

***CITY OF HAVERHILL, MASSACHUSETTS***

***REPORT ON EXAMINATION OF  
BASIC FINANCIAL STATEMENTS***

***YEAR ENDED JUNE 30, 2018***

CITY OF HAVERHILL, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

JUNE 30, 2018

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## Independent Auditor's Report

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## Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type 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, 2018 (except for the Haverhill Contributory Retirement System which is as of and for the year ended December 31, 2017), and the related notes to the financial statements, which collectively comprise the City of Haverhill, Massachusetts' basic financial statements as listed in the table of contents.

## Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

## Auditor's Responsibility

Our responsibility is to express opinions 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Haverhill, Massachusetts, as of June 30, 2018 (except for the Haverhill Contributory Retirement System which is as of and for the year ended December 31, 2017), and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2018, on our consideration of the City of Haverhill, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Haverhill, Massachusetts' internal control over financial reporting and compliance.



December 10, 2018

***Management's Discussion and Analysis***

## ***Management's Discussion and Analysis***

As management of the City of Haverhill, Massachusetts (City), we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2018. We encourage readers to consider the information presented in this report. All amounts, unless otherwise indicated, are expressed in whole dollars.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

### **Financial Highlights**

- The liabilities and deferred inflows of resources of the City of Haverhill exceeded the assets and deferred outflows of resources at the close of the most recent year by \$290.0 million (net position).
- Beginning net position of the governmental activities, the business-type activities and the enterprise funds has been revised to reflect the implementation of GASB Statement #75. The implementation of this standard required the OPEB liability to be revised due to the use of different methods and assumptions as previously required by GASB Statement #45. Accordingly, the City's net position as of June 30, 2017, has been revised to reflect these changes. (See note 17 for further details regarding the revised balances).
- At the close of the current year, the City's general fund reported an ending fund balance of \$27.0 million. Total fund balance represents 13% of total general fund expenditures.
- The City's total debt (short-term and long-term combined) decreased by \$9.3 million during the year.
- The City's net other postemployment benefit (OPEB) liability increased by \$5.0 million and totaled \$382.1 million at year-end.
- The City's net pension liability (NPL) decreased by \$422,000 and totaled \$169.1 million at year-end.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Haverhill's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements provide both long-term and short-term information about the City as a whole. The fund financial statements focus on the individual components of the City government, reporting the City's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the City's accountability. This report also contains other required supplementary information in addition to the basic financial statements themselves.

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

The *statement of net position* presents information on all assets and liabilities and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to 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 periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, human services, community & economic development, Hale Hospital - OPEB and interest. The business-type activities include the activities of water and sewer operations.

The government-wide financial statements include not only the City of Haverhill itself (known as the *primary government*), but also a legally separate public employee retirement system. Financial information for this *component unit* is reported separately within the fiduciary fund statements.

**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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**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 statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the year. Such information may be useful in evaluating a government's near-term financing requirements.

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*.

The City of Haverhill adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** The City maintains two types of proprietary funds.

*Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City accounts for its water and sewer activities as an enterprise fund.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to active employees' and retirees' health insurance. The City changed to premium based health insurance plans in 2017.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the basic financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government’s financial position. The City of Haverhill’s liabilities and deferred inflows of resources exceeded total assets and deferred outflows of resources by \$290.0 million at the close of 2018.

Net position of \$202.2 million reflects its net investment in capital assets (e.g., land, land improvements, buildings, vehicles, machinery and equipment, building improvements, and infrastructure) less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the governmental net position, \$3.1 million, represents resources that are subject to external restrictions on how they may be used. The balance of *unrestricted net position* has a year-end deficit of \$495.3 million. The primary reason for this deficit balance is the recognition of the total other postemployment benefit and net pension liabilities totaling \$382.1 million and \$169.1 million, respectively.

At the end of the current year, the City of Haverhill is able to report positive balances in two out of three categories of net position for the City as a whole.

The governmental and business-type activities of the City are presented below.

**Governmental Activities**

The City of Haverhill’s liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources for governmental activities by \$314.3 million at the close of 2018.

	2018	2017 (As Revised)
<b>Assets:</b>		
Current assets.....	\$ 59,257,550	\$ 52,278,471
Noncurrent assets (excluding capital).....	1,093,896	2,894,264
Capital assets, non depreciable.....	10,958,504	10,126,880
Capital assets, net of accumulated depreciation.....	215,238,769	216,280,193
<b>Total assets.....</b>	<b>286,548,719</b>	<b>281,579,808</b>
<b>Deferred outflows of resources.....</b>	<b>31,084,791</b>	<b>32,176,416</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	8,635,593	7,560,726
Noncurrent liabilities (excluding debt).....	545,422,007	541,999,447
Current debt.....	22,506,741	39,551,333
Noncurrent debt.....	50,041,749	36,409,653
<b>Total liabilities.....</b>	<b>626,606,090</b>	<b>625,521,159</b>
<b>Deferred inflows of resources.....</b>	<b>5,320,062</b>	<b>326,925</b>
<b>Net position:</b>		
Net investment in capital assets.....	158,094,104	152,502,772
Restricted.....	3,083,758	3,061,850
Unrestricted.....	(475,470,504)	(467,656,482)
<b>Total net position.....</b>	<b>\$ (314,292,642)</b>	<b>\$ (312,091,860)</b>

	2018	2017 (As Revised)
<b>Program Revenues:</b>		
Charges for services.....	\$ 7,614,567	\$ 6,963,728
Operating grants and contributions.....	89,763,899	86,101,698
Capital grants and contributions.....	3,339,596	11,853,330
<b>General Revenues:</b>		
Real estate and personal property taxes, net of tax refunds payable.....	98,222,574	96,105,718
Tax liens.....	1,010,381	669,818
Motor vehicle and other excise taxes.....	8,897,886	8,675,546
Penalties and interest on taxes.....	509,901	464,185
Payments in lieu of taxes.....	2,125,485	2,001,878
Grants and contributions not restricted to specific programs.....	14,083,424	13,252,217
Unrestricted investment income.....	425,599	244,926
Miscellaneous.....	6,830	202,067
<b>Total revenues.....</b>	<b>226,000,142</b>	<b>226,535,111</b>
<b>Expenses:</b>		
General government.....	7,944,378	8,477,190
Public safety.....	40,055,015	39,388,532
Education.....	154,217,636	151,418,862
Public works.....	16,450,371	16,007,750
Human services.....	5,766,340	5,991,734
Community and economic development.....	2,548,938	2,409,733
Interest.....	2,052,281	1,875,434
<b>Total expenses.....</b>	<b>229,034,959</b>	<b>225,569,235</b>
<b>Excess (Deficiency) before transfers.....</b>	<b>(3,034,817)</b>	<b>965,876</b>
<b>Transfers.....</b>	<b>834,035</b>	<b>813,693</b>
<b>Change in net position.....</b>	<b>(2,200,782)</b>	<b>1,779,569</b>
<b>Net position, beginning of year (as revised).....</b>	<b>(312,091,860)</b>	<b>(313,871,429)</b>
<b>Net position, end of year.....</b>	<b>\$ (314,292,642)</b>	<b>\$ (312,091,860)</b>

Beginning net position of the governmental activities has been revised to reflect the implementation of GASB Statement #75. The implementation of this standard required the OPEB liability to be revised due to the use of different methods and assumptions as previously required by GASB Statement #45. Accordingly, previously reported net position, which was in a deficit position totaling \$23.7 million has been revised and is in a deficit position totaling \$312.1 million (see note 17).

Governmental expenses totaled \$229.0 million of which \$100.7 million (44%) was directly supported by program revenues consisting of charges for services, operating and capital grants and contributions. General revenues totaled \$125.3 million, primarily coming from property taxes, motor vehicle excise taxes, payments in lieu of taxes and non-restricted state aid.

Governmental net position decreased by \$2.2 million during the current year. The primary components of this decrease include a \$4.8 million increase in the other postemployment benefits liability and a \$6.4 million increase in deferred outflows/inflows of resources related to pensions. These decreases were offset by capital grants totaling \$3.3 million, a \$1.4 million decrease in the net pension liability, a general fund surplus of \$3.0 million, and a \$1.4 million surplus due to timing differences between the receipt and expenditure of gifts, grants and other special revenue funds.

## Business-type Activities

For the City's business-type activities, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$24.3 million at the close of 2018.

	2018	2017 (As Revised)
<b>Assets:</b>		
Current assets.....	\$ 5,539,171	\$ 14,999,878
Noncurrent assets (excluding capital).....	998,437	1,075,815
Capital assets, non depreciable.....	2,054,570	1,771,855
Capital assets, net of accumulated depreciation.....	79,370,976	61,575,307
<b>Total assets.....</b>	<b>87,963,154</b>	<b>79,422,855</b>
<b>Deferred outflows of resources.....</b>	<b>2,207,023</b>	<b>1,556,725</b>
<b>Liabilities:</b>		
Current liabilities (excluding debt).....	3,985,987	1,527,171
Noncurrent liabilities (excluding debt).....	22,100,907	20,962,345
Current debt.....	8,927,534	12,983,836
Noncurrent debt.....	30,375,395	19,854,577
<b>Total liabilities.....</b>	<b>65,389,823</b>	<b>55,327,929</b>
<b>Deferred inflows of resources.....</b>	<b>458,426</b>	<b>282,522</b>
<b>Net position:</b>		
Net investment in capital assets.....	31,324,312	31,502,848
Unrestricted.....	(7,002,384)	(6,133,719)
<b>Total net position.....</b>	<b>\$ 24,321,928</b>	<b>\$ 25,369,129</b>
<b>Program Revenues:</b>		
Charges for services.....	\$ 18,973,633	\$ 18,168,836
Operating grants and contributions.....	186,241	211,308
<b>Total revenues.....</b>	<b>19,159,874</b>	<b>18,380,144</b>
<b>Expenses:</b>		
Water.....	7,903,077	7,157,163
Sewer.....	11,469,963	10,568,138
<b>Total expenses.....</b>	<b>19,373,040</b>	<b>17,725,301</b>
<b>Excess (Deficiency) before transfers.....</b>	<b>(213,166)</b>	<b>654,843</b>
<b>Transfers.....</b>	<b>(834,035)</b>	<b>(813,693)</b>
<b>Change in net position.....</b>	<b>(1,047,201)</b>	<b>(158,850)</b>
<b>Net position, beginning of year (as revised).....</b>	<b>25,369,129</b>	<b>25,527,979</b>
<b>Net position, end of year.....</b>	<b>\$ 24,321,928</b>	<b>\$ 25,369,129</b>

Beginning net position of the business-type activities has been revised to reflect the implementation of GASB Statement #75. The implementation of this standard required the OPEB liability to be revised due to the use of different methods and assumptions as previously required by GASB Statement #45. Accordingly, previously reported net position of \$34.9 million has been revised and totals \$25.4 million (see note 17).

Business-type net position of \$44.1 million represents the net investment in capital assets. The balance of *unrestricted net position* has a year-end deficit of \$19.8 million. The primary reason for this deficit balance is the recognition of the total other postemployment benefit and net pension liabilities totaling \$12.2 million and \$9.9 million, respectively.

The water enterprise fund net position decreased by \$218,000 in the current year. This decrease is the result of a \$494,000 increase in the net pension liability and an \$81,000 increase in the other postemployment benefits liability. These decreases were offset by a \$278,000 increase in deferred outflows/inflows of resources related to pensions and an operating surplus of \$87,000.

The sewer enterprise fund net position decreased by \$829,000 in the current year. This decrease is the result of a \$485,000 increase in the net pension liability and a \$79,000 increase in the other postemployment benefits liability and depreciation expense exceeding debt principal payments raised in the tax levy by 595,000. These decreases were offset by a \$185,000 increase in deferred outflows/inflows of resources related to pensions and an operating surplus of \$27,000.

### ***Financial Analysis of the Government's Funds***

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, governmental funds reported a combined ending fund balance of \$36.2 million. This was comprised of the general fund totaling \$27.0 million, the Hunking Middle School deficit totaling \$2.3 million and the nonmajor funds totaling \$11.5 million.

The general fund is the chief operating fund. At the end of the current year, unassigned fund balance of the general fund was \$18.5 million, while total fund balance was \$27.0 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 9% of the total general fund expenditures, while total fund balance represents 13% of that same amount. Committed fund balance totals \$378,000 and consists of the school stabilization fund totaling \$126,000 and the OPEB stabilization fund totaling \$251,000. Assigned fund balance totals \$8.1 million and includes \$3.0 million of unexpended appropriations that were encumbered to be expended in the subsequent year and \$5.1 million of fund balance that was voted to fund subsequent years' expenditures.

The general fund increased by \$3.0 million, which is due to a budgetary basis operating surplus of \$4 million that was offset by accrued expenditures for solid waste removal totaling \$1.1 million.

The \$3.7 million increase in education expenditures is attributable to the increase in the operating budget.

The \$1.8 million increase in public safety expenditures is primarily due to the addition of five new police officers, increases in overtime pay and retroactive pay increases due to collective bargaining agreements.

The Hunking Middle School capital project fund increased by \$11.0 million, which is due to a timing difference between the receipt and expenditure of bond proceeds as well as state grant funds.

## ***General Fund Budgetary Highlights***

The \$944,000 increase between the original budget and the final amended budget was primarily due to the use of free cash to fund capital projects.

## ***Capital Asset and Debt Administration***

**Capital Assets.** In conjunction with the annual operating budget, the City annually prepares a capital budget for the upcoming year and a five-year Capital Improvement Plan (CIP) that is used as a guide for future capital expenditures.

The City's net investment in capital assets for its governmental and business-type activities as of June 30, 2018, amounts to \$307.6 million (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, buildings, land and building improvements, vehicles, equipment and infrastructure.

Current year additions for the governmental investment in capital assets totaled \$8.8 million. \$2.5 million of additions relate to school energy conservation improvements, \$1.8 million relates to street resurfacing, \$989,000 relates to the Hunking Middle School project and \$3.5 million is for various other projects.

The water and sewer additions totaled \$21.7 million and include \$17.4 million for the renovation of the Kenoza Lake water treatment plant, \$2.3 million for new water mains and \$2 million for other water and sewer infrastructure improvements.

**Debt Administration.** The City maintains a AA credit rating with Standard and Poor's Financial Services and continues to maintain strong market access for both note and bond sales.

Outstanding long-term debt of the general government totaled \$62.7 million, of which \$14.2 million relates to Hospital debt, \$33.6 million relates to school construction, \$7.8 million relates to landfill closure and \$7.1 million relates to various other capital projects.

