

CITY OF HAVERHILL, MASSACHUSETTS

Financial Statements

June 30, 2005

(With Accountants' Report Thereon)

Giusti, Hingston and Company

Certified Public Accountants

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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, 2005, (December 31, 2004 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, 2005 (and the Contributory Retirement System as of December 31, 2004) 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.

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.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 15, 2005 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.

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. 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
December 15, 2005

City of Haverhill, Massachusetts
Management's Discussion and Analysis
June 30, 2005

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, 2005. 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 \$ 140,148,345 (*net assets*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 6,014,036, or 5 percent of total general fund expenditures.
- The City of Haverhill, Massachusetts' total long term debt increased by \$ 6,293,456 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, 2005 **basic financial statements**. The City of Haverhill's basic financial statements comprise three components: 1) **government-wide financial statements**, 2) **fund financial statements**, and 3) **notes to the financial statements**. This report also contains other supplementary information in addition to the basic financial statements themselves. Please refer to the Table of Contents for a concise breakdown of the financial statements.

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise of the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statement activities are explained below:

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

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

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

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

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

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

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

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

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

Financial Analysis of the Government-wide Financial Statements

Net Assets

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

**Net Assets
June 30, 2005**

	<u>Governmental Activities</u>		<u>Change</u>
	<u>June 30, 2005</u>	<u>June 30, 2004</u>	
Current and Other Assets	\$ 77,454,543	\$ 72,140,135	\$ 5,314,408
Capital Assets	215,043,339	211,758,870	3,284,469
Total Assets	<u>292,497,882</u>	<u>283,899,005</u>	<u>8,598,877</u>
Other Liabilities	27,261,945	24,406,138	2,855,807
Long Term Liabilities	125,087,592	117,243,709	7,843,883
Total Liabilities	<u>152,349,537</u>	<u>141,649,847</u>	<u>10,699,689</u>
Net Assets:			
Invested in Capital Assets net of Related Debt	169,384,922	181,227,809	(11,842,887)
Restricted	9,673,408	5,833,617	3,839,791
Unrestricted	(38,909,985)	(44,812,269)	5,902,285
Total Net Assets	<u>\$ 140,148,345</u>	<u>\$ 142,249,157</u>	<u>\$ (2,100,812)</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 \$ 169,384,922 in net assets; and the assets restricted for specific purposes represent \$ 9,673,408 in net assets. As these two components of net assets exceed total net assets, unrestricted net assets showed a (\$38,909,985) 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, 2005	June 30, 2004	
Revenues			
Program Revenues:			
Charges for Services	\$ 19,591,959	\$ 18,045,105	\$ 1,546,855
Operating Grants and Contributions	61,571,831	57,653,762	3,918,069
Capital Grants and Contributions	309,709	2,669,210	(2,359,501)
General Revenues:			
Real Estate and Personal Property Taxes	62,048,167	58,214,262	3,833,905
Excises	6,189,422	5,110,442	1,078,980
Other Taxes, Assesments and in Lieu Payments	627,988	2,065,460	(1,437,471)
Intergovernmental Not Restricted to a Specific Program	7,040,247	6,683,722	356,525
Earnings on Investment	487,981	106,556	381,426
Other Revenue	1,504,654	(301,028)	1,805,681
Health Insurance Trust	2,305,373	-	2,305,373
Hospital Settlement	750,000	2,084,601	(1,334,601)
Total Revenues	162,427,332	152,332,092	10,095,240
Expenses			
General Government	2,432,446	3,363,749	(931,303)
Public Safety	15,273,119	13,936,375	1,336,744
Education	73,419,327	72,016,089	1,403,237
Public Works	10,413,290	11,897,882	(1,484,592)
Human Services	2,907,707	2,398,706	509,001
Community and Economic Development	3,306,905	1,818,966	1,487,938
Debt Service	3,580,214	4,820,862	(1,240,648)
Intergovernmental	2,633,535	1,531,090	1,102,445
Health Insurance and Other Employee Benefits	20,022,267	19,272,854	749,413
Pension Benefits	6,862,654	6,588,867	273,787
Water and Sewer	11,034,149	11,716,490	(682,341)

Changes in Net Assets (Continued)

	<u>Governmental Activities</u>		
	<u>June 30, 2005</u>	<u>June 30, 2004</u>	
Hale Hospital	-	39,395	(39,395)
Community Development	3,500,000	1,833,155	1,666,845
Teacher's Retirement on Behalf Payments	7,807,645	6,661,899	1,145,746
Total Expenses	<u>163,193,257</u>	<u>157,896,379</u>	<u>5,296,878</u>
Increase (Decrease) in Net Assets			
Before Special items	(765,925)	(5,564,287)	4,798,362
Disposal of Assets	-	4,883	(4,883)
Special Items	<u>(2,163)</u>	<u>194,560</u>	<u>(196,723)</u>
Increase (Decrease) in Net Assets	<u>\$ (768,088)</u>	<u>\$ (5,364,844)</u>	<u>\$ 4,596,756</u>

The above table shows the total net assets of the City. The net assets of the City decreased by \$ 768,088 or 1%. The June 30, 2004 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 2005, property tax accounted for approximately 38% 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 \$ 3,655,007 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, 2005, amounts to \$ 215,043,339 (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, 2005 and June 30, 2004
(Net of Depreciation)

	Governmental Activities	
	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Buildings	\$ 53,370,754	\$ 55,424,163
Equipment	5,463,752	4,855,693
Improvements	802,157	900,715
Land	11,945,019	12,022,419
Construction Work in Process	13,723,206	4,497,571
Infrastructure	127,835,226	132,019,992
Vehicles	1,903,224	2,038,317
	<u> </u>	<u> </u>
Total	<u><u>\$ 215,043,339</u></u>	<u><u>\$211,758,870</u></u>

Debt

The City had \$ 115,323,036 in bonds outstanding on June 30, 2005. This represents a \$ 6,293,456 increase (or 6%) from the previous year. The City carries an underlying bond rating of “Baa2” from Moody’s and a “BBB+” from Standard and Poor.

