012 2011 2010 2009 2008 2007 & Prior Total Boat Excise Taxes	\$ 703,254 165,628 85,153 63,017 59,423 506,758 2,591 2,014 1,919 1,758 1,671 7,714	1,583,232 17,667	
Farm Excise Taxes	<u>-</u>	(38)	_
Total Motor Vehicle and Other Excise Taxes			\$1,600,861
Other Accounts Receivable			\$ 168,552
User Charges - Water and Sewer			\$1,865,303

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 \$11.629,146 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 upfront 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 \$1,028,063, Due from Commonwealth of Massachusetts, includes an amount due to the City as of June 30, 2012 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. Temporary Loans

At June 30, 2012, 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.

Changes in Short Term Debt – the following is a summary of the short term debt transactions for the fiscal year ended June 30, 2012:

		Balance				Balance
]	Beginning				End
<u>Purpose</u>		of Year	<u>Issued</u>	Ī	Redeemed	of Year
Governmental Activities:						
BAN's	\$	4,574,158	\$ 4,100,687	\$	4,574,158	\$ 4,100,687
SAAN's		1,800,000	2,000,000		1,800,000	2,000,000
Total	\$	6,374,158	\$ 6,100,687	\$	6,374,158	\$ 6,100,687

6. Long Term Debt

General obligation bonds outstanding at June 30, 2012 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, 2012:

		Governmental			
	<u>Activities</u>				
Balance 7/01/2011	\$	96,252,959			
Add: New Issues		3,491,000			
Add: Refunding Issue		2,745,000			
Less: Maturities		(9,564,047)			
Less: MWPAT Revision		(556,076)			
Less: Refunded Bonds		(2,705,000)			
Balance 6/30/2012	\$	89,663,836			

(B) Summary of Debt Service Requirements to Maturity:

Governmental
<u>Activities</u>
.o1 I

	Principal Principal	<u>Interest</u>
2013	\$ 8,412,413	\$ 3,549,425
2014	8,652,068	3,153,409
2015	8,937,483	2,815,240
2016	8,817,876	2,452,992
2017	7,443,279	2,079,804
2018-2022	29,939,317	6,310,236
2023-2027	11,239,509	2,150,649
2028-2032	4,446,890	885,660
2033 and thereafter	 1,775,001	 134,625
	\$ 89,663,836	\$ 23,532,040

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	Refunding Bonds Principal		
	and Interest	and Interest		
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	\$ 14,243,769	\$ 12,365,102		

During fiscal 2012 the City issued \$2,745,000 of State Qualifying Refunding Bonds to advance refund \$2,705,000 of outstanding debt. The Principal and Interest Costs on the refunded debt and the refunding debt are detailed below:

	Re	Refunded Bonds		Refunding Bonds		
		Principal	Principal			
		and Interest	<u>aı</u>	nd Interest		
2013	\$	365,465	\$	343,229		
2014		356,030		343,725		
2015		346,085		331,900		
2016		335,885		316,600		
2017		315,640		301,500		
2018		305,228	291,550			
2019		289,680	281,100			
2020		279,000	272,100			
2021		268,083	260,100			
2022		256,920	245,575			
2023		240,640	238,525			
Total	\$	3,358,656	\$	3,225,904		

(C) Long -Term Debt Authorizations

General Obligation Bonds authorized and unissued at June 30, 2012 are summarized as follows:

Date Authorized	<u>Purpose</u>	Amount
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	1,094,012
5/2/2003	MWPAT	4,995
6/16/2003	CSO Project MWPAT	969,063
8/26/2004	2005 Departmental Equipment	142,000
5/24/2005	Sewer	321,426
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
3/23/2010	Water Meters	1,600,000
12/21/2010	Bridge Repairs	205,499
4/19/2011	South Main St. Water	349,112
10/25/2011	School Tech HS	803,000
12/10/2011	Greenleaf School Project	4,986,777
3/13/2012	Hunking Repairs	400,000
4/12/2012	Department Equipment	 1,757,000
	Total	\$ 17,309,916

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.

	Genera	Non Major General Fund Funds			<u>Total</u>
Fund Balances:					
Restricted for:					
General Government	\$	-	\$	182,480	182,480
Public Safety		-		122,973	122,973
Education		-		1,829,847	1,829,847
Public Works		-		30,610	30,610
Human Services		-		184,118	184,118
Community Development		_		83,746	83,746
Total Restricted		-		2,433,776	2,433,776
Committed to:					
General Government		-		81,691	81,691
Public Safety		-		5,363	5,363
Public Works				29,621	29,621
Total Committed		-		116,675	116,675

	Non Major					
	General Fund	<u>Funds</u>	<u>Total</u>			
Assigned to:						
Reduce the Tax Rate	1,886,864	-	1,886,864			
General Government	51,596	-	51,596			
Public Safety	421,415	-	421,415			
Education	6,181	-	6,181			
Public Works	69,628	-	69,628			
Human Services	1,114	-	1,114			
Community Development	497	-	497			
Landfill and Other	25,333	-	25,333			
Water and Sewer	509,391		509,391			
Total Assigned	2,972,019		2,972,019			
Unassigned	11,888,581	(1,015,330)	10,873,251			
Total Fund Balances	\$ 14,860,600	\$ 1,535,121	\$16,395,721			

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, 2012. The budget amounts include special City Council meeting votes applicable to June 30, 2012.

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:

	Revenues
As Reported Budget Basis	\$ 161,777,927
Adjustments:	
Sixty Day Property Tax Accrual - Net	(316,322)
Other adjustment	2,733
Teacher Retirement on Behalf Payments	16,364,752
As Reported GAAP Statement	\$ 177,829,090
	<u>Expenditures</u>
As Reported Budget Basis Adjustments:	<u>Expenditures</u> \$ 158,904,730
Adjustments:	\$ 158,904,730
Adjustments: July 1, 2011 Encumbrances	\$ 158,904,730 389,372
Adjustments: July 1, 2011 Encumbrances June 30, 2012 Encumbrances	\$ 158,904,730 389,372 (554,813)

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, 2011 was as follows:

Annual Required Contribution ("ARC") \$11,080,200

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 1,133 active employees and 1,828 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. Most City retirees contribute towards their health insurance coverage in the amount of 15%, 20%, 25% or 30% of stated premiums, depending on their date of retirement, plan selected and date of hire. The City contributes \$5.40 per month for each retiree receiving \$5,000 in basic life insurance. 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, 2012, the amount actually contributed to the plan, and the City's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$19,529,707
Interest on Net OPEB Obligation	876,829
Adjustment to Annual Required Contribution	(653,353)
Annual OPEB Cost (Expense)	19,753,183
Contributions Made	(11,131,024)
Increase in Net OPEB Obligation	8,622,159
Net OPEB Obligation (NOO)- Beginning of Year	21,920,718
Net OPEB Obligation (NOO)- End of Year	\$30,542,877
Percentage of Annual OPEB Cost Contributed	56%

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the recent years are as follows:

Fiscal Year	Annual	Actual	Percentage
Ended June 30	OPEB Cost	Contributions	Contributed
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	18,105,857	13,283,061	73%
2012	19,753,183	11,131,024	56%

Funding Status and Funding Progress. As of June 30, 2012, the most recent actuarial valuation date, no funding to the plan has been made. The Actuarial Accrued Liability (AAL) for benefits was \$323,004,713, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$323,004,713.