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During 2018, \$869,000 of such assistance was received; the final payment of \$869,000 will be received in 2019. Of this amount, \$34,000 represents reimbursement of long-term interest costs, and \$835,000 represents reimbursement of approved construction costs. Accordingly, a \$835,000 intergovernmental receivable and corresponding deferred inflow of resources - unavailable revenue has been reported in the governmental fund financial statements. The unavailable revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the City. Through the end of 2018, the City has received \$37.5 million of capital grant reimbursements from the MSBA which is equal to 78.93% of approved construction costs incurred to date for the new Hunking Middle School. The project is substantially complete and the City anticipates receiving the final reimbursement once the MSBA has completed its final review for the project costs.

The water enterprise fund has \$4.0 million of outstanding long-term debt, which is fully supported by rates and does not rely on a general fund subsidy.

The sewer enterprise fund has \$29.0 million of outstanding long-term debt, which is fully supported by rates and does not rely on a general fund subsidy.

Short-term debt outstanding at year-end for the general government totaled \$7.7 million of which \$5.7 million is for Hunking Middle School and \$2.0 million is for street resurfacing.

The water enterprise fund outstanding short-term debt totaled \$6.3 million and was used to finance renovation of the water treatment plant and water infrastructure improvements.

Please refer to the notes to the financial statements for further discussion of the major capital and debt activity.

### ***Requests for Information***

This financial report is designed to provide a general overview of the City of Haverhill's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, City Hall, 4 Summer Street, Haverhill, Massachusetts 01830.

# ***Basic Financial Statements***

## STATEMENT OF NET POSITION

JUNE 30, 2018

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ 36,360,987	\$ 1,199,339	\$ 37,560,326
Investments.....	3,329,349	-	3,329,349
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	1,919,058	-	1,919,058
Tax liens.....	2,218,381	-	2,218,381
Motor vehicle and other excise taxes.....	1,123,810	-	1,123,810
User charges.....	-	4,262,454	4,262,454
Departmental and other.....	107,998	54,021	162,019
Intergovernmental.....	13,342,007	23,357	13,365,364
Tax foreclosures.....	855,960	-	855,960
Total current assets.....	<u>59,257,550</u>	<u>5,539,171</u>	<u>64,796,721</u>
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	997,350	538,035	1,535,385
Intergovernmental.....	96,546	460,402	556,948
Capital assets, nondepreciable.....	10,958,504	2,054,570	13,013,074
Capital assets, net of accumulated depreciation.....	<u>215,238,769</u>	<u>79,370,976</u>	<u>294,609,745</u>
Total noncurrent assets.....	<u>227,291,169</u>	<u>82,423,983</u>	<u>309,715,152</u>
TOTAL ASSETS.....	<u>286,548,719</u>	<u>87,963,154</u>	<u>374,511,873</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions.....	21,185,243	1,879,637	23,064,880
Deferred outflows related to other postemployment benefits.....	<u>9,899,548</u>	<u>327,386</u>	<u>10,226,934</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES.....	<u>31,084,791</u>	<u>2,207,023</u>	<u>33,291,814</u>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	3,720,972	3,520,608	7,241,580
Longevity liability.....	1,015,672	-	1,015,672
Tax refunds payable.....	223,426	-	223,426
Accrued interest.....	574,126	380,379	954,505
Other liabilities.....	1,526,397	-	1,526,397
Capital lease obligations.....	144,183	-	144,183
Landfill closure.....	88,000	-	88,000
Compensated absences.....	1,369,000	85,000	1,454,000
Workers' compensation.....	118,000	-	118,000
Notes payable.....	7,672,477	6,283,404	13,955,881
Bonds payable.....	<u>14,690,081</u>	<u>2,644,130</u>	<u>17,334,211</u>
Total current liabilities.....	<u>31,142,334</u>	<u>12,913,521</u>	<u>44,055,855</u>
<b>NONCURRENT:</b>			
Capital lease obligations.....	2,079,106	-	2,079,106
Landfill closure.....	14,752,000	-	14,752,000
Compensated absences.....	874,000	-	874,000
Workers' compensation.....	670,000	-	670,000
Net pension liability.....	159,234,221	9,868,265	169,102,486
Total other postemployment benefits liability.....	369,891,786	12,232,642	382,124,428
Bonds payable.....	<u>47,962,643</u>	<u>30,375,395</u>	<u>78,338,038</u>
Total noncurrent liabilities.....	<u>595,463,756</u>	<u>52,476,302</u>	<u>647,940,058</u>
TOTAL LIABILITIES.....	<u>626,606,090</u>	<u>65,389,823</u>	<u>691,995,913</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions.....	<u>5,320,062</u>	<u>458,426</u>	<u>5,778,488</u>
<b>NET POSITION</b>			
Net investment in capital assets.....	158,094,104	31,324,312	189,418,416
Restricted for:			
Gifts and grants.....	3,083,758	-	3,083,758
Unrestricted.....	<u>(475,470,504)</u>	<u>(7,002,384)</u>	<u>(482,472,888)</u>
TOTAL NET POSITION.....	<u>\$ (314,292,642)</u>	<u>\$ 24,321,928</u>	<u>\$ (289,970,714)</u>

See notes to basic financial statements.

**STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
<i>Governmental Activities:</i>					
General government.....	\$ 7,944,378	\$ 1,621,317	\$ 644,483	\$ 38,955	\$ (5,639,623)
Public safety.....	40,055,015	1,109,483	1,567,113	-	(37,378,419)
Education.....	154,217,636	1,613,301	85,966,885	1,305,241	(65,332,209)
Public works.....	16,450,371	124,234	39,964	1,536,184	(14,749,989)
Human services.....	5,766,340	471,898	759,829	-	(4,534,613)
Community and economic development.....	2,548,938	2,674,334	703,172	459,216	1,287,784
Interest.....	2,052,281	-	82,453	-	(1,969,828)
<b>Total Governmental Activities.....</b>	<b>229,034,959</b>	<b>7,614,567</b>	<b>89,763,899</b>	<b>3,339,596</b>	<b>(128,316,897)</b>
<i>Business-Type Activities:</i>					
Water.....	7,903,077	7,939,615	-	-	36,538
Sewer.....	11,469,963	11,034,018	186,241	-	(249,704)
<b>Total Business-Type Activities.....</b>	<b>19,373,040</b>	<b>18,973,633</b>	<b>186,241</b>	<b>-</b>	<b>(213,166)</b>
<b>Total Primary Government.....</b>	<b>\$ 248,407,999</b>	<b>\$ 26,588,200</b>	<b>\$ 89,950,140</b>	<b>\$ 3,339,596</b>	<b>\$ (128,530,063)</b>

See notes to basic financial statements.

(Continued)

**STATEMENT OF ACTIVITIES (continued)**

YEAR ENDED JUNE 30, 2018

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Changes in net position:</b>			
Net (expense) revenue from previous page..... \$	<b>(128,316,897)</b>	<b>(213,166)</b>	<b>(128,530,063)</b>
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	98,222,574	-	98,222,574
Tax liens.....	1,010,381	-	1,010,381
Motor vehicle and other excise taxes.....	8,897,886	-	8,897,886
Penalties and interest on taxes.....	509,901	-	509,901
Payments in lieu of taxes.....	2,125,485	-	2,125,485
Grants and contributions not restricted to specific programs.....	14,083,424	-	14,083,424
Unrestricted investment income.....	425,599	-	425,599
Miscellaneous.....	6,830	-	6,830
<i>Transfers, net</i> .....	834,035	(834,035)	-
Total general revenues and transfers.....	126,116,115	(834,035)	125,282,080
Change in net position.....	(2,200,782)	(1,047,201)	(3,247,983)
<i>Net position:</i>			
Beginning of year (Revised).....	(312,091,860)	25,369,129	(286,722,731)
End of year..... \$	<b>(314,292,642)</b>	<b>24,321,928</b>	<b>(289,970,714)</b>

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

JUNE 30, 2018

	General	Hunking Middle School	Chapter 90 Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>					
Cash and cash equivalents.....	\$ 20,858,965	\$ 3,347,431	\$ 319,938	\$ 11,834,653	\$ 36,360,987
Investments.....	3,329,349	-	-	-	3,329,349
Receivables, net of uncollectibles:					
Real estate and personal property taxes.....	1,919,058	-	-	-	1,919,058
Tax liens.....	2,218,381	-	-	-	2,218,381
Motor vehicle and other excise taxes.....	1,123,810	-	-	-	1,123,810
Departmental and other.....	1,105,348	-	-	-	1,105,348
Intergovernmental.....	7,322,543	-	4,947,187	1,168,823	13,438,553
Tax foreclosures.....	855,960	-	-	-	855,960
<b>TOTAL ASSETS.....</b>	<b>\$ 38,733,414</b>	<b>\$ 3,347,431</b>	<b>\$ 5,267,125</b>	<b>\$ 13,003,476</b>	<b>\$ 60,351,446</b>
<b>LIABILITIES</b>					
Warrants payable.....	\$ 2,219,977	\$ -	\$ -	\$ 1,500,995	\$ 3,720,972
Tax refunds payable.....	223,426	-	-	-	223,426
Other liabilities.....	1,526,397	-	-	-	1,526,397
Notes payable.....	-	5,672,477	2,000,000	-	7,672,477
<b>TOTAL LIABILITIES.....</b>	<b>3,969,800</b>	<b>5,672,477</b>	<b>2,000,000</b>	<b>1,500,995</b>	<b>13,143,272</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Unavailable revenue.....	7,779,020	-	3,267,125	-	11,046,145
<b>FUND BALANCES</b>					
Restricted.....	-	-	-	11,631,202	11,631,202
Committed.....	377,540	-	-	-	377,540
Assigned.....	8,058,048	-	-	-	8,058,048
Unassigned.....	18,549,006	(2,325,046)	-	(128,721)	16,095,239
<b>TOTAL FUND BALANCES.....</b>	<b>26,984,594</b>	<b>(2,325,046)</b>	<b>-</b>	<b>11,502,481</b>	<b>36,162,029</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES.....</b>	<b>\$ 38,733,414</b>	<b>\$ 3,347,431</b>	<b>\$ 5,267,125</b>	<b>\$ 13,003,476</b>	<b>\$ 60,351,446</b>

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION**

JUNE 30, 2018

Total governmental fund balances.....		\$ 36,162,029
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		226,197,273
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		11,046,145
The statement of net position includes certain deferred inflows of resources and deferred outflows of resources that will be amortized over future periods. In governmental funds, these amounts are not deferred.....		25,764,729
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(574,126)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds payable.....	(62,652,724)	
Net pension liability.....	(159,234,221)	
Total other postemployment benefits liability.....	(369,891,786)	
Landfill closure.....	(14,840,000)	
Longevity liability.....	(1,015,672)	
Capital lease obligations.....	(2,223,289)	
Workers' compensation.....	(788,000)	
Compensated absences.....	<u>(2,243,000)</u>	
Net effect of reporting long-term liabilities.....		<u>(612,888,692)</u>
Net position of governmental activities.....		<u>\$ (314,292,642)</u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS**  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2018

	General	Hunking Middle School	Chapter 90 Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>					
Real estate and personal property taxes, net of tax refunds.....	\$ 97,892,967	\$ -	\$ -	\$ -	\$ 97,892,967
Tax liens.....	992,207	-	-	-	992,207
Motor vehicle and other excise taxes.....	8,959,484	-	-	-	8,959,484
Charges for services.....	-	-	-	1,882,321	1,882,321
Penalties and interest on taxes.....	509,901	-	-	-	509,901
Fees and rentals.....	1,435,350	-	-	-	1,435,350
Payments in lieu of taxes.....	2,125,485	-	-	-	2,125,485
Licenses and permits.....	3,036,567	-	-	-	3,036,567
Fines and forfeitures.....	724,095	-	-	-	724,095
Intergovernmental - School Building Authority.....	-	1,305,240	-	273,633	1,578,873
Intergovernmental - Teachers Retirement.....	16,745,100	-	-	-	16,745,100
Intergovernmental.....	67,097,575	-	1,806,424	18,758,553	87,662,552
Departmental and other.....	2,011,226	-	-	-	2,011,226
Contributions and donations.....	-	-	-	813,198	813,198
Investment income.....	425,599	-	-	-	425,599
Miscellaneous.....	70,827	-	-	700	71,527
<b>TOTAL REVENUES.....</b>	<b>202,026,383</b>	<b>1,305,240</b>	<b>1,806,424</b>	<b>21,728,405</b>	<b>226,866,452</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	3,766,381	-	-	571,365	4,337,746
Public safety.....	22,942,317	-	-	2,129,980	25,072,297
Education.....	86,448,015	988,747	-	17,883,774	105,320,536
Public works.....	10,761,050	-	1,806,424	1,162,895	13,730,369
Human services.....	2,961,421	-	-	1,052,000	4,013,421
Community and economic development.....	1,072,467	-	-	2,083,777	3,156,244
Pension benefits.....	15,791,109	-	-	-	15,791,109
Pension benefits - Teachers Retirement.....	16,745,100	-	-	-	16,745,100
Property and liability insurance.....	543,807	-	-	-	543,807
Employee benefits.....	23,311,839	-	-	-	23,311,839
State and county charges.....	5,405,832	-	-	-	5,405,832
Debt service:					
Principal.....	16,106,565	-	-	5,000	16,111,565
Interest.....	1,904,255	-	-	500	1,904,755
<b>TOTAL EXPENDITURES.....</b>	<b>207,760,158</b>	<b>988,747</b>	<b>1,806,424</b>	<b>24,889,291</b>	<b>235,444,620</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(5,733,775)</b>	<b>316,493</b>	<b>-</b>	<b>(3,160,886)</b>	<b>(8,578,168)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Issuance of bonds.....	-	10,650,000	-	4,938,500	15,588,500
Issuance of hospital deficit bonds.....	9,792,500	-	-	-	9,792,500
Premium from issuance of bonds.....	-	-	-	862,071	862,071
Capital lease financing.....	-	-	-	2,500,000	2,500,000
Transfers in.....	834,035	-	-	1,887,603	2,721,638
Transfers out.....	(1,887,603)	-	-	-	(1,887,603)
<b>TOTAL OTHER FINANCING SOURCES (USES)....</b>	<b>8,738,932</b>	<b>10,650,000</b>	<b>-</b>	<b>10,188,174</b>	<b>29,577,106</b>
<b>NET CHANGE IN FUND BALANCES.....</b>	<b>3,005,157</b>	<b>10,966,493</b>	<b>-</b>	<b>7,027,288</b>	<b>20,998,938</b>
<b>FUND BALANCES AT BEGINNING OF YEAR.....</b>	<b>23,979,437</b>	<b>(13,291,539)</b>	<b>-</b>	<b>4,475,193</b>	<b>15,163,091</b>
<b>FUND BALANCES AT END OF YEAR.....</b>	<b>\$ 26,984,594</b>	<b>\$ (2,325,046)</b>	<b>\$ -</b>	<b>\$ 11,502,481</b>	<b>\$ 36,162,029</b>

