

CITY OF HAVERHILL, MASSACHUSETTS

Financial Statements

June 30, 2006

(With Accountants' Report Thereon)

Giusti, Hingston and Company

Certified Public Accountants

36 Jackman St., Unit 1 * Georgetown, MA 01833 * (Tel) 978-352-7470

City of Haverhill, Massachusetts
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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, 2006, (December 31, 2005 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, 2006 (and the Contributory Retirement System as of December 31, 2005) 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 June 15, 2007 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. 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.

The Management's Discussion and Analysis and the other required supplementary information are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City of Haverhill taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non - Profit Organizations*, is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing

procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated, in all material aspects, in relation to the basic financial statements taken as a whole. In addition, the other supplemental schedules listed in the table of contents are presented for purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the examination of the basic financial statements, and, accordingly, we express no opinion on them.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
June 15, 2007

City of Haverhill, Massachusetts
Management's Discussion and Analysis
June 30, 2006

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, 2006. We encourage readers to consider the information presented here in conjunction with the attached financial statements and notes to the financial statements.

Financial Statements – Change in Reporting Model

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 \$ 152,476,571 (*net assets*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 8,284,962, or 6 percent of total general fund expenditures.
- The City of Haverhill, Massachusetts' total long term debt decreased by \$ (6,291,506) 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, 2006 **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.

	Governmental Activities		Change
	June 30, 2006	June 30, 2005	
Current and Other Assets	\$ 77,516,744	\$ 77,454,543	\$ 62,201
Capital Assets	<u>226,421,628</u>	<u>215,043,339</u>	<u>11,378,290</u>
Total Assets	<u>303,938,372</u>	<u>292,497,882</u>	<u>11,440,491</u>
Other Liabilities	32,530,571	27,261,945	5,268,626
Long Term Liabilities	<u>118,931,231</u>	<u>125,087,592</u>	<u>(6,156,361)</u>
Total Liabilities	<u>151,461,802</u>	<u>152,349,537</u>	<u>(887,735)</u>
Net Assets:			
Invested in Capital Assets net of Related Debt	159,553,602	169,384,922	(9,831,319)
Restricted	25,430,706	9,673,408	15,757,298
Unrestricted	<u>(32,507,738)</u>	<u>(38,909,985)</u>	<u>6,402,247</u>
Total Net Assets	<u>\$ 152,476,571</u>	<u>\$ 140,148,345</u>	<u>\$ 12,328,226</u>

Governmental Activities – The above net assets, invested in capital assets (e.g. land, buildings, equipment, infrastructure, etc.), net of any related debt outstanding that was needed to acquire or construct the assets represents \$ 159,553,602 in net assets; and the assets restricted for specific purposes represent \$ 25,430,706 in net assets. As these two components of net assets exceed total net assets, unrestricted net assets showed a (\$32,507,738) 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. 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.

Changes in Net Assets

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

	Governmental Activities		Change
	June 30, 2006	June 30, 2005	
Revenues			
Program Revenues:			
Charges for Services	\$ 21,682,663	\$ 19,591,959	\$ 2,090,704
Operating Grants and Contributions	62,935,065	61,571,831	1,363,234
Capital Grants and Contributions	11,576,267	309,709	11,266,558
General Revenues:			
Real Estate and Personal Property Taxes	64,975,950	62,048,167	2,927,783
Excises	5,790,542	6,189,422	(398,880)
Other Taxes, Assessments and in Lieu Payments	2,077,802	627,988	1,449,814
Intergovernmental Not Restricted to a Specific Program	8,132,757	7,040,247	1,092,510
Earnings on Investment	555,681	487,981	67,700
Other Revenue	1,975,024	1,504,654	470,370
Health Insurance Trust	1,239,612	2,305,373	(1,065,761)
Hospital Settlement / Aid	424,674	750,000	(325,326)
Total Revenues	181,366,037	162,427,332	18,938,705
Expenses			
General Government	2,885,252	2,432,446	452,806
Public Safety	15,243,033	15,273,119	(30,087)
Education	76,041,582	73,419,327	2,622,255
Public Works	10,857,112	10,413,290	443,822
Human Services	3,261,291	2,907,707	353,584
Community and Economic Development	4,775,187	3,306,905	1,468,282
Debt Service	3,740,187	3,580,214	159,973
Intergovernmental	2,946,536	2,633,535	313,001
Health Insurance and Other Employee Benefits	19,908,511	20,022,267	(113,756)
Pension Benefits	7,650,012	6,862,654	787,358
Water and Sewer	13,695,347	11,034,149	2,661,198
Landfill	-	3,500,000	(3,500,000)
Teacher's Retirement on Behalf Payments	8,942,206	7,807,645	1,134,561
Total Expenses	169,946,255	163,193,257	6,752,997
Increase (Decrease) in Net Assets			
Before Special items	11,419,783	(765,925)	12,185,708
Special Items	160,312	(2,163)	162,475
Increase (Decrease) in Net Assets	\$ 11,580,095	\$ (768,088)	\$ 12,348,183

The above table shows the total net assets of the City. The net assets of the City increased by \$ 12,328,226 (including prior period adjustments) or 8%. The June 30, 2006 amounts shown above were adjusted because of prior period adjustments. Please refer to the financial statement footnotes relating to prior period adjustments for a further explanation.

Governmental Activities – In fiscal year 2006, property tax accounted for approximately 44% of the Governmental revenues.

Financial Analysis of the City's Funds

Governmental Funds

General Fund – The year-end fund balance of the general fund was \$ 4,117,173 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 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.

General Fund Budgetary Highlights

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

Capital Asset and Debt Administration

Capital assets. The City of Haverhill, Massachusetts' investments in capital assets for its governmental type activities as of June 30, 2006, amounts to \$ 226,421,628 (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, 2006 and June 30, 2005
(Net of Depreciation)**

	Governmental Activities	
	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Buildings	\$ 51,292,391	\$ 53,370,754
Equipment	5,101,872	5,463,752
Improvements	713,736	802,157
Land	12,163,773	11,945,019
Construction Work in Process	31,155,516	13,723,206
Infrastructure	123,655,077	127,835,226
Vehicles	<u>2,339,263</u>	<u>1,903,224</u>
Total	<u>\$ 226,421,628</u>	<u>\$ 215,043,339</u>

Debt

The City had \$ 123,697,575 in debt outstanding on June 30, 2006. This represents a \$ 3,134,887 decrease (or 2%) from the previous year. The City carries an underlying bond rating of “Baa1” from Moody’s and a “A -” from Standard and Poor.

Outstanding Debt at June 30, 2006 and June 30, 2005

Governmental Activities	<u>2006</u>	<u>2005</u>
Notes Payable	\$ 14,666,045	\$ 11,509,426
General Obligation Bonds Payable	<u>109,031,530</u>	<u>115,323,036</u>
Total Governmental Activities	\$ <u>123,697,575</u>	\$ <u>126,832,462</u>

Fiscal Year 2006 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 2006 without the necessity for an override.