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 June 30, 2012, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), and an annual healthcare cost trend rate of 7.5 percent, reduced by decrements to an ultimate rate of 4.5 percent after six years. The actuarial value of assets was determined using market value. The UAAL is being amortized over a thirty year amortization period.

12. <u>Deferred Compensation Plan</u>

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, 2012 was \$18,040,310.

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 \$18,856,999 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, 2012 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, 2010. The final installment of \$65,000 was 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:

	-	Γransfers	Transfers		
		<u>In</u>		(Out)	<u>Total</u>
General	\$	12,001	\$	(851,329)	\$ (839,328)
Non-major Governmental		1,240,790		(401,462)	839,328
Total	\$	1,252,791	\$	(1,252,791)	\$ -

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, 2012 the accounting system refers to the due to/from accounts in the general ledger as "pooled cash".

16. Subsequent Events

The City has voted to adopt Chapter 44 section 53F ½, of the Massachusetts general laws, to establish enterprise funds for its Water and Sewer operations. This vote became effective for the fiscal year ended June 30, 2013 and thereafter.

17. Subsequent Year Authorization

The City has voted fiscal year 2013 budget amounts totaling \$170,646,401. Fiscal year 2013 budgetary amounts which are not reflected in the accompanying financial statements will be financed by the following sources:

Property Taxes, State Aid		
and Non-Property Tax Revenu	\$ 154,059,840	
Enterprise Fund Revenues and A	15,834,061	
Other Available Funds	_	752,500
	Total	\$ 170,646,401

18. 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 \$162,190,891 in net assets; and the assets restricted for specific purposes represent \$1,535,121 in net assets. As these two components of net assets exceed total net assets, unrestricted net assets showed a (\$61,029,065) 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.

19. <u>Capital Assets</u>

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning		Retirements	Ending
	Balance	Additions	and Adjustments	Balance
Government Activities:				
General Fund				
<u>Cost:</u>				
Buildings	\$ 117,251,723	\$ -	\$ -	\$117,251,723
Equipment	1,242,890	203,695	-	1,446,585
Improvements	4,313,351	754,335	-	5,067,686
Land	9,848,436	-	-	9,848,436
Construction Work in Process	-	1,241,393	-	1,241,393
Infrastructure	136,237,976	-	-	136,237,976
Vehicles	6,012,054	-		6,012,054
Totals - Cost	274,906,431	2,199,423		277,105,854