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2018

Net change in fund balances - total governmental funds.....		\$ 20,998,938
<p>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.</p>		
Capital outlay.....	8,798,596	
Depreciation expense.....	<u>(9,008,396)</u>	
Net effect of reporting capital assets.....		(209,800)
<p>Revenues in the Statement of Activities that do not provide current financial resources are unavailable in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. This amount represents the net change in unavailable revenue.....</p>		
		(866,311)
<p>The issuance of long-term debt 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 has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are unavailable and amortized in the Statement of Activities.</p>		
Principal payments on capital leases.....	276,711	
Issuance of bonds.....	(15,588,500)	
Issuance of refunding bonds.....	(9,792,500)	
Premium from issuance of bonds.....	(862,071)	
Capital lease financing.....	(2,500,000)	
Debt service principal payments.....	<u>16,111,565</u>	
Net effect of reporting long-term debt.....		(12,354,795)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	(141,000)	
Net change in accrued interest on long-term debt.....	(147,526)	
Net change in deferred outflow/(inflow) of resources related to pensions.....	(6,432,675)	
Net change in net pension liability.....	1,400,850	
Net change in deferred outflow/(inflow) of resources related to other postemployment benefits...	347,913	
Net change in total other postemployment benefits liability.....	(4,832,413)	
Net change in landfill closure.....	360,000	
Net change in longevity liability.....	(6,652)	
Net change in workers' compensation liability.....	<u>(310,000)</u>	
Net effect of recording long-term liabilities.....		(9,761,503)
The net activity of internal service funds is reported with Governmental Activities.....		<u>(7,311)</u>
Change in net position of governmental activities.....		\$ <u><u>(2,200,782)</u></u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
STATEMENT OF NET POSITION

JUNE 30, 2018

	Business-type Activities - Enterprise Funds		
	Water	Sewer	Total
<b>ASSETS</b>			
<b>CURRENT:</b>			
Cash and cash equivalents.....	\$ -	\$ 1,199,339	\$ 1,199,339
Receivables, net of allowance for uncollectibles:			
User charges.....	1,786,831	2,475,623	4,262,454
Departmental and other.....	-	54,021	54,021
Intergovernmental.....	-	23,357	23,357
Due from other funds.....	-	3,073,903	3,073,903
Total current assets.....	<u>1,786,831</u>	<u>6,826,243</u>	<u>8,613,074</u>
<b>NONCURRENT:</b>			
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	-	538,035	538,035
Intergovernmental.....	-	460,402	460,402
Capital assets, non depreciable.....	1,254,853	799,717	2,054,570
Capital assets, net of accumulated depreciation.....	<u>40,137,780</u>	<u>39,233,196</u>	<u>79,370,976</u>
Total noncurrent assets.....	<u>41,392,633</u>	<u>41,031,350</u>	<u>82,423,983</u>
<b>TOTAL ASSETS.....</b>	<u><b>43,179,464</b></u>	<u><b>47,857,593</b></u>	<u><b>91,037,057</b></u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows related to pensions.....	787,124	1,092,513	1,879,637
Deferred outflows related to other postemployment benefits.....	<u>165,252</u>	<u>162,134</u>	<u>327,386</u>
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES.....</b>	<u><b>952,376</b></u>	<u><b>1,254,647</b></u>	<u><b>2,207,023</b></u>
<b>LIABILITIES</b>			
<b>CURRENT:</b>			
Warrants payable.....	3,300,365	220,243	3,520,608
Due to other funds.....	3,073,903	-	3,073,903
Accrued interest.....	29,901	350,478	380,379
Compensated absences.....	70,000	15,000	85,000
Notes payable.....	6,283,404	-	6,283,404
Bonds payable.....	<u>907,632</u>	<u>1,736,498</u>	<u>2,644,130</u>
Total current liabilities.....	<u>13,665,205</u>	<u>2,322,219</u>	<u>15,987,424</u>
<b>NONCURRENT:</b>			
Net pension liability.....	3,681,705	6,186,560	9,868,265
Net other postemployment benefits liability.....	6,174,572	6,058,070	12,232,642
Bonds payable.....	<u>3,103,809</u>	<u>27,271,586</u>	<u>30,375,395</u>
Total noncurrent liabilities.....	<u>12,960,086</u>	<u>39,516,216</u>	<u>52,476,302</u>
<b>TOTAL LIABILITIES.....</b>	<u><b>26,625,291</b></u>	<u><b>41,838,435</b></u>	<u><b>68,463,726</b></u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions.....	<u>174,314</u>	<u>284,112</u>	<u>458,426</u>
<b>NET POSITION</b>			
Net investment in capital assets.....	18,339,687	12,984,625	31,324,312
Unrestricted.....	<u>(1,007,452)</u>	<u>(5,994,932)</u>	<u>(7,002,384)</u>
<b>TOTAL NET POSITION.....</b>	<u><b>\$ 17,332,235</b></u>	<u><b>\$ 6,989,693</b></u>	<u><b>\$ 24,321,928</b></u>

See notes to basic financial statements.

**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**YEAR ENDED JUNE 30, 2018**

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Fund
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
<b><u>OPERATING REVENUES:</u></b>				
Charges for services.....	\$ 7,939,615	\$ 11,034,018	\$ 18,973,633	\$ -
<b><u>OPERATING EXPENSES:</u></b>				
Cost of services and administration.....	6,407,006	8,460,173	14,867,179	-
Depreciation.....	1,370,742	2,203,468	3,574,210	-
Employee benefits.....	-	-	-	7,311
<b>TOTAL OPERATING EXPENSES.....</b>	<b>7,777,748</b>	<b>10,663,641</b>	<b>18,441,389</b>	<b>7,311</b>
<b>OPERATING INCOME (LOSS).....</b>	<b>161,867</b>	<b>370,377</b>	<b>532,244</b>	<b>(7,311)</b>
<b><u>NONOPERATING REVENUES (EXPENSES):</u></b>				
Interest expense.....	(125,329)	(806,322)	(931,651)	-
Intergovernmental.....	-	186,241	186,241	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES), NET.....</b>	<b>(125,329)</b>	<b>(620,081)</b>	<b>(745,410)</b>	<b>-</b>
<b>INCOME (LOSS) BEFORE CAPITAL CONTRIBUTIONS AND TRANSFERS.....</b>	<b>36,538</b>	<b>(249,704)</b>	<b>(213,166)</b>	<b>(7,311)</b>
<b><u>TRANSFERS:</u></b>				
Transfers out.....	(254,734)	(579,301)	(834,035)	-
<b>CHANGE IN NET POSITION.....</b>	<b>(218,196)</b>	<b>(829,005)</b>	<b>(1,047,201)</b>	<b>(7,311)</b>
<b>NET POSITION AT BEGINNING OF YEAR (Revised).....</b>	<b>17,550,431</b>	<b>7,818,698</b>	<b>25,369,129</b>	<b>7,311</b>
<b>NET POSITION AT END OF YEAR.....</b>	<b>\$ 17,332,235</b>	<b>\$ 6,989,693</b>	<b>\$ 24,321,928</b>	<b>\$ -</b>

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**

YEAR ENDED JUNE 30, 2018

	<u>Business-type Activities - Enterprise Funds</u>			Governmental Activities - Internal Service Fund
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	
<b><u>CASH FLOWS FROM OPERATING ACTIVITIES:</u></b>				
Receipts from customers and users.....	\$ 8,027,791	\$ 11,116,659	\$ 19,144,450	\$ -
Payments to vendors.....	(3,604,473)	(5,708,611)	(9,313,084)	(7,311)
Payments to employees.....	<u>(2,476,676)</u>	<u>(2,329,303)</u>	<u>(4,805,979)</u>	<u>-</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>1,946,642</u>	<u>3,078,745</u>	<u>5,025,387</u>	<u>(7,311)</u>
<b><u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u></b>				
Transfers out.....	(254,734)	(579,301)	(834,035)	-
Advances to/from other funds.....	3,073,903	(3,073,903)	-	-
Departmental and other.....	<u>-</u>	<u>52,951</u>	<u>52,951</u>	<u>-</u>
NET CASH FROM NONCAPITAL FINANCING ACTIVITIES.....	<u>2,819,169</u>	<u>(3,600,253)</u>	<u>(781,084)</u>	<u>-</u>
<b><u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u></b>				
Proceeds from the issuance of bonds and notes.....	8,183,404	13,636,180	21,819,584	-
Acquisition and construction of capital assets.....	(18,306,350)	(1,065,213)	(19,371,563)	-
Principal payments on bonds and notes.....	(2,804,683)	(12,550,385)	(15,355,068)	-
Interest expense.....	<u>(130,512)</u>	<u>(498,255)</u>	<u>(628,767)</u>	<u>-</u>
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(13,058,141)</u>	<u>(477,673)</u>	<u>(13,535,814)</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(8,292,330)	(999,181)	(9,291,511)	(7,311)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	8,292,330	2,198,520	10,490,850	7,311
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ -</u>	<u>\$ 1,199,339</u>	<u>\$ 1,199,339</u>	<u>\$ -</u>
<b><u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH</u></b>				
<b><u>FROM OPERATING ACTIVITIES:</u></b>				
Operating income (loss).....	\$ 161,867	\$ 370,377	\$ 532,244	\$ (7,311)
Adjustments to reconcile operating income to net cash from operating activities:				
Depreciation.....	1,370,742	2,203,468	3,574,210	-
Deferred (outflows)/inflows related to pensions.....	(277,911)	(184,978)	(462,889)	-
Deferred (outflows)/inflows related to other postemployment benefits.....	(5,807)	(5,698)	(11,505)	-
Changes in assets and liabilities:				
User charges.....	88,176	82,641	170,817	-
Warrants payable.....	24,884	75,064	99,948	-
Compensated absences.....	10,000	(26,000)	(16,000)	-
Net pension liability.....	494,024	484,726	978,750	-
Other postemployment benefits.....	<u>80,667</u>	<u>79,145</u>	<u>159,812</u>	<u>-</u>
Total adjustments.....	<u>1,784,775</u>	<u>2,708,368</u>	<u>4,493,143</u>	<u>-</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 1,946,642</u>	<u>\$ 3,078,745</u>	<u>\$ 5,025,387</u>	<u>\$ (7,311)</u>
<b><u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u></b>				
Intergovernmental subsidy.....	<u>\$ -</u>	<u>\$ 186,241</u>	<u>\$ 186,241</u>	<u>\$ -</u>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2018

	Pension Trust Fund (as of December 31, 2017)	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>			
Cash and cash equivalents.....	\$ 10,690,420	\$ 97,304	\$ 2,127,240
Investments:			
U.S. treasury bonds.....	-	1,056,010	-
Government sponsored enterprises.....	-	1,231,749	-
Corporate bonds.....	-	962,961	-
Equity securities.....	20,884,961	1,033,104	-
Bond mutual funds.....	-	41,474	-
Certificates of deposit.....	-	847,494	-
Investments in Pension Reserve Investment Trust.....	78,049,324	-	-
Pooled domestic equity funds.....	28,989,613	-	-
Pooled international equity funds.....	9,654,200	-	-
Pooled domestic fixed income funds.....	25,419,847	-	-
Pooled alternative investments.....	5,450,989	-	-
Pooled real estate funds.....	22,465,285	-	-
Receivables, net of allowance for uncollectibles:			
Departmental and other.....	250,433	-	110,410
Interest and dividends.....	3,434	-	-
<b>TOTAL ASSETS.....</b>	<b>201,858,506</b>	<b>5,270,096</b>	<b>2,237,650</b>
<b>LIABILITIES</b>			
Warrants payable.....	137,758	-	133,070
Liabilities due depositors.....	-	-	2,104,580
<b>TOTAL LIABILITIES.....</b>	<b>137,758</b>	<b>-</b>	<b>2,237,650</b>
<b>NET POSITION</b>			
Restricted for pensions.....	201,720,748	-	-
Held in trust for other purposes.....	-	5,270,096	-
<b>TOTAL NET POSITION.....</b>	<b>\$ 201,720,748</b>	<b>\$ 5,270,096</b>	<b>\$ -</b>

See notes to basic financial statements.

**FIDUCIARY FUNDS**  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2018

	Pension Trust Fund (as of December 31, 2017)	Private Purpose Trust Funds
<b>ADDITIONS:</b>		
Contributions:		
Employer contributions.....	\$ 17,851,950	\$ -
Member contributions.....	4,035,100	-
Retirement benefits - transfers from other systems.....	439,858	-
Retirement benefits - 3(8)c contributions from other systems.....	335,716	-
Retirement benefits - Intergovernmental.....	349,744	-
Private donations.....	-	202,754
	<u>23,012,368</u>	<u>202,754</u>
Total contributions.....		
	<u>23,012,368</u>	<u>202,754</u>
Net investment income:		
Investment income.....	28,627,473	12,525
Less: investment expense.....	(1,536,875)	-
	<u>27,090,598</u>	<u>12,525</u>
Net investment income (loss).....	<u>27,090,598</u>	<u>12,525</u>
	<u>27,090,598</u>	<u>12,525</u>
TOTAL ADDITIONS.....		
	<u>50,102,966</u>	<u>215,279</u>
<b>DEDUCTIONS:</b>		
Administration.....	616,282	-
Retirement benefits - transfers to other systems.....	514,712	-
Retirement benefits - 3(8)c transfer to other systems.....	816,181	-
Retirement benefits and refunds.....	25,046,198	-
Educational scholarships.....	-	220,837
	<u>26,993,373</u>	<u>220,837</u>
TOTAL DEDUCTIONS.....	<u>26,993,373</u>	<u>220,837</u>
NET INCREASE (DECREASE) IN NET POSITION.....	23,109,593	(5,558)
NET POSITION AT BEGINNING OF YEAR.....	<u>178,611,155</u>	<u>5,275,654</u>
NET POSITION AT END OF YEAR.....	<u>\$ 201,720,748</u>	<u>\$ 5,270,096</u>

See notes to basic financial statements.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying basic financial statements of the City of Haverhill, Massachusetts (City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

**A. Reporting Entity**

The City is a municipal corporation that is governed by an elected Mayor and City Council (Council). As required by GAAP, these basic financial statements present the government and its component units, entities for which the City is considered to be financially accountable.

For financial reporting purposes, the City has included all funds, organizations, agencies, boards, commissions and institutions. The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the City (primary government) and its component units. Two entities have been included as component units in the reporting entity, because of the significance of their operational and/or financial relationship with the City.

*Component Unit Presented as a Fiduciary Fund* – The following component unit is presented as a Fiduciary Fund of the primary government due to the nature and significance of relationship between the City and the component unit.

The Haverhill Contributory Retirement System (System) was established to provide retirement benefits to City employees, Whittier Regional Vocational Technical High School employees, the Haverhill Housing Authority employees, and their beneficiaries. The System is governed by a five-member board comprised of the City Auditor (ex-officio), two members elected by the System's participants, one member appointed by the Mayor and one member appointed by the Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

The System did not issue a separate audited financial statement. The System issues a publicly available un-audited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 4 Summer Street, Haverhill, Massachusetts 01830.