Outstanding Debt at June 30, 2005 and June 30, 2004

Governmental Activities	<u>2005</u>	<u>2004</u>
Notes Payable	\$ 11,509,426	\$ 10,253,311
General Obligation Bonds Payable	<u>115,323,036</u>	<u>109,029,580</u>
Total Governmental Activities	<u><u>\$126,832,462</u></u>	<u><u>\$ 119,282,891</u></u>

Fiscal Year 2005 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.

Continued increases in health insurance premiums and other costs made the fiscal year 2005 budget process difficult, although a balanced budget was adopted for fiscal 2005.

City of Haverhill, Massachusetts
Statement of Net Assets
June 30, 2005
(Continued on Page 10)

	<u>Government- Wide</u> Governmental Activities Total <hr style="border: 1px solid black;"/>
ASSETS	
CURRENT:	
Cash/Investments	\$ 27,951,837
Receivables:	
Real Estate and Personal Property	1,871,258
Motor Vehicle and Other Excise	1,664,623
Tax Liens and Forclosures	1,255,705
Other	89,020
User Charges	1,322,988
Due from Commonwealth of Massachusetts - SBAB	3,433,859
Due from Commonwealth of Massachusetts - Other	6,716,691
NONCURRENT:	
Intergovernmental	33,148,562
Capital Assets:	
Capital Asset, Net	215,043,339
TOTAL ASSETS	292,497,882
 LIABILITIES	
CURRENT:	
Warrants Payable	2,201,573
Due to Other Funds	1,288,745
Other Liabilities	4,514,363
Temporary Loans	11,509,426
Accrued Interest	968,966
Bonds Payable	6,778,871
NONCURRENT:	
Bonds Payable	108,544,165
Longevity Payable	957,911
Compensated Absences	2,450,705
Landfill Liabilities	13,134,811
TOTAL LIABILITIES	152,349,537

City of Haverhill, Massachusetts
Statement of Net Assets
June 30, 2005
(Continued from Page 9)

	<u>Government- Wide</u>
	<u>Governmental Activities Total</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	169,384,922
Restricted for:	
Capital Projects	6,427,342
Special Revenue	3,246,066
Unrestricted (Deficit) (Note 16)	<u>(38,909,985)</u>
TOTAL NET ASSETS	<u><u>\$ 140,148,345</u></u>

City of Haverhill, Massachusetts

Statement of Activities

Fiscal Year Ended June 30, 2005

Functions/Programs	Program Revenues				Net (Expenses)
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Assets
					Total Governmental Activities
<i>Governmental Activities:</i>					
General Government	\$ 2,432,446	\$ 769,012	\$ 11,586	\$ 32,490	\$ (1,619,358)
Public Safety	15,273,119	619,183	908,337	60,000	(13,685,600)
Education	73,419,327	1,984,605	49,704,731	-	(21,729,990)
Public Works	10,413,290	1,710,992	914,184	80,459	(7,707,655)
Human Services	2,907,707	1,028,379	316,623	-	(1,562,705)
Community and Economic Development	3,306,905	1,105,984	1,908,725	-	(292,196)
Debt Service	3,580,214	-	-	-	(3,580,214)
Intergovernmental	2,633,535	-	-	-	(2,633,535)
Health Insurance and Other Employee Benefits	20,022,267	-	-	-	(20,022,267)
Pension Benefits	6,862,654	-	-	-	(6,862,654)
Water and Sewer	11,034,149	12,373,804	-	136,761	1,476,416
Landfill	3,500,000	-	-	-	(3,500,000)
Teacher's Retirement on Behalf Payments	7,807,645	-	7,807,645	-	-
Total Governmental Activities	<u>\$ 163,193,257</u>	<u>\$ 19,591,959</u>	<u>\$ 61,571,831</u>	<u>\$ 309,709</u>	<u>(81,719,758)</u>
<i>General Revenues:</i>					
					62,048,167
					6,189,422
					627,988
					7,040,247
					487,981
					1,504,654
					2,305,373
					750,000
					(2,163)
					<u>80,951,670</u>
					<u>(768,088)</u>
<i>Net Assets:</i>					
					142,249,157
					<u>(1,332,724)</u>
					<u>140,916,433</u>
					<u>\$ 140,148,345</u>