19. <u>Capital Assets</u>

Balance Additions midlings Balance General Fund Lesss Accumulated Depreciations: Buildings 42,998,289 2,497,423 1 45,495,711 Equipment 908,592 101,585 0 1,010,177 Improvements 2,695,373 196,394 0 2,891,676 Infrastructure 68,789,368 2,611,033 0 2,814,612 Vehicles 5,194,385 171,028 0 5,365,413 Totals- Accumulated Depreciation 120,586,007 5,578,332 0 2,3616,439 General Fund - Capital Assets, Net 1514,320,424 83,378,909 \$ 2 150,641,439 Buildings 171,720 \$ \$ 2 171,720 Equipment 24,871,614 0 \$ 2,5556,843 Improvements 319,757 3,464 0 5,506,632 Infrastructure 88,402,146 0 0 8,8402,146 Vehicles		Beginning		Retirements	Ending
General Fund Less Accumulated Depreciation: Buildings 42,998,289 2,497,423 - 45,495,711 Equipment 908,592 101,585 - 1,010,177 Improvements 2,695,373 196,394 - 2,891,767 Infrastructure 68,789,368 2,611,903 - 71,401,271 Vehicles 5,194,385 171,028 - 5,365,413 Totals- Accumulated Depreciation 120,586,007 5,578,332 - 126,164,339 General Fund - Capital Assets, Net \$ 154,320,424 \$ (3,378,909) \$ - \$150,941,515 General Fund - Water and Sewer Assets Cost: Buildings \$ 171,720 \$ - \$171,720 Equipment 24,871,614 - \$ 24,871,614 Improvements 319,757 - \$ 319,757 Construction Work in Process 5,503,379 53,464 - \$ 5,556,843 Land 1,580,632 - \$ 15,806,32 Infrastructure 88,402,146 - \$ 88,402,146 Vehicles 935,825 - \$ 935,825 Totals - Cost 121,785,0		Balance	Additions	and adjustments	Balance
Buildings	Government Activities:				
Buildings 42,998,289 2,497,423 45,495,711 Equipment 908,592 101,585 - 1,010,177 Improvements 2,695,373 196,394 - 2,891,767 Infrastructure 68,789,368 2,611,903 - 71,401,271 Vehicles 5,194,385 171,028 - 5,365,413 Totals- Accumulated Depreciation 120,586,007 5,578,332 - 126,164,339 General Fund - Capital Assets, Net \$154,320,424 \$(3,378,909) \$ - \$150,941,515 General Fund - Water and Sewer Assets Cost: *** *** *** *** *** \$150,941,515 *** *** \$150,941,515 *** *** *** \$150,941,515 *** *** *** \$150,941,515 *** *** \$150,941,515 *** *** *** \$150,941,515 *** *** *** \$150,941,515 *** *** \$150,941,515 *** *** \$150,941,515 *** *** \$150,941,515 *** *** \$171,720 ***					
Equipment 908,592 101,585 - 1,010,177 Improvements 2,695,373 196,394 - 2,891,767 Infrastructure 68,789,368 2,611,903 - 71,401,271 Vehicles 5,194,385 171,028 - 5,365,413 Totals- Accumulated Depreciation 120,586,007 5,578,332 - 126,164,339 General Fund - Capital Assets, Net \$ 154,320,424 \$ (3,378,909) \$ - \$150,941,515 General Fund - Water and Sewer Assets Cost: Buildings \$ 171,720 \$ - \$ 171,720 Equipment 24,871,614 - 24,871,614 Improvements 319,757 - 319,757 Construction Work in Process 5,503,379 53,464 - 5,556,843 Land 1,580,632 1,580,632 Infrastructure 88,402,146 88,402,146 Vehicles 935,825 935,825 Totals - Cost 121,785,074 53,464 - 121,838,538 Improvements 110,406,583 886,655 11,293,238 Improvements <td>Less Accumulated Depreciation:</td> <td></td> <td></td> <td></td> <td></td>	Less Accumulated Depreciation:				
Improvements	Buildings	42,998,289	2,497,423	-	45,495,711
Infrastructure	Equipment	908,592	101,585	-	1,010,177
Vehicles 5,194,385 171,028 - 5,365,413 Totals- Accumulated Depreciation 120,586,007 5,578,332 - 126,164,339 General Fund - Capital Assets, Net \$154,320,424 \$(3,378,909) \$ - \$150,941,515 General Fund - Water and Sewer Assets Cost: Buildings \$171,720 \$ \$ \$171,720 Equipment 24,871,614 - - 24,871,614 Improvements 319,757 - - 319,757 Construction Work in Process 5,503,379 53,464 - 5,556,843 Land 1,580,632 - - 1,580,632 Infrastructure 88,402,146 - - 88,402,146 Vehicles 935,825 - - 935,825 Totals - Cost 121,785,074 53,464 - 121,838,538 Less Accumulated Depreciation for: Buildings 116,224 4,881 - 121,105 Equipment<	Improvements	2,695,373	196,394	-	2,891,767
Totals- Accumulated Depreciation General Fund - Capital Assets, Net \$154,320,424 \$(3,378,909) \$ - \$150,941,515	Infrastructure	68,789,368	2,611,903	-	71,401,271
General Fund - Capital Assets, Net \$154,320,424 \$ (3,378,909) \$ - \$150,941,515 General Fund - Water and Sewer Assets Cost: Buildings \$171,720 \$ - \$ 171,720 Equipment \$24,871,614 - - 24,871,614 Improvements \$319,757 - - 319,757 Construction Work in Process \$5,503,379 \$53,464 - 5,556,843 Land \$1,580,632 - - \$1,580,632 Infrastructure \$8,402,146 - - \$88,402,146 Vehicles \$935,825 - - 935,825 Totals - Cost \$121,785,074 \$53,464 - \$121,838,538 Less Accumulated Depreciation for: Buildings \$116,224 \$4,881 - \$121,105 Equipment \$10,406,583 \$86,655 - \$19,957 Infrastructure \$48,149,119 \$1,622,265 - \$49,771,384 Vehicles \$902,574 \$18,514 - <t< td=""><td></td><td>5,194,385</td><td>171,028</td><td></td><td>5,365,413</td></t<>		5,194,385	171,028		5,365,413
General Fund - Water and Sewer Assets Cost: Buildings \$ 171,720 \$ - \$ 171,720 Equipment 24,871,614 - - 24,871,614 Improvements 319,757 - - 319,757 Construction Work in Process 5,503,379 53,464 - 5,556,843 Land 1,580,632 - - 1,580,632 Infrastructure 88,402,146 - - 88,402,146 Vehicles 935,825 - - 935,825 Totals - Cost 121,785,074 53,464 - 121,838,538 Less Accumulated Depreciation for: 810,402,146 - - 121,838,538 Less Accumulated Depreciation for: 81,148,514 - 121,105 - 11,293,238 Improvements 319,757 - - 319,757 - - 319,757 - - 319,757 - - 319,757 - - 319,757 - - 319,757 -<	-				
Buildings \$ 171,720 \$ \$ 24,871,614 \$ 24,871,614 Improvements \$ 319,757 \$ \$ 319,757 \$ \$ 319,757 Construction Work in Process \$ 5,503,379 \$ 53,464 \$ 5,556,843 Land \$ 1,580,632 \$ \$ \$ 15,80,632 \$ \$ \$ 15,80,632 Infrastructure \$ 88,402,146 \$ \$ \$ 935,825 \$ \$ \$ 935,825 Totals - Cost \$ 121,785,074 \$ 53,464 \$ \$ 935,825 Totals - Cost \$ 121,785,074 \$ 53,464 \$ \$ 121,838,538 Less Accumulated Depreciation for: \$ 116,224 \$ 4,881 \$ \$ 121,105 Equipment \$ 10,406,583 \$ 886,655 \$ \$ 11,293,238 Improvements \$ 319,757 \$ \$ \$ 319,757 \$ \$ \$ 319,757 Infrastructure \$ 48,149,119 \$ 1,622,265 \$ \$ 49,771,384 Vehicles \$ 902,574 \$ 18,514 \$ \$ 921,088 Totals- Accumulated Depreciation \$ 59,894,257 \$ 2,532,315 \$ \$ 62,426,571 General Fund - Water and Sewer Capital \$ 61,890,817 \$ (2,478,851) \$ 59,411,966	General Fund - Capital Assets, Net	\$ 154,320,424	\$ (3,378,909)	\$ -	\$150,941,515
Buildings \$ 171,720 \$ \$ 24,871,614 \$ 24,871,614 Improvements \$ 319,757 \$ \$ 319,757 \$ \$ 319,757 Construction Work in Process \$ 5,503,379 \$ 53,464 \$ 5,556,843 Land \$ 1,580,632 \$ \$ \$ 15,80,632 \$ \$ \$ 15,80,632 Infrastructure \$ 88,402,146 \$ \$ \$ 935,825 \$ \$ \$ 935,825 Totals - Cost \$ 121,785,074 \$ 53,464 \$ \$ 935,825 Totals - Cost \$ 121,785,074 \$ 53,464 \$ \$ 121,838,538 Less Accumulated Depreciation for: \$ 116,224 \$ 4,881 \$ \$ 121,105 Equipment \$ 10,406,583 \$ 886,655 \$ \$ 11,293,238 Improvements \$ 319,757 \$ \$ \$ 319,757 \$ \$ \$ 319,757 Infrastructure \$ 48,149,119 \$ 1,622,265 \$ \$ 49,771,384 Vehicles \$ 902,574 \$ 18,514 \$ \$ 921,088 Totals- Accumulated Depreciation \$ 59,894,257 \$ 2,532,315 \$ \$ 62,426,571 General Fund - Water and Sewer Capital \$ 61,890,817 \$ (2,478,851) \$ 59,411,966					