***Joint Ventures***

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

The City has entered into a joint venture with the City of Newburyport and the Towns of Amesbury, Georgetown, Groveland, Ipswich, Merrimac, Newbury, Rowley, Salisbury, and West Newbury to pool resources and share the costs, risks and rewards of providing vocational education through the Whittier Regional Vocational Technical High School. The City's assessment for 2018 was \$7,837,914. Stand-alone financial statements for the year ended June 30, 2018, are available at Whittier Regional Vocational Technical High School, 115 Amesbury Line Road, Haverhill, Massachusetts 01830.

## B. Government-Wide and Fund Financial Statements

### *Government-Wide Financial Statements*

The government-wide financial statements (i.e., statement of net position and the statement of changes in net position) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

### *Fund Financial Statements*

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

#### *Major Fund Criteria*

Major funds must be reported if the following criteria are met:

- If total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets and deferred outflows of resources, liabilities and deferred inflows or resources, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Fiduciary funds are reported by fund type.

## C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

### *Government-Wide Financial Statements*

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal 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.

The statement of activities demonstrates the degree to which the direct expenses of a particular 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 the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

- Grants and contributions restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

### *Fund Financial Statements*

**Governmental** fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund. Stabilization fund is also classified as part of the general fund.

The *Hunking Middle School fund* is used to account for activity associated with the construction of the new middle school.

The *Chapter 90 fund* is used to account for activity associated with the construction of highway improvements.

The *nonmajor governmental funds* consist of special revenue, debt service, capital project and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets of the governmental funds.

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

**Proprietary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City's proprietary funds include the water and sewer enterprise funds which are used to account for the water and sewer activities.

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governments units. This fund is used to account for risk financing activities related to employees' health insurance.

**Fiduciary** fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a purely custodial capacity.

#### D. Cash and Investments

##### *Government-Wide and Fund Financial Statements*

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

#### E. Fair Value Measurements

The City reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S. government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the City's financial instruments, see Note 2 – Cash and Investments.

#### F. Accounts Receivable

##### *Government-Wide and Fund Financial Statements*

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

##### ***Real Estate, Personal Property Taxes, Tax Liens and Tax Foreclosures***

Real estate and personal property taxes are levied and based on values assessed on January 1<sup>st</sup> of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on August 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the year of the levy.

Real estate tax liens are imposed in October of each year on delinquent properties and are recorded as receivables in the year they are processed. Real estate tax liens may be subject to foreclosure if the tax liens are not paid in accordance with the period required by the law (M.G.L. Ch.60, §50). Foreclosure proceedings are processed by the Treasurer or other tax lien custodian. Foreclosed properties can then be sold through advertised public auction or held for use by the City.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

### ***Motor Vehicle and Other Excise Taxes***

Motor vehicle excise taxes are assessed annually for each vehicle registered and are recorded as receivables in the year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

### ***Water and Sewer User Fees***

User fees are levied monthly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period. Water and sewer liens are processed in December of every year and included as a lien on the property owner's tax bill. Water and sewer fees and liens are recorded as receivables in the year of the levy.

Since the receivables are secured via the lien process, these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

### ***Departmental and Other***

Departmental and other receivables consist primarily of police detail receivables that are recorded as receivables in the year that the details are completed. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

### ***Intergovernmental***

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

## **G. Inventories**

### ***Government-Wide and Fund Financial Statements***

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

## **H. Capital Assets**

### ***Government-Wide and Proprietary Fund Financial Statements***

Capital assets, which include land, land improvements, buildings, building improvements, vehicles, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and the

proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$50,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land and construction in progress) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements.....	20-40
Buildings.....	20-40
Buildings and improvements.....	20
Machinery and equipment.....	5-15
Vehicles.....	5-10
Infrastructure.....	10-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

*Governmental Fund Financial Statements*

Capital asset costs are recorded as expenditures in the acquiring fund in the year of the purchase.

I. Deferred Outflows/Inflows of Resources

*Government-Wide Financial Statements (Net Position)*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has reported deferred outflows of resources related to pensions and deferred outflows of resources related to other postemployment benefits in this category.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has reported deferred inflows of resources related to pensions in this category.

*Governmental Fund Financial Statements*

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents assets that have been recorded in the governmental fund financial statements but the revenue is not available and so will *not* be recognized as an inflow of resources (revenue) until it becomes available. The City has reported unavailable revenues as deferred inflows of resources in this category.

### J. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

#### *Government-Wide Financial Statements*

Transactions of a buyer/seller nature between and within governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position as “internal balances.”

#### *Fund Financial Statements*

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as “Due from other funds” or “Due to other funds” on the balance sheet.

### K. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

#### *Government-Wide Financial Statements*

Transfers between and within governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as “Transfers, net.”

#### *Fund Financial Statements*

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

### L. Net position and Fund Equity

#### *Government-Wide Financial Statements (Net Position)*

Net position reported as “net investment in capital assets” includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital assets.

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net position has been “restricted for” the following:

“Gifts and grants” represents restrictions placed on assets from outside parties and consists primarily of state and federal grants.

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted – net position and unrestricted – net position in the government-wide and proprietary fund financial statements, a flow assumption

must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

#### *Fund Financial Statements (Fund Balances)*

Governmental fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent.

The governmental fund balance classifications are as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. A vote of the City Council is the highest level of decision making authority that can commit funds for a specific purpose. Once voted, the limitation imposed by the vote remains in place until the funds are used for their intended purpose or a vote is taken to rescind the commitment.

“Assigned” fund balance includes amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. The City Council has by resolution authorized the City Auditor to assign fund balance. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The City's spending policy is to spend restricted fund balance first, followed by committed, assigned and unassigned fund balance. Most governmental funds are designated for one purpose at the time of their creation. Therefore, any expenditure from the fund will be allocated to the applicable fund balance classifications in the order of the aforementioned spending policy. The general fund and certain other funds may have more than one purpose.

#### M. Long-term Debt

##### *Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

*Governmental Fund Financial Statements*

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

N. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

Investment income derived from the proprietary funds is retained by the proprietary funds.

O. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of both the Haverhill Contributory Retirement System and the Massachusetts Teachers Retirement System and additions to/deductions from the Systems fiduciary net position have been determined on the same basis as they are reported by the Systems. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

P. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

*Government-Wide and Proprietary Fund Financial Statements*

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

*Governmental Fund Financial Statements*

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

Q. Use of Estimates*Government-Wide and Fund Financial Statements*

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the year. Actual results could vary from estimates that were used.

R. Total Column*Government-Wide Financial Statements*

The total column presented on the government-wide financial statements represents consolidated financial information.

*Fund Financial Statements*

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

S. Appropriation and Fund Deficits

Several individual fund deficits exist at June 30, 2018, in the special revenue and capital project funds. These deficits will be funded by grants, bond proceeds, departmental revenues and available fund balance. Actual expenditures exceeded appropriations for snow and ice removal, state and county charges and interest expense. These over-expenditures will be funded by the subsequent years' tax levy with the exception of state & county charges, which are deducted from local receipts provided by the state.

**NOTE 2 - CASH AND INVESTMENTS**

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents." The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth. In addition, there are various restrictions limiting the amount and length of deposits and investments.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

The System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The City's policy allows for unlimited bank deposits up to one year in financial institutions that are fully collateralized or fully insured by Federal Depository Insurance or the Depository Insurance Fund. The City's policy limits unsecured deposits to no more than 5% of an institution's assets and no more than 10% of the City's cash may be comprised of unsecured bank deposits. This percentage may be increased for not more than 30 days during times of heavy collection or in anticipation of large payments that will be made by the City in the near future. These payments may be for such items as debt service payment or regional school assessments. Their credit worthiness will be tracked by Veribanc, or other bank credit worthiness reporting systems. They will be diversified as much as possible. CDs will be purchased for no more than one year and will be reviewed frequently.

At year-end, the carrying amount of deposits totaled \$36,674,728 and the bank balance totaled \$37,880,432. Of the bank balance, \$3,248,051 was covered by Federal Depository Insurance, \$3,834,893 was covered by the Share Insurance Fund, \$26,869,397 was covered by Depositors Insurance Fund, and \$3,928,091 was uninsured and uncollateralized.

At December 31, 2017, the carrying amount of deposits for the System totaled \$3,017,823 and the bank balance totaled \$3,282,388. All of the bank balance was covered by Federal Depository Insurance.

Custodial Credit Risk – Investments

For an investment, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The City’s policy to mitigate custodial credit risk requires review of the financial institution’s financial statements and the background of the brokerage house and broker/dealer (Advisor). The intent of this qualification is to limit the City’s exposure to only those institutions with a proven financial strength, capital adequacy of the firm, and overall affirmative reputation in the municipal industry. Further, all securities not held directly by the City, will be held in the City’s name and tax identification number by a third-party custodian approved by the Treasurer and evidenced by safekeeping receipts showing individual CUSIP numbers for each security.

The City’s investments subject to custodial credit risk include \$1,871,006 in U.S. treasury bonds, \$2,109,787 in government sponsored enterprises, \$1,336,525 in corporate bonds, \$1,967,480 in equity securities and \$847,493 in certificates of deposit, which have custodial credit risk exposure totaling \$8,132,291 because the related securities are uninsured, unregistered and held by the counterparty.

Interest Rate Risk

The City’s policy to mitigate interest rate risk is to manage the duration of investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The System follows PRIM policies for interest rate risk.

As of June 30, 2018, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Maturities</u>		
		<u>Under 1 Year</u>	<u>1-5 Years</u>	<u>6-10 Years</u>
<u>Debt securities:</u>				
U.S. treasury bonds.....	\$ 1,871,006	\$ 743,507	\$ 745,915	\$ 381,584
Government sponsored enterprises.....	2,109,787	350,587	1,520,426	238,774
Corporate bonds.....	1,336,525	-	1,145,973	190,552
Bond mutual funds.....	181,788	-	47,265	134,523
Total debt securities.....	5,499,106	\$ <u>1,094,094</u>	\$ <u>3,459,579</u>	\$ <u>945,433</u>
<u>Other investments:</u>				
Equity securities.....	1,967,480			
Equity mutual funds.....	188,062			
Certificates of deposit.....	847,493			
Money market mutual funds.....	88,482			
MMDT - Cash portfolio.....	<u>3,021,660</u>			
Total investments.....	\$ <u>11,612,283</u>			

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .15 to 16.31 years.

As of December 31, 2017, the System had the following investments and maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Maturities 6-10 Years</u>
<u>Debt securities:</u>		
Pooled domestic fixed income funds.....	\$ 25,419,847	\$ 25,419,847
<u>Other investments:</u>		
Equity securities.....	20,884,961	
Pooled domestic equity funds.....	28,989,613	
Pooled alternative investments.....	5,450,989	
Pooled real estate funds.....	22,465,285	
Pooled international equity funds.....	9,654,200	
Money market mutual funds.....	7,672,597	
Pension reserve investment trust (PRIT).....	78,049,324	
Total investments.....	\$ 198,586,816	

Credit Risk

The City’s policy to mitigate credit risk allows for unlimited investments in United States Treasury and United States Government Agency obligations. In regards to other investments, the City will only purchase investment grade securities with a high concentration in securities rated A or better. The City may invest in the Massachusetts Municipal Depository Trust (MMDT) with no limit to the amount of funds placed in the fund.

As of June 30, 2018, Standard & Poor’s Investors Service rated the City’s investments as follows:

<u>Quality Rating</u>	<u>U.S. Treasury Bonds</u>	<u>Government Sponsored Enterprises</u>	<u>Corporate Bonds</u>	<u>Bond Mutual Funds</u>
AAA.....	\$ -	\$ -	\$ -	\$ 145,765
AA+.....	1,871,006	2,109,787	-	-
A+.....	-	-	102,262	-
A.....	-	-	280,545	-
A-.....	-	-	295,790	-
BBB+.....	-	-	411,799	-
BBB.....	-	-	246,129	21,129
BB.....	-	-	-	7,505
B.....	-	-	-	7,389
Total.....	\$ 1,871,006	\$ 2,109,787	\$ 1,336,525	\$ 181,788

The City’s investments in money market mutual funds were unrated.

The System has not adopted a formal policy related to credit risk. As of December 31, 2017, \$7,828,243 and \$17,591,604 of the System’s investment in pooled domestic fixed income funds were rated BB and AAA, respectively. The System’s investments in PRIT and money market mutual funds were unrated.

Concentration of Credit Risk

The City will minimize concentration of credit risk by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The City did not have any investments in any one issuer exceeding 5 percent of their total investments.

The System follows PRIM policies for concentration of credit risk. The System did not have any investments in any one issuer exceeding 5 percent of their total investments.

Fair Value of Investments

The City holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the City’s mission, the City determines that the disclosures related to these investments only need to be disaggregated by major type. The City chooses a tabular format for disclosing the levels within the fair value hierarchy.

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of June 30, 2018:

Investment Type	June 30, 2018	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments measured at fair value:</b>				
<u>Debt securities:</u>				
U.S. treasury bonds.....	\$ 1,871,006	\$ 1,871,006	\$ -	\$ -
Government sponsored enterprises.....	2,109,787	2,109,787	-	-
Corporate bonds.....	1,336,525	-	1,336,525	-
Bond mutual funds.....	181,788	181,788	-	-
Total debt securities.....	<u>5,499,106</u>	<u>4,162,581</u>	<u>1,336,525</u>	<u>-</u>
<u>Other investments:</u>				
Equity securities.....	1,967,480	1,967,480	-	-
Equity mutual funds.....	188,062	188,062	-	-
Certificates of deposit.....	847,493	847,493	-	-
Money market mutual funds.....	88,482	88,482	-	-
Total other investments.....	<u>3,091,517</u>	<u>3,091,517</u>	<u>-</u>	<u>-</u>
Total investments measured at fair value.....	<u>8,590,623</u>	<u>\$ 7,254,098</u>	<u>\$ 1,336,525</u>	<u>\$ -</u>
<b>Investments measured at amortized cost:</b>				
MMDT - Cash portfolio.....	<u>3,021,660</u>			
Total investments.....	<u>\$ 11,612,283</u>			

Government sponsored enterprises, U.S. treasury bonds, bond mutual funds, equity securities, equity mutual funds, certificates of deposit and money market mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Corporate bonds classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

The retiree pension defined benefit plan holds significant amounts of investments that are measured at fair value on a recurring basis. Because investing is a key part of the plan's activities, the plan shows greater disaggregation in its disclosures. The plan chooses a tabular format for disclosing the levels within the fair value hierarchy.