City of Haverhill, Massachusetts
Statement of Net Assets
June 30, 2006
(Continued on Page 10)

	Government- Wide Governmental Activities Total
ASSETS	
CURRENT:	
Cash/Investments	\$ 37,039,677
Receivables:	
Real Estate and Personal Property	1,619,993
Motor Vehicle and Other Excise	1,577,682
Tax Liens and Foreclosures	1,458,748
Other	86,280
User Charges	1,682,173
Due from Commonwealth of Massachusetts - SBAB	3,433,859
Due from Commonwealth of Massachusetts - Other	903,629
NONCURRENT:	
Intergovernmental	29,714,703
Capital Assets:	
Capital Asset, Net	226,421,628
TOTAL ASSETS	303,938,372
 LIABILITIES	
CURRENT:	
Warrants Payable	1,597,653
Due to Other Funds	4,991,754
Other Liabilities	3,644,897
Temporary Loans	14,666,045
Accrued Interest	1,135,869
Bonds Payable	6,494,353
NONCURRENT:	
Bonds Payable	102,537,177
Longevity Payable	1,123,710
Compensated Absences	2,135,533
Landfill Liabilities	13,134,811
TOTAL LIABILITIES	151,461,802

City of Haverhill, Massachusetts
Statement of Net Assets
June 30, 2006
(Continued from Page 9)

	Government- Wide Governmental Activities <u>Total</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	159,553,602
Restricted for:	
Capital Projects	22,540,700
Special Revenue	2,890,006
Perpetual Funds:	
Unrestricted (Deficit) (Note 16)	<u>(32,507,738)</u>
TOTAL NET ASSETS	\$ <u><u>152,476,571</u></u>

City of Haverhill, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Total Governmental Activities</u>
<i>Governmental Activities:</i>					
General Government	\$ 2,885,252	\$ 922,462	\$ 5,461	\$ -	\$ (1,957,329)
Public Safety	15,243,033	635,413	1,545,312	-	(13,062,308)
Education	76,041,582	3,358,533	48,831,991	10,345,442	(13,505,616)
Public Works	10,857,112	150,324	12,923	1,198,917	(9,494,948)
Human Services	3,261,291	1,240,147	336,637	-	(1,684,508)
Community and Economic Development	4,775,187	1,988,133	3,260,536	-	473,482
Debt Service	3,740,187	-	-	-	(3,740,187)
Intergovernmental	2,946,536	-	-	-	(2,946,536)
Health Insurance and Other Employee Benefits	19,908,511	-	-	-	(19,908,511)
Pension Benefits	7,650,012	-	-	-	(7,650,012)
Water and Sewer	13,695,347	13,387,652	-	31,908	(275,787)
Teacher's Retirement on Behalf Payments	8,942,206	-	8,942,206	-	-
Total Governmental Activities	\$ 169,946,255	\$ 21,682,663	\$ 62,935,065	\$ 11,576,267	(73,752,259)

General Revenues:

Real Estate and Personal Property Taxes - Net	64,975,950
Excises	5,790,542
Other Taxes, Assessments and in Lieu Payments	2,077,802
Intergovernmental	8,132,757
Earnings on Investments	555,681
Other Revenue	1,975,024
Health Insurance Net Contribution	1,239,612
Penalties & Interest	424,674
Special Items:	
Transfers	160,312
Total General Revenues, Special Items and Transfers	85,332,354
Change in Net Assets	11,580,095

Net Assets:

Beginning of the Year	140,148,345
Prior Period Adjustment	748,128
Beginning of the Year, as Restated	140,896,473
End of the Year	\$ 152,476,568

City of Haverhill, Massachusetts
 Governmental Funds
 Balance Sheet
 June 30, 2006

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash/Investments	\$ 37,039,677	\$ -	\$ 37,039,677
Receivables:			
Real Estate and Property Taxes	1,619,993	-	1,619,993
Motor Vehicle and Other Excise	1,577,682	-	1,577,682
Tax Liens and Foreclosures	1,458,748	-	1,458,748
Other	86,280	-	86,280
Due From Other Funds	-	11,046,142	11,046,142
User Charges	1,682,173	-	1,682,173
Due from Commonwealth of Massachusetts - MSBA	33,148,562	-	33,148,562
Due from Commonwealth of Massachusetts - Other	-	903,629	903,629
Total Assets	<u>\$ 76,613,115</u>	<u>\$ 11,949,771</u>	<u>\$ 88,562,886</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Warrants Payable	\$ 1,597,653	\$ -	\$ 1,597,653
Due to Other Funds	21,478,506	-	21,478,506
Other Liabilities	(688)	2,245,585	2,244,897
Temporary Loans	-	14,666,045	14,666,045
Deferred Revenue:			
Deferred Revenue - Due from Commonwealth of Massachusetts	33,148,562	-	33,148,562
Deferred Revenue	6,089,485	-	6,089,485
Total Liabilities	<u>62,313,518</u>	<u>16,911,630</u>	<u>79,225,148</u>
Fund Equity:			
Fund Balances:			
Reserved for Encumbrances	3,148,609	-	3,148,609
Reserved for Special Purposes	2,343,174	-	2,343,174
Unreserved:			
Designated for:			
Subsequent Year's Expenditures	722,497	-	722,497
Snow and Ice Deficit	(199,645)	-	(199,645)
Undesignated, Reported in:			
General Fund	8,284,962	-	8,284,962
Special Revenue Fund	-	2,890,006	2,890,006
Capital Projects Fund	-	(8,044,358)	(8,044,358)
Permanent Funds	-	192,493	192,493
Total Fund Balances	<u>14,299,597</u>	<u>(4,961,859)</u>	<u>9,337,738</u>
Total Liabilities and Fund Balances	<u>\$ 76,613,115</u>	<u>\$ 11,949,771</u>	<u>\$ 88,562,886</u>

City of Haverhill, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2006

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES:</u>			
Real Estate and Personal Property Taxes - Net	\$ 65,139,312	\$ -	\$ 65,139,312
Excises	5,877,482	-	5,877,482
Fees, Departmental and Charges for Services	4,295,720	4,423,966	8,719,686
Intergovernmental	47,118,289	28,335,642	75,453,931
Earnings on Investments	555,681	-	555,681
Other Taxes, Assessments and In Lieu Payments	1,875,615	-	1,875,615
Water and Sewer	13,028,467	-	13,028,467
Teacher's Retirement on Behalf Payments	8,942,206	-	8,942,206
Other Revenue	2,606,814	1,062,783	3,669,597
TOTAL REVENUES	<u>149,439,586</u>	<u>33,822,391</u>	<u>183,261,977</u>
<u>EXPENDITURES:</u>			
Current			
General Government	2,729,061	78,751	2,807,812
Public Safety	15,306,394	680,226	15,986,620
Education	58,226,532	26,383,197	84,609,729
Public Works	6,677,945	1,858,458	8,536,403
Human Services	2,094,078	1,025,234	3,119,312
Community and Economic Development	1,462,472	3,309,290	4,771,762
Debt Service	9,864,789	-	9,864,789
Intergovernmental	2,946,536	-	2,946,536
Health Insurance and Other Employee Benefits	19,908,511	-	19,908,511
Pension Benefits	7,650,012	-	7,650,012
Water and Sewer	11,095,708	7,359,121	18,454,829
Teacher's Retirement on Behalf Payments	8,942,206	-	8,942,206
TOTAL EXPENDITURES	<u>146,904,244</u>	<u>40,694,276</u>	<u>187,598,520</u>
Excess of Revenues Over (Under) Expenditures	<u>2,535,342</u>	<u>(6,871,885)</u>	<u>(4,336,543)</u>
Other Financing Sources (Uses):			
Operating Transfers In	2,045,831	513,082	2,558,913
Operating Transfers (Out)	<u>(464,000)</u>	<u>(1,934,601)</u>	<u>(2,398,601)</u>
Total Other Financing Sources (Uses)	<u>1,581,831</u>	<u>(1,421,519)</u>	<u>160,312</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>4,117,173</u>	<u>(8,293,404)</u>	<u>(4,176,231)</u>
Fund Balance, Beginning	10,182,424	2,583,416	12,765,840
Prior Period Adjustment	-	748,128	748,128
Fund Balance, Beginning as Restated	<u>10,182,424</u>	<u>3,331,544</u>	<u>13,513,968</u>
Fund Balance, Ending	<u>\$ 14,299,597</u>	<u>\$ (4,961,860)</u>	<u>\$ 9,337,737</u>

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, 2006

Net change in fund balances - total governmental funds	\$ (4,176,231)
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.	11,378,289
Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.	(3,135,551)
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.	6,291,505
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.	149,374
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.	(166,903)
Internal Service funds are used to account for the Health Insurance Trust Fund. The net activity of the internal service fund is reported with governmental activities.	<u>1,239,612</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 11,580,095</u></u>

City of Haverhill, Massachusetts
 Proprietary Funds
 Statement of Net Assets
 June 30, 2006