Buildings \$ 171,720 \$ \$ 24,871,614 \$ 24,871,614 Improvements \$ 319,757 \$ \$ 319,757 \$ \$ 319,757 Construction Work in Process \$ 5,503,379 \$ 53,464 \$ 5,556,843 Land \$ 1,580,632 \$ \$ \$ 15,80,632 \$ \$ \$ 15,80,632 Infrastructure \$ 88,402,146 \$ \$ \$ 935,825 \$ \$ \$ 935,825 Totals - Cost \$ 121,785,074 \$ 53,464 \$ \$ 935,825 Totals - Cost \$ 121,785,074 \$ 53,464 \$ \$ 121,838,538 Less Accumulated Depreciation for: \$ 116,224 \$ 4,881 \$ \$ 121,105 Equipment \$ 10,406,583 \$ 886,655 \$ \$ 11,293,238 Improvements \$ 319,757 \$ \$ \$ 319,757 \$ \$ \$ 319,757 Infrastructure \$ 48,149,119 \$ 1,622,265 \$ \$ 49,771,384 Vehicles \$ 902,574 \$ 18,514 \$ \$ 921,088 Totals- Accumulated Depreciation \$ 59,894,257 \$ 2,532,315 \$ \$ 62,426,571 General Fund - Water and Sewer Capital \$ 61,890,817 \$ (2,478,851) \$ 59,411,966	General Fund - Water and Sewer Assets				
Buildings \$ 171,720 \$ - \$ 171,720 Equipment 24,871,614 - 24,871,614 Improvements 319,757 - - 319,757 Construction Work in Process 5,503,379 53,464 - 5,556,843 Land 1,580,632 - - 1,580,632 Infrastructure 88,402,146 - - 88,402,146 Vehicles 935,825 - - 935,825 Totals - Cost 121,785,074 53,464 - 121,383,538 Less Accumulated Depreciation for: Buildings 116,224 4,881 - 121,105 Equipment 10,406,583 886,655 - 11,293,238 Improvements 319,757 - - 319,757 Infrastructure 48,149,119 1,622,265 - 49,771,384 Vehicles 902,574 18,514 - 921,088 Totals- Accumulated Depreciation 59,894,257 2,532,315 - 62,426,571 General Fund - Water and Sewer Capital <td< td=""><td></td><td></td><td></td><td></td><td></td></td<>					
Improvements 319,757 - 319,757 Construction Work in Process 5,503,379 53,464 - 5,556,843 Land 1,580,632 - - 1,580,632 Infrastructure 88,402,146 - - 88,402,146 Vehicles 935,825 - - 935,825 Totals - Cost 121,785,074 53,464 - 121,838,538 Less Accumulated Depreciation for: 88,402,146 - 121,838,538 Improvements 319,757 - - 319,757 Infrastructure 48,149,119 1,622,265 - 49,771,384 Vehicles 902,574 18,514 - 921,088 Totals- Accumulate		\$ 171,720	\$ -	\$ -	\$ 171,720
Construction Work in Process 5,503,379 53,464 - 5,556,843 Land 1,580,632 - - 1,580,632 Infrastructure 88,402,146 - - 88,402,146 Vehicles 935,825 - - 935,825 Totals - Cost 121,785,074 53,464 - 121,838,538 Less Accumulated Depreciation for: Buildings 116,224 4,881 - 121,105 Equipment 10,406,583 886,655 - 11,293,238 Improvements 319,757 - - 319,757 Infrastructure 48,149,119 1,622,265 - 49,771,384 Vehicles 902,574 18,514 - 921,088 Totals- Accumulated Depreciation 59,894,257 2,532,315 - 62,426,571 General Fund - Water and Sewer Capital Assets, Net 61,890,817 (2,478,851) - 59,411,966	Equipment	24,871,614	-	-	24,871,614
Construction Work in Process 5,503,379 53,464 - 5,556,843 Land 1,580,632 - - 1,580,632 Infrastructure 88,402,146 - - 88,402,146 Vehicles 935,825 - - 935,825 Totals - Cost 121,785,074 53,464 - 121,838,538 Less Accumulated Depreciation for: Buildings 116,224 4,881 - 121,105 Equipment 10,406,583 886,655 - 11,293,238 Improvements 319,757 - - 319,757 Infrastructure 48,149,119 1,622,265 - 49,771,384 Vehicles 902,574 18,514 - 921,088 Totals- Accumulated Depreciation 59,894,257 2,532,315 - 62,426,571 General Fund - Water and Sewer Capital Assets, Net 61,890,817 (2,478,851) - 59,411,966	Improvements	319,757	-	-	319,757
Land 1,580,632 - - 1,580,632 Infrastructure 88,402,146 - - 88,402,146 Vehicles 935,825 - - 935,825 Totals - Cost 121,785,074 53,464 - 121,838,538 Less Accumulated Depreciation for: Buildings 116,224 4,881 - 121,105 Equipment 10,406,583 886,655 - 11,293,238 Improvements 319,757 - - 319,757 Infrastructure 48,149,119 1,622,265 - 49,771,384 Vehicles 902,574 18,514 - 921,088 Totals- Accumulated Depreciation 59,894,257 2,532,315 - 62,426,571 General Fund - Water and Sewer Capital Assets, Net 61,890,817 (2,478,851) - 59,411,966	•		53,464	-	
Infrastructure 88,402,146 - - 88,402,146 Vehicles 935,825 - - 935,825 Totals - Cost 121,785,074 53,464 - 121,838,538 Less Accumulated Depreciation for: Buildings 116,224 4,881 - 121,105 Equipment 10,406,583 886,655 - 11,293,238 Improvements 319,757 - - 319,757 Infrastructure 48,149,119 1,622,265 - 49,771,384 Vehicles 902,574 18,514 - 921,088 Totals- Accumulated Depreciation 59,894,257 2,532,315 - 62,426,571 General Fund - Water and Sewer Capital 61,890,817 (2,478,851) - 59,411,966			-	-	
Vehicles 935,825 - - 935,825 Totals - Cost 121,785,074 53,464 - 121,838,538 Less Accumulated Depreciation for: Buildings 116,224 4,881 - 121,105 Equipment 10,406,583 886,655 - 11,293,238 Improvements 319,757 - - 319,757 Infrastructure 48,149,119 1,622,265 - 49,771,384 Vehicles 902,574 18,514 - 921,088 Totals- Accumulated Depreciation 59,894,257 2,532,315 - 62,426,571 General Fund - Water and Sewer Capital Assets, Net 61,890,817 (2,478,851) - 59,411,966	Infrastructure		_	-	
Less Accumulated Depreciation for: 116,224 4,881 - 121,838,538 Buildings 116,224 4,881 - 121,105 Equipment 10,406,583 886,655 - 11,293,238 Improvements 319,757 319,757 Infrastructure 48,149,119 1,622,265 - 49,771,384 Vehicles 902,574 18,514 - 921,088 Totals- Accumulated Depreciation 59,894,257 2,532,315 - 62,426,571 General Fund - Water and Sewer Capital 61,890,817 (2,478,851) - 59,411,966			_	-	
Buildings 116,224 4,881 - 121,105 Equipment 10,406,583 886,655 - 11,293,238 Improvements 319,757 - - 319,757 Infrastructure 48,149,119 1,622,265 - 49,771,384 Vehicles 902,574 18,514 - 921,088 Totals- Accumulated Depreciation 59,894,257 2,532,315 - 62,426,571 General Fund - Water and Sewer Capital Assets, Net 61,890,817 (2,478,851) - 59,411,966	Totals - Cost		53,464	-	
Buildings 116,224 4,881 - 121,105 Equipment 10,406,583 886,655 - 11,293,238 Improvements 319,757 - - 319,757 Infrastructure 48,149,119 1,622,265 - 49,771,384 Vehicles 902,574 18,514 - 921,088 Totals- Accumulated Depreciation 59,894,257 2,532,315 - 62,426,571 General Fund - Water and Sewer Capital Assets, Net 61,890,817 (2,478,851) - 59,411,966					
Buildings 116,224 4,881 - 121,105 Equipment 10,406,583 886,655 - 11,293,238 Improvements 319,757 - - 319,757 Infrastructure 48,149,119 1,622,265 - 49,771,384 Vehicles 902,574 18,514 - 921,088 Totals- Accumulated Depreciation 59,894,257 2,532,315 - 62,426,571 General Fund - Water and Sewer Capital Assets, Net 61,890,817 (2,478,851) - 59,411,966	Less Accumulated Depreciation for:				
Equipment 10,406,583 886,655 - 11,293,238 Improvements 319,757 - 319,757 Infrastructure 48,149,119 1,622,265 - 49,771,384 Vehicles 902,574 18,514 - 921,088 Totals- Accumulated Depreciation 59,894,257 2,532,315 - 62,426,571 General Fund - Water and Sewer Capital Assets, Net 61,890,817 (2,478,851) - 59,411,966		116,224	4,881	-	121,105
Infrastructure 48,149,119 1,622,265 - 49,771,384 Vehicles 902,574 18,514 - 921,088 Totals- Accumulated Depreciation 59,894,257 2,532,315 - 62,426,571 General Fund - Water and Sewer Capital Assets, Net 61,890,817 (2,478,851) - 59,411,966	Equipment	10,406,583	886,655	-	11,293,238
Vehicles 902,574 18,514 - 921,088 Totals- Accumulated Depreciation 59,894,257 2,532,315 - 62,426,571 General Fund - Water and Sewer Capital Assets, Net 61,890,817 (2,478,851) - 59,411,966	Improvements	319,757	_	-	319,757
Totals- Accumulated Depreciation 59,894,257 2,532,315 - 62,426,571 General Fund - Water and Sewer Capital Assets, Net 61,890,817 (2,478,851) - 59,411,966	Infrastructure	48,149,119	1,622,265	-	49,771,384
General Fund - Water and Sewer Capital Assets, Net 61,890,817 (2,478,851) - 59,411,966	Vehicles	902,574	18,514	-	921,088
Assets, Net 61,890,817 (2,478,851) - 59,411,966	Totals- Accumulated Depreciation	59,894,257	2,532,315	-	62,426,571
Assets, Net 61,890,817 (2,478,851) - 59,411,966	•				
	General Fund - Water and Sewer Capital				
Total General Fund Capital Assets, Net \$216,211,241 \$ (5,857,760) \$ - \$210,353,481	Assets, Net	61,890,817	(2,478,851)		59,411,966
	Total General Fund Capital Assets, Net	\$ 216,211,241	\$ (5,857,760)	\$ -	\$210,353,481