City of Haverhill, Massachusetts
Governmental Funds
Balance Sheet
June 30, 2005

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash/Investments	\$27,951,837	\$ -	\$ 27,951,837
Receivables:			
Real Estate and Property Taxes	1,871,258	-	1,871,258
Motor Vehicle and Other Excise	1,664,623	-	1,664,623
Tax Liens and Forclosures	1,255,705	-	1,255,705
Other	85,269	3,751	89,020
Due From Other Funds	-	9,786,763	9,786,763
User Charges	1,322,988	-	1,322,988
Due from Commonwealth of Massachusetts - SBAB	36,582,421	-	36,582,421
Due from Commonwealth of Massachusetts - Other	-	6,716,691	6,716,691
Total Assets	\$70,734,101	\$ 16,507,205	\$ 87,241,306
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Warrants Payable	\$ 2,201,573	\$ -	\$ 2,201,573
Due to Other Funds	15,976,505	-	15,976,505
Temporary Loans	-	11,509,426	11,509,426
Other Liabilities	-	2,414,363	2,414,363
Deferred Revenue:			
Deferred Revenue - Due from Commonwealth of Massachusetts	36,582,421	-	36,582,421
Deferred Revenue - Other	5,791,178	-	5,791,178
Total Liabilities	60,551,677	13,923,789	74,475,466
Fund Equity:			
Fund Balances:			
Reserved for Encumbrances	1,056,868	-	1,056,868
Reserved for Special Purposes	3,187,520	-	3,187,520
Unreserved:			
Designated for:			
Subsequent Year's Expenditures	174,000	-	174,000
Snow and Ice Deficit	(250,000)	-	(250,000)
Undesignated, Reported in:			
General Fund	6,014,036	-	6,014,036
Special Revenue Fund	-	3,246,066	3,246,066
Capital Projects Fund	-	(960,460)	(960,460)
Permanent Funds	-	297,810	297,810
Total Fund Balances	10,182,424	2,583,416	12,765,840
Total Liabilities and Fund Balances	\$70,734,101	\$ 16,507,205	\$ 87,241,306

City of Haverhill, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2005

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES:</u>			
Real Estate and Personal Property Taxes	\$ 61,651,748	\$ -	\$ 61,651,748
Excises	5,975,121	-	5,975,121
Fees, Departmental and Charges for Services	4,297,047	2,921,108	7,218,155
Intergovernmental	47,651,549	16,896,451	64,548,000
Earnings on Investments	487,981	-	487,981
Other Taxes, Assesments and In Lieu Payments	485,499	-	485,499
Hospital Settlement	750,000	-	750,000
Water and Sewer	12,387,712	-	12,387,712
Teacher's Retirement on Behalf Payments	7,807,645	-	7,807,645
Other Revenue	92,103	1,476,391	1,568,494
TOTAL REVENUES	141,586,407	21,293,950	162,880,357
<u>EXPENDITURES:</u>			
General Government	2,537,969	349,669	2,887,638
Public Safety	14,483,170	630,886	15,114,056
Education	55,580,981	19,840,862	75,421,843
Public Works	7,058,120	896,110	7,954,230
Human Services	1,718,912	884,864	2,603,776
Community and Economic Development	1,345,619	1,966,759	3,312,378
Debt Service	9,368,149	-	9,368,149
Intergovernmental	2,633,535	-	2,633,535
Health Insurance and Other Employee Benefits	20,022,267	-	20,022,267
Pension Benefits	6,862,654	-	6,862,654
Water and Sewer	9,159,593	5,803,235	14,962,828
Landfill	-	1,440,189	1,440,189
Teacher's Retirement on Behalf Payments	7,807,645	-	7,807,645
TOTAL EXPENDITURES	138,578,614	31,812,574	170,391,188
Excess of Revenues Over (Under) Expenditures	3,007,793	(10,518,624)	(7,510,831)
Other Financing Sources (Uses):			
Operating Transfers In	796,714	1,284,230	2,080,944
Operating Transfers (Out)	(149,500)	(1,761,254)	(1,910,754)
Proceeds from Bonds	-	12,030,931	12,030,931
Total Other Financing Sources (Uses)	647,214	11,553,907	12,201,121
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	3,655,007	1,035,283	4,690,290
Fund Balance, Beginning	6,527,417	2,880,857	9,408,274
Prior Period Adjustment	-	(1,332,723)	(1,332,723)
Fund Balance, Beginning as Restated	6,527,417	1,548,134	8,075,551
Fund Balance, Ending	\$ 10,182,424	\$ 2,583,417	\$ 12,765,840

City of Haverhill, Massachusetts
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Assets
 Fiscal Year Ended June 30, 2005

Total Governmental Fund Balances	\$ 12,765,840
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	215,043,339
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	42,373,599
Internal service funds are used to account for the health insurance trust fund. The assets and liabilities of the internal service fund is included in the governmental activities in the statement of net assets.	2,800,997
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(115,323,036)
Accrued Interest on Bonds	(968,966)
Landfill Accrued Liability	(13,134,811)
Compensated Absences	(2,450,705)
Longevity Liability	<u>(957,911)</u>
Net Assets of Governmental Activities	<u><u>\$ 140,148,345</u></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, 2005

Net change in fund balances - total governmental funds	\$ 4,690,290
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 amount by which depreciation exceeded capital outlays in the current period.	3,456,820
Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.	(2,758,398)
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.	(6,293,456)
In the statement of activities, interfund transfers are eliminated for those funds that are combined together in the GovernmentWide financial statements. This amount is the effect of the difference relating to agency fund transfers.	(172,353)
Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(2,046,824)
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.	50,460
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>2,305,373</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (768,088)</u></u>

City of Haverhill, Massachusetts
 Proprietary Funds
 Statement of Net Assets
 June 30, 2005

	Governmental Activities
	Internal Service Fund
ASSETS	
Due from Other Funds	\$ 4,900,998
TOTAL ASSETS	4,900,998
 LIABILITIES	
Accrued Liabilities	2,100,000
TOTAL LIABILITIES	2,100,000
 NET ASSETS	
Unrestricted	2,800,998
TOTAL NET ASSETS	\$ 2,800,998

City of Haverhill, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Fiscal Year Ended June 30, 2005

	Governmental Activities
	Internal Service Fund
Operating Revenues:	
Contributions	\$30,754,850
Total Operating Revenues	30,754,850
Operating Expenditures:	
Employee Benefits	28,449,478
Total Operating Expenditures	28,449,478
Operating Income (Loss)	2,305,372
Net Assets at Beginning of Year	495,626
Net Assets at End of Year	\$ 2,800,998