		<u>Governmental Activities</u>	
			<u>Internal Service Fund</u>
ASSETS			
Due from Other Funds	\$	<u>5,440,610</u>	
TOTAL ASSETS		<u>5,440,610</u>	
 LIABILITIES			
Accrued Liabilities		<u>1,400,000</u>	
TOTAL LIABILITIES		<u>1,400,000</u>	
 NET ASSETS			
Unrestricted		<u>4,040,610</u>	
TOTAL NET ASSETS	\$	<u><u>4,040,610</u></u>	

City of Haverhill, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Fiscal Year Ended June 30, 2006

	Governmental Activities
	Internal Service Fund
Operating Revenues:	
Contributions	\$ 23,076,628
Total Operating Revenues	23,076,628
Operating Expenditures:	
Employee Benefits	21,837,016
Total Operating Expenditures	21,837,016
Operating Income (Loss)	1,239,612
Net Assets at Beginning of Year	2,800,998
Net Assets at End of Year	\$ 4,040,610

City of Haverhill, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2006

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
Cash Flows from Operating Activities:	
Net Income (Loss)	\$ <u>1,239,612</u>
Net Cash Flows Provided (Used) by Operating Activities	<u>1,239,612</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ <u><u>1,239,612</u></u>

City of Haverhill, Massachusetts
Statement of Net Assets
Fiduciary Funds
June 30, 2006

	Pension Trust Fund As of <u>December 31, 2005</u>	Private Purpose <u>Trust Funds</u>
ASSETS		
Cash and Equivalent	\$ 5,244,778	\$ 558,224
Due from Other Funds	-	4,991,754
Receivables:		
Dividend and Interest	345,374	-
Employee Contributions	41,018	-
Due from Other Systems	212,276	-
Investments Sold - Funds not Received	<u>33,943</u>	<u>-</u>
Total Receivables	<u>632,611</u>	<u>-</u>
Investments at Fair Value:		
Stocks	63,111,897	-
Fixed Income Securities	21,885,319	-
Real Estate and Other Investments	<u>63,668,461</u>	<u>-</u>
Total Investments	<u>148,665,677</u>	<u>-</u>
TOTAL ASSETS	<u>154,543,066</u>	<u>5,549,978</u>
LIABILITIES		
Accounts Payable	27,092	-
Amounts Due to Other Systems	<u>268,021</u>	<u>-</u>
TOTAL LIABILITIES	<u>295,113</u>	<u>-</u>
NET ASSETS		
Net Assets Held in Trust	<u>\$ 154,247,953</u>	<u>\$ 5,549,978</u>

City of Haverhill, Massachusetts
Statement of Changes in Net Assets
Fiduciary Funds
Year Ended June 30, 2006

	Pension Trust Fund As of <u>December 31, 2005</u>	Private Purpose Trust <u>Funds</u>
Additions:		
Contributions:		
Employer	\$ 7,918,768	\$ -
Employee	3,072,881	-
Private Donations and Earnings on Investments	-	992,702
Intergovernmental	677,390	-
Total Contributions	<u>11,669,039</u>	<u>992,702</u>
Transfers from Other Systems	<u>378,976</u>	<u>-</u>
Net Investment Income (Loss):		
Net Appreciation in the Fair Value of Plan Assets and Gains and (Losses)	10,663,061	-
Interest and Dividends	<u>3,113,873</u>	<u>-</u>
Total Investment Income (Loss)	13,776,934	-
Less Investment Expense	<u>1,985,587</u>	<u>-</u>
Net Investment Income (Loss)	<u>11,791,347</u>	<u>-</u>
Total Additions (Reductions)	23,839,362	992,702
Deductions:		
Benefit Payments to Retirees, Survivors, and Disability Retirees	19,627,521	-
Refunds to Members Leaving the Plan	412,888	-
Transfers to Other Systems	491,918	-
Administrative Expenses	406,988	-
Scholarships and Other Expenses	-	216,186
Total Deductions	<u>20,939,315</u>	<u>216,186</u>
Net Increase (Decrease)	2,900,047	776,516
Net Assets Held In Trust:		
Beginning of Year	<u>151,347,906</u>	<u>4,773,462</u>
End of Year	<u>\$ 154,247,953</u>	<u>\$ 5,549,978</u>

City of Haverhill, Massachusetts
Notes to the Financial Statements
June 30, 2006

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, 2006. 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 December 31, 2005.

(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, 2006 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 both 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 trust and agency funds, capital projects funds and special revenue funds have been combined together and represent the “non major governmental funds” in the governmental funds financial statements, with the exception of the private-purpose trust funds (explained below) which have been separated and are shown separately in the fund financial statements.

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

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

(F) Budgets and Appropriations

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

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

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

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

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

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

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

(G) Cash and Cash Equivalents

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

(H) Investments

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

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

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

(I) Restricted Assets

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

(J) Capital Assets

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

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

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

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

(K) Other Assets

Inventories, prepaid expenses and other current assets, and unamortized bond issue costs are recorded as other assets in the Enterprise Fund, 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, 2006, the Commonwealth paid \$8,942,206 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, 2006, or fund balances at June 30, 2006.

(R) Prior Period Adjustment

Certain reclassifications or adjustments have been made to prior period amounts to conform to the current period presentation.

Government Wide and Fund Financial Statements

The prior period adjustment amount of \$ 748,128 shown in the Financial Statements relates to accounting entries made relating to Massachusetts Water Pollution Abatement Trust (MWPAT) debt.

2. Deposits and Investments

i. Deposits

Custodial Credit Risk - Deposits

Custodial Credit Risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2006, \$27,703,742 of the City's bank balance of \$35,076,731 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$27,703,742

ii. Investments

a) As of June 30, 2006, the City had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>Over 5</u>
U. S. Government Obligations	122,473	122,473	-	-
U.S. Treasury / Agency Securities	3,687,311	3,687,311	-	-
Equities	<u>811,777</u>	<u>-</u>	<u>-</u>	<u>811,777</u>
Total	<u>\$ 4,621,561</u>	<u>\$ 3,809,784</u>	<u>\$ -</u>	<u>\$ 811,777</u>

b) Interest Rate Risk

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

c) Credit Risk

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

d) Concentration of Credit Risk

Concentration of Credit Risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not have a formal policy that limits the amount it may invest in a single user (State law limits the amount that may be deposited in a financial institution without collateralization). More than 5 percent of the City's investments are in Equity Funds (18%).

Contributory Retirement System

Deposits

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System does not have a formal deposit policy for custodial credit risk. As of December 31, 2005, \$5,559,451 of the System's bank balance of \$5,759,451 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$ 5,559,451

Investments

As of December 31, 2005, the System had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>Over 5</u>
Mutual Funds	\$ 40,179,165	\$ 40,179,165	\$ -	\$ -
U. S. Government Obligations	6,822,734	-	2,060,425	4,762,309
Foreign Government Obligations	6,832,033	172,038	2,238,135	4,421,860
Corporate Bonds	8,230,552	997,368	5,723,250	1,509,934
Common Stocks	63,111,897	63,111,897	-	-
Real Estate	10,807,224	-	-	10,807,224
Venture Capitals	12,682,070	-	-	12,682,070
Total	<u>\$ 148,665,675</u>	<u>\$ 104,460,468</u>	<u>\$ 10,021,810</u>	<u>\$ 34,183,397</u>

3. Property Taxes

Levy - Real estate and personal property taxes are levied each January 1 for the following fiscal year ending June 30. Bills are due quarterly on August 1, November 1, February 1 and May 1 or thirty days subsequent to the mailing date. The City is allowed to take delinquent tax accounts into tax title subsequent to the mailing of the notice of demand on delinquent taxes and the failure of efforts to collect the taxes. 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

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

General Fund

Property Taxes Receivable:

Real Estate Taxes

2006	\$ 1,517,886	
2005	(41)	
Total Real Estate Taxes	<u> </u>	<u>\$ 1,517,845</u>

Personal Property Taxes

2006	22,986	
2005	18,318	
2004	18,147	
2003	12,762	
2002	7,376	
2001 & Prior	<u>22,559</u>	
Total Personal Property Taxes		<u>102,149</u>

Total Property Taxes Receivable \$ 1,619,993

Tax Liens and Foreclosures \$ 1,458,748

Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2006	\$ 700,773	
2005	209,158	
2004	122,991	
2003	79,776	
2002	51,709	
2001 & Prior	<u>402,830</u>	
Total Motor Vehicle Excise Taxes		<u>1,567,238</u>

Boat Excise Taxes

2006	3,304	
2005	1,804	
2004	2,236	
2003	1,726	
2002	965	
2001 & Prior	<u>409</u>	
Total Boat Excise Taxes		<u>10,444</u>

Total Motor Vehicle and Other Excise Taxes \$ 1,577,682

Other Accounts Receivable \$ 86,280

User Charges - Water and Sewer \$ 1,682,173

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 \$ 33,148,562 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. Effective beginning in fiscal year 2006, the MSBA will reimburse the City through progress payments for certain school building projects that are still in process, using the state predetermined rate. When the final review of the project is completed, the final payment amount will be determined and given to the City by the MSBA.

