

***DRAFT***

**CITY OF HAVERHILL, MASSACHUSETTS**

**Financial Statements**

**June 30, 2009**

**(With Accountants' Report Thereon)**

***Giusti, Hingston and Company***  
***Certified Public Accountants***  
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City of Haverhill, Massachusetts  
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For the Year Ended June 30, 2009

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# DRAFT

## 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, 2009, (December 31, 2008 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, 2009 (and the Contributory Retirement System as of December 31, 2008) and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 17, 2010 on our consideration of the City of Haverhill, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City of Haverhill taken as a whole. The accompanying schedule of expenditure of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion is fairly stated, in all material aspects, in relation to the basic financial statements taken as a whole. In addition, the other supplemental schedules listed in the table of contents are presented for purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the examination of the basic financial statements, and, accordingly, we express no opinion on them.

*Giusti, Hingston and Company*

Giusti, Hingston and Company  
Certified Public Accountants  
March 17, 2010

City of Haverhill, Massachusetts  
Management's Discussion and Analysis  
June 30, 2009

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, 2009. We encourage readers to consider the information presented here in conjunction with the attached financial statements and notes to the financial statements.

### **Financial Statements**

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

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

### ***Financial Highlights***

- The assets of the City of Haverhill, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$136,135,573 (*net assets*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$7,714,039, or 5 percent of total general fund expenditures.
- The City of Haverhill, Massachusetts' total long term debt decreased by \$7,487,058 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, 2009 **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**

	<b>Governmental Activities</b>		<b>Change</b>
	<b>June 30, 2009</b>	<b>June 30, 2008</b>	
Current and Other Assets	\$ 60,114,519	\$ 64,158,774	\$ (4,044,255)
Capital Assets	230,929,570	233,644,513	(2,714,943)
Total Assets	<u>291,044,089</u>	<u>297,803,287</u>	<u>(6,759,198)</u>
Other Liabilities	31,521,675	27,190,349	4,331,326
Long Term Liabilities	123,386,841	126,551,586	(3,164,746)
Total Liabilities	<u>154,908,516</u>	<u>153,741,935</u>	<u>1,166,581</u>
Net Assets:			
Invested in Capital Assets			
Net of Related Debt	175,962,658	180,079,390	(4,116,732)
Restricted	2,425,254	1,993,256	431,998
Unrestricted	(42,252,339)	(38,011,294)	(4,241,045)
Total Net Assets	<u>\$ 136,135,573</u>	<u>\$ 144,061,352</u>	<u>\$ (7,925,779)</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 \$175,962,658 in net assets; and the assets restricted for specific purposes represent \$2,425,254 in net assets. As these two components of net assets exceed total net assets, unrestricted net assets showed a (\$42,252,339) 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.

	<b>Governmental Activities</b>		<b>Change</b>
	<b>June 30, 2009</b>	<b>June 30, 2008</b>	
<b>Revenues</b>			
Program Revenues:			
Charges for Services	\$ 20,140,343	\$ 19,780,545	\$ 359,798
Operating Grants and Contributions	69,218,464	64,688,606	4,529,858
Capital Grants and Contributions	5,897,402	9,022,296	(3,124,894)

**Changes in Net Assets (Continued)**

	<b>Governmental Activities</b>		<b>Change</b>
	<b>June 30, 2009</b>	<b>June 30, 2008</b>	
<b>General Revenues:</b>			
Real Estate and Personal Property Taxes	75,281,551	71,947,467	3,334,084
Excises	5,265,838	5,797,866	(532,028)
Other Taxes, Assessments and in Lieu Payments	2,400,821	2,672,277	(271,456)
Intergovernmental Not Restricted to a Specific Program	8,449,556	7,352,543	1,097,013
Earnings on Investment	310,727	775,119	(464,392)
Other Revenue	1,646,436	961,345	685,091
<b>Total Revenues</b>	<b>188,611,136</b>	<b>182,998,064</b>	<b>5,613,072</b>
<b>Expenses</b>			
General Government	4,786,339	3,183,360	1,602,979
Public Safety	18,329,223	17,925,579	403,644
Education	84,094,591	80,847,788	3,246,803
Public Works	13,441,056	12,852,761	588,295
Human Services	3,570,135	4,653,975	(1,083,840)
Community and Economic Development	3,050,112	3,068,078	(17,966)
Debt Service	1,977,173	2,735,233	(758,060)
Intergovernmental	4,476,328	4,095,465	380,863
Health Insurance and Other Employee Benefits	23,821,857	27,056,577	(3,234,720)
Pension Benefits	9,457,975	9,139,157	318,818
Landfill and Other	2,995,309	10,416,034	(7,420,725)
Water and Sewer	12,662,283	14,284,614	(1,622,331)
Teacher's Retirement on Behalf Payments	12,788,322	11,321,786	1,466,536
<b>Total Expenses</b>	<b>195,450,702</b>	<b>201,580,407</b>	<b>(6,129,705)</b>
Increase (Decrease) in Net Assets	<u><u>\$ (6,839,566)</u></u>	<u><u>\$ (18,582,343)</u></u>	<u><u>\$ 11,742,777</u></u>

The above table shows the increase (decrease) in net assets (not including prior period adjustments).

**Governmental Activities** – In fiscal year 2009, property tax accounted for approximately 40% of the Governmental revenues.

***Financial Analysis of the City's Funds***

**Governmental Funds**

**General Fund – Fund Balance** - The year-end fund balance of the general fund was \$1,441,583 less than the prior year's fund balance.

Based upon the balance sheet as of the close of each fiscal year, the Commonwealth of Massachusetts' Department of Revenue (DOR) determines the amount of general fund - fund balance available for appropriation. In general, this amount (commonly known as "free cash") is generated when actual revenues on a cash basis exceed budgeted amounts and expenditures and encumbrances (unpaid commitments) are less than appropriations, or both. We have listed below a summary of the fund balance and free cash amounts:

Fiscal Year Ended <u>June 30</u>	Total General Fund <u>Fund Balance</u>	Unreserved General Fund <u>Fund Balance</u>	<u>Free Cash</u>
2009	\$15,598,101	\$7,714,039	\$4,171,615 **
2008	17,039,684	10,229,045	2,621,400
2007	14,436,550	9,525,003	2,175,064
2006	14,299,597	8,284,962	3,339,090
2005	10,182,424	6,014,036	975,099
2004	6,527,417	3,330,156	174,310

\*\* The methodology used by the DOR to calculate the general fund free cash amount, as of June 30, 2009, has changed to include Water and Wastewater.

### ***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, 2009, amounts to \$230,929,570 (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, 2009 and June 30, 2008 (Net of Depreciation)**

	<b>Governmental Activities</b>	
	<b><u>June 30, 2009</u></b>	<b><u>June 30, 2008</u></b>
Buildings	\$ 45,259,004	\$ 47,185,001
Equipment	16,508,901	17,499,091
Improvements	524,950	562,754
Land	11,429,068	11,429,068
Construction Work in Process	42,106,996	39,729,551
Infrastructure	113,732,879	115,570,833
Vehicles	1,367,772	1,668,215
	<hr/>	<hr/>
Total	\$ 230,929,570	\$ 233,644,513
	<hr/> <hr/>	<hr/> <hr/>

**Debt**

The City had \$114,650,919 in debt outstanding on June 30, 2009. This represents a \$3,919,573 decrease (or 3.31%) from the previous year. The City carries an underlying bond rating of “Baa1” from Moody’s and “A-” from Standard and Poor’s.

**Outstanding Debt at June 30, 2009 and June 30, 2008**

<b>Governmental Activities</b>	<u>2009</u>	<u>2008</u>
Notes Payable	\$ 15,327,173	\$ 11,759,688
General Obligation Bonds Payable	<u>99,323,746</u>	<u>106,810,804</u>
<b>Total Governmental Activities</b>	<u>\$ 114,650,919</u>	<u>\$ 118,570,492</u>

**Fiscal Year 2009 Budget**

An initiative state statute, commonly known as “Proposition 2 ½”, limits the amount of property taxes that the City can assess in any one year. In general, the City’s property tax levy may increase by 2 ½ percent over the prior year’s tax levy, plus any additional amount derived by new developments or other changes made to existing property. If a community wishes to levy taxes above the limitations imposed by “Proposition 2 ½”, it is necessary to obtain the approval of a majority of the voters at an election to do an override. A balanced budget was adopted for fiscal year 2009 without the necessity for an override.