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The System has the following recurring fair value measurements as of December 31, 2017:

Investment Type	December 31, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments measured at fair value:</b>				
<u>Debt securities:</u>				
U.S. treasury bonds.....	\$ 25,419,847	\$ 25,419,847	\$ -	\$ -
<u>Other investments:</u>				
Equity securities.....	20,884,961	20,884,961	-	-
Equity mutual funds.....	28,989,613	28,989,613	-	-
Fixed income.....	5,450,989	5,450,989	-	-
Real estate investment trust.....	22,465,285	-	-	22,465,285
International securities.....	9,654,200	9,654,200	-	-
Money market mutual funds.....	7,672,597	7,672,597	-	-
Total other investments.....	95,117,645	72,652,360	-	22,465,285
Total investments measured at fair value.....	120,537,492	\$ 98,072,207	\$ -	\$ 22,465,285
<b>Investments measured at net asset value:</b>				
Pension Reserve Investment Trust (PRIT).....	78,049,324			
Total investments.....	\$ 198,586,816			

U.S. treasury bonds, equity securities, equity mutual funds, fixed income securities, international securities, and money market mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Real estate investment trust funds classified in level 3 are valued using either a discounted cash flow or market comparable companies technique.

PRIT Investments are valued using the net asset value (NAV) method. This investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the

Pension Reserves Investment Management Board (PRIM). The fair values of the positions in each investment Pool are the same as the value of each Pool’s shares. The System does not have the ability to control any of the investment decisions relative to its funds in PRIT.

**NOTE 3 - RECEIVABLES**

At June 30, 2018, receivables for the individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 1,919,058	\$ -	\$ 1,919,058
Tax liens.....	2,218,381	-	2,218,381
Motor vehicle and other excise taxes.....	1,330,553	(206,743)	1,123,810
Departmental and other.....	1,105,348	-	1,105,348
Intergovernmental.....	13,438,553	-	13,438,553
Total.....	<u>\$ 20,011,893</u>	<u>\$ (206,743)</u>	<u>\$ 19,805,150</u>

At June 30, 2018, receivables for the water and sewer enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water user charges.....	\$ 1,786,831	\$ -	\$ 1,786,831
Sewer user charges.....	2,475,623	-	2,475,623
Sewer departmental and other.....	592,056	-	592,056
Sewer intergovernmental.....	483,759	-	483,759
Total.....	<u>\$ 5,338,269</u>	<u>\$ -</u>	<u>\$ 5,338,269</u>

Governmental funds report *unavailable revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the various components of *unavailable revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivables and other asset types:</u>			
Real estate and personal property taxes.....	\$ 1,397,811	\$ -	\$ 1,397,811
Tax liens.....	2,218,381	-	2,218,381
Motor vehicle and other excise taxes.....	1,123,810	-	1,123,810
Departmental and other.....	1,235,593	-	1,235,593
Intergovernmental - highway improvements.....	-	3,267,125	3,267,125
Intergovernmental - School Building Authority.....	835,443	-	835,443
Intergovernmental - other.....	112,022	-	112,022
Tax foreclosures.....	855,960	-	855,960
Total.....	<u>\$ 7,779,020</u>	<u>\$ 3,267,125</u>	<u>\$ 11,046,145</u>

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2018, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 10,126,880	\$ -	\$ -	\$ 10,126,880
Construction in progress.....	-	831,624	-	831,624
Total capital assets not being depreciated.....	<u>10,126,880</u>	<u>831,624</u>	-	<u>10,958,504</u>
<u>Capital assets being depreciated:</u>				
Buildings.....	185,700,228	988,747	-	186,688,975
Buildings and improvements.....	6,689,422	3,026,100	-	9,715,522
Machinery and equipment.....	2,293,027	496,056	-	2,789,083
Vehicles.....	6,112,643	213,876	-	6,326,519
Infrastructure.....	<u>169,286,143</u>	<u>3,242,193</u>	-	<u>172,528,336</u>
Total capital assets being depreciated.....	<u>370,081,463</u>	<u>7,966,972</u>	-	<u>378,048,435</u>
<u>Less accumulated depreciation for:</u>				
Buildings.....	(58,270,735)	(4,008,169)	-	(62,278,904)
Buildings and improvements.....	(4,100,320)	(488,816)	-	(4,589,136)
Machinery and equipment.....	(1,400,324)	(149,844)	-	(1,550,168)
Vehicles.....	(4,584,275)	(197,575)	-	(4,781,850)
Infrastructure.....	<u>(85,445,616)</u>	<u>(4,163,992)</u>	-	<u>(89,609,608)</u>
Total accumulated depreciation.....	<u>(153,801,270)</u>	<u>(9,008,396)</u>	-	<u>(162,809,666)</u>
Total capital assets being depreciated, net.....	<u>216,280,193</u>	<u>(1,041,424)</u>	-	<u>215,238,769</u>
Total governmental activities capital assets, net.....	<u>\$ 226,407,073</u>	<u>\$ (209,800)</u>	<u>\$ -</u>	<u>\$ 226,197,273</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Water:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 1,254,853	\$ -	\$ -	\$ 1,254,853
<u>Capital assets being depreciated:</u>				
Buildings.....	37,808	-	-	37,808
Buildings and improvements.....	1,465,998	19,902,766	-	21,368,764
Machinery and equipment.....	12,939,365	219,808	-	13,159,173
Vehicles.....	700,437	-	-	700,437
Infrastructure.....	32,367,198	464,807	-	32,832,005
Total capital assets being depreciated.....	47,510,806	20,587,381	-	68,098,187
<u>Less accumulated depreciation for:</u>				
Buildings.....	(34,749)	(408)	-	(35,157)
Buildings and improvements.....	(312,636)	(492,322)	-	(804,958)
Machinery and equipment.....	(9,469,136)	(268,234)	-	(9,737,370)
Vehicles.....	(641,452)	(6,970)	-	(648,422)
Infrastructure.....	(16,131,692)	(602,808)	-	(16,734,500)
Total accumulated depreciation.....	(26,589,665)	(1,370,742)	-	(27,960,407)
Total capital assets being depreciated, net.....	20,921,141	19,216,639	-	40,137,780
Total water activities capital assets, net.....	\$ 22,175,994	\$ 19,216,639	\$ -	\$ 41,392,633

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Sewer:</b>				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 517,002	\$ -	\$ -	\$ 517,002
Construction in progress.....	-	282,715	-	282,715
Total capital assets not being depreciated.....	517,002	282,715	-	799,717
<u>Capital assets being depreciated:</u>				
Buildings.....	133,912	-	-	133,912
Buildings and improvements.....	529,743	264,821	-	794,564
Machinery and equipment.....	20,139,222	-	-	20,139,222
Vehicles.....	269,307	-	-	269,307
Infrastructure.....	67,063,295	517,677	-	67,580,972
Total capital assets being depreciated.....	88,135,479	782,498	-	88,917,977
<u>Less accumulated depreciation for:</u>				
Buildings.....	(109,257)	(1,473)	-	(110,730)
Buildings and improvements.....	(28,071)	(28,153)	-	(56,224)
Machinery and equipment.....	(10,778,327)	(873,951)	-	(11,652,278)
Vehicles.....	(241,040)	(3,200)	-	(244,240)
Infrastructure.....	(36,324,618)	(1,296,691)	-	(37,621,309)
Total accumulated depreciation.....	(47,481,313)	(2,203,468)	-	(49,684,781)
Total capital assets being depreciated, net.....	40,654,166	(1,420,970)	-	39,233,196
Total sewer activities capital assets, net.....	\$ 41,171,168	\$ (1,138,255)	\$ -	\$ 40,032,913

Depreciation expense was charged to functions/programs of the primary government as follows:

<b>Governmental Activities:</b>	
General government.....	\$ 316,806
Public safety.....	406,708
Education.....	4,004,054
Public works.....	4,075,250
Health and human services.....	<u>205,578</u>
Total depreciation expense - governmental activities.....	<u>\$ 9,008,396</u>
<b>Business-Type Activities:</b>	
Water.....	\$ 1,370,742
Sewer.....	<u>2,203,468</u>
Total depreciation expense - business-type activities.....	<u>\$ 3,574,210</u>

**NOTE 5 - INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund receivables and payables totaled \$3,073,903 as of June 30, 2018, and represent amounts due to the sewer enterprise fund from the water enterprise fund to temporarily fund capital expenditures.

Interfund transfers for the year ended June 30, 2018, are summarized as follows:

Transfers Out:	Transfers In:		
	General fund	Nonmajor governmental funds	Total
General fund.....	\$ -	\$ 1,887,603	\$ 1,887,603 (1)
Sewer enterprise fund.....	579,301	-	579,301 (2)
Water enterprise fund.....	<u>254,734</u>	<u>-</u>	<u>254,734 (3)</u>
Total.....	<u>\$ 834,035</u>	<u>\$ 1,887,603</u>	<u>\$ 2,721,638</u>

- (1) Transfers from the general fund to various capital project funds.
- (2) Budgeted transfer to the general fund from the sewer enterprise fund.
- (3) Budgeted transfer to the general fund from the water enterprise fund.

**NOTE 6 – CAPITAL LEASES**

The City entered into a lease agreement to finance energy conservation improvements at the school department. This lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The following identifies the assets acquired under the lease agreement:

<u>Asset:</u>	<u>Governmental Activities</u>
School energy conservation improvements.....	\$ 2,500,000
Less: accumulated depreciation.....	<u>(166,667)</u>
Total.....	<u>\$ 2,333,333</u>

The future minimum lease obligations and the net present value of these minimum lease payments at June 30, 2018, are as follows:

<u>Years ending June 30:</u>	<u>Governmental Activities</u>
2019.....	\$ 206,324
2020.....	206,324
2021.....	206,323
2022.....	206,323
2023.....	206,324
2024.....	206,323
2025.....	206,324
2026.....	206,324
2027.....	206,323
2028.....	206,324
2029.....	206,323
2030.....	206,323
2031.....	<u>206,323</u>
Total minimum lease payments.....	2,682,205
Less: amounts representing interest.....	<u>(458,916)</u>
Present value of minimum lease payments.....	<u>\$ 2,223,289</u>

**NOTE 7 - SHORT-TERM FINANCING**

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise fund, respectively.

Details related to the short-term debt activity for the year ended June 30, 2018, is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2017	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2018
<b>Governmental Funds:</b>							
BAN	Municipal Purpose.....	2.00%	12/15/17	\$ 21,439,768	\$ -	\$ (21,439,768)	\$ -
SAAN	State Aide Anticipation Note.....	2.00%	06/01/18	2,000,000	-	(2,000,000)	-
SAAN	State Aide Anticipation Note.....	2.25%	05/30/19	-	2,000,000	-	2,000,000
BAN	Municipal Purpose.....	2.00%	12/14/18	-	5,672,477	-	5,672,477
BAN	Municipal Purpose.....	2.50%	06/08/18	-	2,189,768	(2,189,768)	-
Total Governmental Funds.....				\$ 23,439,768	\$ 9,862,245	\$ (25,629,536)	\$ 7,672,477
<b>Business-Type Activities:</b>							
BAN	MCWT Interim Loan - sewer.....	2.00%	06/30/18	\$ 8,231,770	\$ -	\$ (8,231,770)	\$ -
BAN	MCWT Interim Loan - sewer.....	2.00%	06/30/18	2,710,553	-	(2,710,553)	-
BAN**	MCWT Interim Loan - water.....	2.00%	06/30/19	-	4,191,847	-	4,191,847
BAN**	MCWT Interim Loan - water.....	2.00%	06/30/19	-	2,091,557	-	2,091,557
BAN	Water Treatment Facility.....	2.50%	06/08/18	-	1,900,000	(1,900,000)	-
Total Business-Type Activities.....				10,942,323	8,183,404	(12,842,323)	6,283,404
Total Short-term debt.....				\$ 34,382,091	\$ 18,045,649	\$ (38,471,859)	\$ 13,955,881

(\*\*) The Massachusetts Clean Water Trust (MCWT) Temporary Financing relates to a program in which the City is able to rehabilitate, expand, or upgrade the existing water infrastructure network. The City has been approved for construction costs totaling \$41,094,762 and \$2,652,500 for the renovation of the water plant and water main projects, respectively at a market interest rate of 2%. The City entered into financing agreements where the City is allowed two years to expend funds against the interim loan. After the two years, the City will determine the final construction costs and a permanent debt schedule will be agreed upon and payable over 20 years. During the temporary status of the loan the City is only liable for the payment of interest costs.

## NOTE 8 - LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

The City operated Hale Hospital until financial difficulties required the Hospital to be sold in 2001 with a significant loss. The Commonwealth enacted Chapter 387 of the Acts of 2000 for the purpose of allowing the City to issue State Qualified Deficit Financing Bond Anticipation Notes up to \$30 million. The legislation allows the City to amortize the deficit over a 20 year period ending no later than 2023. Therefore the City recorded the initial note issuance as long-term debt. Pursuant to this legislation the City appropriates a principal paydown amount each year in the general fund and issues new notes to pay off the remaining outstanding principal balance. The new notes are a current refunding since the City has reported these series of one year notes as long-term debt. There is no gain or loss on the current refunding. At June 30, 2018 there are two notes outstanding for a total of \$9,792,500. In September 2018, the City issued a \$7,000,000 hospital current refunding note, due on September 1, 2019, where the proceeds were used to redeem the \$7,000,000 note due on September 1, 2018.