The Non Major Governmental Funds column, Due from Commonwealth of Massachusetts is the amount due to the City as of June 30, 2006 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.

The following is a breakdown of the Due from Commonwealth of Massachusetts amounts as of June 30, 2006, other than the school building project amount noted above:

Due from Commonwealth of Massachusetts – Chapter 90	<u>\$ 903,629</u>
Total	<u>\$ 903,629</u>

5. Temporary Loans

At June 30, 2006, the City had Bond Anticipation Notes (BAN's) outstanding of \$ 12,517,734. In addition, the City had State Aid Anticipation Notes (SAAN's) outstanding of \$ 2,148,311 to finance various capital projects. In addition, Tax Anticipation Notes (TAN's) were issued and redeemed during the year. All such notes are included in temporary loans in the Capital Projects Fund (Non major Funds Column).

Changes in Short Term Debt – the following is a summary of the short term debt transactions for the fiscal year ended June 30, 2006:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance End of Year</u>
<u>Governmental Activities:</u>				
BAN's	\$ 9,661,115	\$ 11,017,734	\$ 8,161,115	\$ 12,517,734
TAN's	-	12,000,000	12,000,000	-
SAAN's	1,848,311	2,181,161	1,881,161	2,148,311
Total	<u>\$ 11,509,426</u>	<u>\$ 25,198,895</u>	<u>\$ 22,042,276</u>	<u>\$ 14,666,045</u>

6. Long Term Debt

General obligation bonds outstanding at June 30, 2006 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, 2006:

	<u>Governmental Activities</u>
Balance 7/01/06	\$ 115,323,036
Add: New Issues	-
Less: Maturities	(6,291,506)
Balance 6/30/06	<u>\$ 109,031,530</u>

(B) Summary of Debt Service Requirements to Maturity:

	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2007	\$ 6,494,353	\$ 5,183,863
2008	6,653,535	4,826,186
2007	6,838,851	4,481,219
2010	7,712,502	4,121,223
2011	7,895,891	3,744,488
2012-2016	35,747,606	13,550,212
2017-2021	24,525,505	5,678,989
2022-2026	8,316,173	1,598,540
2027-2031	2,485,000	902,375
2032 - thereafter	<u>2,362,114</u>	<u>283,874</u>
	<u>\$ 109,031,530</u>	<u>\$ 44,370,969</u>

(C) Long -Term Debt Authorizations

General Obligation Bonds authorized and unissued at June 30, 2006 are summarized as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
7/29/1998	Wastewater	\$ 50,000
2/3/1999	Roof Repair - Six Schools	2,680,000
12/2/1999	Sewer	1,520,000
1/17/2002	Engineering Sewer/Storm Water	200,000
3/13/2003	Haverhill High School Renovation	17,697,403
3/13/2003	Boilers - Various Schools	1,477,155
5/2/2003	Closure Old Landfill	4,995
6/16/2003	CSO Project MWPAT	1,560,501
6/16/2003	CSO Project MWPAT	5,700,000
3/23/2004	Closure Old Landfill	4,669,732
4/15/2004	MWPAT cs-00-54b	1,500,000
8/26/2004	Departmental Equipment	270,000
12/23/2004	Parking Deck	402,280
5/24/2005	Sewer	1,600,000
5/24/2005	Watermain Improvement	2,165,000
5/24/2005	Watermain Improvement	1,535,501
10/13/2005	Greenleaf School Boiler	53,995
10/13/2005	High Street Fire Station Roof	55,000
10/13/2005	Whittier School Roof	<u>725,000</u>
	Total	<u>\$ 43,866,562</u>

7. Components of General Fund - Fund Balance

The fund balance shown in the General Fund financial statements includes Unreserved Fund Balance and other accounts maintained by the City in accordance with the Commonwealth of Massachusetts' statutes and requirements prescribed by the Bureau of Accounts. At the time the annual budget is approved by the City Council, the amount of the fund balances which will be utilized to finance the succeeding fiscal year's operations, are transferred from unappropriated fund balances to appropriated fund balances. The components of the General Fund - Fund Balance at June 30, 2006 are as follows:

General Fund – Fund Balances:

Reserved for Encumbrances	\$ 3,148,609
Reserved for Subsequent Years Expenditures	722,497
Reserved for Special Purposes	2,343,174
Reserved for Snow and Ice Deficit	(199,645)
Undesignated Fund Balance	<u>8,284,962</u>
Total General Fund - Fund Balance	<u>\$ 14,299,597</u>

8. Budget Basis of Accounting

The budget amounts appearing in the financial statements are taken from the City's annual recap sheet and include only those amounts which pertain to June 30, 2006. The budget amounts include special City Council meeting votes applicable to June 30, 2006.

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

	<u>Revenues</u>
As Reported Budget Basis	\$ 140,585,283
Adjustments:	
Sixty Day Property Tax Accrual - Net	(87,903)
Teacher Retirement on Behalf Payments	<u>8,942,206</u>
As Reported GAAP Statement	<u>\$ 149,439,586</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 138,254,029
Adjustments:	
July 1, 2005 Encumbrances	2,856,618
June 30, 2006 Encumbrances	(3,148,609)
On Behalf Payments Included in Employee Benefits	<u>8,942,206</u>
As Reported GAAP Statement	<u>\$ 146,904,244</u>

9. Contributory Retirement System

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

The System is a single employer contributory defined benefit plan covering City employees deemed eligible by the Board, with the exception of School Department employees who serve in a teaching

capacity. The pensions of such school employees are administered by the State Teachers' Retirement Board.

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

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

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

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

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

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

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

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

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

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

Annual Required Contribution – The City’s annual required contribution for the fiscal year ended June 30, 2006 was as follows:

Annual Required Contribution (“ARC”)	<u>\$ 8,373,841</u>
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The annual required contribution for the current year was determined as part of the January 1, 2004 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 5.5% 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.

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 are eligible for participation. These benefits are provided primarily through Blue Cross of Massachusetts, Inc. The City pays 75% of the total premiums for indemnity and Medicare supplement plans, 90% for HMO plans and 50% of the premiums for life insurance. Benefits paid by the City are on a pay-as-you-go basis, and there is no actuarial valuation available as of June 30, 2006 which would permit an estimation of the unfunded past service cost liability, the future costs of current participants in the Plan, and the annual amounts needed to fund such costs.

11. Deferred Compensation Plan

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

All amounts of compensation deferred under the plan, all property and rights which may be purchased by the City with such amounts, and all income attributable to such amounts, property or rights shall remain solely the property and rights of the City (without being restricted to the provision of benefits under this plan) subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

It is the opinion of the City that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the City's general creditors; however, plan assets have not been used in the past to satisfy such claims. The value of the plan assets as of June 30, 2006 was \$ 15,548,216.

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.

12. 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.

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 maximum potential liability for workers' compensation claims is limited by a stop loss agreement with Employers Reinsurance. The agreement sets the stop loss at \$ 300,000 per claim (accident) with an aggregate stop loss at \$875,000 (several small claims) up to \$ 5,000,000 (maximum coverage under the stop loss agreement in the aggregate). The City funds its obligations for workers' compensation claims on a claims-made basis.