City of Haverhill, Massachusetts  
Statement of Net Assets  
June 30, 2009  
(Continued on Page 10)

	Government- Wide Governmental Activities <u>Total</u>
<b>ASSETS</b>	
<b>CURRENT:</b>	
Cash/Investments	\$ 27,155,717
Receivables:	
Real Estate and Personal Property	2,594,396
Motor Vehicle and Other Excise	1,260,723
Tax Liens and Foreclosures	1,493,114
Other	270,696
Due from Other Funds	597,565
User Charges	2,260,169
Due from Commonwealth of Massachusetts - SBAB	3,257,752
Due from Commonwealth of Massachusetts - Other	3,079,732
<b>NONCURRENT:</b>	
Due from Commonwealth of Massachusetts - SBAB	18,144,655
Capital Assets:	
Capital Asset, Net	230,929,570
<b>TOTAL ASSETS</b>	<b>291,044,089</b>
 <b>LIABILITIES</b>	
<b>CURRENT:</b>	
Warrants Payable	1,509,800
Other Liabilities	3,470,917
Temporary Loans	15,327,173
Accrued Liabilities	1,900,000
Accrued Interest	963,966
Bonds Payable	8,349,819
<b>NONCURRENT:</b>	
Bonds Payable	90,973,927
Longevity Payable	1,035,769
Other Accrued Liabilities - GASB 43 and 45	11,989,478
Compensated Absences	2,120,667
Landfill Liabilities	17,267,000
<b>TOTAL LIABILITIES</b>	<b>154,908,516</b>

City of Haverhill, Massachusetts  
Statement of Net Assets  
June 30, 2009  
(Continued from Page 9)

	Government- Wide Governmental Activities <u>Total</u>
<b>NET ASSETS</b>	
Invested in Capital Assets, Net of Related Debt	175,962,658
Restricted for:	
Special Revenue	2,425,254
Unrestricted (Deficit) (Note 17)	<u>(42,252,339)</u>
<b>TOTAL NET ASSETS</b>	<u><u>\$ 136,135,573</u></u>

City of Haverhill, Massachusetts

Statement of Activities

Fiscal Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (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	\$ 4,786,339	\$ 1,330,762	\$ 1,350,451	\$ -	\$ (2,105,126)
Public Safety	18,329,223	615,892	991,527	-	(16,721,805)
Education	84,094,591	2,026,004	51,779,938	3,337,331	(26,951,318)
Public Works	13,441,056	8,367	10,647	1,773,131	(11,648,911)
Human Services	3,570,135	942,017	718,337	-	(1,909,781)
Community and Economic Development	3,050,112	899,169	1,579,242	-	(571,701)
Debt Service	1,977,173	-	-	-	(1,977,173)
Intergovernmental	4,476,328	-	-	-	(4,476,328)
Health Insurance and Other Employee Benefits	23,821,857	-	-	-	(23,821,857)
Pension Benefits	9,457,975	-	-	-	(9,457,975)
Landfill and Other	2,995,309	-	-	305,208	(2,690,101)
Water and Sewer	12,662,283	14,318,133	-	481,732	2,137,582
Teacher's Retirement on Behalf Payments	12,788,322	-	12,788,322	-	-
Total Governmental Activities	<u>\$ 195,450,702</u>	<u>\$ 20,140,343</u>	<u>\$ 69,218,464</u>	<u>\$ 5,897,402</u>	<u>\$ (100,194,494)</u>
<i>General Revenues:</i>					
					75,281,551
					5,265,838
					2,400,821
					8,449,556
					310,727
					1,646,436
					<u>93,354,927</u>
					<u>(6,839,566)</u>
					144,061,352
					<u>(1,086,213)</u>
					<u>142,975,139</u>
					<u>\$ 136,135,573</u>

City of Haverhill, Massachusetts  
Governmental Funds  
Balance Sheet  
June 30, 2009

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash/Investments	\$ 27,155,717	\$ -	\$ 27,155,717
Receivables:			
Real Estate and Property Taxes	2,594,396	-	2,594,396
Motor Vehicle and Other Excise	1,260,723	-	1,260,723
Tax Liens and Foreclosures	1,493,114	-	1,493,114
Other	270,696	-	270,696
Due From Other Funds	-	7,258,894	7,258,894
User Charges	2,260,169	-	2,260,169
Due from Commonwealth of Massachusetts - MSBA	21,402,407	-	21,402,407
Due from Commonwealth of Massachusetts - Other	-	3,079,732	3,079,732
Total Assets	\$ 56,437,222	\$ 10,338,626	\$ 66,775,848
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Warrants Payable	\$ 1,400,652	\$ 109,148	\$ 1,509,800
Due to Other Funds	10,766,447	950,632	11,717,079
Other Liabilities	-	3,470,917	3,470,917
Temporary Loans	-	15,327,173	15,327,173
Deferred Revenue:			
Deferred Revenue - Due from Commonwealth of Massachusetts	21,402,407	-	21,402,407
Deferred Revenue - Other	7,269,615	-	7,269,615
Total Liabilities	40,839,121	19,857,870	60,696,991
Fund Equity:			
Fund Balances:			
Reserved for Encumbrances	380,222	-	380,222
Reserved for Special Purposes	5,436,837	-	5,436,837
Unreserved:			
Designated for:			
Subsequent Year's Expenditures	3,114,000	-	3,114,000
Snow and Ice Deficit	(1,046,997)	-	(1,046,997)
Undesignated, Reported in:			
General Fund	7,714,039	-	7,714,039
Special Revenue Fund	-	2,425,254	2,425,254
Capital Projects Fund	-	(13,198,073)	(13,198,073)
Permanent Funds	-	1,253,575	1,253,575
Total Fund Balances	15,598,101	(9,519,244)	6,078,857
Total Liabilities and Fund Balances	\$ 56,437,222	\$ 10,338,626	\$ 66,775,848

City of Haverhill, Massachusetts  
Governmental Funds  
Statement of Revenues, Expenditures and Changes in Fund Balances  
Fiscal Year Ended June 30, 2009

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b><u>REVENUES:</u></b>			
Real Estate and Personal Property Taxes - Net	\$ 75,052,386	\$ -	\$ 75,052,386
Excises	5,386,756	-	5,386,756
Fees, Departmental and Charges for Services	3,718,400	2,639,689	6,358,089
Intergovernmental	50,889,945	23,144,906	74,034,851
Earnings on Investments	310,726	12,442	323,168
Other Taxes, Assessments and In Lieu Payments	1,940,943	-	1,940,943
Water and Sewer	14,101,003	-	14,101,003
Teacher's Retirement on Behalf Payments	12,788,322	-	12,788,322
Other Revenue	1,445,776	20,315	1,466,091
<b>TOTAL REVENUES</b>	<b><u>165,634,257</u></b>	<b><u>25,817,352</u></b>	<b><u>191,451,609</u></b>
<b><u>EXPENDITURES:</u></b>			
Current			
General Government	2,838,888	1,998,335	4,837,223
Public Safety	17,323,963	834,236	18,158,199
Education	64,413,167	19,643,745	84,056,912
Public Works	7,962,703	2,155,214	10,117,917
Human Services	2,513,530	823,771	3,337,301
Community and Economic Development	1,463,825	1,595,967	3,059,792
Debt Service	9,553,951	-	9,553,951
Intergovernmental	4,476,328	-	4,476,328
Health Insurance and Other Employee Benefits	18,226,622	-	18,226,622
Pension Benefits	9,457,975	-	9,457,975
Landfill and Other Expenditures	2,788,978	289,326	3,078,304
Water and Sewer	12,703,526	1,145,619	13,849,145
Teacher's Retirement on Behalf Payments	12,788,322	-	12,788,322
<b>TOTAL EXPENDITURES</b>	<b><u>166,511,778</u></b>	<b><u>28,486,213</u></b>	<b><u>194,997,991</u></b>
Excess of Revenues Over (Under) Expenditures	<u>(877,521)</u>	<u>(2,668,861)</u>	<u>(3,546,382)</u>
Other Financing Sources (Uses):			
Operating Transfers In	955,070	1,617,820	2,572,890
Operating Transfers (Out)	<u>(1,519,131)</u>	<u>(1,053,759)</u>	<u>(2,572,890)</u>
Total Other Financing Sources (Uses)	<u>(564,061)</u>	<u>564,061</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(1,441,582)</u>	<u>(2,104,800)</u>	<u>(3,546,382)</u>
Fund Balance, Beginning	17,039,683	(6,328,229)	10,711,454
Prior Period Adjustment	-	(1,086,213)	(1,086,213)
Fund Balance, Beginning as Restated	<u>17,039,683</u>	<u>(7,414,442)</u>	<u>9,625,241</u>
Fund Balance, Ending	<u>\$ 15,598,101</u>	<u>\$ (9,519,242)</u>	<u>\$ 6,078,859</u>

