

CITY OF HAVERHILL, MASSACHUSETTS

Financial Statements

June 30, 2014

(With Accountants' Report Thereon)

Giusti, Hingston and Company
Certified Public Accountants

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City of Haverhill, Massachusetts
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INDEPENDENT AUDITORS' REPORT

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

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, 2014, (December 31, 2013 for the Contributory Retirement System) which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Haverhill, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 opinion.

Opinion

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, 2014 (and the Contributory Retirement System as of December 31, 2013) and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary statement, the retirement system schedules and the other post employment benefit schedules 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 Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the City's basic financial statements. The Schedule of Indebtedness listed as supplemental information in the table of contents is presented for purpose of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

The Schedule of Indebtedness is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. The Schedule of Indebtedness has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Schedule of Indebtedness and Schedule of Expenditures of Federal Awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reported dated March 27, 2015, on our consideration of the City of Haverhill's 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 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 City of Haverhill's internal control over financial reporting and compliance.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
March 27, 2015

City of Haverhill, Massachusetts
Management's Discussion and Analysis
June 30, 2014

As management of the City of Haverhill, we offer readers of the City of Haverhill's financial statements this narrative overview and analysis of the financial activities of the City of Haverhill for the fiscal year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with the attached financial statements and notes to the financial statements.

Financial Statements

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

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

Financial Highlights

- The assets of the City of Haverhill, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$93,482,058 (*net position*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$12,646,964.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Haverhill's June 30, 2014 **basic financial statements**. The City of Haverhill's basic financial statements comprise three components: 1) **government-wide financial statements**, 2) **fund financial statements**, and 3) **notes to the financial statements**. This report also contains other supplementary information in addition to the basic financial statements themselves. Please refer to the Table of Contents for a concise breakdown of the financial statements.

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

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

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

The government-wide financial statement have separate columns for governmental activities and business-type activities.

During the fiscal year ended June 30, 2014, the City formally adopted enterprise fund legislation (MGL Chapter 44 Section 53F), for the water and sewer activities operated by the City. In the fiscal year ended June 30, 2014 financial statements, the water and sewer funds have been separated from the general fund and are shown as separate Proprietary – Business-Type, Enterprise Funds. During prior years, the City had reported the water and sewer funds as a component of the general fund because it had not formally adopted enterprise fund legislation (MGL Chapter 44 Section 53F ½).

- **Governmental Activities** – Activities reported here include education, public safety, public works, library and general administration. Property taxes, motor vehicle excise taxes, federal, state and other local revenues finance these activities.
- **Business Type Activities** – Activities reported here include Water and Sewer activities. User fees charged to customers receiving services finance these activities.

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

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

Proprietary fund types – The City of Haverhill, Massachusetts maintains two proprietary fund types. The first proprietary fund type is the Internal Service Fund and it is used to account for the health insurance trust fund. The second type of proprietary fund is the Enterprise Fund. The enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Haverhill, Massachusetts uses enterprise funds to account for its water and sewer activities.

Proprietary business type funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise fund financial statements provide separate information for the water and sewer activities.

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

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

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

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

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

Financial Analysis of the Government-wide Financial Statements

Net Position

Net position may serve over time as a meaningful indicator of a government’s financial position. See the condensed net position table below:

	Net Position					
	Governmental Activities		Business Activities		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Current and Other Assets	\$ 40,157,789	\$ 37,697,946	\$ 12,968,463	\$ 9,886,980	\$ 53,126,252	\$ 47,584,926
Capital Assets	145,715,915	150,804,062	60,919,825	58,720,159	206,635,740	209,524,221
Total Assets	<u>185,873,704</u>	<u>188,502,008</u>	<u>73,888,288</u>	<u>68,607,139</u>	<u>259,761,992</u>	<u>257,109,147</u>
Current Liabilities	19,574,847	23,208,037	7,633,761	2,623,217	27,208,608	25,831,254
Long Term Liabilities	106,904,240	114,743,159	32,167,086	24,780,790	139,071,326	139,523,949
Total Liabilities	<u>126,479,087</u>	<u>137,951,196</u>	<u>39,800,848</u>	<u>27,404,007</u>	<u>166,279,935</u>	<u>165,355,203</u>
Net Position:						
Net Investment in						
Capital Assets	126,619,716	123,912,245	23,084,756	33,559,517	149,704,472	157,471,762
Restricted	1,402,313	(347,608)	1,819,636	1,603,785	3,221,949	1,256,177
Unrestricted (Deficit) - (See Note 18 on Page 45)	(68,627,412)	(73,013,825)	9,183,049	6,039,830	(59,444,363)	(66,973,995)
Total Net Position	<u>\$ 59,394,617</u>	<u>\$ 50,550,812</u>	<u>\$ 34,087,441</u>	<u>\$ 41,203,132</u>	<u>\$ 93,482,058</u>	<u>\$ 91,753,944</u>

Changes in Net Position

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

Revenues	Governmental Activities		Business Activities		Total	
	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013	June 30, 2014	June 30, 2013
Charges for Services	\$ 5,540,088	\$ 7,550,448	\$ 15,088,364	\$ 15,012,767	\$ 20,628,452	\$ 22,563,215
Operating Grants and Contributions	85,447,121	76,009,910	-	-	85,447,121	76,009,910
Capital Grants and Contributions	3,209,758	5,151,567	-	-	3,209,758	5,151,567
General Revenues:						
Real Estate and Personal Property Taxes	89,429,023	83,904,402	-	-	89,429,023	83,904,402
Excises	7,529,286	6,121,362	-	-	7,529,286	6,121,362
Other Taxes, Assessments and in Lieu						
Payments	1,579,990	4,337,801	-	-	1,579,990	4,337,801
Intergovernmental Not Restricted to						
a Specific Program	8,860,104	8,664,587	-	-	8,860,104	8,664,587
Earnings on Investment	197,986	18,606	-	-	197,986	18,606
Other Revenue	630,563	210,007	-	-	630,563	210,007
Total Revenues	202,423,918	191,968,691	15,088,364	15,012,767	217,512,282	206,981,458
Expenses						
General Government	3,474,905	3,470,236	-	-	3,474,905	3,470,236
Public Safety	20,466,956	20,104,583	-	-	20,466,956	20,104,583
Education	90,906,798	90,636,686	-	-	90,906,798	90,636,686
Public Works	13,618,515	11,713,594	-	-	13,618,515	11,713,594
Human Services	4,633,420	5,517,080	-	-	4,633,420	5,517,080
Community Development	1,816,577	1,924,452	-	-	1,816,577	1,924,452
Debt Service	1,993,097	1,839,038	-	-	1,993,097	1,839,038
Intergovernmental	5,417,811	5,403,284	-	-	5,417,811	5,403,284
Health Insurance and Other						
Employee Benefits	26,043,990	30,206,073	-	-	26,043,990	30,206,073
Pension Benefits	12,843,054	12,135,823	-	-	12,843,054	12,135,823
Landfill	1,152,850	-	-	-	1,152,850	-
Other Expenditures	2,693,417	5,112,076	-	-	2,693,417	5,112,076
Water and Sewer	-	-	14,266,400	12,555,883	14,266,400	12,555,883
Teacher's Retirement on Behalf Payments	17,942,145	17,305,651	-	-	17,942,145	17,305,651
Total Expenses	203,003,535	205,368,576	14,266,400	12,555,883	217,269,935	217,924,459
Increase (Decrease) in Net Position						
Before Special items	(579,617)	(13,399,886)	821,964	2,456,884	242,347	(10,943,002)
Special Items - Transfers	616,246	729,333	(747,566)	(729,333)	(131,320)	-
Increase (Decrease) in Net Position	\$ 36,629	\$ (12,670,553)	\$ 74,398	\$ 1,727,551	\$ 111,027	\$ (10,943,002)