City of Haverhill, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2005

	Governmental Activities
	Internal Service Fund
Cash Flows from Operating Activities:	
Net Income (Loss)	\$ 2,305,372
Net Cash Flows Provided (Used) by Operating Activities	2,305,372
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 2,305,372

City of Haverhill, Massachusetts
Statement of Net Assets
Fiduciary Funds
June 30, 2005

	Pension Trust Fund As of <u>December 31, 2004</u>	Private Purpose <u>Trust Funds</u>
ASSETS		
Cash and Investments	\$ 3,506,282	\$3,484,717
Due from Other Funds		1,288,745
Receivables:		
Dividend and Interest	357,995	-
Employee Contributions	61,470	-
Commonwealth of Massachusetts	402,557	-
Due from Other Systems	194,883	-
Total Receivables	1,016,905	-
Investments at Fair Value:		
Stocks	69,517,873	-
Fixed Income Securities	32,927,607	-
Real Estate and Other Investemnts	44,662,688	-
Total Investments	147,108,168	-
TOTAL ASSETS	151,631,355	4,773,462
LIABILITIES		
Accounts Payable	20,944	-
Amounts Due to Other Systems	262,505	-
TOTAL LIABILITIES	283,449	-
NET ASSETS		
Net Assets Held in Trust	\$ 151,347,906	\$4,773,462

City of Haverhill, Massachusetts
Statement of Changes in Net Assets
Fiduciary Funds
Year Ended June 30, 2005

	Pension Trust Fund As of <u>December 31, 2004</u>	Private Purpose Trust <u>Funds</u>
Additions:		
Contributions:		
Employer	\$ 7,114,015	\$ -
Employee	2,759,428	-
Private Donations and Earnings on Investments	-	532,919
Intergovernmental	735,526	-
Total Contributions	<u>10,608,969</u>	<u>532,919</u>
Transfers from Other Systems	<u>433,347</u>	<u>-</u>
Net Investment Income (Loss):		
Net Appreciation in the Fair Value of Plan Assets and Gains and (Losses)	14,906,112	-
Interest and Dividends	<u>2,976,504</u>	<u>-</u>
Total Investment Income (Loss)	17,882,616	-
Less Investment Expense	<u>1,185,921</u>	<u>-</u>
Net Investment Income (Loss)	<u>16,696,695</u>	<u>-</u>
Total Additions (Reductions)	27,739,011	532,919
Deductions:		
Benefit Payments to Retirees, Survivors, and Disability Retirees	19,316,687	-
Refunds to Members Leaving the Plan	624,601	-
Transfers to Other Systems	380,934	-
Administrative Expenses	335,010	-
Scholarships and Other Expenses	-	335,123
Total Deductions	<u>20,657,232</u>	<u>335,123</u>
Net Increase (Decrease)	7,081,779	197,796
Net Assets Held In Trust:		
Beginning of Year	<u>144,266,127</u>	<u>4,575,666</u>
End of Year	<u>\$ 151,347,906</u>	<u>\$ 4,773,462</u>

City of Haverhill, Massachusetts
Notes to the Financial Statements
June 30, 2005

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, 2005. 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, 2004.

(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, 2005 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 and reserved for special purposes 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 not insure for workers' compensation and is partially insured for group health. The City does insure for casualty, theft, tort claims and other losses. Uninsured losses are recorded as expenditures when paid.

(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, 2005, the Commonwealth paid \$7,807,646 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, 2005, or fund balances at June 30, 2005.

(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 (\$ 1,332,723) shown in the Financial Statements is made up of (\$ 539,571), which relates to the reversal of a prior year accounts receivable accrual. In addition, (\$ 793,152) relates to a reversal of an amount shown as revenue in a prior period relating to the issuance of short term debt. This amount should be shown as revenue only when the debt is permanently borrowed.

2. The City’s cash and cash investments are considered to be demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

State and local statutes place certain limitations on the nature of deposits and investments available to the City. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain prescribed levels without collateralization by the financial institution involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. governments or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Depository Trust (“MMDT”).

Deposits

At year end, the carrying amount of the City’s deposits was \$27,951,837 and the bank balance was \$28,559,892. Of the bank balance, \$5,253,752 was insured or collateralized and \$23,306,140 was uninsured and uncollateralized.

Investments

The City’s investments are categorized to give an indication of the level of risk assumed by the entity at year-end.

Category 1 - includes investments that are insured or registered or for which the securities are held by the City or its agent in the City’s name.

Category 2 - includes uninsured and unregistered investments for which the securities are held by the broker’s or dealers trust department or agent in the City’s name.

Category 3 - include uninsured and unregistered investments for which securities are held by the broker or dealer, or by its trust department or agent, but not in the City’s name.

The City’s investments (other than the Contributory Retirement System) were all Category 1 (\$3,484,717).

Investments at December 31, 2004 in the Contributory Retirement System are summarized below:

Investments Held at December 31, 2004:

	Category				Fair Value Total
	1	2	3	Not Categorized	
Common Stocks	\$ 69,517,873	\$ -	\$ -	\$ -	\$ 69,517,873
Fixed Income Securities	32,927,607	-	-	-	32,927,607
Real Estate and Other Investments	-	-	-	44,662,688	44,662,688
Total	<u>\$102,445,480</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$44,662,688</u>	<u>\$147,108,168</u>

Deposits – At December 31, 2004, the carrying value of the System Deposits was \$3,506,282. As of December 31, 2004 the bank balance was \$3,886,207. Of the December 31, 2004 bank balance, \$200,000 was insured by Federal Depository Insurance Corporation and \$3,686,289 was uninsured.