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, 2009

Total Governmental Fund Balances	\$ 6,078,857
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	230,929,570
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	28,672,022
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.	3,155,750
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(99,323,746)
Accrued Interest on Bonds	(963,966)
Landfill Accrued Liability	(17,267,000)
Compensated Absences	(2,120,667)
Longevity Liability	(1,035,769)
OPEB Liability	(11,989,478)
Net Assets of Governmental Activities	\$ 136,135,574

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, 2009

<b>Net change in fund balances - total governmental funds</b>	<b>\$ (3,546,382)</b>
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the net change in the current period.	(2,714,944)
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.	(2,840,474)
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.	7,487,058
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.	280,690
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.	89,720
OPEB cost relating to the current year GASB 45 accrual amount	(5,473,453)
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>(121,782)</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u><u>\$ (6,839,567)</u></u></b>

City of Haverhill, Massachusetts  
 Proprietary Funds  
 Statement of Net Assets  
 June 30, 2009

	Governmental <u>Activities</u>
	Internal <u>Service Fund</u>
<b>ASSETS</b>	
Due from Other Funds	<u>\$ 5,055,750</u>
<b>TOTAL ASSETS</b>	<u>5,055,750</u>
 <b>LIABILITIES</b>	
Accrued Liabilities	<u>1,900,000</u>
<b>TOTAL LIABILITIES</b>	<u>1,900,000</u>
 <b>NET ASSETS</b>	
Unrestricted	<u>3,155,750</u>
<b>TOTAL NET ASSETS</b>	<u><u>\$ 3,155,750</u></u>

City of Haverhill, Massachusetts  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds  
Fiscal Year Ended June 30, 2009

	<u>Governmental Activities</u>	<u>Internal Service Fund</u>
<b>Operating Revenues:</b>		
Contributions	<u>\$ 28,853,716</u>	
Total Operating Revenues	<u>28,853,716</u>	
<b>Operating Expenditures:</b>		
Employee Benefits	<u>28,975,498</u>	
Total Operating Expenditures	<u>28,975,498</u>	
Operating Income (Loss)	<u>(121,782)</u>	
<b>Net Assets at Beginning of Year</b>	<u>3,277,532</u>	
<b>Net Assets at End of Year</b>	<u><u>\$ 3,155,750</u></u>	

City of Haverhill, Massachusetts  
Statement of Cash Flows  
Proprietary Fund  
Fiscal Year Ended June 30, 2009

Governmental  
Activities

Internal  
Service Fund

Cash Flows from Operating Activities:

Net Income (Loss)	<u>\$ (121,782)</u>
Net Cash Flows Provided (Used) by Operating Activities	<u>(121,782)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u><u>\$ (121,782)</u></u>

City of Haverhill, Massachusetts  
Statement of Net Assets  
Fiduciary Funds  
June 30, 2009

	Pension Trust Fund As of <u>December 31, 2008</u>	Private Purpose <u>Trust Funds</u>
<b>ASSETS</b>		
Cash and Equivalent	\$ 2,767,706	\$ 6,352,719
Due from(to) Other Funds	-	(597,562)
Receivables:		
Dividend and Interest	232,000	-
Employee Contributions	98,849	-
Employer Contributions	32,066	-
Due from Other Systems	201,095	-
Due from Others	14,644	-
Investments Sold - Funds not Received	684,665	-
Total Receivables	1,263,319	-
Investments at Fair Value:		
Stocks	28,649,825	-
Fixed Income Securities	17,288,806	-
Real Estate and Other Investments	71,369,347	-
Total Investments	117,307,978	-
<b>TOTAL ASSETS</b>	<b>121,339,003</b>	<b>5,755,157</b>
<b>LIABILITIES</b>		
Accounts Payable	86,405	-
Amounts Due to Other Systems	391,024	-
Investments Purchased - Not Yet Paid For	713,363	-
TOTAL LIABILITIES	1,190,792	-
<b>NET ASSETS</b>		
Net Assets Held in Trust	\$ 120,148,211	\$ 5,755,157

City of Haverhill, Massachusetts  
Statement of Changes in Net Assets  
Fiduciary Funds  
Year Ended June 30, 2009

	Pension Trust Fund As of <u>December 31, 2008</u>	Private Purpose Trust <u>Funds</u>
Additions:		
Contributions:		
Employer	\$ 10,323,102	\$ -
Employee	3,261,961	-
Private Donations and Earnings on Investments	517,362	68,921
Total Contributions	<u>14,102,425</u>	<u>68,921</u>
Transfers from Other Systems	<u>330,279</u>	<u>-</u>
Net Investment Income (Loss):		
Net Appreciation in the Fair Value of Plan Assets and Gains and (Losses)	(48,755,799)	-
Interest and Dividends	3,664,231	-
Total Investment Income (Loss)	(45,091,568)	-
Less Investment Expense	<u>1,577,645</u>	<u>-</u>
Net Investment Income (Loss)	<u>(46,669,213)</u>	<u>-</u>
Total Additions (Reductions)	<u>(32,236,509)</u>	<u>68,921</u>
Deductions:		
Benefit Payments to Retirees, Survivors, and Disability Retirees	20,648,910	-
Refunds to Members Leaving the Plan	418,103	-
Transfers to Other Systems	663,328	-
Administrative Expenses	323,041	-
Scholarships and Other Expenses	-	364,255
Total Deductions	<u>22,053,382</u>	<u>364,255</u>
Net Increase (Decrease)	<u>(54,289,891)</u>	<u>(295,334)</u>
Net Assets Held In Trust:		
Beginning of Year	<u>174,438,102</u>	<u>6,050,491</u>
End of Year	<u>\$ 120,148,211</u>	<u>\$ 5,755,157</u>

City of Haverhill, Massachusetts  
Notes to the Financial Statements  
June 30, 2009

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, 2009. The report includes all the services provided by the City to its residents and businesses within its boundaries. The City of Haverhill was founded in 1641 and was incorporated in 1869. The City is governed by an elected Mayor and City Council. Municipal services provided include education, public safety, recreation, public works, library and general administration. Criteria used in determining the scope of the reporting entity included the City's ability to significantly influence operations, selection of governing authority, designation of management, financial interdependency and accountability for fiscal matters. All operations of the City that meet the preceding criteria are included in the reporting entity. Included in the financial statements is the City of Haverhill Retirement System (the System) as of June 30, 2009.

(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, 2009 conform to generally accepted accounting principles for local government units, except as indicated hereafter, as amended by Statement 1, Governmental Accounting and Financial Reporting Principles, issued by the National Council on Governmental Accounting.