Financial Analysis of the City's Funds

General Fund – Fund Balance

Based upon the balance sheet as of the close of each fiscal year, the Commonwealth of Massachusetts' Department of Revenue (DOR) determines the amount of general fund - fund balance available for appropriation. In general, this amount (commonly known as "free cash") is generated when actual revenues on a cash basis exceed budgeted amounts and expenditures and encumbrances (unpaid commitments) are less than appropriations, or both. In accordance with GASB 54, as of June 30, 2014 the general fund includes the stabilization fund balance of \$2,779,233.

****As we noted on page four, during the fiscal year ended June 30, 2014, the City formally adopted enterprise fund legislation (MGL Chapter 44 Section 53F), for the water and sewer activities operated by the City. In the fiscal year ended June 30, 2014 financial statements, the water and sewer funds are separated from the general fund and are shown as separate Proprietary – Business-Type, Enterprise Funds. During fiscal year 2013 and prior years, the City had reported the water and sewer funds as a component of the general fund because it had not formally adopted enterprise fund legislation (MGL Chapter 44 Section 53F ½).

We have listed below a summary of the fund balance and free cash amounts:

Fiscal Year Ended <u>June 30</u>	Total General Fund <u>Fund Balance</u>	Unassigned/ Unreserved <u>Fund Balance</u>	<u>Free Cash</u>
			Not Yet Certified
2014	\$ 15,521,887 ****	\$ 12,646,964 ****	
2013	8,440,747 ****	5,296,917 ****	\$ 2,602,712
2012	14,860,600	11,888,581 ***	6,012,631
2011	12,974,881	10,875,619 ***	7,367,732
2010	13,949,061	6,678,969 ***	10,395,039 **
2009	15,598,101	7,714,039	4,171,615 *
2008	17,039,684	10,229,045	2,621,400

***The Governmental Accounting Standards Board (G.A.S.B.) has issued Statement #54 which became effective for the City for the fiscal year ending June 30, 2012. As a result, the components of fund balance reported in the City's audited balance sheet have new account classifications. The reporting requirements of G.A.S.B. Statement #54 eliminated the "reserved" component of fund balance in governmental funds. Because of the change to fund balance classifications, the "unreserved" component of "fund balance", presented above for the fiscal years ended June 30, 2010 and prior, was calculated in a different manner than the fiscal year's ended June 30, 2011 and June 30, 2012 calculation of "unassigned fund balance". Please see financial statement footnote number seven for a further explanation of G.A.S.B. Statement Number 54.

** The fiscal year 2010 free cash amount is much higher than the fiscal year 2009 free cash amount because the 2009 amount was reduced for reservations made to the water and wastewater general ledger fund balance accounts, however, the 2010 free cash calculation was not reduced for water and wastewater fund balance reservations.

* The methodology used by the DOR to calculate the general fund free cash for the fiscal year ended June 30, 2009, was changed to include water and wastewater, which had not been included in the prior year certifications.

General Fund Budgetary Highlights

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

Capital Asset and Debt Administration

Capital assets. The City of Haverhill, Massachusetts' investments in capital assets as of June 30, 2014, amounts to \$206,635,740 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles. See Capital Asset schedule below:

Capital Assets at June 30, 2014 and June 30, 2013 (Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
Buildings	\$ 66,949,917	\$ 69,304,992	\$ 40,855	\$ 45,735	\$ 66,990,771	\$ 69,350,727
Equipment	434,217	354,320	11,806,743	12,692,280	12,240,960	13,046,599
Improvements	1,712,256	1,943,328	-	-	1,712,256	1,943,328
Land	9,848,536	9,848,536	1,580,632	1,580,632	11,429,168	11,429,168
Construction Work in Process	6,620,867	6,620,867	12,103,780	7,388,730	18,724,647	14,009,597
Infrastructure	59,621,267	62,226,385	35,392,731	37,010,593	95,013,999	99,236,978
Vehicles	528,854	505,634	(4,916)	2,388	523,939	508,022
Total	<u>\$ 145,715,915</u>	<u>\$ 150,804,062</u>	<u>\$ 60,919,825</u>	<u>\$ 58,720,358</u>	<u>\$ 206,635,740</u>	<u>\$ 209,524,420</u>

Debt

The City had \$56,082,275 in Governmental Activities debt and \$37,835,068 in Business Type activity debt outstanding on June 30, 2014. During the fiscal year ended June 30, 2014, the City's bond rating was raised by two levels from A+ to AA. Standard and Poor's, a municipal credit rating agency, made the upgrade based on the City's very strong management conditions and strong financial practices that are likely to be sustained. In addition, Standard and Poor's said that the City has a very strong ability to pay principal and interest when their debt is due.

Outstanding Debt at June 30, 2014 and June 30, 2013

Governmental Activities	<u>2014</u>	<u>2013</u>
Notes Payable	\$ 6,632,198	\$ 7,515,697
General Obligation Bonds Payable	49,450,077	52,793,314
Total Governmental Activities	<u>\$ 56,082,275</u>	<u>\$ 60,309,011</u>
Business-type Activities		
Notes Payable	\$ 4,573,736	\$ 781,000
Water Bonds Payable	8,143,701	7,526,377
Sewer Bonds Payable	25,117,631	26,528,672
Total Business-type Activities	<u>\$ 37,835,068</u>	<u>\$ 34,836,049</u>

The debt has been adjusted to move certain debt from Governmental Activities to Business Type Activities. Please refer to prior period adjustment footnote.

Fiscal Year 2014 Budget

An initiative state statute, commonly known as “Proposition 2 ½”, limits the amount of property taxes that the City can assess in any one year. In general, the City’s property tax levy may increase by 2 ½ percent over the prior year’s tax levy, plus any additional amount derived by new developments or other changes made to existing property. If a community wishes to levy taxes above the limitations imposed by “Proposition 2 ½ “, it is necessary to obtain the approval of a majority of the voters at an election to do an override. A balanced budget was adopted for fiscal year 2014 without the necessity for an override.