Details related to the outstanding indebtedness at June 30, 2018, and the debt service requirements are as follows:

**Bonds Payable Schedule – Governmental Funds**

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2018
MCWT.....	2033	\$ 12,121,424	0.00 - 2.00	\$ 7,780,653
Municipal Purpose Bonds of 2007- Refunding.....	2019	11,360,000	4.00 - 4.96	1,245,000
Municipal Purpose Bonds of 2010.....	2029	10,027,261	2.80 - 3.80	4,759,000
Hospital restructuring bonds of 2011.....	2022	9,680,000	4.30	4,380,000
Municipal Purpose Bonds of 2012.....	2032	2,762,700	4.03 - 4.33	1,915,000
Municipal Purpose Bonds of 2014.....	2034	3,165,000	.70 - 3.48	1,955,000
Municipal Purpose Bonds of 2015.....	2045	11,197,000	3.60 - 4.00	10,690,000
Municipal Purpose Bonds of 2016.....	2041	1,677,000	2.00 - 4.00	1,585,000
Municipal Purpose Bonds of 2017.....	2042	2,215,000	2.00 - 4	2,100,000
Municipal Purpose Bonds of 2018.....	2047	15,723,500	3.00-5.00	15,588,500
Sub-total of long-term governmental bonds.....				51,998,153
Hospital deficit refunding note.....	2019	2,792,000	1.60%	2,792,500
Hospital deficit refunding note.....	2019	7,000,000	3.00%	7,000,000
Sub-total of Hospital deficit long-term notes.....				9,792,500
Add: Unamortized premium on bonds.....				862,071
Total governmental bonds payable.....				\$ 62,652,724

Debt service requirements for principal and interest for governmental bonds payable in future years are as follows:

Year	Principal	Interest	Total
2019.....	\$ 14,617,569	\$ 2,294,317	\$ 16,911,886
2020.....	3,432,235	1,938,033	5,370,268
2021.....	3,576,611	1,724,187	5,300,798
2022.....	3,659,610	1,508,818	5,168,428
2023.....	2,427,781	1,316,254	3,744,035
2024.....	2,341,126	1,152,087	3,493,213
2025.....	2,376,652	1,062,581	3,439,233
2026.....	2,375,361	982,949	3,358,310
2027.....	2,005,258	900,209	2,905,467
2028.....	1,944,367	824,404	2,768,771
2029.....	1,781,650	757,275	2,538,925
2030.....	1,756,132	690,553	2,446,685
2031.....	1,760,816	632,626	2,393,442
2032.....	1,679,995	580,705	2,260,700
2033.....	1,573,364	529,946	2,103,310
2034.....	1,276,106	482,216	1,758,322
2035.....	1,246,020	444,591	1,690,611
2036.....	1,045,000	406,800	1,451,800
2037.....	1,080,000	371,794	1,451,794
2038.....	1,105,000	335,624	1,440,624
2039.....	1,135,000	298,211	1,433,211
2040.....	1,175,000	258,926	1,433,926
2041.....	1,210,000	217,700	1,427,700
2042.....	1,155,000	175,149	1,330,149
2043.....	1,145,000	133,930	1,278,930
2044.....	1,085,000	92,898	1,177,898
2045.....	1,125,000	53,950	1,178,950
2046.....	595,000	13,584	608,584
2047.....	105,000	1,772	106,772
Total.....	\$ 61,790,653	\$ 20,182,089	\$ 81,972,742

The Commonwealth has approved school construction assistance. The assistance program, which is administered by the Massachusetts School Building Authority, provides resources for future debt service of general obligation school bonds outstanding. During 2018, \$868,861 of such assistance was received; \$868,861 will be received next year. Of this amount, \$33,418 represents reimbursement of long-term interest costs, and \$835,443 represents reimbursement of approved construction costs. Accordingly, an \$835,443 intergovernmental receivable and corresponding deferred inflow of resources - unavailable revenue has been reported in the governmental fund financial statements. The unavailable revenue has been recognized as revenue in the conversion to the government-wide financial statements.

The Commonwealth enacted legislation that changed the method for funding the school building assistance program. Under the new program, the assistance is paid to support construction costs and reduce the total debt service of the City. Through the end of 2018, the City has received \$37,524,803 of capital grant reimbursements from the MSBA which is equal to 93.97% of approved construction costs incurred to date for the new Hunking Middle School. The project is substantially complete and the City anticipates receiving the final reimbursement once the MSBA has completed its final review of the project.

The governmental funds are scheduled to be subsidized by the Massachusetts Clean Water Trust (MCWT) on a periodic basis for principal in the amount of \$112,022 and interest costs for \$51,851. Thus, net MCWT loan repayments, including interest, are scheduled to be \$345,240. Since the City is legally obligated for the total amount of the debt, such amounts have been recorded in the accompanying basic financial statements. The 2018 principal and interest subsidies totaled \$14,946 and \$16,903, respectively.

**Bonds Payable Schedule – Enterprise Funds**

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2018
Water - MCWT.....	2033	\$ 2,786,681	2.00	\$ 2,121,441
Water - Municipal Purpose Bonds of 2007 - refunding .....	2019	3,012,500	4.00	355,000
Water - Municipal Purpose Bonds of 2012.....	2023	1,974,000	4.02	695,000
Water - Municipal Purpose Bonds of 2014.....	2023	1,600,000	1.78	840,000
Sewer - MCWT.....	2035	23,219,765	2.00	24,730,584
Sewer - Municipal Purpose Bonds of 2010.....	2029	187,800	3.90	116,000
Sewer - Municipal Purpose Bonds of 2012.....	2023	1,244,300	3.93 - 4.04	590,000
Sewer - Municipal Purpose Bonds of 2016.....	2036	1,081,000	2.00 - 4.00	1,005,000
Sewer - Municipal Purpose Bonds of 2017.....	2042	343,000	2.00 - 4.00	325,000
Sewer - Municipal Purpose Bonds of 2018.....	2043	2,106,500	3.00 - 5.00	<u>2,241,500</u>
Total Bonds Payable.....				<u>\$ 33,019,525</u>

Debt service requirements for principal and interest for water and sewer enterprise fund bonds and notes payable in future years are as follows:

Year	Principal	Interest	Total
2019.....	\$ 2,644,130	\$ 1,000,192	\$ 3,644,322
2020.....	2,311,397	910,387	3,221,784
2021.....	2,255,332	839,278	3,094,610
2022.....	2,174,142	774,468	2,948,610
2023.....	2,153,067	709,531	2,862,598
2024.....	1,823,963	650,343	2,474,306
2025.....	1,813,427	597,406	2,410,833
2026.....	1,864,003	543,318	2,407,321
2027.....	1,904,114	482,132	2,386,246
2028.....	1,660,386	434,627	2,095,013
2029.....	1,506,628	384,247	1,890,875
2030.....	1,529,352	334,755	1,864,107
2031.....	1,562,655	285,367	1,848,022
2032.....	1,474,419	236,935	1,711,354
2033.....	1,510,706	188,246	1,698,952
2034.....	1,429,722	138,293	1,568,015
2035.....	1,454,169	89,516	1,543,685
2036.....	754,849	55,095	809,944
2037.....	653,064	35,730	688,794
2038.....	95,000	18,463	113,463
2039.....	95,000	15,268	110,268
2040.....	90,000	12,075	102,075
2041.....	90,000	9,050	99,050
2042.....	90,000	5,925	95,925
2043.....	80,000	2,800	82,800
Total.....	\$ <u>33,019,525</u>	\$ <u>8,753,447</u>	\$ <u>41,772,972</u>

The sewer enterprise fund is scheduled to be subsidized by the MCWT on a periodic basis for principal in the amount of \$483,759 and interest costs for \$1,645,215. Thus, net MCWT loan repayments, including interest, are scheduled to be \$10,348,260. The principal subsidies are guaranteed and therefore a \$483,759 intergovernmental receivable has been reported in the proprietary fund financial statements. Since the City is legally obligated for the total amount of the debt, such amounts have been recorded in the accompanying basic financial statements. The 2018 principal and interest subsidies totaled \$22,806 and \$186,241, respectively.

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2018, the City had the following authorized and unissued debt:

Purpose	Amount
School Remolding.....	\$ 2,680,000
Landfill.....	9,657,212
MWPAT CW-00-54A (Landfill).....	4,995
Departmental Equipment.....	115,000
Parking Deck.....	301
High School Renovation.....	227,488
Park Department Building Repairs.....	53,000
School Books.....	125,325
Fire Pumper Truck.....	70
School Energy Project.....	2,500,000
Hunking School Feasibility Study.....	20
Hunking School.....	6,188,335
CWSRF-143/ MCWT-CW-98-90.....	50,000
Sewer.....	1,520,000
Planning CSO.....	200,000
CSO Project MCWT-CW-03-34, 04-09.....	969,063
Sewer CW-05-17.....	321,426
Sewer Lake Street.....	444
Wastewater Odor.....	8,340,000
CSO System Improvements.....	1,176,720
Water Treatment Plant.....	3,651,999
Water Mains.....	3,088,000
Water Treatment Plant.....	<u>37,484,000</u>
<b>Total.....</b>	<b>\$ <u>78,353,398</u></b>

**Changes in Long-term Liabilities**

During the year ended June 30, 2018, the following changes occurred in long-term liabilities:

	Beginning Balance	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Increases	Other Decreases	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>							
Long-term bonds payable.....	\$ 52,521,218	\$ 25,381,000	\$ (16,111,565)	\$ -	\$ -	\$ 61,790,653	\$ 14,617,569
Add: Unamortized premium on bonds....	-	862,071	-	-	-	862,071	72,512
Total bonds payable.....	<u>52,521,218</u>	<u>26,243,071</u>	<u>(16,111,565)</u>	<u>-</u>	<u>-</u>	<u>62,652,724</u>	<u>14,690,081</u>
Capital lease obligations.....	-	-	-	2,500,000	(276,711)	2,223,289	144,183
Landfill closure.....	15,200,000	-	-	-	(360,000)	14,840,000	88,000
Compensated absences.....	2,102,000	-	-	1,462,000	(1,321,000)	2,243,000	1,369,000
Workers' compensation.....	478,000	-	-	377,000	(67,000)	788,000	118,000
Net pension liability.....	160,635,071	-	-	14,635,898	(16,036,748)	159,234,221	-
Total other postemployment benefits liability.....	<u>365,059,376</u>	<u>-</u>	<u>-</u>	<u>15,234,380</u>	<u>(10,401,970)</u>	<u>369,891,786</u>	<u>-</u>
Total governmental activity long-term liabilities.....	<u>\$ 595,995,665</u>	<u>\$ 26,243,071</u>	<u>\$ (16,111,565)</u>	<u>\$ 34,209,278</u>	<u>\$ (28,463,429)</u>	<u>\$ 611,873,020</u>	<u>\$ 16,409,264</u>
<b>Business-Type Activities:</b>							
Long-term bonds payable.....	\$ 21,896,090	\$ 13,636,180	\$ (2,512,745)	\$ -	\$ -	\$ 33,019,525	\$ 2,644,130
Compensated absences.....	101,000	-	-	85,000	(101,000)	85,000	85,000
Net pension liability.....	8,889,515	-	-	1,882,058	(903,308)	9,868,265	-
Total other postemployment benefits liability.....	<u>12,072,830</u>	<u>-</u>	<u>-</u>	<u>503,814</u>	<u>(344,002)</u>	<u>12,232,642</u>	<u>-</u>
Total business-type activity long-term liabilities.....	<u>\$ 42,959,435</u>	<u>\$ 13,636,180</u>	<u>\$ (2,512,745)</u>	<u>\$ 2,470,872</u>	<u>\$ (1,348,310)</u>	<u>\$ 55,205,432</u>	<u>\$ 2,729,130</u>

**NOTE 9 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS**

GASB #54 provides for two major types of fund balances, which are nonspendable and spendable. Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The City has reported principal portions of endowment funds as nonspendable.

In addition to the nonspendable fund balance, GASB #54 has provided a hierarchy of spendable fund balances, based on a hierarchy of spending constraints.

- Restricted: fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.
- Committed: fund balances that contain self-imposed constraints of the government from its highest level of decision making authority. The City’s highest level of decision making authority is City Council.
- Assigned: fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- Unassigned: fund balance of the general fund that is not constrained for any particular purpose.

As of June 30, 2018, the governmental fund balances consisted of the following:

	<u>General</u>	<u>Hunking Middle School</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Balances:				
Restricted for:				
City federal & state grants..... \$	-	-	\$ 718,986	\$ 718,986
School federal & state grants.....	-	-	2,122,005	2,122,005
School lunch.....	-	-	1,003,060	1,003,060
City revolving funds.....	-	-	309,211	309,211
School revolving funds.....	-	-	1,038,614	1,038,614
City gift funds.....	-	-	187,920	187,920
School gift funds.....	-	-	54,847	54,847
Receipts reserved for appropriation.....	-	-	1,006,286	1,006,286
Parking meter.....	-	-	181	181
School capital projects.....	-	-	2,001,472	2,001,472
Other capital projects.....	-	-	3,188,620	3,188,620
Committed to:				
Articles and continuing appropriations:				
School stabilization fund.....	126,236	-	-	126,236
OPEB stabilization fund.....	251,304	-	-	251,304
Assigned to:				
Encumbrances:				
General government.....	76,585	-	-	76,585
Public safety.....	545,367	-	-	545,367
Education.....	1,580,955	-	-	1,580,955
Public works.....	748,236	-	-	748,236
Human services.....	47,190	-	-	47,190
Community and economic development.....	3,298	-	-	3,298
Employee benefits.....	6,417	-	-	6,417
Subsequent years' expenditures.....	5,050,000	-	-	5,050,000
Unassigned.....	<u>18,549,006</u>	<u>(2,325,046)</u>	<u>(128,721)</u>	<u>16,095,239</u>
Total Fund Balances..... \$	<u>26,984,594</u>	<u>\$ (2,325,046)</u>	<u>\$ 11,502,481</u>	<u>\$ 36,162,029</u>

Massachusetts General Law Ch.40 §5B allows for the establishment of Stabilization funds for one or more different purposes. The creation of a fund requires a two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund along with any additions to or appropriations from the fund requires a two-thirds vote of the legislative body.

At year end, the general stabilization fund totaled \$5,576,399 and is reported as unassigned fund balance within the general fund. The school stabilization fund totaled \$126,236 and the OPEB stabilization fund totaled \$251,304 both of which are reported as committed fund balance within the general fund.

**NOTE 10 - RISK FINANCING**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The City administers various premium-based health care plans, workers compensation and other insurance for its employees and retirees.

The City participates in premium-based health care plans for its active employees and retirees. The City is self-insured for its workers’ compensation and unemployment compensation activities. Settlements have not exceeded coverage for each of the past three years. The incurred but not reported liability related to unemployment claims is immaterial and therefore not recorded.

*Workers’ Compensation*

The City participates in a self-insured workers’ compensation plan for which the City employs a third party administrator. Workers’ compensation claims are administered by the third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future workers’ compensation liability is based on history and injury type.

At June 30, 2018, the amount of the liability for workers’ compensation claims totaled \$788,000. Changes in the reported liability since July 1, 2016, are as follows:

	Balance at Beginning of Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Year-End	Current Portion
2017.....	\$ 439,000	\$ 494,000	\$ (455,000)	\$ 478,000	\$ 67,000
2018.....	478,000	764,000	(454,000)	788,000	118,000

**NOTE 11 - PENSION PLAN**

*Plan Descriptions* – The City is a member of the Haverhill Contributory Retirement System (System), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 3 member units. The System is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System is a component unit and is reported as a pension trust fund in the fiduciary fund financial statements.

The City is a member of the Massachusetts Teachers’ Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is

responsible for 100% of the contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives and Quincy College. The MTRS is part of the Commonwealth’s reporting entity and the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

*Special Funding Situation* – The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the City to the MTRS. Therefore, the City is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributor in MTRS. Since the City does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer’s covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2017. The City’s portion of the collective pension expense, contributed by the Commonwealth, of \$16,745,100 is reported in the general fund as intergovernmental revenue and pension benefits in the current year. The portion of the Commonwealth’s collective net pension liability associated with the City is \$160,435,307 as of the measurement date.