3. Property Taxes

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

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

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

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

4. Accounts Receivable

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

General Fund

Property Taxes Receivable:

Real Estate Taxes	
2005	\$ 1,577,519
2004	205,802
2003	<u>9</u>
 Total Real Estate Taxes	 <u>\$ 1,783,330</u>

Personal Property Taxes		
2005	14,888	
2004	19,138	
2003	13,341	
2002	8,335	
2001 & Prior	<u>32,224</u>	
Total Personal Property Taxes		<u>87,928</u>
Total Property Taxes Receivable		<u>\$ 1,871,258</u>
Tax Liens and Forclosures		<u>\$ 1,255,705</u>
Excise Taxes Receivable:		
Motor Vehicle Excise Taxes		
2005	\$ 836,473	
2004	235,470	
2003	104,108	
2002	58,489	
2001 & Prior	<u>421,558</u>	
Total Motor Vehicle Excise Taxes		<u>1,656,098</u>
Boat Excise Taxes		
2005	2,159	
2004	2,685	
2003	1,844	
2002	1,188	
2001 & Prior	<u>649</u>	
Total Boat Excise Taxes		<u>8,525</u>
Total Motor Vehicle and Other Excise Taxes		<u>\$ 1,664,623</u>
Other Accounts Receivable		<u>\$ 89,020</u>
User Charges - Water and Sewer		<u>\$ 1,322,988</u>

Due from Commonwealth of Massachusetts

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

The \$ 36,582,421 General Fund Due from Commonwealth of Massachusetts-SBAB 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 by the Massachusetts Department of Education 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.

The Non Major Governmental Funds column, Due from Commonwealth of Massachusetts is the amount due to the City as of June 30, 2005 relating to Chapter 90 highway repair and improvement projects, MWPAT (Massachusetts Water Pollution Abatement Trust) wastewater and landfill projects and other items listed below. 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, 2005, other than the school building project amount noted above:

Due from Commonwealth of Massachusetts – Chapter 90	\$ 1,003,919
Due from Commonwealth of Massachusetts – MWPAT	5,712,263
Due from Commonwealth of Massachusetts – Other	<u>509</u>
 Total	 <u>\$ 6,716,691</u>

5. Temporary Loans

At June 30, 2005, the City had Bond Anticipation Notes (BAN's) outstanding of \$ 9,661,115. In addition, the City had State Aid Anticipation Notes (SAAN's) outstanding of \$ 1,848,311 to finance various capital projects. 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, 2005:

<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	\$ 7,845,000	\$ 9,661,115	\$ 7,845,000	\$ 9,661,115
SAAN's	2,408,311	1,848,311	2,408,311	1,848,311
Total	<u>\$ 10,253,311</u>	<u>\$ 11,509,426</u>	<u>\$ 10,253,311</u>	<u>\$ 11,509,426</u>

6. Long Term Debt

General obligation bonds outstanding at June 30, 2005 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, 2005:

	<u>Governmental Activities</u>
Balance 7/01/04	\$ 109,029,580
Add: New Issues	12,030,931
Less: Maturities	<u>(5,737,475)</u>
Balance 6/30/05	<u><u>\$ 115,323,036</u></u>

(B) Summary of Debt Service Requirements to Maturity:

	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2006	\$ 6,778,871	\$ 5,672,992
2007	7,030,167	5,340,383
2008	7,211,997	4,982,352
2009	7,447,065	4,606,188
2010	7,700,797	4,227,454
2011-2015	36,627,538	15,573,429
2016-2020	27,729,380	7,116,989
2021-2025	8,992,220	2,009,676
2026-2030	2,395,000	1,024,375
2031-2035	<u>3,410,000</u>	<u>367,125</u>
	<u><u>\$ 115,323,036</u></u>	<u><u>\$ 50,920,964</u></u>

(C) Long -Term Debt Authorizations

General Obligation Bonds authorized and unissued at June 30, 2005 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	870,000
3/13/2003	Haverhill High School Renovation	27,520,000
3/13/2003	Boilers - Various Schools	2,000,000
5/2/2003	Closure Old Landfill	470,411
6/16/2003	CSO Project MWPAT	7,260,501
3/23/2004	Closure Old Landfill	4,669,732
4/15/2004	MWPAT - Landfill	1,500,000
8/26/2004	Departmental Equipment	270,000
12/23/2004	Parking Deck	161,115
5/24/2005	Sewer	1,600,000
5/24/2005	Watermain Improvement	2,165,000
5/24/2005	Watermain Improvement	<u>1,535,501</u>
	Total	<u>\$ 54,272,260</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, 2005 are as follows:

General Fund - Fund Balances:

Reserved for Encumbrances	\$ 1,056,868
Reserved for Subsequent Years Expenditures	174,000
Reserved for Special Purposes	3,187,520
Unreserved Fund Balance:	
Reserved for Snow and Ice Deficit	(250,000)
Unreserved Fund Balance	<u>6,014,036</u>
Total Unreserved Fund Balance	<u>5,764,036</u>
Total General Fund - Fund Balance	<u>\$ 10,182,424</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, 2005. The budget amounts include special City Council meeting votes applicable to June 30, 2005.