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

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

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

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

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

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

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

(F) Budgets and Appropriations

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

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

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

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

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

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

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

(G) Cash and Cash Equivalents

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

(H) Investments

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

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

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

(I) Restricted Assets

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

(J) Capital Assets

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

historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

(K) Other Assets

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

(L) Compensated Absences

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

(M) Encumbrances

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

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

(N) Transfers

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

(O) Risk Financing

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

(P) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported

amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Q) On Behalf Payments

During fiscal year 1996, the City was required to adopt GASB Statement No. 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance." GASB No. 24 requires the City of Haverhill, 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, 2009, the Commonwealth paid \$12,788,322 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, 2009, or fund balances at June 30, 2009.

(R) Prior Period Adjustment

Certain reclassifications or adjustments have been made to prior period amounts to conform to the current period presentation. A prior period adjustment was made to the fund financial statements for \$1,086,213 that relates to an interim loan received from the Massachusetts Water Pollution Abatement Trust that should have been reflected in the prior period.

2. Deposits and Investments

i. Deposits

Custodial Credit Risk - Deposits

Custodial Credit Risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2009, \$20,039,508 of the City's bank balance of \$ 29,692,257 was exposed to credit risk as follows:

Uninsured and Uncollateralized    \$ 20,039,508

ii. Investments

a) As of June 30, 2009, the City had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>Over 5</u>
U.S. Treasury / Agency Securities	\$ 3,459,305	\$ 3,459,305	\$ -	\$ -
Mutual Funds	142,045	142,045	-	-
Corporate Bonds and Other	<u>2,272,134</u>	<u>1,778,784</u>	-	<u>493,350</u>
Total	<u>\$ 5,873,484</u>	<u>\$ 5,380,134</u>	<u>\$ -</u>	<u>\$ 493,350</u>

b) Interest Rate Risk

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

c) Credit Risk

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

d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not have a formal policy that limits the amount it may invest in a single user (State law limits the amount that may be deposited in a financial institution without collateralization). More than 5 percent of the City's investments are in Equity Funds (14%).

Contributory Retirement System

Deposits

Custodial Credit Risk - Deposits

Custodial Credit Risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The Plan does not have a formal deposit policy for custodial credit risk. As of December 31, 2008, \$145,327 of the Plan's bank balance of \$395,927 was exposed to credit risk as follows:

Uninsured and Uncollateralized      \$ 145,327

### Investments

According to GASB Statement No. 40 - "Deposit and Investment Risk Disclosures", disclosures must be made for certain investments that have fair values that are highly sensitive to changes in interest rates. As of December 31, 2008, the City of Haverhill Retirement System investments that are required to be disclosed in accordance with GASB Statement No. 40, are noted below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>Over 5</u>
U. S. Government Obligations	\$ 3,365,116	\$ 302,245	\$ 897,079	\$ 2,165,792
Foreign Government Obligations	8,027,651	523,928	1,445,998	6,057,725
Corporate Bonds	<u>5,896,039</u>	<u>597,513</u>	<u>4,126,579</u>	<u>1,171,947</u>
Total	<u>\$ 17,288,806</u>	<u>\$ 1,423,686</u>	<u>\$ 6,469,656</u>	<u>\$ 9,395,464</u>

### Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

### Credit Risk

Credit risk is the risk that an issuer or other counterpart to an investment will not fulfill its obligations. The Public Employee Retirement Administration commission has an investment policy that the Plan follows. In addition, the Plan has its own formal policy relating to credit risk.

### Concentration of Credit Risk

Concentration of Credit Risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Plan has a formal policy that limits the amount it may invest in a single issuer.

## 3. Property Taxes

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

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

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

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

#### 4. Accounts Receivable

##### (A) Assets

###### i Accounts Receivable

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

###### General Fund

###### Property Taxes Receivable:

###### Real Estate Taxes

2009	\$ 2,375,392	
2008	109,496	
Total Real Estate Taxes	<u>                    </u>	<u>\$ 2,484,888</u>

###### Personal Property Taxes

2009	64,861	
2008	12,168	
2007	5,880	
2006	7,599	
2005 & Prior	19,001	
Total Personal Property Taxes	<u>                    </u>	<u>109,509</u>

Total Property Taxes Receivable \$ 2,594,397

Tax Liens and Foreclosures \$ 1,493,114

###### Excise Taxes Receivable:

###### Motor Vehicle Excise Taxes

2009	\$ 462,148	
2008	171,511	
2007	108,382	
2006	91,563	
2005 & Prior	413,601	
Total Motor Vehicle Excise Taxes	<u>                    </u>	<u>1,247,205</u>

###### Boat Excise Taxes

2009	2,510	
2008	2,375	
2007	2,182	
2006	2,496	
2005 & Prior	3,956	
Total Boat Excise Taxes	<u>                    </u>	<u>13,519</u>

Total Motor Vehicle and Other Excise Taxes \$ 1,260,724

4. Accounts Receivable (Continued)

Other Accounts Receivable	<u>\$ 270,696</u>
User Charges - Water and Sewer	<u>\$ 2,260,169</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 \$21,402,407 General Fund Due from Commonwealth of Massachusetts-MSBA (Massachusetts School Building Authority) amount relates to the total amount due to the City of Haverhill relating to school building projects. The amount due to the City was determined under Chapter 645 of the Acts of 1948. The City either constructed a new school building or made major improvements to an existing school building and the state entered into a grant agreement with the City to reimburse the City for a predetermined percentage of allowable costs and interest expense. The reimbursement to the City for its portion of the debt service and allowable costs is made in equal installments over the life of the bond issue and is subject to only the appropriation of the state legislature. In July of 2004, the governor signed Chapter 208 and Chapter 210 of the Acts of 2004 into law, which makes substantial changes to the School Building Assistance (SBA) Program. This legislation (Ch. 208) transfers responsibility for the School Building Assistance Program from the Department of Education to the Massachusetts School Building Authority (MSBA), under the Office of the State Treasurer. The authority is a new and independent governing body comprised of seven members. The legislation under Chapter 210 dedicates 1 percent of the sales tax receipts to help fund School Building projects. The authority shall examine applications for assistance and designate a school project as approved if it meets the following requirements. The school project will be viewed with respect to its site, type of construction, sufficiency of accommodations, open space preservation, urban development, urban sprawl, energy efficiency and otherwise. The project must be necessary to meet educational standards of the curriculum frameworks established by the Board of Education. The project must have a value over its useful life and be within the capacity of the authority to finance within revenues projected to be available to the trust. A major feature of the new law is the up front cash grant program. When a project is approved for funding, the program will make a single payment of 75% of the full amount of the state's reimbursement. The balance of the state share will be paid when the project audit is completed.

The Non Major Governmental Funds column amount of \$3,079,732, Due from Commonwealth of Massachusetts, includes an amount due to the City as of June 30, 2009 relating to Chapter 90 highway repair and improvement projects. Under the Chapter 90 program, the Massachusetts Highway Department enters into an agreement with the City to reimburse the City for certain highway repair projects. When the city has incurred expenses to repair and improve the roads which have been predetermined in the grant agreement with the state, the paperwork is submitted to the state to be reimbursed for these expenses.

5. Temporary Loans

At June 30, 2009, the City had outstanding Bond Anticipation Notes (BAN's) and State Aid Anticipation Notes (SAAN's) used to finance various capital projects. All such notes are included in temporary loans in the Capital Projects Fund (Non Major Funds Column), as noted below.