REQUIRED SUPPLEMENTARY INFORMATION

City of Haverhill, Massachusetts Statement of Revenues and Expenditures - Budget and Actual General Fund (Budgetary Basis) Fiscal Year Ended June 30, 2012

Variance with

					Final Budget		
	Budgetee	d Amo	ounts	Actual	Positive		
	Original		Final	Amounts	((Negative)	
Revenues	<u></u>				-		
Real Estate and Personal Property Taxes - Net	\$ 83,140,619	\$	83,140,619	\$ 82,952,717	\$	(187,902)	
Excises	5,789,700		5,789,700	6,116,627		326,927	
Fees, Departmental and Charges for Services	3,545,052		3,545,052	3,648,521		103,469	
Intergovernmental	51,085,711		51,085,711	51,072,519		(13,192)	
Earnings on Investments	135,000		135,000	97,073		(37,927)	
Other Taxes, Assessments and In Lieu Payments	1,990,000		1,990,000	2,137,209		147,209	
Water and Sewer	14,286,340		14,286,340	14,273,238		(13,102)	
Other Revenue	 801,064		801,064	 1,480,023		678,959	
Total Revenues	 160,773,486		160,773,486	 161,777,927		1,004,441	
Expenditures							
General Government	2,437,784		2,681,473	2,648,300		33,173	
Public Safety	16,998,769		18,989,162	18,820,805		168,357	
Education	63,090,568		63,172,407	63,172,430		(23)	
Public Works	6,084,662		6,580,930	6,558,068		22,862	
Human Services	2,415,554		2,355,549	2,324,849		30,700	
Community and Economic Development	1,251,037		1,271,219	1,269,940		1,279	
Debt Service	10,724,627		10,529,843	9,989,134		540,709	
Intergovernmental	5,087,159		5,239,888	5,117,944		121,944	
Health Insurance and Other Employee Benefits	21,069,410		21,860,415	21,760,925		99,490	
Pension Benefits	11,177,545		11,177,545	11,177,543		2	
Other Expenditures	3,624,167		3,141,237	2,870,191		271,046	
Water and Sewer	 14,832,210		14,832,210	 13,194,601		1,637,609	
Total Expenditures	 158,793,492		161,831,878	158,904,730		2,927,148	
Excess of Revenues Over (Under) Expenditures	 1,979,994		(1,058,392)	 2,873,197		3,931,589	
Other Financing Sources (Uses):							
Other Available Funds	-		3,227,930	3,227,930		-	
Other Amounts to Be Raised	(500,000)		(1,220,016)	(1,220,017)		-	
Operating Transfers In	(558,968)		1,203,634	1,212,000		8,366	
Operating Transfers Out	 (921,026)		(2,153,156)	(2,046,393)		106,763	
Total Other Financing Sources (Uses)	 (1,979,994)		1,058,392	1,173,520		115,129	
Excess Revenue and Other Sources Over (Under)							
Expenditures and Other Uses	\$ 	\$	-	\$ 4,046,717	\$	4,046,718	

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, 2011

					Unfun Actua					
Actuarial		Actuarial		Actuarial	Accru	ıed				UAAL as a
Valuation		Value		Accrued	Liabil	lity	Funded		Covered	Percentage of
<u>Date</u>		of Assets	Lia	ability("AAL")	<u>("UAA</u>	<u>(L")</u>	<u>Ratio</u>		<u>Payroll</u>	Covered Payroll
January 1, 2010	\$	146,003,639	\$	284,159,660	\$ 138,15	56 021	51.4%	\$	35,788,543	386.0%
January 1, 2009	φ	144,291,740	φ	282,521,561	. ,	29,821	51.4%	φ	38,301,434	360.9%
January 1, 2008		167,717,317		271,423,257	,)5,940	61.8%		37,172,147	279.0%
January 1, 2007		160,749,194		262,172,666	101,42	23,472	61.3%		36,870,523	275.1%
January 1, 2006		155,995,609		256,457,734	100,46	52,125	60.8%		35,282,797	284.7%
January 1, 2005		152,334,152		247,959,579	95,62	25,427	61.4%		33,472,330	285.7%

City of Haverhill Retirement System (A Component Unit of the City of Haverhill, Massachusetts) Required Supplementary Information Schedule of Employer Contributions (Includes Expense Appropriations)

	Annual	
Year Ended	Required	Percentage
December 31	Contribution	Contributed
2011	\$ 11,802,475	100%
2010	11,080,200	100%
2009	10,621,368	100%
2008	10,540,861	100%
2007	9,696,127	100%
2006	8,808,425	100%
2005	7,676,608	100%
2004	7,154,297	100%

City of Haverhill, Massachusetts Required Supplementary Information - GASB 43 and 45 Schedule of Funding Progress Fiscal Year Ended June 30, 2012

						UAAL as a
	Actuarial	Actuarial	Unfunded			Percentage of
Actuarial	Value	Accrued Liability	AAL	Funded	Covered	Covered
Valuation	of Assets	(AAL)	(UAAL)	Ratio	Payroll	Payroll
<u>Date</u>	<u>(a)</u>	<u>(b)</u>	<u>(b) - (a)</u>	<u>(a) / (b)</u>	<u>(c)</u>	[(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%
06/30/2012	0	323,004,713	323,004,713	0%	80,000,000	404%

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

Valuation Details

Fiscal Year Ended June 30, 2012

Valuation Date	June 30, 2012
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Payments increasing at 3%
Remaining Amortization Period	30 years open
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	4.0%, pay-as-you-go scenario
Inflation Rate	3.0 %
Medical/Drug Cost Trend Rate	7.5 decreasing by .5% per year for six years to an ultimate level of 4.5 % per year
Plan Membership:	
Current retirees, beneficiaries, and dependents	1,828
Current active members	<u>1,133</u>
Total	<u>2,961</u>

City of Haverhill, Massachusetts Notes to the Required Supplementary Information June 30, 2012

A. Budgetary Information

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.

B. Pension Plans

1. 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") \$10,621,368

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.

2. 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.