City of Haverhill, Massachusetts
Statement of Net Position
June 30, 2014
(Continued on Page 11)

	<u>Governmental</u> <u>Activities</u>	<u>Business Type</u> <u>Activities</u>	<u>Government</u> <u>Wide</u> <u>Total</u>
Assets			
Current:			
Cash/Investments	\$ 35,116,982	\$ -	\$ 35,116,982
Receivables:			
Real Estate and Personal Property	1,614,425	-	1,614,425
Motor Vehicle and Other Excise	1,841,736	-	1,841,736
Tax Liens and Foreclosures	2,620,126	-	2,620,126
Other	157,329	-	157,329
Due From (To) Other Funds	(11,064,841)	11,106,330	41,489
User Charges	-	1,862,133	1,862,133
Due from Commonwealth of Massachusetts - SBAB	2,255,641	-	2,255,641
Due from Commonwealth of Massachusetts - MWPAT	528,106	-	528,106
Due from Commonwealth of Massachusetts - Other	2,226,062	-	2,226,062
Noncurrent:			
Due from Commonwealth of Massachusetts - SBAB	4,862,223	-	4,862,223
Capital Assets:			
Not Being Depreciated	16,469,403	13,684,411	30,153,815
Assets Being Depreciated, Net	129,246,512	47,235,414	176,481,925
Total Assets	185,873,704	73,888,288	259,761,992
Liabilities			
Current:			
Warrants Payable	110,886	63,341	174,227
Employees' Withholding Payable	6,728	-	6,728
Other Liabilities	2,780,907	-	2,780,907
Temporary Loans	6,632,198	4,573,736	11,205,934
Accrued Liabilities	2,539,192	-	2,539,192
Accrued Interest	442,944	380,457	823,401
Bonds Payable	7,061,992	2,616,226	9,678,218
Noncurrent:			
Bonds Payable	42,388,085	30,645,106	73,033,191
Accrued Longevity Payable	1,074,963	-	1,074,963
Accrued OPEB Liability	42,629,584	1,309,813	43,939,397
Accrued Compensated Absences	2,011,608	212,167	2,223,775
Accrued Landfill Liabilities	18,800,000	-	18,800,000
Total Liabilities	126,479,087	39,800,847	166,279,934

City of Haverhill, Massachusetts
Statement of Net Position
June 30, 2014
(Continued from Page 10)

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Government Wide Total</u>
Net Position			
Net Investment in Capital Assets	126,619,716	23,084,756	149,704,472
Restricted for:			
Capital Projects and Other Items	-	1,819,636	1,819,636
Special Revenue	1,402,313	-	1,402,313
Unrestricted (Deficit) - (See Note 18 on Page 45)	<u>(68,627,412)</u>	<u>9,183,049</u>	<u>(59,444,363)</u>
 Total Net Position	 <u>\$ 59,394,617</u>	 <u>\$ 34,087,441</u>	 <u>\$ 93,482,058</u>

City of Haverhill, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2014

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for	Operating	Capital	Total	Total	
		Services	Grants and Contributions	Grants and Contributions	Governmental Activities	Business Type Activities	Total
General Government	\$ 3,474,905	\$ 1,501,798	\$ 231,944	\$ -	\$ (1,741,163)	\$ -	\$ (1,741,163)
Public Safety	20,466,956	747,342	1,593,765	-	(18,125,849)	-	(18,125,849)
Education	90,906,798	1,652,323	62,150,013	2,484,781	(24,619,681)	-	(24,619,681)
Public Works	13,618,515	7,704	11,110	150,550	(13,449,151)	-	(13,449,151)
Human Services	4,633,420	839,211	2,465,095	-	(1,329,114)	-	(1,329,114)
Community Development	1,816,577	791,710	1,053,049	-	28,182	-	28,182
Debt Service	1,993,097	-	-	-	(1,993,097)	-	(1,993,097)
Intergovernmental	5,417,811	-	-	-	(5,417,811)	-	(5,417,811)
Health Insurance and Other Employee Benefits	26,043,990	-	-	-	(26,043,990)	-	(26,043,990)
Pension Benefits	12,843,054	-	-	-	(12,843,054)	-	(12,843,054)
Landfill	1,152,850	-	-	574,427	(578,423)	-	(578,423)
Other Expenditures	2,693,417	-	-	-	(2,693,417)	-	(2,693,417)
Teacher's Retirement on Behalf Payments	17,942,145	-	17,942,145	-	-	-	-
	<u>203,003,535</u>	<u>5,540,088</u>	<u>85,447,121</u>	<u>3,209,758</u>	<u>(108,806,568)</u>	<u>-</u>	<u>(108,806,568)</u>
<i>Business-Type Activities:</i>							
Water	6,305,766	6,948,504	-	-	-	642,738	642,738
Sewer	7,960,635	8,139,860	-	-	-	179,225	179,225
	<u>14,266,400</u>	<u>15,088,364</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>821,964</u>	<u>821,964</u>
	<u>\$ 217,269,935</u>	<u>\$ 20,628,452</u>	<u>\$ 85,447,121</u>	<u>\$ 3,209,758</u>	<u>(108,806,568)</u>	<u>821,964</u>	<u>(107,984,604)</u>
<i>General Revenues:</i>							
					89,429,023	-	89,429,023
					7,529,286	-	7,529,286
					1,579,990	-	1,579,990
					8,860,104	-	8,860,104
					197,986	-	197,986
					630,563	-	630,563
					616,246	(747,566)	(131,320)
					<u>108,843,197</u>	<u>(747,566)</u>	<u>108,095,631</u>
					<u>36,629</u>	<u>74,398</u>	<u>111,027</u>
<i>Net Position:</i>							
					50,550,813	41,203,132	91,753,945
					8,807,175	(7,190,088)	1,617,087
					59,357,988	34,013,044	93,371,032
					<u>\$ 59,394,617</u>	<u>\$ 34,087,442</u>	<u>\$ 93,482,059</u>

City of Haverhill, Massachusetts
Governmental Funds
Balance Sheet
June 30, 2014

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash/Investments	\$ 35,116,982	\$ -	\$ 35,116,982
Receivables:			
Real Estate and Property Taxes	1,614,425	-	1,614,425
Motor Vehicle and Other Excise	1,841,736	-	1,841,736
Tax Liens and Foreclosures	2,620,126	-	2,620,126
Other	157,329	-	157,329
Due From Other Funds	-	6,162,164	6,162,164
Due from Commonwealth of Massachusetts - MSBA	7,117,864	-	7,117,864
Due from Commonwealth of Massachusetts - MWPAT	-	528,106	528,106
Due from Commonwealth of Massachusetts - Other	-	2,226,062	2,226,062
Total Assets	\$ 48,468,462	\$ 8,916,332	\$ 57,384,794
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Warrants Payable	\$ 110,886	\$ -	\$ 110,886
Employees' Withholding Payable	6,728	-	6,728
Due to Other Funds	19,894,412	-	19,894,412
Other Liabilities	-	2,780,907	2,780,907
Temporary Loans	-	6,632,198	6,632,198
Unearned Revenue:			
Unearned Revenue - Due from Commonwealth of Mass	7,117,864	-	7,117,864
Unearned Revenue - Other	5,816,685	-	5,816,685
Total Liabilities	32,946,575	9,413,105	42,359,680
Fund Equity:			
Fund Balances:			
Restricted	-	1,314,693	1,314,693
Committed	-	87,620	87,620
Assigned	2,874,923	-	2,874,923
Unassigned	12,646,964	(1,899,086)	10,747,878
Total Fund Balances	15,521,887	(496,773)	15,025,114
Total Liabilities and Fund Balances	\$ 48,468,462	\$ 8,916,332	\$ 57,384,794