Changes in Short Term Debt – the following is a summary of the short term debt transactions for the fiscal year ended June 30, 2009:

<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	\$ 10,236,967	\$ 13,696,077	\$ 10,236,967	\$ 13,696,077
SAAN's	1,522,721	1,631,096	1,522,721	1,631,096
Total	<u>\$ 11,759,688</u>	<u>\$ 15,327,173</u>	<u>\$ 11,759,688</u>	<u>\$ 15,327,173</u>

6. Long Term Debt

General obligation bonds outstanding at June 30, 2009 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, 2009:

	<u>Governmental Activities</u>
Balance 7/01/08	\$ 106,810,804
Add: New Issues	
Less: Maturities	(7,487,058)
Balance 6/30/09	<u>\$ 99,323,746</u>

(B) Summary of Debt Service Requirements to Maturity:

	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2010	\$ 8,349,819	\$ 4,224,332
2011	8,515,045	3,819,055
2012	8,569,031	3,463,638
2013	7,162,015	3,140,109
2014	7,464,789	2,797,319
2015-2019	33,470,370	8,953,348
2020-2024	18,188,486	2,721,469
2025-2029	4,231,874	946,419
2030-2034	2,775,000	301,069
2035 and thereafter	597,316	-
	<u>\$ 99,323,746</u>	<u>\$ 30,366,758</u>

(C) Long -Term Debt Authorizations

General Obligation Bonds authorized and unissued at June 30, 2009 are summarized as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
7/29/1998	Wastewater	\$ 50,000
2/3/1999	1999 School Remodeling	2,680,000
12/2/1999	Sewer	1,520,000
11/2/2001	MWPAT	22,432
1/17/2002	Planning CSO	200,000
3/13/2003	2003 School Remodeling High School	9,656,418
3/13/2003	2003 School Remodeling Boilers	1,281,777
5/2/2003	MWPAT	4,995
6/16/2003	CSO Project MWPAT	969,063
3/23/2004	Landfill Closure	719,351
8/26/2004	2005 Departmental Equipment	142,000
5/24/2005	Sewer	1,589,275
5/24/2005	Watermain Improvement	2,493,618
10/13/2005	2006 Greenleaf School Boiler	995
10/13/2005	High Street Fire Station Roof	10,000
10/13/2005	2006 Whittier School Roof	15,000
12/5/2006	Willow Ave Drainage	100,000
12/6/2005	2005 Parking Deck	280
12/20/2006	2007 High Street Fire Station Repairs	30,000
12/20/2006	2007 Park Dept Building Repairs	53,000
1/16/2007	2007 School Books	453,000
3/30/2008	2008 School Remodeling H/S Addition to Project	5,400,000
1/8/2008	2008 Fire Truck	830,000
6/24/2008	Landfill Closure	600,000
	Total	<u>\$ 28,821,204</u>

7. Components of Fund Balance

General Fund – Fund Balances:

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, 2009 are as follows:

Reserved for Encumbrances	\$ 380,222
Reserved for Subsequent Years Expenditures	3,114,000
Reserved for Special Purposes	5,436,837
Reserved for Snow and Ice Deficit	(1,046,997)
Undesignated Fund Balance	7,714,039
Total General Fund - Fund Balance	<u>\$ 15,598,101</u>

Deficit Fund Balance

As of June 30, 2009, the Police Detail Agency Fund had a deficit balance of (\$79,935). This deficit balance relates to expenses paid relating to police details, for which the corresponding detail project revenue had not yet been received as of June 30, 2009. The City is in the process of collecting these revenues through the use of a collection agency and through other means.

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, 2009. The budget amounts include special City Council meeting votes applicable to June 30, 2009.

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	\$ 152,662,894
Adjustments:	
Sixty Day Property Tax Accrual - Net	183,041
Teacher Retirement on Behalf Payments	12,788,322
As Reported GAAP Statement	<u>\$ 165,634,257</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 153,559,472
Adjustments:	
July 1, 2008 Encumbrances	544,205
June 30, 2009 Encumbrances	(380,222)
Teacher Retirement on Behalf Payments	12,788,322
As Reported GAAP Statement	<u>\$ 166,511,777</u>

9. Contributory Retirement System

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

Commission of the Commonwealth of Massachusetts ("PERAC") and by the City of Haverhill Retirement Board (the "Board") for more complete information.

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

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

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

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

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

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

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

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

Participants who become permanently and totally disabled from further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon

several factors, including whether the disability is work-related, the participant's age, years of creditable service, level of compensation, veteran's status, and group classification.

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

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

Annual Required Contribution – The City’s annual required contribution for the fiscal year ended June 30, 2009 was as follows:

Annual Required Contribution (“ARC”)	<u>\$10,597,069</u>
--------------------------------------	---------------------

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

10. Other Retirement Plans

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

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

For participants who became members of the State Plan prior to January 1, 1978, benefits become vested after 20 or more years of creditable service or upon reaching the age of 55. Benefits relating to participants who became members of the State Plan subsequent to December 31, 2004 become vested after 20 or more years of creditable service or after 10 or more years of creditable service and having reached the age of 55.

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

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

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

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

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

**Plan Description.** In addition to providing pension benefits described above, the City provides the majority of retired employees with payments for a portion of their health care and life insurance benefits. All of the City retirees receiving a pension from the City of Haverhill Retirement System or the Massachusetts Teachers Retirement System are eligible for post retirement medical benefits. Currently there are approximately 1,160 active employees and 1,838 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan. The benefits are provided primarily through Blue Cross of Massachusetts, Inc.

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

**Annual OPEB Cost and OPEB Obligation.** The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the City, an amount that has been actuarially determined in accordance with the parameters of GASB 43 and 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City’s annual OPEB cost for the fiscal year ended June 30, 2009, the amount actually contributed to the plan, and the City’s Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$16,612,520
Interest on Net OPEB Obligation	325,801
Adjustment to Annual Required Contribution	(238,311)
Annual OPEB Cost (Expense)	16,700,010
Contributions Made	(11,226,557)
Increase in Net OPEB Obligation	5,473,453
Net OPEB Obligation (NOO)- Beginning of Year	6,516,025
Net OPEB Obligation (NOO)- End of Year	<u>\$11,989,478</u>
Percentage of Annual OPEB Cost Contributed	67%

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

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined

regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

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

## 12. Deferred Compensation Plan

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

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

It is the opinion of the City that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the City's general creditors; however, plan assets have not been used in the past to satisfy such claims. The value of the plan assets as of June 30, 2009 was \$11,568,774.

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

## 13. Risk Management

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

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

#### 14. Commitments and Contingent Liabilities

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

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

The City's financial exposure with respect to responsibility for Landfill closure will be affected by several factors, including the relative allocation of costs shared by Bardon and the City, the ability of the owners to recover assessment and remediation costs from other parties associated with Landfill operations, and the specific methods of Landfill closure determined to be acceptable by regulatory authorities. The City has recorded a liability of \$17,267,000 in the Financial Statements which represents legal counsel's best estimate of the City's liability for the Landfill closure and post closure costs.

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

In addition, the City is involved in an enforcement action involving the EPA concerning the cleanup of the Beede Waste Oil Superfund (Site) in Plaistow, New Hampshire. Various municipal departments of the City generated hazardous substances (waste oil) which was sent to the site, along with numerous other responsible parties. The claim presented by the EPA is in the amount of \$249,419, which is not covered by insurance. This matter has been resolved and a substantial portion of the settlement amount has been paid and the balance is scheduled to be paid over the next three years approximately.

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, 2009 cannot be ascertained, management believes that any resulting liability should be covered by insurance and will not materially affect the financial statements of the City.

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

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

15. Interfund Transfers in Fund Financial Statements

Interfund transfers are listed below:

	Transfers <u>In</u>	Transfers <u>(Out)</u>	<u>Total</u>
General	\$ 955,070	\$ (1,519,131)	\$ (564,061)
Non-major Governmental	1,617,820	(1,053,759)	564,061
Total	<u>\$ 2,572,890</u>	<u>\$ (2,572,890)</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, 2009 the accounting system refers to the due to/from accounts in the general ledger as “pooled cash”.

16. Subsequent Year Authorization

The City has voted fiscal year 2010 budget amounts totaling \$160,510,682. Fiscal year 2010 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	\$78,151,911
Estimated Receipts, Other Revenue	
Sources and Other Available Funds	<u>82,358,771</u>
Total	<u>\$160,510,682</u>

17. 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 \$175,962,658 in net assets; and the assets restricted for specific purposes represent \$2,425,254 in net assets. As these two components of net assets exceed total net assets, unrestricted net assets showed a (\$42,252,339) 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.