13. 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 recent

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 \$ 13,134,811 in the Financial Statements which represents legal counsel's best estimate of the City's liability for the Landfill closure.

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. The recent 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.

The City is involved in another matter involving the EPA concerning the clean up 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. The City has recently become aware of the specific dollar amount of this claim (\$249,419), which is not covered by insurance. The City intends to pay for this claim from future appropriations, which may be over several years, depending on a future EPA ruling.

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, 2006 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.

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.

14. Interfund Transfers in Fund Financial Statements

Interfund transfers are listed below:

	<u>Transfer In</u>	<u>Transfer (Out)</u>	<u>Total</u>
General	\$ 2,045,831	\$ (464,000)	\$ 1,581,831
Non-major Governmental Agency Fund	513,082	(1,934,601)	(1,421,519)
	<u>-</u>	<u>(160,312)</u>	<u>(160,312)</u>
Total	<u>\$ 2,558,913</u>	<u>\$ (2,558,913)</u>	<u>\$ -</u>

Interfund receivables and payables (Due From/To Other Funds) are established in the accounting records of the City because the actual cash received and disbursed is accounted for in the general fund (these accounts are presented on the balance sheet in the financial statements). For example, when money is received from the federal government, relating to a federal grant (which is accounted for in the special revenue fund), the money received is accounted for by debiting cash in the general fund, but at the same time an entry is made which credits “due to the special revenue fund”, which keeps the general fund in balance. A corresponding “due from the general fund” account is debited in the special revenue fund. In addition, the correct special revenue fund revenue account is credited in the special revenue fund, to keep this fund in balance. This type of accounting system is in accordance with generally accepted accounting principles. During the fiscal year ended June 30, 2006 the new accounting system refers to the due to/from accounts in the general ledger as “pooled cash”.

15. Subsequent Year Authorization

The City has voted fiscal year 2007 budget amounts totaling \$149,855,852. Fiscal year 2007 budgetary amounts which are not reflected in the accompanying financial statements (except for reserved for subsequent year’s expenditures) will be financed by the following sources:

Property Taxes	\$67,902,576
Reserved for Subsequent Years Expenditures	722,497
Estimated Receipts, Other Revenue Sources and Other Available Funds	<u>81,230,779</u>
Total	<u>\$149,855,852</u>

16. Net Assets – Unrestricted (Deficit)

The net assets, invested in capital assets (e.g. land, buildings, equipment, infrastructure, etc.), net of any related debt outstanding that was needed to acquire or construct the assets represents \$159,553,602 in net assets; and the assets restricted for specific purposes represent \$ 25,430,706 in net assets. As these two components of net assets exceed total net assets, unrestricted net assets showed a (\$ 32,507,738) 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. 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.

17. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<u>Government Activities:</u>				
<u>General Fund</u>				
<u>Cost:</u>				
Buildings	\$ 85,756,650	\$ -	\$ (36,564)	\$ 85,720,087
Equipment	1,175,775	88,095	(355,980)	907,890
Improvements	3,085,569	-	-	3,085,569
Land	10,360,493	1,209,300	(986,653)	10,583,141
Construction Work in Process	13,723,206	17,432,310	-	31,155,516
Infrastructure	136,647,997	-	-	136,647,997
Vehicles	5,704,948	906,178	(111,632)	6,499,494
Totals - Cost	<u>256,454,639</u>	<u>19,635,883</u>	<u>(1,490,828)</u>	<u>274,599,694</u>
<u>Less Accumulated Depreciation:</u>				
Buildings	32,451,927	2,044,103	(8,684)	34,487,346
Equipment	551,917	77,546	(332,964)	296,499
Improvements	2,283,412	88,421	-	2,371,833
Infrastructure	53,054,111	2,675,840	-	55,729,952
Vehicles	4,000,417	413,909	(111,632)	4,302,695
Totals- Accumulated Depreciation	<u>92,341,784</u>	<u>5,299,819</u>	<u>(453,279)</u>	<u>97,188,324</u>
General Fund - Capital Assets, Net	<u>\$ 164,112,855</u>	<u>\$ 14,336,064</u>	<u>\$ (1,037,549)</u>	<u>\$ 177,411,369</u>
<u>General Fund - Water and Sewer Assets</u>				
<u>Cost:</u>				
Buildings	\$ 141,720	\$ -	\$ -	\$ 141,720
Equipment	13,345,588	-	(120,000)	13,225,588
Improvements	319,757	-	-	319,757
Land	1,584,526	-	(3,894)	1,580,632
Infrastructure	83,207,198	-	-	83,207,198
Vehicles	907,116	-	-	907,116
Totals - Cost	<u>99,505,905</u>	<u>-</u>	<u>(123,894)</u>	<u>99,382,012</u>
<u>Less Accumulated Depreciation for:</u>				
Buildings	75,690	6,381	-	82,070
Equipment	8,505,694	349,413	(120,000)	8,735,107
Improvements	319,757	-	-	319,757
Infrastructure	38,965,858	1,504,308	-	40,470,166
Vehicles	708,422	56,230	-	764,652
Totals- Accumulated Depreciation	<u>48,575,421</u>	<u>1,916,331</u>	<u>(120,000)</u>	<u>50,371,753</u>
General Fund - Water and Sewer Capital Assets, Net	<u>50,930,484</u>	<u>(1,916,331)</u>	<u>(3,894)</u>	<u>49,010,259</u>
Total General Fund Capital Assets, Net	<u>\$ 215,043,339</u>	<u>\$ 12,419,732</u>	<u>\$ (1,041,443)</u>	<u>\$ 226,421,628</u>

City of Haverhill, Massachusetts
Statement of Revenues and Expenditures - Budget and Actual
General Fund (Budgetary Basis)
Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<u>Revenues</u>				
Real Estate and Personal Property Taxes - Net	\$ 64,306,598	\$ 64,444,145	\$ 65,227,215	\$ 783,070
Excises	5,882,585	5,882,585	5,877,482	(5,103)
Fees, Departmental and Charges for Services	3,083,780	3,083,780	4,295,720	1,211,940
Intergovernmental	47,044,698	47,045,626	47,118,289	72,663
Earnings on Investments	181,903	181,903	555,681	373,778
Other Taxes, Assessments and In Lieu Payments	1,901,975	1,901,975	1,875,615	(26,360)
Water and Sewer	12,352,294	12,352,294	13,028,467	676,173
Other Revenue	2,570,041	2,570,041	2,606,814	36,773
	<u>137,323,874</u>	<u>137,462,349</u>	<u>140,585,283</u>	<u>3,122,934</u>
<u>Expenditures</u>				
General Government	2,456,924	2,815,107	2,723,937	91,170
Public Safety	14,926,717	15,601,016	15,274,874	326,142
Education	58,086,810	58,226,641	58,226,532	109
Public Works	6,935,984	6,758,935	6,689,224	69,711
Human Services	2,033,632	2,199,478	2,101,990	97,488
Community and Economic Development	1,509,164	1,594,450	1,524,524	69,926
Debt Service	10,148,965	10,268,777	9,864,789	403,988
Intergovernmental	2,905,716	2,947,539	2,946,536	1,003
Health Insurance and Other Employee Benefits	20,217,053	20,203,431	19,905,733	297,698
Pension Benefits	7,650,012	7,650,012	7,650,012	-
Water and Sewer	12,795,319	12,795,319	11,345,878	1,449,441
	<u>139,666,297</u>	<u>141,060,705</u>	<u>138,254,029</u>	<u>2,806,676</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,342,423)</u>	<u>(3,598,356)</u>	<u>2,331,254</u>	<u>5,929,610</u>
<u>Other Financing Sources (Uses):</u>				
Other Available Funds	2,324,671	2,016,525	2,016,525	-
Operating Transfers In	2,045,831	2,045,831	2,045,831	-
Operating Transfers Out	(2,028,079)	(464,000)	(464,000)	-
	<u>2,342,423</u>	<u>3,598,356</u>	<u>3,598,356</u>	<u>-</u>
Excess Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ 0</u>	<u>\$ (0)</u>	<u>\$ 5,929,610</u>	<u>\$ 5,929,610</u>