*Benefits Provided* – Both Systems provide retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The Systems provide retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification. Members become vested after ten years of creditable service. There were no changes in benefit terms that affected the measurement of the total pension liability at December 31, 2017.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth’s state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

At December 31, 2017, the System’s membership consists of the following:

Active members.....	939
Inactive members.....	227
Retirees and beneficiaries currently receiving benefits.....	<u>1,086</u>
Total.....	<u><u>2,252</u></u>

*Contributions* – Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the System a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The total member units' contribution for the year ended December 31, 2017, was \$17,851,950, 42.31% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The City's proportionate share of the required contribution was \$16,612,725, which was \$327,331 less than the City's actual contribution.

*Pension Liabilities* – The components of the net pension liability of the participating member units at December 31, 2017, were as follows:

Total pension liability.....	\$	379,614,875
Total pension plan's fiduciary net position.....		<u>(201,720,748)</u>
Total net pension liability.....	\$	<u>177,894,127</u>
The pension plan's fiduciary net position as a percentage of the total pension liability.....		53.14%

At June 30, 2018, the City reported a liability of \$169,102,486 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. Accordingly, update procedures were used to roll back the total pension liability to the measurement date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating members, except for the portion related to early retirement incentives (ERI), which is allocated to individual employers in proportion with the amount of ERI payment made as part of the fiscal 2018 contribution. At December 31, 2017, the City's proportion was 95.06%, which was a decrease of 0.29% from its proportion measured at December 31, 2016.

*Pension Expense* – For the year ended June 30, 2018, the City recognized pension expense of \$22,487,742. At June 30, 2018, the City reported deferred outflows of resources related to pensions of \$23,064,880 and deferred inflows of resources related to pensions of \$5,778,488. The balances of deferred outflows and inflows at June 30, 2018, consist of the following:

Deferred Category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
Differences between expected and actual experience.....	\$ 4,295,434	\$ -	\$ 4,295,434
Difference between projected and actual earnings.....	-	(4,438,175)	(4,438,175)
Changes of assumptions.....	18,050,911	-	18,050,911
Changes in proportion and proportionate share of contributions.....	<u>718,535</u>	<u>(1,340,313)</u>	<u>(621,778)</u>
Total deferred outflows/(inflows) of resources.....	\$ <u>23,064,880</u>	\$ <u>(5,778,488)</u>	\$ <u>17,286,392</u>

The deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019.....	\$	8,223,850
2020.....		8,201,483
2021.....		2,507,246
2022.....		<u>(1,646,187)</u>
Total.....	\$	<u>17,286,392</u>

*Actuarial Assumptions* – The total pension liability in the January 1, 2018, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was rolled back to December 31, 2017:

Valuation date.....	January 1, 2018
Actuarial cost method.....	Individual Entry Age Normal Cost Method.
Amortization method - UAAL.....	Increasing dollar amount at 3.80% to reduce the Unfunded Actuarial Accrued Liability to zero on or before June 30, 2032.
Amortization method - 2002 and 2003 ERI Actuarial Liability.....	Level dollar amount to reduce the 2002 and 2003 ERI Actuarial Accrued Liability to zero.
Asset valuation method.....	Fair value for GASB 67/68. For funding purposes, the actuarial value of assets is the market value of assets as of the valuation date reduced by the sum of: a) 75% of gains and losses of the prior year, b) 50% of gains and losses of the second prior year and c) 25% of gains and losses of the third prior year. Investment gains and losses are determined by the excess or deficiency of the expected return over the actual return on the market value. The actuarial valuation of assets is further constrained to be not less than 90% or more than 110% of market value.
Investment rate of return.....	7.25%, net of pension plan investment expense, including inflation.
Discount rate.....	7.25%
Inflation rate.....	2.50% per year
Projected salary increases.....	Groups 1/2: 5.00% to 2.50% based on service. Group 4: 8.50% to 3.00% based on service.
Payroll growth.....	4.25% per year
Cost of living adjustments.....	3% of the first \$12,000 of a member's retirement allowance is assumed to be granted every year.
Mortality rates.....	RP-2014 adjusted to 2006 and projected generationally using MP-2016 (sex distinct). During employment, the healthy employee table is used. Post-employment, the healthy annuitant table is used. Mortality for disabled retirees follows the same table as non-disabled retirees, set forward 2 years. Death is assumed to be due to the same cause as the disability 40% of the time.

*Investment policy* – The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan’s target asset allocation as of January 1, 2018 are summarized in the following table:

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Equity		
US Equity - Large cap.....	7.20%	5.90%
US Equity - Mid cap.....	8.00%	6.70%
US Equity - Small cap.....	10.50%	7.60%
International large cap equity.....	15.00%	5.70%
Emerging markets equity.....	6.00%	7.30%
Fixed income		
Domestic fixed income.....	13.50%	2.70%
High yield.....	7.80%	5.20%
Alternatives		
Real estate.....	10.00%	4.60%
Real assets.....	7.00%	5.90%
Private equity.....	8.00%	10.20%
Hedge funds.....	7.00%	4.20%
Total.....	100.00%	

*Rate of return* – For the year ended December 31, 2017, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 15.46%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

*Discount rate* – The discount rate used to measure the total pension liability was 7.25%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the net pension liability to changes in the discount rate* – The following presents the net pension liability, calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (6.25%)	Current Discount (7.25%)	1% Increase (8.25%)
The City's proportionate share of the net pension liability.....	\$ <u>206,341,672</u>	\$ <u>169,102,486</u>	\$ <u>137,460,395</u>
System total net pension liability.....	\$ <u>217,134,577</u>	\$ <u>177,894,127</u>	\$ <u>144,551,566</u>

*Changes of assumptions*

- The discount rate was reduced to 7.25% (previously 7.50%).
- The salary increase assumption is select and ultimate:
  - Group 1: 3.25% ultimate rate, lowered to 2.50% for 2018-19; 5.00% step increases for the first four years of service.
  - Group 4: 3.75% ultimate rate, lowered to 3.00% for 2018-19; 8.50% step in year one, 6.40% in year two, 6.00% in year three, and 3.40% in year five.
  - Prior assumption used 3.75% ultimate for all employees, reduced to 3.00% for 2016-17; 3.00% step increases for the first four years of service
- The mortality assumption is based upon the RP2014 adjusted to 2006 and projected generationally using MP2016. The prior valuation used the RP-2000 table projected from 2009 using Generational Mortality, Scale BB.

*Changes in plan provisions* – None.

**NOTE 12 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS**

*Plan Description* – The City of Haverhill administers a single-employer defined benefit healthcare plan (Retiree Health Plan). The Plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the City’s group health insurance plan, which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefit provisions are negotiated between the City and the unions representing City employees and are renegotiated each bargaining period. The Plan does not issue a publicly available financial report. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement #75.

*Funding Policy* – Contribution requirements are also negotiated between the City and union representatives. The required contribution is based on a pay-as-you-go financing requirement. Depending on the healthcare plan selected and date of hire, the City contributes various percentages ranging from 70% to 85% of the cost of current-year premiums for eligible retired plan members and their spouses. Plan members receiving benefits contribute the remaining portion of their premium costs. For life insurance, the City contributes \$5.40 per month for each retiree receiving \$5,000 of basic life insurance.

*Total OPEB Liability* – GASB Statement #75 requires the net OPEB liability to be measured as of a date no earlier than the end of the employer’s prior fiscal year and no later than the end of the employer’s current fiscal year, consistently applied from period to period. The City’s total OPEB liability of \$382,124,428 was measured as of June 30, 2017, and was determined by an actuarial valuation as of June 30, 2016.

*Employees Covered by Benefit Terms* – The following table represents the Plan’s membership at June 30, 2016:

Active members.....	1,422
Inactive employees or beneficiaries currently receiving benefits.....	<u>1,858</u>
 Total.....	 <u><u>3,280</u></u>

*Significant Actuarial Methods and Assumptions* – The total OPEB liability in the June 30, 2016 actuarial valuation was determined by using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified, that was updated to June 30, 2017, to be in accordance with GASB Statement #75:

Valuation date.....	June 30, 2016
Actuarial cost method.....	Entry Age Normal. Benefits are attributed ratably to service from date of hire until full eligibility date. Full eligibility date is assumed to be first eligibility for retiree medical benefits.
Amortization period.....	30-year level percent of pay assuming 3.0% aggregate annual payroll growth, open basis for Pay-as-You-Go. The amortization period is 30 years for all future valuations. Under Full Prefunding, a 30-year closed basis was used for the amortization. The amortization period is a specific number of years that is counted from one date, declining to zero with the passage of time.
Participation.....	95% of future retiree teachers are assumed to participate in the retiree medical plan, 95% of future non-teacher retirees are expected to participate in the retiree medical plan and 100% of future retirees are expected to elect life insurance.
Health care trend rate.....	6.00% initially with an ultimate rate of 4.50%.
Discount rate.....	The City selected 3.75% as the long term expectation of investment returns

*Discount rate* – The discount rate was based on the average of the June 30, 2017 bond buyer 20 year municipal AA rate and the June 30, 2018 rate which were 3.5 and 4.0 percent respectively.

*Changes in the Total OPEB Liability*

	Total OPEB Liability (a)
Balances at June 30, 2016.....	\$ 377,132,206
Changes for the year:	
Service cost.....	1,730,476
Interest.....	14,007,718
Benefit payments.....	<u>(10,745,972)</u>
Net change.....	<u>4,992,222</u>
Balances at June 30, 2017.....	\$ <u><u>382,124,428</u></u>

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate* – The following table presents the total other postemployment benefit liability, calculated using the discount rate of 3.75%, as well as what the total other postemployment benefit liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.75%) or 1-percentage-point higher (4.75%) than the current discount rate.

	1% Decrease (2.75%)	Current Discount Rate (3.75%)	1% Increase (4.75%)
Total OPEB liability.....	\$ <u><u>469,726,951</u></u>	\$ <u><u>382,124,428</u></u>	\$ <u><u>317,689,631</u></u>

*Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates* – The following table presents the total other postemployment benefit liability, calculated using the current healthcare trend rate of 6.00%, as well as what the total other postemployment benefit liability would be if it were calculated using a healthcare trend rate that is 1-percentage-point lower or 1-percentage-point higher.

	1% Decrease (5.00%)	Current Trend (6.00%)	1% Increase (7.00%)
Total OPEB liability.....	\$ <u><u>315,575,723</u></u>	\$ <u><u>382,124,428</u></u>	\$ <u><u>471,269,482</u></u>

*OPEB Expense and Deferred Outflows of Resources and Deferred Inflows or Resources Related to OPEB* – For the year ended June 30, 2017, the GASB Statement #75 measurement date, the Town recognized OPEB expense of \$15,738,194. At June 30, 2017, the City reported deferred outflows of \$10,226,934 related to payments made after the measurement date that will be expensed in the subsequent year, and did not report deferred inflows of resources related to OPEB.

*Changes of Assumptions* – None.

*Changes of Plan Provisions* – None.

**NOTE 13 – LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS**

State and federal laws and regulations require the City to close its old landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site after closure. The City had operated a solid waste landfill that ceased operations in 1996. The City has reflected \$14.8 million as the estimate of the landfill closure liability at June 30, 2018, in the government-wide financial statements governmental activities. This amount is based on estimates of what it would cost to perform all future closure and post closure care. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

**NOTE 14 - CONTINGENCIES**

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* through June 30, 2018, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

Various legal actions and claims are pending. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2018, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2018.

**NOTE 15 - COMMITMENTS**

The City has authorized \$41.1 million to complete the renovation of the Kenoza Lake water treatment plant. Construction of the upgrades to the Kenoza Lake water treatment plant is financed by the Drinking Water State Revolving Fund (DWSRF). The DWSRF program is administered by the Commonwealth of Massachusetts Department of Environmental Protection. As of June 30, 2018, the City has expended \$18.6 million of costs to complete the project.

**NOTE 16 – TAX INCREMENT FINANCING AGREEMENTS**

The City enters into tax increment financing (TIF) agreements with local business under Chapter 40, Section 59 of the Massachusetts General Laws. Under this section of the law, localities may grant property tax exemptions of the business' property tax bill for the purpose of attracting or retaining businesses within their jurisdictions. The exemptions may be granted to any business located within or promising to relocate to the City.

For the fiscal year ended June 30, 2018, the City exempted property taxes totaling \$417,000 under this program.

**NOTE 17 – REVISION OF NET POSITION PREVIOUSLY REPORTED**

Beginning net position of the governmental activities, business-type activities and each applicable enterprise fund has been revised to reflect the implementation of GASB Statement #75. The revised balances are summarized in the following table:

	06/30/2017 Previously Reported Balances	Implementation of GASB #75	06/30/2017 Revised Balances
<b>Government-Wide Financial Statements</b>			
Governmental activities.....	\$ (23,703,119)	\$ (288,388,741)	\$ (312,091,860)
Business-type activities.....	34,907,078	(9,537,949)	25,369,129
Total.....	<u>\$ 11,203,959</u>	<u>\$ (297,926,690)</u>	<u>\$ (286,722,731)</u>
<b>Business-type Activities - Enterprise Funds</b>			
Sewer enterprise fund.....	\$ 12,542,187	\$ (4,723,489)	\$ 7,818,698
Water enterprise fund.....	22,364,891	(4,814,460)	17,550,431
Total.....	<u>\$ 34,907,078</u>	<u>\$ (9,537,949)</u>	<u>\$ 25,369,129</u>

**NOTE 18 – SUBSEQUENT EVENTS**

Management has evaluated subsequent events through December 10, 2018, which is the date the financial statements were available to be issued.

**NOTE 19 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS**

During 2018, the following GASB pronouncements were implemented:

- GASB Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The basic financial statements, related notes and required supplementary information were updated to be in compliance with this pronouncement.
- GASB Statement #81, *Irrevocable Split-Interest Agreements*. This pronouncement did not impact the basic financial statements.
- GASB Statement #85, *Omnibus 2017*. This pronouncement did not impact the basic financial statements.
- GASB Statement #86, *Certain Debt Extinguishment Issues*. This pronouncement did not impact the basic financial statements.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #83, *Certain Asset Retirement Obligations*, which is required to be implemented in 2019.
- The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in 2019.
- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2021.