18. Capital Assets

Capital asset activity for the year ended June 30, 2009 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	\$ 84,160,665	\$ -	\$ -	\$ 84,160,665
Equipment	1,160,890	82,000	-	1,242,890
Improvements	3,085,569	-	-	3,085,569
Land	9,848,436	-	-	9,848,436
Construction Work in Process	30,376,914	1,565,557	-	31,942,471
Infrastructure	136,775,656	-	(537,680)	136,237,976
Vehicles	6,012,054	-	-	6,012,054
Totals - Cost	<u>271,420,185</u>	<u>1,647,557</u>	<u>(537,680)</u>	<u>272,530,062</u>
<u>Government Activities:</u>				
<u>General Fund</u>				
<u>Less Accumulated Depreciation:</u>				
Buildings	37,048,053	1,918,866	-	38,966,919
Equipment	528,364	129,969	-	658,333
Improvements	2,522,815	37,804	-	2,560,619
Infrastructure	60,941,224	2,639,969	(20,163)	63,561,030
Vehicles	4,462,817	266,852	-	4,729,669
Totals- Accumulated Depreciation	<u>105,503,273</u>	<u>4,993,460</u>	<u>(20,163)</u>	<u>110,476,570</u>
General Fund - Capital Assets, Net	<u>\$ 165,916,912</u>	<u>\$(3,345,903)</u>	<u>\$ (517,517)</u>	<u>\$162,053,492</u>
<u>General Fund - Water and Sewer Assets</u>				
<u>Cost:</u>				
Buildings	\$ 171,720	\$ -	\$ -	\$ 171,720
Equipment	24,848,381	-	-	24,848,381
Improvements	319,757	-	-	319,757
Construction Work in Process	9,352,637	811,888	-	10,164,525
Land	1,580,632	-	-	1,580,632
Infrastructure	83,207,198	2,850,000	-	86,057,198
Vehicles	935,825	-	-	935,825
Totals - Cost	<u>120,416,151</u>	<u>3,661,888</u>	<u>-</u>	<u>124,078,039</u>
<u>Less Accumulated Depreciation for:</u>				
Buildings	99,331	7,131	-	106,462
Equipment	7,981,816	942,221	-	8,924,037
Improvements	319,757	-	-	319,757
Infrastructure	43,470,798	1,530,468	-	45,001,266
Vehicles	816,847	33,591	-	850,438
Totals- Accumulated Depreciation	<u>52,688,550</u>	<u>2,513,411</u>	<u>-</u>	<u>55,201,961</u>
General Fund - Water and Sewer Capital Assets, Net	<u>67,727,601</u>	<u>1,148,477</u>	<u>-</u>	<u>68,876,078</u>
Total General Fund Capital Assets, Net	<u>\$ 233,644,513</u>	<u>\$(2,197,426)</u>	<u>\$ (517,517)</u>	<u>\$230,929,570</u>

City of Haverhill, Massachusetts  
Statement of Revenues and Expenditures - Budget and Actual  
General Fund (Budgetary Basis)  
Fiscal Year Ended June 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
<u>Revenues</u>				
Real Estate and Personal Property Taxes - Net	\$ 74,578,999	\$ 74,755,715	\$ 74,869,345	\$ 113,630
Excises	5,516,751	5,516,751	5,386,756	(129,995)
Fees, Departmental and Charges for Services	3,665,702	4,199,100	3,718,400	(480,700)
Intergovernmental	56,743,948	53,196,452	50,889,945	(2,306,507)
Earnings on Investments	776,903	684,710	310,726	(373,984)
Other Taxes, Assessments and In Lieu Payments	1,881,899	1,946,099	1,940,943	(5,156)
Water and Sewer	15,532,387	14,883,907	14,101,003	(782,904)
Other Revenue	500,000	1,056,000	1,445,776	389,776
	<u>159,196,589</u>	<u>156,238,734</u>	<u>152,662,894</u>	<u>(3,575,840)</u>
<u>Expenditures</u>				
General Government	2,848,322	2,806,638	2,766,332	40,306
Public Safety	17,780,882	17,349,973	17,201,331	148,642
Education	64,757,676	64,419,351	64,413,167	6,184
Public Works	6,645,803	7,035,945	7,911,812	(875,867)
Human Services	2,340,220	2,535,880	2,512,883	22,997
Community and Economic Development	1,594,956	1,544,280	1,485,510	58,770
Debt Service	9,881,833	9,831,833	9,553,951	277,882
Intergovernmental	4,484,354	4,517,175	4,476,328	40,847
Health Insurance and Other Employee Benefits	20,933,692	20,853,595	18,226,172	2,627,423
Pension Benefits	9,481,543	9,458,343	9,457,975	368
Other Expenditures	4,163,681	3,425,856	2,772,311	653,545
Water and Sewer	15,034,924	14,382,685	12,781,700	1,600,985
	<u>159,947,886</u>	<u>158,161,554</u>	<u>153,559,472</u>	<u>4,602,082</u>
Excess of Revenues Over (Under) Expenditures	<u>(751,297)</u>	<u>(1,922,820)</u>	<u>(896,578)</u>	<u>1,026,242</u>
<u>Other Financing Sources (Uses):</u>				
Other Available Funds	1,533,000	2,366,000	2,366,000	-
Operating Transfers In	200,000	1,100,070	955,000	(145,070)
Operating Transfers Out	(981,703)	(1,543,250)	(1,519,131)	24,119
	<u>751,297</u>	<u>1,922,820</u>	<u>1,801,869</u>	<u>(120,951)</u>
Excess Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 905,291</u>	<u>\$ 905,291</u>

City of Haverhill Retirement System  
 Required Supplementary Information-Schedule of Funding Progress  
 Year Ended December 31, 2008

Schedule I

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

\* 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 Schedule of Funding Progress  
Year Ended December 31, 2008

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, 2008

**Actuarial Cost Method:**

- \* Entry Age Normal Cost Method

**Amortization Method:**

- \* Increasing at 4.5% per year

**Remaining Amortization Period:**

- \* 20 years remaining as of July 1, 2008

**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% for the next two years, 5.5% per year thereafter
- \* Cost-of-living adjustments - 3.0% on first \$12,000 of retirement income

City of Haverhill, Massachusetts  
Required Supplementary Information - GASB 43 and 45  
Schedule of Employer Contributions  
Fiscal Year Ended June 30, 2009

Chart 1

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

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Actual</u> <u>Contributions</u>	<u>Percentage</u> <u>Contributed</u>
2008	\$15,362,934	\$8,846,909	58%
2009	16,700,010	11,226,557	67 %

City of Haverhill, Massachusetts  
 Required Supplementary Information - GASB 43 and 45  
 Schedule of Funding Progress  
 Fiscal Year Ended June 30, 2009

Projected Unit Credit, Pay-As-You-Go Assumptions (5.00%)

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

City of Haverhill, Massachusetts  
 Required Supplementary Information - GASB 43 and 45  
 Net OPEB Obligation (NOO)  
 Fiscal Year Ended June 30, 2009

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

Fiscal Year <u>Ended June 30</u>	Annual Required Contribution (ARC) <u>(a)</u>	Interest on Existing NOO <u>(b)</u>	ARC Adjustment <u>(c)</u>	Annual OPEB Cost (a) + (b) + (c) <u>(d)</u>	Actual Contribution Amount <u>(e)</u>	Net Increase in NOO (d) - (e) <u>(f)</u>
2008	\$15,362,934	\$0	\$0	\$15,362,934	\$8,846,909	\$6,516,025
2009	16,612,520	325,801	(238,311)	16,700,010	11,226,557	5,473,453

City of Haverhill, Massachusetts  
 Required Supplementary Information - GASB 43 and 45  
 Valuation Details  
 Fiscal Year Ended June 30, 2009

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

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**Actuarial Assumptions:**

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

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## Plan Membership:

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

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**City of Haverhill, Massachusetts**  
**Schedule of Indebtedness**  
**June 30, 2009**  
**(Continued on Page 49)**