City of Haverhill Retirement System
(A Component of the City of Haverhill, Massachusetts)

Schedule I

Required Supplementary Information-Schedule of Funding Progress
Year Ended December 31, 2005

Actuarial Valuation Date	1 Actuarial Value of Assets	2 Actuarial Accrued Liability("AAL")	3 Unfunded Actuarial Accrued Liability ("UAAL")	4 Funded Ratio	5 Covered Payroll	6 UAAL as a Percentage of Covered Payroll
January 1, 2005 **	\$152,334,152	\$247,959,579	\$95,625,427	61.4%	\$33,472,330	285.7%
January 1, 2004	149,981,686	242,187,917	92,206,231	61.9%	32,030,938	287.9%
January 1, 2003	148,677,744	233,743,425	85,065,681	63.6%	39,066,392	217.7%
January 1, 2002	160,890,365	222,348,347	61,457,982	72.4%	37,384,107	164.4%
January 1, 2001 *	156,688,800	210,219,900	53,531,100	74.5%	55,875,300	95.8%
January 1, 2000	144,484,800	195,312,800	50,828,000	74.0%	53,469,200	95.1%
January 1, 1999	111,228,800	181,575,900	70,347,100	61.3%	48,847,800	144.0%
January 1, 1998	103,152,900	170,794,900	67,642,000	60.4%	46,744,300	144.7%
January 1, 1996	78,719,700	135,089,000	56,369,300	58.3%	41,771,600	134.9%
January 1, 1994	62,881,000	120,763,100	57,882,100	52.1%	38,721,700	149.5%
January 1, 1992	48,876,900	113,034,400	64,157,500	43.2%	36,244,700	177.0%
January 1, 1990	39,072,800	102,567,800	63,495,000	38.1%	35,026,100	181.3%

** Liabilities and payroll estimated from prior year's valuation.

* January 1, 2001 figures include the additional liability for Section 90A, C and D benefit increases.

The closure of Glynn Memorial Nursing Home on June 30, 2001 and Hale Hospital on August 31, 2001 created a shift of active participants to inactive participants and retirees under the regulations of Section 10. The number of active participants decreased 31.3% from 1999 to 2001, while the inactive participants and retirees increased 48.7% and 20.7%, respectively. Since the total payroll has also decreased, the appropriations as a percentage of payroll will be greater than previous valuation reports.

City of Haverhill Retirement System
(A Component Unit of the City of Haverhill, Massachusetts)
Note to Required Supplementary Information
Year Ended December 31, 2005

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

Valuation Date:

- * January 1, 2004

Actuarial Cost Method:

- * Entry Age Normal Cost Method

Amortization Method:

- * Increasing at 4.5% per year

Remaining Amortization Period:

- * 24 years remaining as of July 1, 2004, except 23 years remaining as of July 1, 2005 on the 2003 ERI

Asset Valuation Method:

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

Actuarial Assumptions:

- * Investment rate of return - 8.5%
- * Projected salary increase - 5.5%
- * Cost-of-living adjustments - 3.0% on first \$12,000 of retirement income

City of Haverhill, Massachusetts
SCHEDULE OF INDEBTEDNESS
June 30, 2006
(Continued on Page 44)

<u>Description</u>	<u>Original Balance</u>	<u>Interest Rate %</u>	<u>Fiscal Year of Issue</u>	<u>Fiscal Year of Maturity</u>	<u>Outstanding Balance 6/30/2006</u>
Departmental Equipment-Fire Pumpers	\$ 332,000	4.62	1997	2007	\$ 30,000
Departmental Equipment	268,125	4.67	1997	2008	40,705
Roof Remodel Citizen Center	56,875	4.68	1997	2008	10,182
Nursing Home	1,041,161	4.45	1997	2010	431,576
Remodeling Fire	130,850	4.45	1997	2010	79,197
Remodeling School	677,253	4.45	1997	2011	524,089
School Bonds	899,633	4.45	1997	2011	715,945
School Bonds	10,498,114	4.45	1997	2012	8,594,966
School Construction	310,000	5.28	1997	2013	131,050
School Planning	950,000	5.20	1997	2015	456,825
School Land Acquisition	400,000	5.30	1997	2016	199,980
School Construction	18,000,000	5.30	1997	2016	17,085,330
School Construction	600,000	5.30	1997	2016	-
Fire Station Remodeling	390,000	5.21	1997	2017	210,900
Construction-Police Station	2,000,000	5.23	1997	2017	1,104,050
Construction-Library	1,200,000	5.23	1997	2017	663,000
School Construction	6,400,000	5.34	1997	2017	-
School Construction	240,000	5.35	1997	2017	-
School Construction	400,000	5.38	1997	2017	-
Equipment	289,000	4.13	1999	2007	35,000
Hospital Computers	506,000	3.96	1999	2007	25,000
Off Street Parking	112,000	4.95	1999	2008	20,000
School Roof Remodeling	1,700,000	4.96	1999	2018	1,070,000
School Bonds	16,653,000	4.96	1999	2019	12,560,000
Sludge Dewatering	3,018,888	4.70	2001	2015	2,192,013
Sludge Dewatering	121,428	4.00	2001	2017	89,218
Title V Septic Loan	143,100	0.00	2001	2020	105,409
Hospital Deficit Funding Bonds	15,000,000	4.00	2001	2021	12,270,000
Hospital Deficit Funding Bonds	5,000,000	4.00	2001	2021	3,715,000
Hospital Deficit Funding Bonds	5,000,000	4.00	2002	2022	4,285,000
Hospital Deficit Funding Bonds	4,403,000	4.00	2003	2022	3,935,000
Hospital Deficit Funding Bonds	597,000	4.00	2003	2023	535,000
Hospital Refunding	14,400,000	5.94	2002	2022	13,190,000

City of Haverhill, Massachusetts
SCHEDULE OF INDEBTEDNESS
June 30, 2006
(Continued from Page 43)

<u>Description</u>	<u>Original Balance</u>	<u>Interest Rate %</u>	<u>Fiscal Year of Issue</u>	<u>Fiscal Year of Maturity</u>	<u>Outstanding Balance 6/30/2006</u>
Hospital Equipment	275,000	4.57	2003	2011	170,000
Hospital Deficit Deferral	-	-	-	-	1,115,000
School Remodeling	310,000	4.03	2003	2023	255,000
School Equipment	400,000	4.04	2003	2023	340,000
Fire Dept Equipment	210,000	4.03	2003	2023	170,000
Hospital Equipment	364,000	4.33	2003	2023	360,000
Sewer	347,989	4.45	1997	2010	154,227
Sewer	445,307	4.45	1997	2012	264,389
Sewer	180,000	5.15	1997	2017	90,495
Drainage	573,000	5.20	1997	2017	306,550
Sludge Composting	100,000	5.23	1997	2017	55,233
Combine Sewer Overflow	412,225	5.60	1998	2019	312,613
Combine Sewer Overflow	497,038	5.20	2001	2021	394,766
Sewer Tank	597,000	4.03	2003	2023	505,000
Sewer Boiler	200,000	4.04	2003	2023	170,000
Sewer Pipes	265,000	3.93	2003	2023	220,000
Sewer Planning	1,446,000	4.02	2003	2023	1,240,000
MWPAT	95,275	variable	2003	2023	74,798
MWPAT	465,418	variable	2003	2023	410,094
MWPAT	1,391,554	variable	2003	2023	1,136,275
Water Bonds	169,693	4.45	1997	2012	105,611
Water Pumping Station	175,000	5.12	1997	2017	85,700
Water Bonds	4,835,000	4.96	1999	2019	3,610,000
Water Pump Treatment	978,000	4.02	2003	2023	825,000
Water	25,000	2.19	2003	2008	10,000
MWPAT	94,022	4.43	2004	2034	85,945
MWPAT	631,729	4.43	2004	2034	375,966
MWPAT	675,579	variable	2004	2025	649,709
MWPAT	<u>11,463,447</u>	variable	2004	2035	<u>11,234,725</u>
GRAND TOTAL	\$ <u>139,359,703</u>				\$ <u>109,031,531</u>