- The GASB issued Statement #88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is required to be implemented in 2019.
- The GASB issued Statement #89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented in 2021.
- The GASB issued Statement #90, *Majority Equity Interests – an amendment of GASB Statements #14 and #61*, which is required to be implemented in 2020.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

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## ***Required Supplementary Information***

**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -**  
**BUDGET AND ACTUAL**

YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
<b>REVENUES:</b>					
Real estate and personal property taxes, net of tax refunds.....	\$ 99,168,759	\$ 98,910,807	\$ 98,285,349	\$ -	\$ (625,458)
Tax liens.....	-	-	992,207	-	992,207
Motor vehicle and other excise taxes.....	7,904,213	8,034,875	8,959,484	-	924,609
Penalties and interest on taxes.....	341,000	341,000	509,901	-	168,901
Fees and rentals.....	1,111,750	1,201,750	1,435,350	-	233,600
Payments in lieu of taxes.....	2,040,000	2,040,000	2,125,485	-	85,485
Licenses and permits.....	1,989,400	1,999,400	3,036,567	-	1,037,167
Fines and forfeitures.....	740,000	640,000	724,095	-	84,095
Intergovernmental.....	66,999,488	66,963,698	67,065,726	-	102,028
Departmental and other.....	1,302,500	1,202,500	2,016,172	-	813,672
Investment income.....	120,000	120,000	447,156	-	327,156
Miscellaneous.....	173,361	173,361	70,827	-	(102,534)
<b>TOTAL REVENUES.....</b>	<b>181,890,471</b>	<b>181,627,391</b>	<b>185,668,319</b>	<b>-</b>	<b>4,040,928</b>
<b>EXPENDITURES:</b>					
Current:					
General government.....	3,883,641	3,962,747	3,766,381	76,585	119,781
Public safety.....	23,064,835	23,847,707	22,942,317	545,367	360,023
Education.....	88,323,482	88,100,055	86,448,015	1,580,955	71,085
Public works.....	9,007,153	10,568,144	9,636,815	1,872,471	(941,142)
Human services.....	3,072,111	3,087,258	2,961,421	47,190	78,647
Community and economic development.....	1,068,130	1,083,381	1,072,467	3,298	7,616
Pension benefits.....	15,857,011	15,857,011	15,791,109	-	65,902
Property and liability insurance.....	732,738	551,138	543,807	-	7,331
Employee benefits.....	25,350,665	24,589,377	23,311,839	6,417	1,271,121
Salary reserve.....	961,600	118,729	-	-	118,729
Other reserve.....	600,000	-	-	-	-
State and county charges.....	5,296,024	5,308,272	5,405,832	-	(97,560)
Debt service:					
Principal.....	6,430,312	6,430,312	6,314,065	-	116,247
Interest.....	1,871,434	1,871,434	1,872,406	-	(972)
<b>TOTAL EXPENDITURES.....</b>	<b>185,519,136</b>	<b>185,375,565</b>	<b>180,066,474</b>	<b>4,132,283</b>	<b>1,176,808</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....</b>	<b>(3,628,665)</b>	<b>(3,748,174)</b>	<b>5,601,845</b>	<b>(4,132,283)</b>	<b>5,217,736</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Use of prior year reserves.....	2,462,748	2,462,748	-	-	(2,462,748)
Use of free cash.....	2,700,000	3,932,621	-	-	(3,932,621)
Other amounts raised.....	(1,018,118)	(1,043,627)	-	-	1,043,627
Transfers in.....	834,035	834,035	834,035	-	-
Transfers out.....	(1,350,000)	(2,437,603)	(2,437,603)	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES).....</b>	<b>3,628,665</b>	<b>3,748,174</b>	<b>(1,603,568)</b>	<b>-</b>	<b>(5,351,742)</b>
<b>NET CHANGE IN FUND BALANCE.....</b>	<b>-</b>	<b>-</b>	<b>3,998,277</b>	<b>(4,132,283)</b>	<b>(134,006)</b>
<b>BUDGETARY FUND BALANCE, Beginning of year.....</b>	<b>17,989,039</b>	<b>17,989,039</b>	<b>17,989,039</b>	<b>-</b>	<b>-</b>
<b>BUDGETARY FUND BALANCE, End of year.....</b>	<b>\$ 17,989,039</b>	<b>\$ 17,989,039</b>	<b>\$ 21,987,316</b>	<b>\$ (4,132,283)</b>	<b>\$ (134,006)</b>

# ***Pension Plan Schedules – Retirement System***

The Pension Plan's Schedule of Changes in the Net Pension Liability and Related Ratios presents multi-year trend information on the net pension liability and related ratios.

The Pension Plan's Schedule of Contributions presents multi-year trend information on the required and actual contributions to the pension plan and related ratios.

The Pension Plan's Schedule of Investment Return presents multi-year trend information on the money-weighted investment return on retirement assets, net of investment expense.

The schedules are intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY  
AND RELATED RATIOS  
HAVERHILL CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015	December 31, 2016	December 31, 2017
<b>Total pension liability:</b>				
Service cost.....	\$ 4,276,136	\$ 4,457,871	\$ 5,091,379	\$ 5,577,886
Interest.....	25,172,959	25,608,700	24,463,813	25,327,896
Differences between expected and actual experience.....	-	-	2,750,089	3,933,465
Changes in assumptions.....	-	-	15,636,834	13,629,952
Benefit payments.....	<u>(24,393,730)</u>	<u>(23,974,413)</u>	<u>(25,274,903)</u>	<u>(25,251,773)</u>
Net change in total pension liability.....	5,055,365	6,092,158	22,667,212	23,217,426
Total pension liability - beginning.....	<u>322,582,714</u>	<u>327,638,079</u>	<u>333,730,237</u>	<u>356,397,449</u>
Total pension liability - ending (a).....	<u>\$ 327,638,079</u>	<u>\$ 333,730,237</u>	<u>\$ 356,397,449</u>	<u>\$ 379,614,875</u>
<b>Plan fiduciary net position:</b>				
Employer contributions.....	\$ 14,661,848	\$ 15,869,862	\$ 16,511,360	\$ 17,851,950
Member contributions.....	4,103,074	3,455,693	3,764,777	4,035,100
Net investment income (loss).....	12,874,474	(3,625,996)	12,685,293	27,090,598
Administrative expenses.....	(546,094)	(481,093)	(472,465)	(616,282)
Retirement benefits and refunds.....	<u>(24,393,730)</u>	<u>(23,974,413)</u>	<u>(25,274,903)</u>	<u>(25,251,773)</u>
Net increase (decrease) in fiduciary net position.....	6,699,572	(8,755,947)	7,214,062	23,109,593
Fiduciary net position - beginning of year.....	<u>173,453,468</u>	<u>180,153,040</u>	<u>171,397,093</u>	<u>178,611,155</u>
Fiduciary net position - end of year (b).....	<u>\$ 180,153,040</u>	<u>\$ 171,397,093</u>	<u>\$ 178,611,155</u>	<u>\$ 201,720,748</u>
<b>Net pension liability - ending (a)-(b).....</b>	<u>\$ 147,485,039</u>	<u>\$ 162,333,144</u>	<u>\$ 177,786,294</u>	<u>\$ 177,894,127</u>
Plan fiduciary net position as a percentage of the total pension liability.....	54.99%	51.36%	50.12%	53.14%
Covered payroll.....	\$ 37,792,808	\$ 38,734,500	\$ 40,037,584	\$ 42,190,684
Net pension liability as a percentage of covered payroll.....	390.25%	419.09%	444.05%	421.64%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF CONTRIBUTIONS**  
**HVERHILL CONTRIBUTORY RETIREMENT SYSTEM**

Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
December 31, 2017.....	\$ 17,507,028	\$ (17,851,950)	\$ (344,922)	\$ 42,190,684	42.31%
December 31, 2016.....	16,469,879	(16,511,360)	(41,481)	40,037,584	41.24%
December 31, 2015.....	15,840,897	(15,869,862)	(28,965)	38,734,500	40.97%
December 31, 2014.....	14,638,101	(14,638,101)	-	37,792,808	38.73%

Note: this schedule is intended to present information for 10 years.

Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF INVESTMENT RETURNS**  
**HAVERHILL CONTRIBUTORY RETIREMENT SYSTEM**

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<u>Year</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
December 31, 2017.....	15.46%
December 31, 2016.....	7.62%
December 31, 2015.....	-1.73%
December 31, 2014.....	7.62%

Note: this schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

# ***Pension Plan Schedules – City***

The Schedule of the City's Proportionate Share of the Net Pension Liability presents multi-year trend information on the City's net pension liability and related ratios.

The Schedule of City's Contributions presents multi-year trend information on the City's required and actual contributions to the pension plan and related ratios.

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts Teachers Contributory Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the City along with related ratios.

These schedules are intended to present information for ten years. Until a ten-year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE CITY'S PROPORTIONATE SHARE  
OF THE NET PENSION LIABILITY  
HAVERHILL CONTRIBUTORY RETIREMENT SYSTEM**

Year	Proportion of the net pension liability (asset)	Proportionate share of the net pension liability (asset)	Covered payroll	Net pension liability as a percentage of covered payroll	Plan fiduciary net position as a percentage of the total pension liability
December 31, 2017.....	95.06%	\$ 169,102,486	\$ 38,828,347	435.51%	53.14%
December 31, 2016.....	95.35%	169,524,586	36,801,857	460.64%	50.12%
December 31, 2015.....	95.39%	154,851,511	38,734,500	399.78%	51.36%
December 31, 2014.....	95.79%	141,269,878	34,552,896	408.85%	54.99%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF THE CITY'S CONTRIBUTIONS**  
**HAVERHILL CONTRIBUTORY RETIREMENT SYSTEM**

Year	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll	Contributions as a percentage of covered payroll
June 30,2018.....	\$ 16,612,725	\$ (16,940,056)	\$ (327,331)	\$ 38,828,347	43.63%
June 30,2017.....	15,685,281	(15,724,771)	(39,490)	36,801,857	42.73%
June 30,2016.....	15,086,263	(15,113,837)	(27,574)	38,734,500	39.02%
June 30,2015.....	13,990,894	(13,990,894)	-	34,552,896	40.49%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS  
OF THE NET PENSION LIABILITY  
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**

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The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Therefore, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the associated collective net pension liability; the portion of the collective pension expense as both a revenue and pension expense recognized; and the Plan's fiduciary net position as a percentage of the total liability.

<u>Year</u>	<u>Commonwealth's 100% Share of the Associated Net Pension Liability</u>	<u>Expense and Revenue Recognized for the Commonwealth's Support</u>	<u>Plan Fiduciary Net Position as a Percentage of the Total Liability</u>
2018.....	\$ 160,435,307	\$ 16,745,100	54.25%
2017.....	153,786,397	15,687,221	52.73%
2016.....	142,197,190	11,533,458	55.38%
2015.....	111,625,445	7,755,155	61.64%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

# ***Other Postemployment Benefit Plan Schedules***

The Schedule of Changes in the City's Total Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability.

**SCHEDULE OF CHANGES IN THE  
CITY'S TOTAL OPEB LIABILITY AND RELATED RATIOS  
OTHER POSTEMPLOYMENT BENEFIT PLAN**

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	June 30, 2017
<b>Total OPEB Liability</b>	
Service Cost.....	\$ 1,730,476
Interest.....	14,007,718
Benefit payments.....	<u>(10,745,972)</u>
Net change in total OPEB liability.....	4,992,222
Total OPEB liability - beginning.....	<u>377,132,206</u>
Total OPEB liability - ending.....	<u>\$ 382,124,428</u>
Covered-employee payroll.....	\$ 79,421,152
Total OPEB liability as a percentage of covered-employee payroll.....	481.14%

Note: this schedule is intended to present information for 10 years.  
Until a 10-year trend is compiled, information is presented for those years for  
which information is available.

See notes to required supplementary information.

**NOTE A - BUDGETARY BASIS OF ACCOUNTING**

1. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by the Council. The Mayor presents an annual budget to the Council, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. The Council, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote.

Increases or transfers between and within departments subsequent to the approval of the annual budget, requires majority Council approval via a supplemental appropriation or Council order.

The majority of appropriations are non-continuing which lapse at the end of each year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year. These carry forwards are included as part of the subsequent year's original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by majority vote of the Council.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original 2018 approved budget authorized \$186.9 million in appropriations, carryforwards, and other amounts to be raised. During 2018, the Council also approved supplemental appropriations totaling \$944,000. The change is primarily due to increases in transfers from free cash to fund capital projects.

The City Auditor has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the City's accounting system.

2. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the year ended June 30, 2018, is presented below:

Net change in fund balance - budgetary basis.....	\$ 3,998,277
<u>Perspective differences:</u>	
Activity of the stabilization fund recorded in the general fund for GAAP.....	523,497
<u>Basis of accounting differences:</u>	
Net change in recording tax refunds payable.....	(46,382)
Net change in recording 60 day receipts.....	(346,000)
Net change in recording accrued expenditures.....	(1,124,235)
Recognition of revenue for on-behalf payments.....	16,745,100
Recognition of expenditures for on-behalf payments.....	<u>(16,745,100)</u>
Net change in fund balance - GAAP basis.....	<u>\$ 3,005,157</u>

**NOTE B – PENSION PLAN*****Pension Plan Schedules – Retirement System***Schedule of Changes in the Net Pension Liability and Related Ratios

The Schedule of Changes in the Net Pension Liability and Related Ratios includes the detailed changes in the System's total pension liability, changes in the System's net position, and the ending net pension liability. It also demonstrates the plan's net position as a percentage of the total pension liability and the net pension liability as a percentage of covered payroll.

Since the System performs an actuarial valuation bi-annually, there are no reported amounts for the changes in benefit terms and differences between expected and actual experience as of December 31, 2017.

Schedule of Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the System's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. Employers may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual employer contributions may be less than the "total appropriation". The appropriations are allocated amongst employers based on covered payroll.

Schedule of Investment Return

The money-weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense. A money weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. Inputs to the money weighted rate of return calculation are determined monthly.

***Pension Plan Schedules – City***Schedule of the City's Proportionate Share of the Net Pension Liability

The Schedule of the City's Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

Schedule of City's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the System's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. The City may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contributions may be less than the "total appropriation".

Schedule of the Special Funding Amounts of the Net Pension Liabilities

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the City does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the City; the portion of the collective pension expense as both revenue and pension expense recognized by the City; and the Plan's fiduciary net position as a percentage of the total liability.

Changes of Assumptions

- The discount rate was reduced to 7.25% (previously 7.50%).
- The salary increase assumption is select and ultimate:
  - Group 1: 3.25% ultimate rate, lowered to 2.50% for 2018-19; 5.00% step increases for the first four years of service.
  - Group 4: 3.75% ultimate rate, lowered to 3.00% for 2018-19; 8.50% step in year one, 6.40% in year two, 6.00% in year three, and 3.40% in year five.
  - Prior assumption used 3.75% ultimate for all employees, reduced to 3.00% for 2016-17; 3.00% step increases for the first four years of service
- The mortality assumption is based upon the RP2014 adjusted to 2006 and projected generationally using MP2016. The prior valuation used the RP-2000 table projected from 2009 using Generational Mortality, Scale BB.

Changes in Plan Provisions – None

**NOTE C – OTHER POSTEMPLOYMENT BENEFITS**

The City administers a single-employer defined benefit healthcare plan (Retiree Health Plan). The plan provides lifetime healthcare and prescription drug benefits for eligible retirees and their spouses through the City's health insurance plan, which covers both active and retired members, including teachers.

**The Other Postemployment Benefit Plan**The Schedule of Changes in the City's Total Other Postemployment Benefit Liability and Related Ratios

The Schedule of Changes in the City's Total Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability.

Changes of Assumptions – None.

Changes in Plan Provisions – None.