City of Haverhill, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2014

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Real Estate and Personal Property Taxes - Net	\$ 89,204,117	\$ -	\$ 89,204,117
Excises	7,314,371	-	7,314,371
Fees, Departmental and Charges for Services	3,876,912	2,212,715	6,089,627
Intergovernmental	60,296,156	21,534,323	81,830,479
Earnings on Investments	21,283	-	21,283
Other Taxes, Assessments and In Lieu Payments	2,070,430	-	2,070,430
Teacher's Retirement on Behalf Payments	17,942,145	120,102	18,062,247
Other Revenue	692,028	-	692,028
Total Revenues	181,417,442	23,867,140	205,284,582
Expenditures:			
Current			
General Government	3,015,405	304,907	3,320,312
Public Safety	18,737,757	1,419,831	20,157,588
Education	71,468,485	17,555,287	89,023,772
Public Works	8,044,780	2,676,871	10,721,651
Human Services	2,926,511	1,470,294	4,396,805
Community and Economic Development	745,343	1,095,212	1,840,555
Debt Service	8,516,430	-	8,516,430
Intergovernmental	5,417,811	-	5,417,811
Health Insurance and Other Employee Benefits	21,319,774	-	21,319,774
Pension Benefits	12,843,054	-	12,843,054
Landfill	-	437,151	437,151
Other Expenditures	2,928,923	-	2,928,923
Teacher's Retirement on Behalf Payments	17,942,145	-	17,942,145
Total Expenditures	173,906,418	24,959,553	198,865,971
Excess of Revenues Over (Under) Expenditures	7,511,024	(1,092,413)	6,418,611
Other Financing Sources (Uses):			
Operating Transfers In	752,566	1,261,302	2,013,868
Operating Transfers (Out)	(818,500)	(579,122)	(1,397,622)
Proceeds from Borrowing	-	3,165,000	3,165,000
Total Other Financing Sources (Uses)	(65,934)	3,847,180	3,781,246
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	7,445,090	2,754,767	10,199,857
Fund Balance, Beginning	8,440,747	(2,508,819)	5,931,928
Prior Period Adjustments	(363,950)	(742,721)	(1,106,671)
Fund Balance, Beginning as Restated	8,076,797	(3,251,540)	4,825,257
Fund Balance, Ending	\$ 15,521,887	\$ (496,773)	\$ 15,025,114

City of Haverhill, Massachusetts
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Position
 Fiscal Year Ended June 30, 2014

Total Governmental Fund Balances	\$ 15,025,114
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	145,715,915
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	12,934,549
Internal service funds are used to account for the health insurance trust fund. The assets and liabilities of the internal service fund is included in the governmental activities in the Statement of Net Position.	128,215
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(49,450,077)
Accrued Interest on Bonds	(442,944)
Landfill Accrued Liability	(18,799,997)
Compensated Absences	(2,011,608)
Longevity Liability	(1,074,963)
OPEB Liability	(42,629,584)
	(107,330,136)
Net Position of Governmental Activities	\$ 59,394,620

City of Haverhill, Massachusetts
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 Fiscal Year Ended June 30, 2014

Net change in fund balances - total governmental funds	\$ 10,199,857
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the net change in the current period.	(5,701,785)
Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unearned revenue.	(2,860,665)
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	3,343,237
Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	(234,896)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest is recognized as the interest accrues, regardless of when it is due.	15,096
OPEB cost relating to the current year GASB 45 accrual amount	(4,248,957)
Internal Service funds are used to account for the Health Insurance Trust Fund. The net activity of the internal service fund is reported with governmental activities.	<u>(475,259)</u>
Change in Net Position of Governmental Activities	<u><u>\$ 36,628</u></u>

City of Haverhill, Massachusetts
 Proprietary Funds
 Statement of Net Position
 June 30, 2014

	Governmental <u>Activities</u>
	Internal <u>Service Fund</u>
ASSETS	
Due from Other Funds	\$ 2,667,407
TOTAL ASSETS	<u>2,667,407</u>
 LIABILITIES	
Accrued Liabilities	<u>2,539,192</u>
TOTAL LIABILITIES	<u>2,539,192</u>
 NET POSITION	
Unrestricted	<u>128,215</u>
TOTAL NET POSITION	<u><u>\$ 128,215</u></u>

City of Haverhill, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2014

	Governmental <u>Activities</u>
	Internal <u>Service Fund</u>
 Operating Revenues:	
Contributions	\$ 31,367,839
Total Operating Revenues	<u>31,367,839</u>
 Operating Expenditures:	
Employee Benefits	<u>31,843,098</u>
Total Operating Expenditures	<u>31,843,098</u>
Operating Income (Loss)	<u>(475,259)</u>
Net Position at Beginning of Year	<u>603,474</u>
Net Position at End of Year	<u><u>\$ 128,215</u></u>

City of Haverhill, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2014

Governmental
Activities

Internal
Service Fund

Cash Flows from Operating Activities:

Net Income (Loss)	<u>\$ (475,259)</u>
Net Cash Flows Provided (Used) by Operating Activities	<u>(475,259)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u><u>\$ (475,259)</u></u>

City of Haverhill, Massachusetts
Proprietary Funds
Statement of Net Position
June 30, 2014

	<u>Business-Type Activities</u>			<u>Total</u>
	<u>Water Enterprise</u>	<u>Sewer Enterprise</u>	<u>Other Enterprise</u>	
Assets				
Current:				
Due from Other Funds	\$ 7,801,969	\$ 3,263,545	\$ 40,816	\$ 11,106,330
Receivables, Net of Allowance for Uncollectibles:				
User Charges	910,597	951,536	-	1,862,133
Noncurrent:				
Capital Assets:				
Assets Not Being Depreciated	4,025,803	9,658,608	-	13,684,411
Assets Being Depreciated, Net	17,499,167	29,736,247	-	47,235,414
Total Assets	<u>30,237,536</u>	<u>43,609,936</u>	<u>40,816</u>	<u>73,888,288</u>
 Liabilities				
Current:				
Warrants Payable	63,341	-	-	63,341
Accrued Interest Payable	49,491	330,966	-	380,457
Bonds Payable	1,206,894	1,409,332	-	2,616,226
Temporary Loans	-	4,573,736	-	4,573,736
Noncurrent:				
Bonds Payable	6,936,807	23,708,299	-	30,645,106
Accrued OPEB Liability	714,457	595,356	-	1,309,813
Compensated Absences	107,931	104,236	-	212,167
Total Liabilities	<u>9,078,921</u>	<u>30,721,925</u>	<u>-</u>	<u>39,800,847</u>
 Net Position				
Net Investment in Capital Assets	13,381,269	9,703,487	-	23,084,756
Restricted for:				
Capital Projects and Other Items	752,546	1,067,090	-	1,819,636
Unrestricted	7,024,800	2,117,433	40,816	9,183,049
Total Net Position	<u>\$ 21,158,615</u>	<u>\$ 12,888,010</u>	<u>\$ 40,816</u>	<u>\$ 34,087,441</u>