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	\$134,158,064
Adjustments:	
Sixty Day Property Tax Accrual - Net	(379,302)
Teacher Retirement on Behalf Payments	<u>7,807,645</u>
As Reported GAAP Statement	<u><u>\$141,586,407</u></u>
	<u>Expenditures</u>
As Reported Budget Basis	\$132,685,726
Adjustments:	
July 1, 2004 Encumbrances	436,744
July 1, 2004 Reserve for Special Purposes	1,892,885
June 30, 2005 Encumbrances	(1,056,868)
June 30, 2005 Reserve for Special Purposes	(3,187,520)
On Behalf Payments Included in Employee Benefits	<u>7,807,645</u>
As Reported GAAP Statement	<u><u>\$138,578,613</u></u>

9. Contributory Retirement System

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

The System is a single employer contributory defined benefit plan covering City employees deemed eligible by the Board, with the exception of School Department employees who serve in a teaching capacity. The pensions of such school employees are administered by the State Teachers' Retirement Board.

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

Massachusetts General Laws Chapter 697, Section 67, Act of 1987, also known as the Pension Reform Act of 1987.

Nonteaching 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 (2.5% during calendar 1998). 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 2004 was as follows:

Annual Required Contribution (“ARC”)	<u>\$ 7,154,297</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, 2005 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, 2005 was \$ 15,878,238.

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 exposed to various risks of losses related to group 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), although its status on the list has not necessitated specific action by the City to commence any immediate assessment or remediation activities. 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 Department of Environmental Protection will result in further legal proceedings with either the Commonwealth of Massachusetts or the EPA. The City is currently responding to the communications.

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, 2005 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:

	Transfer In	Transfer (Out)	Total
General	\$ 796,714	\$ (149,500)	\$647,214
Non-major Governmental	1,284,230	(1,761,254)	(477,024)
Agency Fund	-	(170,190)	(170,190)
Total	<u>\$2,080,944</u>	<u>\$(2,080,944)</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, 2005 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 2006 budget amounts for the General Fund totaling \$142,650,659. Fiscal year 2006 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	\$64,966,169
Reserved for Subsequent Years Expenditures	174,000
Estimated Receipts, Other Revenue Sources and Other Available Funds	<u>77,510,490</u>
Total	<u>\$142,650,659</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 \$169,384,922 in net assets; and the assets restricted for specific purposes represent \$ 9,673,408 in net assets. As these two components of net assets exceed total net assets, unrestricted net assets showed a (\$ 38,909,985) 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, 2005 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	\$ -	\$ -	\$ 85,756,650
Equipment	744,505	431,270	-	1,175,775
Improvements	3,085,569	-	-	3,085,569
Land	10,437,893	-	(77,400)	10,360,493
Construction Work in Process	4,497,571	9,225,635	-	13,723,206
Infrastructure	136,647,997	-	-	136,647,997
Vehicles	5,589,293	499,442	(383,787)	5,704,948
Totals - Cost	<u>246,759,479</u>	<u>10,156,347</u>	<u>(461,187)</u>	<u>256,454,639</u>

Capital Assets (Continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
<u>Less Accumulated Depreciation:</u>				
Buildings	30,404,898	2,047,029	-	32,451,927
Equipment	489,958	61,958	-	551,917
Improvements	2,185,779	97,633	-	2,283,412
Infrastructure	50,376,926	2,677,185	-	53,054,111
Vehicles	3,799,823	489,532	(288,937)	4,000,417
Totals- Accumulated Depreciation	<u>87,257,384</u>	<u>5,373,338</u>	<u>(288,937)</u>	<u>92,341,784</u>
General Fund - Capital Assets, Net	<u>\$ 159,502,095</u>	<u>\$ 4,783,009</u>	<u>\$ (172,250)</u>	<u>\$ 164,112,855</u>
General Fund - Water and Sewer Assets				
<u>Cost:</u>				
Buildings	\$ 141,720	\$ -	\$ -	\$ 141,720
Equipment	13,171,211	627,677	(453,300)	13,345,588
Improvements	319,757	-	-	319,757
Land	1,584,526	-	-	1,584,526
Infrastructure	83,207,301	-	(102)	83,207,198
Vehicles	943,422	22,584	(58,890)	907,116
Totals - Cost	<u>99,367,937</u>	<u>650,261</u>	<u>(512,292)</u>	<u>99,505,905</u>
<u>Less accumulated depreciation for:</u>				
Buildings	69,309	6,381	-	75,690
Equipment	8,570,065	388,929	(453,300)	8,505,694
Improvements	318,832	925	-	319,757
Infrastructure	37,458,380	1,507,480	(1)	38,965,858
Vehicles	694,575	72,736	(58,890)	708,422
Totals- Accumulated Depreciation	<u>47,111,162</u>	<u>1,976,450</u>	<u>(512,191)</u>	<u>48,575,421</u>
General Fund - Water and Sewer Capital Assets, Net	<u>52,256,775</u>	<u>(1,326,189)</u>	<u>(101)</u>	<u>50,930,484</u>
Total General Fund Capital Assets, Net	<u>\$ 211,758,870</u>	<u>\$ 3,456,820</u>	<u>\$ (172,351)</u>	<u>\$ 215,043,339</u>