3. 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

C. Other Post Employment Benefits (OPEB)

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 1,133 active employees and 1,828 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-asyou-go basis. The contribution requirements of plan members and the City are established and may be amended from time to time.

City of Haverhill, Massachusetts Schedule of Indebtedness June 30, 2012

(Continued on Page 55)

	((continued on	1 age 33)			
<u>Description</u>		Original <u>Balance</u>	Interest Rate %	Fiscal Year of <u>Issue</u>	Fiscal Year of <u>Maturity</u>	Outstanding Balance 6/30/2012
Hospital Deficit Funding Bonds	\$	15,000,000	4.00	2001	2021	\$ 8,200,000
Hospital Deficit Funding Bonds		5,000,000	4.00	2001	2021	2,485,000
Sludge Dewatering		3,018,888	4.70	2002	2015	855,323
Sludge Dewatering		121,428	4.00	2002	2017	44,075
Title V Septic Loan		143,100	0.00	2002	2020	60,061
Hospital Deficit Funding Bonds		5,000,000	4.00	2002	2022	2,985,000
Hospital Deficit Funding Bonds		4,403,000	4.00	2003	2022	2,835,000
Hospital Deficit Funding Bonds		597,000	4.00	2003	2023	385,000
Hospital Deficit Deferral		-	-	-	-	2,967,500
MWPAT		428,719	variable	2003	2023	291,704
MWPAT		78,696	variable	2004	2023	49,919
MWPAT		1,186,121	variable	2004	2023	812,288
Combined Sewer Overflow		333,281	5.60	2005	2019	176,400
Combined Sewer Overflow		416,108	5.20	2005	2021	255,000
School Construction		111,050	5.28	2006	2013	14,600
School Planning		401,825	5.20	2006	2015	146,825
School Land Acquisition		179,980	5.30	2006	2016	78,080
School Construction		15,830,330	5.30	2006	2017	8,172,580
Fire Station Remodeling		190,900	5.21	2006	2017	88,400
Construction-Police Station		1,004,050	5.23	2006	2017	488,200
Construction-Library		603,000	5.23	2006	2017	295,500
Sewer		80,495	5.15	2006	2017	29,195
Drainage		276,550	5.20	2006	2017	122,600
Sludge Composting		50,233	5.23	2006	2017	24,620
Water Pumping Station		75,700	5.12	2006	2017	24,400
School Roof Remodeling		824,640	4.96	2007	2018	530,000
School Bonds		10,535,860	4.96	2007	2019	7,605,000
Water Bonds		3,012,500	4.96	2007	2019	2,175,000
MWPAT		81,806	4.43	2007	2024	59,841
MWPAT		360,078	4.43	2007	2023	275,948
MWPAT		623,608	Variable	2007	2025	483,486
MWPAT		11,463,447	Variable	2007	2034	9,737,459
Parking Deck 1		161,115	4.00	2007	2017	75,000
Parking Deck 2		240,885	4.00	2007	2017	115,000
MWPAT		1,500,000	Variable	2007	2027	1,125,000
Whittier School Roof		710,000	4.00	2007	2017	350,000

City of Haverhill, Massachusetts Schedule of Indebtedness June 30, 2012

(Continued on Page 56)

<u>Description</u>	Original <u>Balance</u>	Interest Rate %	Fiscal Year of <u>Issue</u>	Fiscal Year of <u>Maturity</u>	Outstanding Balance 6/30/2012
Greenleaf School Boiler	53,000	4.00	2007	2017	25,000
MWPAT	4,730,937	2.00	2007	2027	3,725,629
MWPAT	2,150,381	2.00	2008	2028	1,788,884
MWPAT	269,626	Variable	2010	2027	224,688
MWPAT	191,047	2.00	2010	2024	157,280
MWPAT	1,049,821	2.00	2010	2028	950,950
High St Fire Station	28,000	3.50%	2010	2024	24,000
Fire Truck	830,000	2.80%	2010	2019	644,000
Ladder Truck	138,000	3.40%	2010	2025	115,000
Rink boards	91,000	2.80%	2010	2020	70,000
School Remodeling I	640,000	3.60%	2010	2026	560,000
School Text Books	327,675	1.40%	2010	2013	109,000
School Remodeling II	2,580,000	3.60%	2010	2026	2,256,000
School Remodeling III	3,650,000	3.60%	2010	2026	3,192,000
School Remodeling IV	500,000	3.80%	2010	2028	444,000
School Remodeling V	1,473,000	3.80%	2010	2029	1,317,000
Water	245,264	2.00	2010	2015	147,000
Sewer	187,800	3.90	2010	2029	166,000
Willow Ave Drainage	97,261	3.50	2010	2029	81,000
Hospital Restructure	9,680,000	5.94	2011	2022	9,680,000
MWPAT CW-06-38 Landfill	575,500	2.00	2011	2031	551,862
MWPAT CW-08-28 Landfill	743,851	2.00	2011	2031	713,298
MWPAT CW-05-17	978,574	2.00	2011	2031	938,380
School Remodeling	153,000	4.03	2012	2023	168,000
School Equipment	203,100	4.04	2012	2023	223,100
Fire Dept Equipment	102,000	4.03	2012	2023	112,000
Hospital Equipment	304,600	4.33	2012	2023	334,600
Sewer Tank	299,300	4.03	2012	2023	329,300
Sewer Boiler	101,600	4.04	2012	2023	111,600
Sewer Pipes	117,200	3.93	2012	2023	132,200
Sewer Planning	726,200	4.02	2012	2023	801,200
Water Pump Treatment	483,000	4.02	2012	2023	533,000
MWPAT CW-09-05	1,127,862	2.00	2012	2031	1,127,862

City of Haverhill, Massachusetts Schedule of Indebtedness June 30, 2012

(Continued from Page 55)

<u>Description</u>	Original <u>Balance</u>	Interest Rate %	Fiscal Year of <u>Issue</u>	Fiscal Year of <u>Maturity</u>	Outstanding Balance 6/30/2012
School 1 (ISQ)	387,705	3.00	2012	2032	387,705
School 2 (ISQ)	112,295	3.00	2012	2032	112,295
School 3 (ISQ)	1,500,000	3.00	2012	2032	1,500,000
Water 1 (O)	735,000	2.00	2012	2021	735,000
Water 2 (O)	756,000	2.00	2012	2020	756,000
GRAND TOTAL	\$ 122,363,992				\$ 89,663,837

City of Haverhill, Massachusetts SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2012 (Continued on Page 58)