City of Haverhill, Massachusetts
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
June 30, 2014

Business-Type Activities

	<u>Water Enterprise</u>	<u>Sewer Enterprise</u>	<u>Other Enterprise</u>	<u>Total</u>
Operating Revenues:				
Charges for Services	\$ 6,948,504	\$ 8,139,860	\$ -	\$ 15,088,364
Total Operating Revenues	<u>6,948,504</u>	<u>8,139,860</u>	<u>-</u>	<u>15,088,364</u>
Operating Expenditures:				
Personal Services	1,899,332	1,699,104	-	3,598,436
Nonpersonal Service	3,597,310	4,537,462	-	8,134,772
Depreciation	791,514	1,724,069	-	2,515,582
Total Operating Expenditures	<u>6,288,156</u>	<u>7,960,635</u>	<u>-</u>	<u>14,248,790</u>
Operating Income (Loss)	<u>660,348</u>	<u>179,225</u>	<u>-</u>	<u>839,574</u>
Nonoperating Revenues (Expenses):				
Interest on Debt	(17,610)	-	-	(17,610)
Total Nonoperating Revenues (Expenses)	<u>(17,610)</u>	<u>-</u>	<u>-</u>	<u>(17,610)</u>
Income Before Transfers	<u>642,738</u>	<u>179,225</u>	<u>-</u>	<u>821,964</u>
Operating Transfers Out	(221,996)	(525,570)	-	(747,566)
Total Transfers	<u>(221,996)</u>	<u>(525,570)</u>	<u>-</u>	<u>(747,566)</u>
Change in Net Position	<u>420,742</u>	<u>(346,345)</u>	<u>-</u>	<u>74,398</u>
Total Net Assets July 1, 2013	22,311,431	18,850,885	40,816	41,203,132
Prior Period Adjustments	(1,573,558)	(5,616,530)	-	(7,190,088)
Total Net Position July 1, 2013, as Restated	<u>20,737,873</u>	<u>13,234,355</u>	<u>40,816</u>	<u>34,013,044</u>
Total Net Position June 30, 2014	<u>\$ 21,158,615</u>	<u>\$ 12,888,010</u>	<u>\$ 40,816</u>	<u>\$ 34,087,442</u>

City of Haverhill, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2014

	<u>Water</u>	<u>Sewer</u>	<u>Other</u>	<u>Total</u>
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 6,931,236	\$ 8,139,860	\$ -	\$ 15,071,096
Payments to Employees	(1,899,332)	(1,699,104)	-	(3,598,436)
Payments to Vendors	<u>(3,729,132)</u>	<u>(4,738,332)</u>	<u>-</u>	<u>(8,467,464)</u>
Net Cash Flows Provided (Used) by Operating Activities	<u>1,302,772</u>	<u>1,702,424</u>	<u>-</u>	<u>3,005,196</u>
Cash Flows from Non Capital Related Financing Activities:				
Transfer From (To) Other Funds	<u>(221,996)</u>	<u>(525,570)</u>	<u>-</u>	<u>(747,566)</u>
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>(221,996)</u>	<u>(525,570)</u>	<u>-</u>	<u>(747,566)</u>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(152,526)	-	-	(152,526)
Proceeds from Bond Anticipation Note	1,600,000	-	-	1,600,000
Principal Payments on Notes and Bonds	<u>(982,675)</u>	<u>(1,387,756)</u>	<u>-</u>	<u>(2,370,431)</u>
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>464,799</u>	<u>(1,387,756)</u>	<u>-</u>	<u>(922,957)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>1,545,575</u>	<u>(210,902)</u>	<u>-</u>	<u>1,334,673</u>
Cash and Cash Equivalents, July 1, 2013	<u>5,044,086</u>	<u>3,013,946</u>	<u>40,816</u>	<u>8,098,848</u>
Prior Period Adjustments	<u>1,212,308</u>	<u>460,501</u>	<u>-</u>	<u>1,672,809</u>
Cash and Cash Equivalents, July 1, 2013, as Restated	<u>6,256,394</u>	<u>3,474,447</u>	<u>40,816</u>	<u>9,771,657</u>
Cash and Cash Equivalents, June 30, 2014	<u>\$ 7,801,969</u>	<u>\$ 3,263,545</u>	<u>\$ 40,816</u>	<u>\$ 11,106,330</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 660,348	\$ 179,225	\$ -	\$ 839,574
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	791,514	1,724,069	-	2,515,582
(Increase) Decrease in Assets:				
Accounts Receivable - Customer	(17,268)	-	-	(17,268)
Increase (Decrease) in Liabilities:				
Warrants and Accounts Payable	<u>(131,822)</u>	<u>(200,870)</u>	<u>-</u>	<u>(332,692)</u>
Net Cash Provided by Operating Activities	<u>\$ 1,302,772</u>	<u>\$ 1,702,424</u>	<u>\$ -</u>	<u>\$ 3,005,196</u>

City of Haverhill, Massachusetts
Statement of Net Position
Fiduciary Funds
June 30, 2014

	Pension Trust	Private
	Fund	Purpose
	As of	Trust Funds
	<u>December 31, 2013</u>	<u>Trust Funds</u>
Assets		
Cash and Equivalent	\$ 1,972,479	\$ 6,258,404
Due from(to) Other Funds	-	(822,491)
Receivables:		
Dividend and Interest	70,694	-
Employee Contributions	70,495	-
Due from Other Systems	291,188	-
Due from Others	10,532	-
Investments Sold - Funds Not Received	1,617,426	-
Miscellaneous	101	-
	<hr/>	<hr/>
Total Receivables	2,060,436	-
	<hr/>	<hr/>
Investments at Fair Value:		
Stocks	38,994,155	-
Fixed Income Securities	5,765,175	-
Real Estate and Other Investments	118,877,225	-
	<hr/>	<hr/>
Total Investments	163,636,555	-
	<hr/>	<hr/>
Total Assets	<u>167,669,470</u>	<u>5,435,913</u>
Liabilities		
Accounts Payable	154,499	-
Amounts Due to Other Systems	555,862	-
Unearned Revenue	415,826	-
Investments Purchased - Not Yet Paid For	129,791	-
	<hr/>	<hr/>
Total Liabilities	<u>1,255,978</u>	<u>-</u>
Net Position		
Net Position Held in Trust	<u>\$ 166,413,492</u>	<u>\$ 5,435,913</u>

City of Haverhill, Massachusetts
Statement of Changes in Net Position
Fiduciary Funds
Year Ended June 30, 2014