<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 6/30/2009</u>
Nursing Home	\$ 1,041,161	4.45	1997	2010	\$ 51,778
Remodeling Fire	130,850	4.45	1997	2010	47,185
Remodeling School	677,253	4.45	1997	2011	202,411
School Bonds	899,633	4.45	1997	2011	303,468
School Bonds	10,498,114	4.45	1997	2012	4,529,121
School Construction	310,000	5.28	1997	2013	69,400
School Planning	950,000	5.20	1997	2015	297,325
School Land Acquisition	400,000	5.30	1997	2016	138,180
School Construction	18,000,000	5.30	1997	2016	12,961,780
Fire Station Remodeling	390,000	5.21	1997	2017	148,800
Construction-Police Station	2,000,000	5.23	1997	2017	790,600
Construction-Library	1,200,000	5.23	1997	2017	476,800
School Roof Remodeling	1,700,000	4.96	1999	2018	804,940
School Bonds	16,653,000	4.96	1999	2019	10,255,060
Sludge Dewatering	3,018,888	4.70	2001	2015	1,579,763
Sludge Dewatering	121,428	4.00	2001	2017	67,595
Title V Septic Loan	143,100	0.00	2001	2020	82,786
Hospital Deficit Funding Bonds	15,000,000	4.00	2001	2021	10,350,000
Hospital Deficit Funding Bonds	5,000,000	4.00	2001	2021	3,135,000
Hospital Deficit Funding Bonds	5,000,000	4.00	2002	2022	3,675,000
Hospital Deficit Funding Bonds	4,403,000	4.00	2003	2022	3,415,000
Hospital Deficit Funding Bonds	597,000	4.00	2003	2023	460,000
Hospital Refunding	14,400,000	5.94	2002	2022	11,725,000
Hospital Equipment	275,000	4.57	2003	2011	65,000
Hospital Deficit Deferral	-	-	-	-	2,967,500
School Remodeling	310,000	4.03	2003	2023	210,000
School Equipment	400,000	4.04	2003	2023	280,000
Fire Dept Equipment	210,000	4.03	2003	2023	140,000
Hospital Equipment	364,000	4.33	2003	2023	360,000
Sewer	347,989	4.45	1997	2010	21,037
Sewer	445,307	4.45	1997	2012	127,795
Sewer	180,000	5.15	1997	2017	59,295
Drainage	573,000	5.20	1997	2017	213,400
Sludge Composting	100,000	5.23	1997	2017	39,820

**City of Haverhill, Massachusetts**  
**Schedule of Indebtedness**  
**June 30, 2009**  
**(Continued from Page 48)**

<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 6/30/2009</u>
Combined Sewer Overflow	\$ 412,225	5.60	1998	2019	\$ 247,286
Combined Sewer Overflow	497,038	5.20	2001	2021	327,683
Sewer Tank	597,000	4.03	2003	2023	415,000
Sewer Boiler	200,000	4.04	2003	2023	140,000
Sewer Pipes	265,000	3.93	2003	2023	175,000
Sewer Planning	1,446,000	4.02	2003	2023	1,015,000
MWPAT	95,275	variable	2003	2023	62,824
MWPAT	465,418	variable	2003	2023	352,972
MWPAT	1,391,554	variable	2003	2023	981,446
Water Bonds	169,693	4.45	1997	2012	52,205
Water Pumping Station	175,000	5.12	1997	2017	54,600
Water Bonds	4,835,000	4.96	1999	2019	2,935,000
Water Pump Treatment	978,000	4.02	2003	2023	675,000
MWPAT	94,022	4.43	2004	2034	73,309
MWPAT	631,729	4.43	2004	2034	327,503
MWPAT	675,579	Variable	2005	2025	569,641
MWPAT	11,463,447	Variable	2005	2035	10,516,258
Departmental Equipment	128,000	4.00	2006	2012	75,000
High Street Fire Roof	45,000	4.00	2006	2012	25,000
Parking Deck 1	161,115	4.00	2006	2017	120,000
Parking Deck 2	240,885	4.00	2006	2017	190,000
MWPAT	1,500,000	Variable	2007	2027	1,350,000
MWPAT	300,000	Variable	2007	2027	269,626
Whittier School Roof	710,000	4.00	2007	2017	560,000
Greenleaf School Boiler	53,000	4.00	2007	2017	40,000
MWPAT	220,213	2.00	2007	2024	191,047
MWPAT	4,730,937	2.00	2007	2027	4,345,772
MWPAT	2,150,381	2.00	2008	2028	2,065,119
MWPAT	1,166,883	2.00	2008	2028	1,120,616
<b>GRAND TOTAL</b>	<b>\$ 141,999,117</b>				<b>\$ 99,323,746</b>

**City of Haverhill, Massachusetts**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**For the Year Ended June 30, 2009**

	Federal CFDA	
	<u>Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture:		
Food and Nutrition Service:		
School Breakfast Program	10.553	\$ 222,435
National School Lunch	10.555	1,179,500
Elder Service Grant	10.570	7,733
Total U.S. Department of Agriculture		<u><b>1,409,668</b></u>
U.S. Department of Housing and Urban Development:		
Community Development Block Grant	14.218	1,144,867
Supportive Housing Program	14.235	20,543
Shelter Care Plus	14.238	92,668
Home Investment Partnership Program	14.239	313,855
Total Department of Housing and Urban Development		<u><b>1,571,933</b></u>
U.S. Department of Education:		
Title I	84.010	1,917,388
SPED 94-142 Allocation	84.027	2,394,595
SPED Middle School Read	84.027	17,172
SPED Program Improvement	84.027	36,275
SPED - Preschool/Early Childhood	84.173	75,790
Drug Free Schools-Dist	84.186	41,593
Small Learning Communities	84.215L	360,746
21st Century Community Learning	84.287	736,352
Enhanced Ed. Through Tech.	84.318	26,109
Tech Data Driven Decision	84.318	78,581
Reading First Program	84.357	48,818
LEP Support	84.365	93,665
Teacher Quality	84.367	406,379
ARRA	84.392	240,000
ARRA	84.394	2,258,641
Total U.S. Department of Education		<u><b>8,732,104</b></u>
Total Schedule of Expenditures of Federal Awards		<u><b>\$ 11,713,705</b></u>

City of Haverhill, Massachusetts  
Notes to Schedule of Expenditures of Federal Awards  
June 30, 2009

(1) Scope of Audit

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

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

(2) Summary of Significant Accounting Policies

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

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

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

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

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

We have audited the basic financial statements of the City of Haverhill, Massachusetts, as of and for the year ended June 30, 2009, and have issued our report thereon dated March 17, 2010. We conducted our audit in accordance with accounting standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting (2009-1 and 2009-2).

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2009-1 and 2009-2 to be material weaknesses.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City of Haverhill, Massachusetts' financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulation, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Giusti, Hingston and Company*

Giusti, Hingston and Company  
Certified Public Accountants  
March 17, 2010

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

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

Compliance

We have audited the compliance of the City of Haverhill, Massachusetts with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2009. The City of Haverhill, Massachusetts, major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the City of Haverhill's management. Our responsibility is to express an opinion on the City of Haverhill's compliance based on our audit.

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

As described in Item 2009-3 in the accompanying schedule of findings and questioned costs, the City of Haverhill did not comply with certain requirements relating to the U.S. Department of Housing and Urban Development Grant, C.F.D.A. #14.218. Compliance with such requirements is necessary, in our opinion, for the City of Haverhill to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the City of Haverhill, Massachusetts complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

A control deficiency in the City of Haverhill's, internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Haverhill's, ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City of Haverhill's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the City of Haverhill's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We noted matters involving the internal control over compliance and its operations that we consider to be material weaknesses listed as Item 2009-3.