	Federal CFDA <u>Number</u>	Expenditures
U.S. Department of Agriculture:		
Child Nutrition Cluster:	10.553	229 209
School Breakfast Program National School Lunch Program	10.555	338,208 1,416,674
Total Child Nutrition Cluster and U.S. Department of Agriculture		1,754,882
U.S. Department of Housing and Urban Development: CDBG - Entitlement Grant Cluster:		
Community Development Block Grant	14.218	1,305,353
ARRA -Community Development Block Grant	14.253	1,538
Total CDBG - Entitlement Grant Cluster		1,306,891
Home Investment Partnership Program	14.239	96,010
ARRA-Community Development Block Grant-Neighborhood		
Stabilization Plan	14.256	173,887
Total Department of Housing and Urban Development		1,576,788
U.S. Department of Environmental Protection Agency:		
Capitalization Grants for Clean Water State Revolving Fund	66.458	999,043
ARRA-Brownfields Grant	66.818	47,221
Total U.S. Department of Environmental Protection		1,046,264
U.S. Department of Energy:		
ARRA-Energy Efficiency Recovery Block Grant	81.128	171,211
Total U.S. Department of Energy		171,211
U.S. Department of Education:		
Title I, Part A Cluster:	04.010	1.704.212
Title I	84.010	1,704,312
ARRA-Title I Total Title I, Part A Cluster	84.389	97,740 1,802,052
Special Education Chatar (IDEA):		
Special Education Cluster (IDEA): SPED 94-142 Allocation	84.027	2,165,371
SPED - Preschool/Early Childhood	84.173	43,448
Total Special Education Cluster		2,208,819

City of Haverhill, Massachusetts SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS For the Year Ended June 30, 2012 (Continued from Page 57)

	Federal CFDA <u>Number</u>	Expenditures
Education Technology Cluster		
Enhanced Ed. Through Tech.	84.318	62,011
ARRA-Title II D Enhanced Education	84.386	17,783
Total Education Technology Cluster		79,794
Drug Free Schools	84.186	1,200
Small Learning Communities	84.215L	274,954
21st Century Community Learning	84.287	700,382
Dropout Prevention and Intervention	84.360	778,536
LEP Support	84.365	121,112
Teacher Quality	84.367	328,103
Inclusive School Planning	84.395	5,280
ARRA-Race to the Top	84.395	185,234
ARRA-SFSF Education State Grants	84.397A	26,929
ARRA-Ed Jobs	84.410	1,114,801
Total U.S. Department of Education		7,627,196
U.S. Department of Health and Human Services		
Emergency Management Grant	93.008	3,445
Total U.S. Department of Health and Human Service		3,445
U.S. Department of Homeland Security		
Assistance to Firefighters	97.044	278,737
Citizen Corps	97.053	494
Total U.S. Department of Homeland Security		279,231
Total Schedule of Expenditures of Federal Awards		\$ 12,459,017

City of Haverhill, Massachusetts Notes to Schedule of Expenditures of Federal Awards June 30, 2012

(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) <u>Summary of Significant Accounting Policies</u>

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 basic financial statements of the City of Haverhill, Massachusetts, as of and for the year ended June 30, 2012, and have issued our report thereon dated March 25, 2013. We conducted our audit in accordance with accounting 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, Massachusetts 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, Massachusetts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Haverhill, Massachusetts' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting (2012-1).

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider item 2012-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Haverhill, Massachusetts' financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulation, 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*.

We noted certain other matters that we reported to management of the City of Haverhill, in a separate letter dated May 9, 2013.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, 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 25, 2013

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, 2012. 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 2012-2 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, Title 1 (#84.010) (cluster #84.389) grant. 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, 2012.

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 deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as Item 2012-2 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 25, 2013

City of Haverhill, Massachusetts Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012 (Continued on Page 65)

I <u>Summary of Auditors' Results</u>

- 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 2012-1).
- 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:

Funding Source	CFDA#
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 Environmental Protection Agency	66.458
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	84.287
U.S. Department of Education	84.360
U.S. Department of Education	84.389
U.S. Department of Education	84.410

- 8. The dollar threshold used to distinguish between Type A and Type B programs was \$375,144.
- 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, 2012 (Continued on Page 66)

II Findings – Financial Statement Audit

2012-1

Cash Reconciliation

During the fiscal year ended June 30, 2012, the City made significant progress in preparing accurate outstanding check lists for the City vendor and payroll accounts and the School payroll account. Preparing these outstanding lists is an extremely important part of the cash reconciliation process. While performing these tasks, good progress has been made cleaning up the outstanding lists for items such as void checks, reissued checks, etc., and in going through the proper procedures to put the older checks into tailings. In order to be able to perform the entire cash reconciliation process in a timely manner, it is extremely important that this work continue every month.

As we have noted in the past, our biggest concern continues to be the timeliness of preparing the cash reconciliation work for a few significant accounts. Most bank accounts were reconciled in a timely manner each month, during the fiscal year ended June 30, 2012, however a few accounts were not reconciled timely.

Mandatory Direct Deposit of Payroll Checks

One significant item that continues to slow 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. As we noted in our prior audit report, a significant amount of time can be saved by requiring all employees to have their payroll checks directly deposited. If this change is implemented, the entire cash reconciliation process would be performed more efficiently and timely, which would in turn allow other reconciliations issues to be reviewed and corrected more timely. We recommend that the City implement mandatory direct deposit for all payroll checks.

Correct All Reconciling Items

In order for a proper and timely reconciliation of cash to happen, there are a number of reconciliation items that appear on some of the bank account monthly reconciliation worksheets that need to be reviewed and taken care of. One of the reconciliation issues relates to certain bank accounts that have transfers that have been made from one bank to another, that have been properly recorded at the bank, however they have not been recorded in the general ledger accounting system, or transfers properly recorded in the general ledger, but not recorded in the bank. These reconciling items have been identified on the monthly reconciliation sheets, but have not yet been corrected. Some of these items are being carried forward from month to month, which slows down the entire reconciliation process every month.

One specific example of this relates to the TC-Receipts depository account. During our review, 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 reconciliation worksheets every month, for both bank accounts, which slows down the entire 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.

City of Haverhill, Massachusetts Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012 (Continued on Page 67)

Another reconciling item that appears on a certain bank account reconciliation sheet, relates to several months of deposits that were made in the bank, but not recorded in the general ledger. These items are recorded on the reconciliation worksheets month after month, slowing down the process each month. These and other reconciling items should be investigated and corrected to make the monthly process more efficient.

Correct and Use Bank Prepared Outstanding Check Lists

As we noted above, a lot of progress has been made reviewing and updating the outstanding check lists. This area is a critical part of the monthly reconciliation work. A large number of the outstanding checks shown on the outstanding lists were very old. 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 very important additional step that should be taken, relating to the outstanding check lists for the vendor and payroll accounts, which will make the entire process much more efficient, 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. Once the outstanding list prepared by the bank is accurate, it can be used by the Treasurer's office when reconciling cash. This change will make the entire process more efficient. We the recommend that the bank outstanding check lists be reviewed and corrected at the bank, and used by the Treasurer's office when doing the monthly reconciliations.

Tailings (Unclaimed Checks)

As we noted above, significant progress has been made reviewing the outstanding check lists and going through the process of putting older checks into tailings. We recommend that this effort continue. We have noted below the standard procedures that should be followed.

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 Tailings (unclaimed checks) liability account.
- 3. After a check has been in the Tailings (unclaimed checks) account for two years (outstanding for three years), the abandoned property process should begin.
- 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).

City of Haverhill, Massachusetts Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012 (Continued on Page 68)

- 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

Cash Reconciliation

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 implementation of the above procedures are subject to the limits of the current minimal office staffing levels.

Mandatory Direct Deposit of Payroll Checks

Action Taken:

It is the City's belief that this action would require union approval and the city and unions are currently in negotiations for new contracts, but this is not on the list of issues.