	Pension Trust Fund Fiscal Year Ended <u>December 31, 2013</u>	Private Purpose Trust <u>Funds</u>
Additions:		
Contributions:		
Employer	\$ 13,742,000	\$ -
Employee	3,589,368	-
Intergovernmental	298,186	-
Total Contributions	<u>17,629,554</u>	<u>-</u>
Transfers from Other Systems	<u>350,209</u>	<u>-</u>
Net Investment Income (Loss) :		
Net Appreciation in the Fair Value of Plan Assets and Gains and (Losses)	20,539,757	101,046
Miscellaneous Income	10,000	-
Interest and Dividends	<u>3,740,530</u>	<u>(101,046)</u>
Total Investment Income (Loss)	24,290,287	-
Less Investment Expense	<u>1,409,325</u>	<u>-</u>
Net Investment Income (Loss)	<u>22,880,962</u>	<u>-</u>
Total Additions (Reductions)	<u>40,860,725</u>	<u>-</u>
Deductions:		
Benefit Payments to Retirees, Survivors, and Disability Retirees	22,811,135	-
Refunds to Members Leaving the Plan	458,028	-
Transfers to Other Systems	1,001,783	-
Administrative Expenses	400,256	-
Scholarships and Other Expenses	-	577,074
Total Deductions	<u>24,671,202</u>	<u>577,074</u>
Net Increase (Decrease)	<u>16,189,523</u>	<u>(577,074)</u>
Net Position Held In Trust:		
Beginning of Year	<u>150,223,969</u>	<u>6,012,987</u>
End of Year	<u>\$ 166,413,492</u>	<u>\$ 5,435,913</u>

City of Haverhill, Massachusetts
Notes to the Financial Statements
June 30, 2014

1. Summary of Significant Accounting Policies

(A) Reporting Entity

The accompanying financial statements present the financial position of the City of Haverhill as of June 30, 2014. The report includes all the services provided by the City to its residents and businesses within its boundaries. The City of Haverhill was founded in 1641 and was incorporated in 1869. The City is governed by an elected Mayor and City Council. Municipal services provided include education, public safety, recreation, public works, library and general administration. Criteria used in determining the scope of the reporting entity included the City's ability to significantly influence operations, selection of governing authority, designation of management, financial interdependency and accountability for fiscal matters. All operations of the City that meet the preceding criteria are included in the reporting entity. Included in the financial statements is the City of Haverhill Retirement System (the System) as of June 30, 2014.

(B) Blended Component Units

The following component unit is, while a separate entity in substance, part of the governmental operations of the City and data from this unit is therefore combined with data of the City as the primary government. Component units are required to be included in the City's reporting entity if its operational and financial relationships with the City are significant.

The Retirement System - Substantially all employees of the City, except teachers and certain administrative personnel employed by the School Department, participate in the System. The System was established under the Authority of Chapter 32 of the Massachusetts General Laws, as amended, and is an independent retirement system which functions for the benefit of these employees. The powers of the System are vested in the Retirement Board. Complete financial statements for the System can be obtained from the City of Haverhill Contributory Retirement System, 4 Summer Street, Haverhill, Massachusetts 01830.

The financial statements of the Haverhill Housing Authority (the "Authority") are not included in the financial statements because the City does not exercise significant oversight over the Authority.

(C) Government-wide and fund financial statements

The **government-wide financial statements** (i.e., the **Statement of Net Position** and the **Statement of Activities**) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Government activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and

other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

(D) Measurement focus, basis of accounting, and financial statement presentation

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These revenues are recognized when they become measurable and available as net current assets. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise tax, amounts due under grants, charges for services and investment income. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end. Revenues from other financing sources are recognized when received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, sick pay, and other employee amounts which are not to be liquidated from expendable and available resources; and (2) principal and interest on general long-term debt which are recognized when due.

Agency fund assets and liabilities are accounted for on the modified accrual basis of accounting.

(E) Financial Statement Presentation

The accounting policies of the City of Haverhill, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2014 conform to generally accepted accounting principles for local government units, except as indicated hereafter, as amended by Statement 1, Governmental Accounting and Financial Reporting Principles, issued by the National Council on Governmental Accounting.

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

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

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

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

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

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

(F) Budgets and Appropriations

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

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

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

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

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

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

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

(G) Cash and Cash Equivalents

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

(H) Investments

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

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

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

(I) Restricted Assets

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

(J) Capital Assets

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

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

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

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

(K) Other Assets

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

(L) Compensated Absences

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

(M) Encumbrances

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

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

(N) Transfers

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

(O) Risk Financing

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

(P) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(Q) On Behalf Payments

During fiscal year 1996, the City was required to adopt GASB Statement No. 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance." GASB No. 24 requires the City of Haverhill, to recognize, as income, certain payments made on behalf of the City by the Commonwealth of Massachusetts. Specifically, the Commonwealth makes contributions to a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board (the "State Plan") on behalf of the City's teaching employees; the City is not legally required to contribute to the State Plan, which is fully funded by the Commonwealth.

For the fiscal year ended June 30, 2014, the Commonwealth paid \$17,942,145 to the State Plan on behalf of employees of the City. Accordingly, the accompanying financial statements include the required adjustments, which have increased both revenues and expenditures by this same amount. The net effect of this adjustment did not change the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2014, or fund balances at June 30, 2014.

2. Deposits and Investments

i. Deposits

Custodial Credit Risk - Deposits

Custodial Credit Risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. As of June 30, 2014, \$24,590,197 of the City's bank balance of \$38,306,365 was uninsured and uncollateralized.

Uninsured and Uncollateralized \$ 24,590,197

ii. Investments

a) As of June 30, 2014, the City had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>Over 5</u>
U.S. Treasury / Agency Securities	\$ 2,097,695	\$ 2,097,695	\$ -	\$ -
Mutual Funds	33,162	33,162	-	-
Equities	-	-	-	-
Corporate Bonds and Other	<u>2,995,539</u>	<u>1,913,972</u>	<u>1,081,567</u>	<u>-</u>
Total	<u>\$ 5,126,395</u>	<u>\$ 4,044,828</u>	<u>\$ 1,081,567</u>	<u>\$ -</u>

b) Interest Rate Risk

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

c) Credit Risk

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

d) Concentration of Credit Risk

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

Contributory Retirement System

Deposits

Custodial Credit Risk - Deposits

Custodial Credit Risk is the risk that in the event of a bank failure, the Plan's deposits may not be returned to it. The City does not have a formal deposit policy for custodial credit risk. As of December 31, 2013, none of the Plan's bank balance of \$181,321 was exposed to credit risk.

Investments

According to GASB Statement No. 40 - "Deposit and Investment Risk Disclosures", disclosures must be made for certain investments that have fair values that are highly sensitive to changes in interest rates. As of December 31, 2013, the City of Haverhill Retirement System investments that are required to be disclosed in accordance with GASB Statement No. 40, are noted below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>Over 5</u>
Debt Related Securities:				
U. S. Government Obligations	\$ -	\$ -	\$ -	\$ -
Foreign Government Obligations	4,817,927	-	897,686	3,920,241
Corporate Bonds	<u>947,248</u>	<u>5</u>	<u>-</u>	<u>947,243</u>
Total Debt Related Securities:	<u>5,765,175</u>	<u>\$ 5</u>	<u>\$ 897,686</u>	<u>\$ 4,867,484</u>
Other Investments:				
Money Market Funds	1,888,452			
Stocks	38,994,155			
Real Estate & Other Investments	<u>118,877,223</u>			
Total Other Investments	<u>159,759,831</u>			
Total Investments	<u>\$ 165,525,006</u>			

3. Property Taxes

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

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

Personal Liability - The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by the sale or taking of the property by the City Limitations - The City is subject to certain limitations on the amount of property taxes it may levy. Levies are generally limited to 2 1/2% of the City's total assessed valuation of real property. In addition, the assessed valuation of real property is limited to an annual increase of 2 1/2%.