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

*Giusti, Hingston and Company*

Giusti, Hingston and Company  
Certified Public Accountants  
March 17, 2010

City of Haverhill, Massachusetts  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2009  
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I Summary of Auditors' Results

1. The opinion on the financial statements was unqualified.
2. Significant deficiencies in internal control were reported during the audit of the financial statements (see 2009-1 and 2009-2).
3. No instances of noncompliance which were material to the financial statements were reported.
4. A significant deficiency in internal control relating to a major program was found during the audit (see 2009-3).
5. The opinion on compliance with requirements applicable to major programs was qualified.
6. There was a finding relating to a major federal award program as noted in Part III below.
7. The major programs identified were:

<u>Funding Source</u>	<u>CFDA #</u>
U.S. Department of Agriculture	10.553
U.S. Department of Agriculture	10.555
U.S. Department of Housing and Urban Development	14.218
U.S. Department of Education	84.010
U.S. Department of Education	84.027
U.S. Department of Education	84.173
U.S. Department of Education	84.215L
U.S. Department of Education	84.287
U.S. Department of Education	84.392
U.S. Department of Education	84.394

8. The dollar threshold used to distinguish between Type A and Type B programs was \$351,411.
9. The auditee was not audited as low risk.

City of Haverhill, Massachusetts  
Schedule of Findings and Questioned Costs  
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II Findings – Financial Statement Audit

2009-1 Cash Reconciliation

During our review of the cash reconciliation procedures for the fiscal year ended June 30, 2009, we found that the vast majority of bank accounts were reconciled from the actual bank statements to the general ledger cash balances, in a timely manner every month. However, as we have noted in the past, there are a few accounts that were still not reconciled as timely as desired. In order to be able to perform the entire cash reconciliation process in a timely manner, it is important to try to perform the work as efficiently as possible. One way to do this is to eliminate as many unneeded bank accounts as possible. The Treasurer is aware of this and continues to work on eliminating accounts whenever possible. During the prior year, over one hundred separate escrow bank accounts were closed and transferred into a new Municipal Escrow bank account. This new account has the ability to keep track of the required separate escrow activity relating to original deposits, investment income, disbursements, beginning and ending balances and any other related detailed activity. This change will allow the process of reconciling cash to be performed more efficient and timely each month. In order to be able to perform all of the monthly cash reconciliation work in a timely manner, we recommend that the process of reviewing the remaining bank accounts continue, to determine if there are any other bank accounts that can be closed. In addition, the cash reconciliation outstanding checks lists should be reviewed for items such as void checks, reissued checks, old outstanding checks, etc. The old items should be reviewed and reconciled and any corrections or adjustments should be made to help with the timeliness of the reconciliation. We recommend that the City attempt to complete the monthly cash reconciliation work, for all bank accounts, within about 6-8 weeks after the end of each month.

Because the City is now using the Budget Sense cash reconciliation module, the entire process of recording and reconciling cash is now being performed more efficiently than it had been in the past. In an effort to improve this efficiency even more, we recommend that the City look into the feasibility of using the Budget Sense cash reconciliation software, to work directly with the banks being used by the City, in generating electronically transferred data relating to checks issued, paid and outstanding. We also recommend that the City consider obtaining additional training, relating to using this option, along with any other reconciliation matters.

2009-2 Debt Reconciliation and Capital Projects Accounting

As we have noted in the past, during our review of the detailed debt records maintained by the City Auditor, we found that the long term debt balances are properly recorded in the City Auditor's general ledger accounting system. In addition, the City Auditor has established and maintains a detailed debt spreadsheet that includes all activity relating to beginning balances, new debt issued, principal and interest payments and ending balances. This spreadsheet is properly reconciled to the general ledger balances. The City Auditor also performs a very important control procedure, which includes reconciling the outstanding debt balances (which are recorded in the general ledger accounting system) at the end of the fiscal year, with the balances recorded by First Southwest (the City's financial advisor relating to all debt).

City of Haverhill, Massachusetts  
 Schedule of Findings and Questioned Costs  
 For the Year Ended June 30, 2009  
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However, during our review of the City debt records, for the fiscal year ended June 30, 2009, we found that formal procedures had not yet been established to reconcile the total outstanding debt principal balances between the Treasurer’s office and the City Auditor’s office on an annual or quarterly basis. The Treasurer has established a debt worksheet that includes a detailed list of all of the debt issued by the City that will be able to be used in the future to reconcile all of the debt activity with the City Auditor, on a quarterly and annual basis. We recommend that this new debt spreadsheet be used by the Treasurer to perform these important debt reconciliation procedures, in a timely manner every quarter.

We also found during our review of the short term debt (and related accounts receivable), relating to the MWPAT (Massachusetts Water Pollution Abatement Trust), that certain adjusting entries were needed. These adjustments relate to amounts received by the City, from MWPAT, that have not yet been formally bonded as long term debt, or amounts that have been bonded, but not yet paid to the City, from MWPAT. In addition, during our review of the capital projects fund accounting, we found that a system is not yet in place to capitalize the projects that have been completed. We recommend that the amounts received relating to the MWPAT projects be carefully reviewed and reconciled between the City Auditor’s records and the records of the MWPAT agency, though direct communication with MWPAT. The information obtained from MWPAT would include not only the long term and short term debt outstanding balances at the end of the year, but also the year end draw downs and the accounts receivable balances reflected on the books of the MWPAT. 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 ongoing, the expenses are considered construction work in process, and should be kept track of and accounted for at the end of each fiscal year.

III Findings and Questioned Costs for Federal Awards

<u>Finding Number</u>	<u>Department</u>	<u>C.F.D.A.#</u>	<u>Finding</u>
2009-3	United States Department of Housing and Urban Development	14.218	<u>Subrecipient Monitoring</u>

For the fiscal year ended June 30, 2009, we reviewed the policies and procedures in place for the City of Haverhill CDBG office relating to subrecipient monitoring. During this review we found that an amended monitoring plan has been developed by the City and specific subrecipient monitoring procedures and monitoring guidelines have been established, including the use of a comprehensive “subrecipient monitoring checklist”. The City has begun the process of performing on-site monitoring of sub grantees using these new procedures. During the fiscal year ended June 30, 2009, the City contracted with another City’s CDBG department to provide assistance

City of Haverhill, Massachusetts  
Schedule of Findings and Questioned Costs  
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<u>Finding Number</u>	<u>Department</u>	<u>C.F.D.A.#</u>	<u>Finding</u>
2009-3	United States Department of Housing and Urban Development	14.218	<p><u>Subrecipient Monitoring</u></p> <p>developing a comprehensive subrecipient monitoring program and related procedures.</p> <p>The process of performing subrecipient monitoring using the new policies and procedures has been started, however only two of the City's subrecipients were monitored during the fiscal year ended June 30, 2009. There are additional subrecipients that should be monitored in order to comply with federal regulatory requirements.</p> <p>We recommend that every effort be made to fully implement the subrecipient monitoring procedures and to perform the necessary on-site monitoring in accordance with federal regulations.</p>

City of Haverhill, Massachusetts  
 Summary of Prior Years Findings and Questioned Costs  
 For the Year Ended June 30, 2009

Prior Year  
 Fiscal Year Ended  
 June 30, 2008

<u>Finding Number</u>	<u>Department</u>	<u>C.F.D.A. #</u>	<u>Current Status</u>
2008-1	-	-	<u>Cash Reconciliation and Trust Fund Accounting</u> Please see the fiscal year ended June 30, 2009, Schedule of Findings and Questioned Costs, Item #2009-1.
2008-2	-	-	<u>Debt Reconciliation and Capital Projects Accounting</u> Please see the fiscal year ended June 30, 2009, Schedule of Findings and Questioned Costs, Item #2009-2.
2008-3	United States Department of Housing and Urban Development	14.218	<u>Payroll Certification and Supporting Documentation</u> This finding has been corrected during the fiscal year ended June 30, 2009.
2008-4	United States Department of Housing and Urban Development	14.218	<u>Subrecipient Monitoring</u> Please see the fiscal year ended June 30, 2009, Schedule of Findings and Questioned Costs, Item #2009-3.
2008-5	United States Department of Education	84.027, 84.173, 84.287 and 84.367	<u>Payroll Certifications and Supporting Documentation</u> This finding has been corrected during the fiscal year ended June 30, 2009.