Correct All Reconciling Items

Action Taken:

Accounting department is listing items on the reconciliation worksheet and procedures are being worked out to have the accounting supervisor review the items and work with the Treasurer's office to correct all items. This process will continue forward as current manpower levels allow.

Tailings (Unclaimed Checks)

Action Taken:

As staffing levels allow the Treasurer's office has taken the initial steps to clean up the tailing account and will keep the process moving forward.

City of Haverhill, Massachusetts Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012 (Continued on Page 69)

III Findings and Questioned Costs for Federal Awards

Finding Number

2012-2

Program

U.S. Department of Education – Title 1 (#84.010) (Cluster #84.389)

Payroll Certifications and Supporting Documentation

During the fiscal year ended June 30, 2012, significant improvements were made, by the School Department, relating to the required payroll certifications and time and effort documentation, as compared to the prior year. However, during our review, we found that a few employees working under the Title I program prepared semi-annual, time and effort payroll certification documentation, but should have prepared monthly documentation.

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 firsthand 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.
 - 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.

City of Haverhill, Massachusetts Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012 (Continued on Page 70)

Finding Number

2012-2 (Continued)

U.S. Department of Education – Title 1 (#84.010) (Cluster #84.389)

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.

Finding Number

2012-3

Department: Community Development (CDBG)

For the fiscal year ended June 30, 2012, we performed an audit of the City of Haverhill's Community Development Department in accordance with the Single Audit Act and the OMB Circular A-133 requirements. One of our required audit procedures is to determine if the Federal Department of Housing and Urban Development (HUD) or State Office of Housing and Community Development (DHCD) has performed a Program Monitoring of the City's Community Development program during the period we are reviewing.

During our review, we found that a monitoring of the City's Community Development Program had been performed in late June, 2012 by HUD's Massachusetts Division's Office of Community Planning and Development (CPD). As a result of the monitoring conducted by CPD, a report was prepared that lists several findings that require corrective action. The report sent to the City of Haverhill is dated October 11, 2012.

The monitoring report includes a very detailed list of the matters identified and the steps that should be taken to correct the problems. During our audit, we carefully reviewed the CPD report and the findings. A brief summary of the findings identified in the report is noted below:

- Housing Rehabilitation Program there is inadequate documentation relating to Initial inspections, work write-ups, cost estimates, contractor payment process, rehabilitation standards, written policies and procedures and related matters. The finding relating to the Rehab Program is multi-faceted, and is the most serious in the CPD report. It requires a significant effort on the part of the City Community Development Department in order to be corrected and to be in compliance.
- Subrecipient Monitoring There are no written policies and procedures for review of and receipt of subrecipient audit reports, which are regularly obtained every year for those non-profits receiving funding through the Public Services portion of the Community Development Block Grant, which is capped at 15% of the overall CDBG grant.

City of Haverhill, Massachusetts Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012 (Continued on Page 71)

- Incorrect recordings in the IDIS system, mainly for addresses served through the Rebuilding Together Day activity, which is a subrecipient of CDBG funds.
- Non-compliance with the Lead Safe Rule for the Housing Rehabilitation Program. The program was following State rules on Lead assessment and removal as opposed to Federal rules.
- Lack of documentation relating to Low-Moderate Service Areas, primarily additional Census and Geographic Information System GIS maps
- Ineligible use of funds for the Tree Planting (Downtown hanging flower basket activity)

As a result of the Monitoring letter prepared by CPD, the City of Haverhill Community Development Department worked diligently on creating policies and procedures to correct the problems noted in the CPD report. The new policies and procedures were developed with the assistance of, and recommendations made by CPD. We reviewed the new written policies and procedures, forms, checklists and other related documentation prepared by the City Community Development department and found it to be very detailed and comprehensive.

The City submitted the new written Policies and Procedures forms, checklists and related documentation to the CPD. HUD officials (CPD) in turn reviewed the City's documentation and sent a letter on February 15, 2013 to the City that discussed the status of the original findings. The CPD letter specifically referenced each finding in the Monitoring report, and stated that the City has done a good job in developing policies and procedures and related documentation to correct the identified problems. The CPD letter states that some of the findings have been corrected and are considered closed. However, some of the findings still require additional documentation to be forwarded to CPD in order to have the findings fully closed.

We recommend that the City Community Development Department continue in its efforts to implement all of the changes recommended by CPD, and to continue to work diligently towards implementing the new policies and procedures it has developed.

Corrective Action Plan

The Community Development Department has essentially managed to close out all of the findings associated with the June 2012 HUD CPD monitoring.

It should be noted that the monitoring of the Rehab program, the largest single program operated through CDBG, was actually requested by City CDBG staff in response to recent concerns as well as staff turnover and transition due to retirement.

The Corrective Action Plan includes the following elements:

For the Rehab program:

- New Housing Rehabilitation Procedural Checklist
- New 'Notice to Proceed' Documents
- Updated Certificate of Final Inspection
- Sign-off by City Building Inspector
- Revised Summary of Bids/ Owner Bid Acceptance form with multiple signatories
- New HUD Rehabilitation Tracking sheet
- Updated Program Manual

City of Haverhill, Massachusetts Schedule of Findings and Questioned Costs For the Year Ended June 30, 2012 (Continued from Page 70)

- More documentable cost estimates
- Inspection and Payment Request/Release Form
- Expanded Contractor Outreach
- New Dispute Resolution policy for homeowners
- Newly-Created comprehensive program Loan Receivable Schedule
- New Excluded Parties List System

For other findings:

- An outside auditing firm (Giusti and Hingston) was hired under contract to review the filed financial audits of all subrecipients receiving CDBG funds;
- Addresses of housing sites rehabbed through CDBG-funded Rebuilding Together volunteer efforts were added to the IDIS system;
- Homeowners who participated in the CDBG-funded Housing Rehabilitation and Code Correction program (formerly known as the Home Improvement Program) over the past three years were contacted to see if they were interested in free lead assessment audits of their home, which were mistakenly omitted from previous publicly-funded rehab efforts. 6 of 20 homeowners indicated that they were interested in the program, and these homeowners had lead assessments conducted by a certified lead inspector. Follow-up lead abatement and removal efforts are ongoing at 4 of these properties in which lead risks were detected. These efforts will satisfy compliance with HUD's Interim Controls measures, which was the finding noted;
- Additional maps and demographic data were added for Maps, Blocks and Lots for projects funded through CDBG as Public Improvements to Low-Moderate Income areas (LMAs).
- \$14,950 was paid back for previous ineligible activity relating to hanging flower baskets in the downtown, which are not considered permanent infrastructure. This closed this finding immediately upon receipt.

HUD's CPD office has accepted this Corrective Action Plan and commended the City of its proactive involvement with this process, which is designed to stretch the efficacy and efficiency of dwindling federal CDBG awards.

City of Haverhill, Massachusetts Summary of Prior Years Findings and Questioned Costs For the Year Ended June 30, 2012

Prior Year Fiscal Year Ended June 30, 2011

Finding Number

Current Status

2011-1

Cash Reconciliation

Please see the fiscal year ended June 30, 2012, Schedule of Findings and Questioned Costs, Item #2012-1.

Department

2011-2

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)

Payroll Certification and Supporting Documentation

Please see the fiscal year ended June 30, 2012, Schedule of Findings and Questioned Costs, Item #2012-2.