4. Accounts Receivable

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

General Fund

Property Taxes Receivable:

Real Estate Taxes

2,014	\$ 1,474,019	
2013	<u>756</u>	
Total Real Estate Taxes		<u>\$ 1,474,775</u>

Personal Property Taxes

2014	32,948	
2013	12,486	
2012	14,739	
2011	15,817	
2010	12,064	
2009 & Prior	<u>51,595</u>	
Total Personal Property Taxes		<u>139,649</u>

Total Property Taxes Receivable \$ 1,614,424

Tax Liens and Foreclosures \$ 2,620,126

4. Accounts Receivable (Continued)

Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2014	\$ 827,982	
2013	182,701	
2012	99,922	
2011	69,419	
2010	57,471	
2009 & Prior	<u>583,157</u>	
Total Motor Vehicle Excise Taxes		<u>\$ 1,820,652</u>

Boat Excise Taxes

2014	2,755	
2013	1,663	
2012	2,119	
2011	1,791	
2010	1,816	
2009 & Prior	<u>10,940</u>	
Total Boat Excise Taxes		<u>21,084</u>

Total Motor Vehicle and Other Excise Taxes \$ 1,841,736

Other Accounts Receivable \$ 157,329

User Charges - Water and Sewer \$ 1,862,133

Due from Commonwealth of Massachusetts

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

The \$7,117,864 General Fund, Due from Commonwealth of Massachusetts-MSBA (Massachusetts School Building Authority) shown on the fund financial statements, relates to the total amount due to the City of Haverhill relating to school building projects. The amount due to the City was determined under Chapter 645 of the Acts of 1948. The City either constructed a new school building or made major improvements to an existing school building and the state entered into a grant agreement with the City to reimburse the City for a predetermined percentage of allowable costs and interest expense. The reimbursement to the City for its portion of the debt service and allowable costs is made in equal installments over the life of the bond issue and is subject to only the appropriation of the state legislature. In July of 2004, the governor signed Chapter 208 and Chapter 210 of the Acts of 2004 into law, which makes substantial changes to the School Building Assistance (SBA) Program. This legislation (Ch. 208) transfers responsibility for the School Building Assistance Program from the Department of Education to the Massachusetts School Building Authority (MSBA), under the Office of the State Treasurer. The authority is a new and independent governing body comprised of seven members. The legislation under Chapter 210 dedicates 1 percent of the sales tax receipts to help fund School Building projects. The authority shall examine applications for assistance and designate a school project as approved if it meets the following requirements. The school project will be viewed with respect to its site, type of construction, sufficiency of accommodations, open space preservation, urban development, urban sprawl, energy efficiency and otherwise. The project must be necessary to meet educational standards of the curriculum frameworks established by the Board of Education. The project must have a value over its useful life and be within the capacity of the authority to finance within revenues projected to be available to the trust. A major feature of the new law is the upfront cash grant program.

When a project is approved for funding, the program will make a single payment of 75% of the full amount of the state's reimbursement. The balance of the state share will be paid when the project audit is completed.

The Non Major Governmental Funds column amount of \$2,226,062, Due from Commonwealth of Massachusetts-Other, includes an amount due to the City as of June 30, 2014 relating to Chapter 90 highway repair and improvement projects. Under the Chapter 90 program, the Massachusetts Highway Department enters into an agreement with the City to reimburse the City for certain highway repair projects. When the city has incurred expenses to repair and improve the roads which have been predetermined in the grant agreement with the state, the paperwork is submitted to the state to be reimbursed for these expenses.

5. Temporary Loans

At June 30, 2014, the City had outstanding Bond Anticipation Notes (BAN's) and State Aid Anticipation Notes (SAAN's) used to finance various capital projects. All such notes are included in temporary loans in the Capital Projects Fund (Non Major Funds Column), and Business Activities fund as noted below.

Changes in Short Term Debt – the following is a summary of the short term debt transactions for the fiscal year ended June 30, 2014:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance End of Year</u>
<u>Governmental Activities:</u>				
BAN's	\$ 6,765,697	\$ 5,413,198	\$ (7,546,697)	\$ 4,632,198
SAAN's	750,000	2,000,000	(750,000)	2,000,000
Total - Governmental	<u>\$ 7,515,697</u>	<u>\$ 7,413,198</u>	<u>\$ (8,296,697)</u>	<u>\$ 6,632,198</u>
<u>Business Activities:</u>				
BAN' - MWPAT	\$ -	\$ 3,792,736	-	\$ 3,792,736
BAN's	781,000	-	-	781,000
Total - Business Type	<u>781,000</u>	<u>3,792,736</u>	<u>-</u>	<u>4,573,736</u>
Grand Total	<u>\$ 8,296,697</u>	<u>\$ 11,205,934</u>	<u>\$ (8,296,697)</u>	<u>\$ 11,205,934</u>

6. Long Term Debt

General obligation bonds outstanding at June 30, 2014 bear interest at various rates.

(A) Changes in Long Term Debt – the following is a summary of bond transactions for the year ended June 30, 2014:

	<u>Governmental Activities</u>	<u>Business Activities</u>	<u>Total</u>
Balance 7/01/2013	\$ 61,656,211	\$ 25,192,152	86,848,363
Prior Period Adjustments	(8,862,897)	8,862,897	-
Balance 7/01/2013 as Adjusted	<u>52,793,314</u>	<u>34,055,049</u>	<u>86,848,363</u>
Add: New Issues	3,165,000	1,600,000	4,765,000
Less: Maturities	(6,508,237)	(2,393,717)	(8,901,954)
Balance 6/30/2014	<u>\$ 49,450,077</u>	<u>\$ 33,261,332</u>	<u>\$ 82,711,409</u>

(B) Summary of Debt Service Requirements to Maturity:

	Governmental Activities		Business Activities	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 7,061,992	\$ 2,015,655	\$ 2,616,226	\$ 1,052,926
2016	7,230,457	1,719,387	2,313,168	967,432
2017	5,817,757	1,399,292	2,351,396	890,124
2018	5,181,457	1,152,562	2,365,314	811,332
2019	5,191,457	933,543	2,392,726	737,376
2020-2024	15,775,957	2,048,806	9,371,999	2,690,784
2025-2029	2,411,000	349,672	6,751,629	1,519,141
2030-2034	780,000	62,434	4,493,875	582,248
2035 and thereafter	-	-	605,000	15,125
	<u>\$ 49,450,077</u>	<u>\$ 9,681,351</u>	<u>\$ 33,261,333</u>	<u>\$ 9,266,488</u>