City of Haverhill, Massachusetts
 General Fund
 Statement of Revenues and Expenditures - Budget and Actual
 Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
<u>Revenues</u>				
Real Estate and Personal Property Taxes - Net	\$ 61,459,218	\$ 61,515,065	\$ 62,031,050	\$ 515,986
Excises	5,544,141	5,364,562	5,975,121	610,559
Fees, Departmental and Charges for Services	3,345,689	4,145,901	4,297,047	151,146
Intergovernmental	45,507,928	47,309,511	47,651,549	342,038
Earnings on Investments	136,903	309,076	487,981	178,905
Other Taxes, Assessments and In Lieu Payments	484,466	484,466	485,499	1,033
Hospital Settlement	750,000	750,000	750,000	-
Water and Sewer	11,614,073	11,614,073	12,387,712	773,639
Other Revenue	900,702	500,000	92,103	(407,897)
Total Revenues	<u>129,743,120</u>	<u>131,992,654</u>	<u>134,158,064</u>	<u>2,165,410</u>
<u>Expenditures</u>				
General Government	2,427,525	2,736,573	2,634,751	101,822
Public Safety	14,317,413	14,569,384	14,554,564	14,820
Education	55,405,989	55,595,813	55,580,981	14,832
Public Works	5,538,158	6,816,293	7,058,120	(241,827)
Human Services	1,678,005	1,766,429	1,719,008	47,421
Community and Economic Development	756,256	1,404,244	1,346,435	57,809
Debt Service	9,779,435	9,646,909	9,368,149	278,760
Intergovernmental	2,478,110	2,633,569	2,633,535	34
Health Insurance and Other Employee Benefits	19,779,734	20,015,178	20,007,266	7,912
Pension Benefits	6,862,654	6,862,654	6,862,654	-
Other Expenditures	512,278	278,700	278,700	-
Water and Sewer	12,625,756	12,036,935	10,641,563	1,395,372
Total Expenditures	<u>132,161,313</u>	<u>134,362,681</u>	<u>132,685,726</u>	<u>1,676,955</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,418,193)</u>	<u>(2,370,027)</u>	<u>1,472,338</u>	<u>3,842,365</u>
Other Financing Sources (Uses):				
Other Available Funds	1,011,683	1,124,306	1,124,306	-
Unreserved Fund Balance	598,510	598,510	598,510	-
Operating Transfers In	808,000	796,711	796,711	-
Operating Transfers Out	-	(149,500)	(149,500)	-
Total Other Financing Sources (Uses)	<u>2,418,193</u>	<u>2,370,027</u>	<u>2,370,027</u>	<u>-</u>
Excess Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ (0)</u>	<u>\$ 3,842,365</u>	<u>\$ 3,842,365</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, 2004

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, 2004

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, 2005
(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 6/30/2005</u>
Departmental Equipment-Fire Pumpers	\$ 332,000	4.62	1997	2007	\$ 60,000
Departmental Equipment	268,125	4.67	1997	2008	65,000
Roof Remodel Citizen Center	56,875	4.68	1997	2008	15,000
Nursing Home	1,041,161	4.45	1997	2010	567,468
Remodeling Fire	130,850	4.45	1997	2010	90,281
Remodeling School	677,253	4.45	1997	2011	636,074
School Bonds	899,633	4.45	1997	2011	844,728
School Bonds	10,498,114	4.45	1997	2012	9,849,199
School Construction	310,000	5.28	1997	2013	150,000
School Planning	950,000	5.20	1997	2015	510,000
School Land Acquisition	400,000	5.30	1997	2016	220,000
School Construction	18,000,000	5.30	1997	2016	12,720,000
School Construction	600,000	5.30	1997	2016	425,000
Fire Station Remodeling	390,000	5.21	1997	2017	230,000
Construction-Police Station	2,000,000	5.23	1997	2017	1,200,000
Construction-Library	1,200,000	5.23	1997	2017	720,000
School Construction	6,400,000	5.34	1997	2017	4,675,000
School Construction	240,000	5.35	1997	2017	175,000
School Construction	400,000	5.38	1997	2017	295,000
Equipment	289,000	4.13	1999	2007	70,000
Hospital Computers	506,000	3.96	1999	2007	45,000
Off Street Parking	112,000	4.95	1999	2008	30,000
School Roof Remodeling	1,700,000	4.96	1999	2018	1,160,000
School Bonds	16,653,000	4.96	1999	2019	13,235,000
Sludge Dewatering	3,018,888	4.70	2001	2015	2,374,424
Sludge Dewatering	121,428	4.00	2001	2017	95,966
Title V Septic Loan	143,100	-	2001	2020	112,950
Hospital Deficit Funding Bonds	15,000,000	4.00	2001	2021	12,880,000
Hospital Deficit Funding Bonds	5,000,000	4.00	2001	2021	4,065,000
Hospital Deficit Funding Bonds	5,000,000	4.00	2002	2022	4,525,000
Hospital Deficit Funding Bonds	4,403,000	4.00	2003	2022	4,250,000
Hospital Deficit Funding Bonds	597,000	4.00	2003	2023	575,000
Hospital Refunding	14,400,000	5.94	2002	2022	13,610,000

City of Haverhill, Massachusetts
SCHEDULE OF INDEBTEDNESS
June 30, 2005
(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 6/30/2005</u>
Hospital Equipment	275,000	4.57	2003	2011	205,000
School Remodeling	310,000	4.03	2003	2023	270,000
School Equipment	400,000	4.04	2003	2023	360,000
Fire Dept Equipment	210,000	4.03	2003	2023	180,000
Hospital Equipment	364,000	4.33	2003	2023	360,000
Sewer	347,989	4.45	1997	2010	197,251
Sewer	445,307	4.45	1997	2012	316,227
Sewer	180,000	5.15	1997	2017	100,000
Drainage	573,000	5.20	1997	2017	335,000
Sludge Composting	100,000	5.23	1997	2017	60,000
Combine Sewer Overflow	412,225	5.60	1998	2019	333,281
Combine Sewer Overflow	497,038	5.20	2001	2021	416,108
Sewer Tank	597,000	4.03	2003	2023	535,000
Sewer Boiler	200,000	4.04	2003	2023	180,000
Sewer Pipes	265,000	3.93	2003	2023	235,000
Sewer Planning	1,446,000	4.02	2003	2023	1,315,000
MWPAT	95,275	-	2003	2023	78,696
MWPAT	465,418	-	2003	2023	428,719
MWPAT	1,391,554	-	2003	2023	1,186,121
Water Bonds	169,693	4.45	1997	2012	123,773
Water Pumping Station	175,000	5.12	1997	2017	95,000
Water Bonds	4,835,000	4.96	1999	2019	3,810,000
Water Pump Treatment	978,000	4.02	2003	2023	875,000
Water	25,000	2.19	2003	2008	15,000
MWPAT	94,022	4.43	2004	2034	89,998
MWPAT	631,729	4.43	2004	2034	607,747
MWPAT	675,579	-	2005	2025	675,579
MWPAT	11,463,447	-	2005	2035	11,463,447
GRAND TOTAL	<u>\$ 139,359,703</u>				<u>\$ 115,323,037</u>

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, 2005, and have issued our report thereon dated December 15, 2005. 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.