City of Haverhill, Massachusetts
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2006

	Federal CFDA	
	<u>Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture:		
Food and Nutrition Service:		
School Breakfast Program	10.553	\$ 182,074
National School Lunch	10.555	928,330
Total U.S. Department of Agriculture		<u><u>1,110,404</u></u>
U.S. Department of Housing and Urban Development:		
Community Development Block Grant	14.218	1,481,070
Supportive Housing Program	14.235	610,690
Shelter Care Plus	14.238	90,139
Home Investment Partnership Program	14.239	598,663
Total Department of Housing and Urban Development		<u><u>2,780,562</u></u>
U.S. Department of Justice:		
Local Law Enforcement Block Grant	16.592	11,159
Total U.S. Department of Justice		<u><u>11,159</u></u>
U.S. Department of Labor:		
Learning for Life	17.259	30,802
Total U.S. Department of Labor		<u><u>30,802</u></u>
U.S. Department of Education:		
Title I	84.010	2,116,270
SPED IDEA Allocation	84.027	2,072,844
SPED Curriculum Frameworks	84.027	23,424
SPED Integration	84.027	6,910
Early Childhood Mental Health	84.027	21,045
SPED MCAS Alternative Assessment	84.027	542
Title VI	84.151	35,318
SPED - Preschool/Early Childhood	84.173	76,063
Safe and Drug-Free Schools and Communities	84.186	52,856
McKinney Homeless Exemplary	84.196	18,740
Smaller Learning Community Grant	84.215	4,200
21st Century Community Learning	84.287	733,956
Even Start - Statewide Family Literacy	84.314	177,325
Technology Literacy Challenge	84.318	31,042
Reading First Program	84.357	292,054
LEP Support	84.365	128,659
Improving Teacher Quality	84.367	437,799
Total U.S. Department of Education		<u><u>6,229,047</u></u>
U.S. Department of Homeland Security:		
Operation and Firefighter Safety	97.044	245,000
Total U.S. Department of Homeland Security		<u><u>245,000</u></u>
Total Schedule of Expenditures of Federal Awards		<u><u>\$ 10,406,974</u></u>

City of Haverhill, Massachusetts
Notes to Schedule of Expenditures of Federal Awards
June 30, 2006

(1) Scope of Audit

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

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

(2) Summary of Significant Accounting Policies

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

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

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

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

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

We have audited the financial statements of the City of Haverhill as of and for the year ended June 30, 2006, and have issued our report thereon dated June 15, 2007. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Haverhill's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Haverhill, Massachusetts's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings as item 2006-1 and 2006-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions, and, accordingly would not necessarily disclose all reportable conditions that are considered to be material weaknesses. However, of the reportable conditions we described above we consider-2006-1 and 2006-2 to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the City of Haverhill's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

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
June 15, 2007

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

Compliance

We have audited the compliance of the City of Haverhill, Massachusetts with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City of Haverhill, Massachusetts's major federal programs are identified in the summary of auditor's 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's management. Our responsibility is to express an opinion on the City of Haverhill's compliance based on our audit.

We conducted our audit of compliance in accordance with generally accepted auditing standards; 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's 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's compliance with those requirements.

As described in Section III of the accompanying Schedule of Findings and Questioned Costs (Item 2006- 3, 2006-4, 2006-5, 2006-6 and 2006-7), the City of Haverhill, Massachusetts did not comply with certain requirements relating to the United States Department of Housing and Urban Development, CFDA #14.218, #14.235 and #14.239, and the United States Department of Education, CFDA #84.027, #84.173, #84.287 and #84.367.

In our opinion, except for the non compliance described in the preceding paragraph, the City of Haverhill, Massachusetts complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Haverhill 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's 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.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Haverhill, Massachusetts's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as Items 2006-3, 2006-4, 2006-5, 2006-6 and 2006-7.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted matters involving the internal control over compliance and its operation that we consider to be material weaknesses listed as Items 2006-3, 2006-4, 2006-5, 2006-6 and 2006-7 in the accompanying Schedule of Findings and Questioned Costs.

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
June 15, 2007

City of Haverhill, Massachusetts
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2006
 (Continued on Page 52)

I Summary of Auditors' Results

1. The opinion on the financial statements was unqualified.
2. Reportable conditions in internal control were reported during the audit of the financial statements (see 2006-1 and 2006-2).
3. No instances of noncompliance which were material to the financial statements were reported.
4. Reportable conditions in internal controls relating to major programs were found during the audit (see 2006-3, 2006-4, 2006-5, 2006-6 and 2006-7).
5. The opinion on compliance with requirements applicable to major programs was qualified.
6. There were findings related to major federal award programs as noted in Part III below.
7. The major programs identified were:

<u>Funding Source</u>	<u>CFDA #</u>
U.S. Department of Agriculture	10.553
U.S. Department of Agriculture	10.555
U.S. Department of Housing and Urban Development	14.218
U.S. Department of Housing and Urban Development	14.235
U.S. Department of Housing and Urban Development	14.239
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	84.367

8. The dollar threshold used to distinguish between Type A and Type B programs was \$312,209.
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, 2006
(Continued on Page 53)

II Findings – Financial Statement Audit

2006-1 Cash Reconciliation and Trust Fund Accounting

Cash Reconciliation

During the fiscal year ended June 30, 2006, the cash reconciliation procedures have improved dramatically from fiscal year 2005. The new Budget Sense cash reconciliation module, which is part of the general ledger software package, is now being used. However, there still are areas of improvement that can be made relating to the cash reconciliation procedures.

The first area of improvements relates to performing the cash reconciliation work in a more timely manner every month. The fiscal year 2006 work was done in a more timely manner than fiscal year 2005, however, the fiscal year 2007 work should be done even more timely. Because the City is now using the Budget Sense cash reconciliation module, the entire process will be performed much more efficiently from now on. We recommend that the City attempt to complete the monthly cash reconciliation work within about 6-8 weeks after the end of the month. In addition, the Budget Sense cash reconciliation software has the capability of working directly with the banks being used by the City in generating electronically transferred data relating to checks issued, paid and outstanding. This part of the software is not yet being used by the City. We recommend that efforts be made to implement these procedures to make the entire process even more efficient.

Part of the problem of untimely cash reconciliation comes about because the City maintains a significantly large number of bank accounts. A number of these accounts are separate passbook accounts used for each developer surety bond escrow established by the Planning Board. Maintaining these numerous separate bank accounts significantly increases the amount of time required to reconcile cash. We recommend that a serious effort be made as soon as possible to consolidate as many bank accounts as possible. Many banks will maintain and report balances for separate activities within one bank account. This option is being used for the City's trust funds and should also be used for the City's developer escrow accounts.

Trust Funds

As mentioned above in regard to the improvement in the City's cash reconciliation procedures, significant improvements have also been made relating to the recording and reporting of the City's trust funds. Nearly all of the actual trust fund bank accounts have now been transferred into one or more custodial investment accounts. In these specific individual investment accounts, the bank is able to keep track of numerous trust funds with all of the required contribution, investment income, disbursement and other related detailed activity. This method of investing and accounting for the numerous City trust funds is much less time consuming and more efficient than maintaining numerous pass

City of Haverhill, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2006
(Continued on Page 54)

books and statement bank accounts. During our review, however, we found that the system being used to report and record all of the trust fund activity into the City's general ledger accounting system, needs to be enhanced.

We recommend that the City Auditor and Treasurer work together on enhancing the system of recording and reporting all of the required information relating to contributions, investment income, disbursements, etc. for the trust funds. This work should be done on at least a quarterly basis.