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*.

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 2005-1 and 2005-2.

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 2005-1 and 2005-2 to be material weaknesses.

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
December 15, 2005

City of Haverhill, Massachusetts
Schedule of Findings
For the Year Ended June 30, 2005
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II Findings – Financial Statement Audit

2005-1 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 when preparing the City budget debt amounts and when determining debt exclusion items, when preparing the tax rate recapitulation sheet. However, we found that formal procedures were not used to reconcile the 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 also found that the steps have not yet been taken to remove refunded debt from the Treasurer's cash book.

We recommend that formal procedures relating to reconciling the 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.

2005-2 Trust Fund Accounting and Cash Reconciliation

Trust Funds

During our review of the trust fund and scholarship accounts maintained by the City, we found certain bookkeeping and related procedures, which should be improved in order to

City of Haverhill, Massachusetts
Schedule of Findings
For the Year Ended June 30, 2005
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provide for adequate internal accounting control. The following is a list of the weaknesses noted during our audit:

1. The trust fund ledger maintained in the Treasurer's office has been computerized using an excel spreadsheet, but is not posted to each month in a timely manner. Also, the trust fund account balances in the Treasurer's office are not reconciled to the general ledger in the City Auditor's office. Because of these issues, it is difficult to determine the revenue and expense amounts and changes in fund balances.
2. A portion of the trust fund money received by the City which has been invested by the Treasurer, is recorded on the books at cost, instead of at market value.
3. There are a number of trust fund accounts maintained at various banks in the form of passbooks. Updating these numerous passbooks for interest earnings, disbursements, transfers, bequests and other transactions is time consuming.
4. The trust fund balances reported to the Massachusetts Department of Revenue, on the quarterly cash report, do not reflect the same balances which are maintained in the Treasurer's records.
5. Not all Trust Fund accounts are accounted for in the City Auditor's general ledger.

The following is a partial list of recommendations that should be implemented to improve the internal accounting control procedures relating to the City's trust funds:

1. The computerized excel spreadsheet (cash book) set up by the Treasurer's Office should be posted to on a monthly basis and these amounts should be reconciled to the City Auditor's balances every month. Consideration must be given to the volume (there are hundreds of trust funds) and complexities of what must be legally accounted for in the system. The following is a partial list of the requirements that must be addressed when reconciling the trust funds:
 - The principal and interest portion of all expendable and non-expendable trust funds must be accounted for.
 - Proper sub totals and grand totals must be established and maintained for the various trust funds. For example, there should be sub totals for the following major groups of trust fund accounts; Library, Scholarships, Cemetery, and others.

City of Haverhill, Massachusetts
Schedule of Findings
For the Year Ended June 30, 2005
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- The system must be able to account for various account transactions and have specific columns or rows in place. Some transactions that must be accounted for include, interest earnings, disbursements, bequests, transfers and other activity.
- 2. The account balances maintained for the various trust funds should be adjusted for changes in market value, in accordance with generally accepted accounting principals. These adjustments should be made at least every June 30.
- 3. The Treasurer has established a relationship with a bank that provides trust fund accounting services and has set up many trust fund accounts in an investment fund. This service establishes account information for these specific trust funds and accounts for all of the required transactions relating to each of the trust funds, and maintains proper account balance information. This system is used instead of maintaining numerous pass book accounts. Because this system saves the Treasurer time, and because of the large volume of transactions that currently must be accounted for by the Treasurer, for both trust funds and other accounting areas, the option of setting up the other trust funds in this same manner should be pursued.
- 4. The trust fund balances reported to the Department of Revenue, on the quarterly cash report, should reflect the balances that are accounted for in the Treasurer's accounting records and City Auditors general ledger.

Cash Reconciliation

An important element of any strong system of internal control is timeliness. During fiscal year 2005, procedures to reconcile cash (to the general ledger or bank statements) were not performed in a timely manner. As a result, errors and omissions lingered and became more difficult to detect and correct. We noted instances where transfers reflected in the bank statements were not recorded in the cashbook and other reconciling items noted on the cash reconciliation worksheets were not recorded in the cash book. The reconciliation process was made more difficult because of the time lag between when the work was performed and when the accounts were reconciled.

During our review we also found that 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 deposit 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, as described above under trust funds.

We recommend that procedures to reconcile all bank accounts to their respective bank statement and to the general ledger be performed on a monthly basis. It will take some

City of Haverhill, Massachusetts
Schedule of Findings
For the Year Ended June 30, 2005
(Continued from Page 49)

time to “catch up” on the reconciliation process. However, timely reconciliations will help simplify the process and should eliminate some recurring errors.

We also recommend that the cash receipts/banking module available in the new accounting software program be fully implemented. This new module, once implemented, will eventually eliminate the Treasurer’s cash book spreadsheet currently maintained by the Treasurer and will provide the opportunity to increase efficiency in the reconciliation of cash between the Treasurer and City Auditor (and the banks).