2006-2 Debt Reconciliation and Capital Projects Accounting

During our review of the procedures used by the City Auditor's office and the Treasurer's office to reconcile the long term and short term debt principal balances, we found that a significant effort is being made by the City Auditor and Treasurer on a regular basis when reviewing all the City debt activity. The City Auditor and Treasurer work together closely each year when preparing the City's annual budget debt amounts and when determining debt exclusion items, when preparing the tax rate recapitulation sheet. In addition, the City Auditor does reconcile the outstanding debt balances at the end of the fiscal year with First Southwest (the City's financial advisor relating to all debt). However, we found that formal procedures were not used to reconcile the total outstanding debt principal balances between the two offices on an annual or quarterly basis. We also found during our review of the debt (and related accounts receivable) relating to the MWPAT (Massachusetts Water Pollution Abatement Trust), that certain correcting entries were needed. In addition, during our review of the capital projects fund accounting, we found that a system is not yet in place to capitalize the projects that have been completed.

We recommend that formal procedures relating to reconciling the total outstanding principal balances for long term and short term debt be performed between the City Auditor and Treasurer. The City Auditor should also set up accounts in the general ledger to keep track of the long term debt principal balances. Principal payments and new debt issued should be recorded in the general ledger and the outstanding principal balances should be reconciled with the Treasurer. In addition, the debt (and related accounts receivable) relating to the MWPAT projects should be carefully reviewed and reconciled between the City Auditor's and Treasurer's records and the records of First Southwest and the MWPAT agency.

We also recommend that a system be established to capitalize the capital projects once they have been completed. This will require a method of accounting for all costs relating to each project, then recording them in the fixed asset database and depreciating the assets over their respective useful lives. As the projects are on going, the expenses are considered construction work in process, and should be kept track of and accounted for at the end of each fiscal year.

City of Haverhill, Massachusetts
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2006
 (Continued on Page 55)

III Findings and Questioned Costs for Federal Awards

<u>Finding Number</u>	<u>Department</u>	<u>C.F.DA.#</u>	<u>Finding</u>
2006-3	United States Department of Housing and Urban Development	14.218	<p><u>Citizen Participation Plan (CPP)</u> For the fiscal year ended June 30, 2006 the City did not have adequate documentation that it met all the requirements of the Citizen Participation Plan (CPP) (ie; public hearing advertisements, minutes of meeting, etc..). As a result the City could not adequately prove that the citizens were involved in the Consolidated Plan.</p> <p>During our review, we found that the Citizen Participation Plan has been amended to include increased public participation efforts, for the fiscal year ended June 30, 2007. In addition, other changes to the CPP have been implemented during fiscal year 2007.</p> <p>We recommend that the Community Development Block Grant (CDBG) Office continue to review the requirements related to the CPP and be certain to maintain documentation showing that the requirements have been followed.</p>
2006-4	United States Department of Housing and Urban Development	14.218	<p><u>Payroll Certifications and Supporting Documentation</u> For the fiscal year ended June 30, 2006, the Community Development Block Grant (CDBG) Office payroll timesheet records did not provide adequate federal program allocation documentation.</p>

City of Haverhill, Massachusetts
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2006
 (Continued on Page 56)

<u>Finding Number</u>	<u>Department</u>	<u>C.F.D.A.#</u>	<u>Finding</u>
2006-4	United States Department of Housing and Urban Development (Continued)	14.218	<p>During our review, we found that during the fiscal year ended June 30, 2007, the weekly timesheets, and related recording procedures, have been revised so that compliance with federal program allocation documentation requirements, can be achieved.</p> <p>In the absence of signed timesheets that properly support a payroll charge 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:</p> <ol style="list-style-type: none"> 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 semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. 2. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. <p>Personnel activity reports or equivalent documentation must meet the following standards:</p> <ol style="list-style-type: none"> (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,

City of Haverhill, Massachusetts
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2006
 (Continued on Page 57)

<u>Finding Number</u>	<u>Department</u>	<u>C.F.D.A.#</u>	<u>Finding</u>
2006-4	United States Department of Housing and Urban Development (Continued)	14.218	<p>(c) They must be prepared at least monthly and must coincide with one or more pay periods, and</p> <p>(d) They must be signed by the employee,</p> <p>(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.</p>

We recommend that the CDBG Office be certain to follow the requirements of OMB Circular A-87.

2006-5	United States Department of Housing and Urban Development	14.218, 14.235 and 14.239	<p><u>Subrecipient Monitoring</u></p> <p>During our review, we found that the Community Development Block Grant (CDBG) Office did not adequately perform subrecipient monitoring, in accordance with federal regulatory requirements. A subrecipient is defined in OMB Circular A-133 as a non-federal entity that expends federal awards received from a pass-through entity to carry out a federal program.</p> <p>During our review, we found that for the fiscal year ended June 30, 2007, a new monitoring plan has been written to be used for subrecipient monitoring purposes.</p> <p>We recommend that every effort be made to perform subrecipient on-site monitoring in accordance with federal regulations.</p>
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City of Haverhill, Massachusetts
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2006
 (Continued on Page 58)

<u>Finding Number</u>	<u>Department</u>	<u>C.F.D.A.#</u>	<u>Finding</u>
2006-6	United States Department of Housing and Urban Development	14.218	<p><u>Procurement</u></p> <p>During our review of the cash disbursement process, for the Community Development Block Grant (CDBG) Office, we found instances where the required documentation relating to the Procurement Law, was not available.</p> <p>Federal law and regulations, and Chapter 30B, of Massachusetts General Laws, require that all purchases be made in accordance with procurement regulations and standards. Chapter 30B requires that all purchases between \$5,000 and \$25,000 have documentation that shows that three phone quotes were received, before the goods or services were received. Purchases in excess of \$25,000 require bids or request for proposals, unless exempt by law. All procurement documentation should be maintained for six years, at a minimum.</p> <p>We recommend that all purchases made by the CDBG Office, have proper documentation that shows that the requirements of applicable Federal law and regulations, and the requirements of the Massachusetts Chapter 30B Procurement Law, have been followed.</p>
2006-7	United States Department of Education	84.027, 84.173, 84.287 and 84.367	<p><u>Payroll Certifications and Supporting Documentation</u></p> <p>For the fiscal year ended June 30, 2006, the payroll records did not provide adequate federal program allocation documentation for all federal grant programs. The steps necessary to implement the payroll certifications requirements, as explained below, have been properly implemented for the Title 1 federal grant program, but have not yet been implemented for the other federal grant programs.</p> <p>In the absence of signed timesheets that properly support a payroll charge to federal grant programs,</p>

City of Haverhill, Massachusetts
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2006
 (Continued from Page 57)

<u>Number</u>	<u>Department</u>	<u>C.F.D.A.#</u>	<u>Finding</u>
2006-7	United States Department of Education (Continued)	84.027, 84.173, 84.287 and 84.367	<p>the United States Office of Management and Budget (OMB) Circular A- 87 specifies that certain payroll certifications must be made as noted below:</p> <ol style="list-style-type: none"> 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 semi-annually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. 2. Where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. <p style="margin-left: 40px;">Personnel activity reports or equivalent documentation must meet the following standards:</p> <ol style="list-style-type: none"> (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, and (d) They must be signed by the employee, (e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards, but, may be used for interim accounting purposes when certain other requirements are met.

We recommend that the City be certain to follow the requirements of OMB Circular A-87.

City of Haverhill, Massachusetts
Summary of Prior Years Findings and Questioned Costs
For the Year Ended June 30, 2006

Prior Year
Fiscal Year Ended
June 30, 2005

<u>Finding#</u>	<u>Current Status</u>
2005-1	<u>Debt Reconciliation and Capital Projects Accounting</u> Please see the fiscal year ended June 30, 2006, Schedule of Findings and Questioned Costs, Item #2006-2.
2005-2	<u>Trust Fund Accounting and Cash Reconciliation</u> Please see the fiscal year ended June 30, 2006, Schedule of Findings and Questioned Costs, Item #2006-1.
2005-3	<u>Citizens Participation Plan (CPP)</u> Please see the fiscal year ended June 30, 2006, Schedule of Findings and Questioned Costs, Item #2006-3.
2005-4	<u>Payroll Certification and Supporting Documentation</u> Please see the fiscal year ended June 30, 2006, Schedule of Findings and Questioned Costs, Item #2006-4.