On January 27, 2011 the City issued \$9,680,000 of State Qualified Refunding Bonds with an average interest rate of 4.3 % to advance refund \$ 9,875,000 of outstanding hospital debt with an average rate of 6.75 %. The net proceeds (after payment of underwriting fees, insurance and other issuance costs) were deposited into an irrevocable escrow bank account to provide for future payment of the refunded debt. The principal and interest costs on the refunded debt and the refunding debt are detailed below:

	Refunded Bonds	Refunding Bonds
	Principal and Interest	Principal and Interest
2012	\$666,562	\$455,552
2013	1,357,431	1,189,255
2014	1,357,481	1,189,533
2015	1,358,987	1,193,198
2016	1,356,781	1,190,250
2017	1,355,694	1,190,690
2018	1,355,388	1,189,410
2019	1,360,357	1,191,303
2020	1,354,932	1,186,368
2021	1,360,275	1,194,390
2022	1,359,881	1,195,153
Total	<u>\$14,243,769</u>	<u>\$12,365,102</u>

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

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

(C) Long -Term Debt Authorizations

General Obligation Bonds authorized and unissued at June 30, 2014 are summarized as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
7/29/1998	Wastewater	\$ 50,000
2/3/1999	1999 School Remodeling	2,680,000
12/2/1999	Sewer	1,520,000
1/17/2002	Planning CSO	200,000
3/13/2003	2003 School Remodeling High School	15,964,295
5/2/2003	MWPAT	4,995
6/16/2003	CSO Project MWPAT	969,063
8/26/2004	2005 Departmental Equipment	115,000
5/24/2005	Sewer	321,426
12/6/2005	2005 Parking Deck	301
12/20/2006	2007 Park Dept Building Repairs	53,000
1/16/2007	2007 School Books	125,325
3/23/2010	Water Meters	1,600,000
9/21/2010	CWP 10-23	9,729,137
12/21/2010	Bridge Repairs	205,499
4/19/2011	South Main St. Water	1
10/25/2011	School Tech HS	803,000
12/10/2011	Green School Project	4,437,176
3/13/2012	Hunking Repairs	400,000
4/12/2012	Department Equipment	1,757,000
9/4/2012	Feasibility Study Hunking School	800,000
11/27/2014	MWPAT CW-12-14	663,868
	Total	\$ 42,399,086

7. Components of Fund Balance

Fund Balance Classification Policies and Procedures

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This Statement (effective for fiscal year 2011) establishes accounting and financial reporting standards for all governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications.

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to the constraints on the specific purposes for which the amounts in those funds can be spent.

GASB 54 requires the fund balance amounts to be reported within one of the fund balance categories listed below:

1. Nonspendable, includes amounts that cannot be spent because they are (a) not in spendable form (such as fund balance associated with inventories) or are (b) legally or contractually required to stay intact (i.e. corpus of a permanent trust fund),
2. Restricted, constraints are placed on the use of resources that can be spent only for the specific purposes that are either (a) imposed by creditors, grantors or contributors, or (b) imposed by law through constitutional provisions or through enabling legislation,
3. Committed, includes amounts that can be used only for the specific purposes determined by a formal action of the City Council (the City's highest level of decision-making authority),
4. Assigned, intended (by the City Council, Mayor or City Auditor) to be used by the government for specific purposes, but do not meet the criteria to be classified as restricted or committed, and
5. Unassigned, the residual classification for the government's general fund and includes all spendable amounts not contained in the restricted, committed or assigned categories.

The City Council is the highest level of decision making authority in the City. Committed fund balance cannot be used for any other purposes without formal vote taken by the City Council.

Details of Fund Balance Classifications

The following schedule shows the detail of the fund balance classifications displayed in the aggregate on the City's balance sheet.

	<u>General Fund</u>	<u>Non Major Funds</u>	<u>Total</u>
Restricted for:			
General Government	\$ -	\$ 267,941	267,941
Public Safety	-	815,086	815,086
Education	-	116,778	116,778
Public Works	-	49,976	49,976
Community Development	-	64,912	64,912
Total Restricted	<u>-</u>	<u>1,314,693</u>	<u>1,314,693</u>

	<u>General Fund</u>	Non Major <u>Funds</u>	<u>Total</u>
Committed to:			
Public Safety	-	46,135	46,135
Public Works	-	41,485	41,485
Total Committed	<u>-</u>	<u>87,620</u>	<u>87,620</u>
Assigned to:			
Reserved for Expenditures	1,400,000	-	1,400,000
General Government	208,269	-	208,269
Public Safety	169,772	-	169,772
Education	852,766	-	852,766
Public Works	232,354	-	232,354
Human Services	2,418	-	2,418
Community Development	1,776	-	1,776
Landfill and Other	7,568	-	7,568
Total Assigned	<u>2,874,923</u>	<u>-</u>	<u>2,874,923</u>
Unassigned	<u>12,646,964</u>	<u>(1,899,086)</u>	<u>10,747,878</u>
Total Fund Balances	<u>\$ 15,521,887</u>	<u>\$ (496,773)</u>	<u>\$15,025,114</u>

8. Budget Basis of Accounting

The budget amounts appearing in the financial statements are taken from the City's annual recap sheet and include only those amounts which pertain to June 30, 2014. The budget amounts include special City Council meeting votes applicable to June 30, 2014.

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

	<u>Revenues</u>
As Reported Budget Basis	\$ 162,871,768
Adjustments:	
Sixty Day Property Tax Accrual - Net	601,562
Other adjustment	1,967
Teacher Retirement on Behalf Payments	17,942,145
As Reported GAAP Statement	<u>\$ 181,417,442</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 156,974,731
Adjustments:	
July 1, 2013 Encumbrances	464,366
June 30, 2014 Encumbrances	(1,474,824)
Teacher Retirement on Behalf Payments	17,942,145
As Reported GAAP Statement	<u>\$ 173,906,418</u>

9. Contributory Retirement System

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

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

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

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

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

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

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

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

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

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

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

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

Annual Required Contribution – The City's annual required contribution for the fiscal year ended June 30, 2014 was as follows:

Annual Required Contribution ("ARC")	<u>\$12,341,752</u>
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The annual required contribution for the current year was determined as part of the January 1, 2008 actuarial valuation using the individual entry age normal cost method. The actuarial assumptions included (a) 8.5% investment rate of return and (b) projected salary increases of 5% to 5.5% per year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period.

10. Other Retirement Plans

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

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

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

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

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

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

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

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

Plan Description. In addition to providing pension benefits described above, the City provides the majority of retired employees with payments for a portion of their health care and life insurance benefits. All of the City retirees receiving a pension from the City of Haverhill Retirement System or the Massachusetts Teachers Retirement System are eligible for post retirement medical benefits. Currently there are approximately 1,169 active employees and 2,012 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan. The benefits are provided primarily through Blue Cross of Massachusetts, Inc.

Funding Policy. Most City retirees contribute towards their health insurance coverage in the amount of 15%, 20%, 25% or 30% of stated premiums, depending on their date of retirement, plan selected and date of hire. The City contributes \$5.40 per month for each retiree receiving \$5,000 in basic life insurance. Benefits paid by the City are on a pay-as-you-go basis. The contribution requirements of plan members and the City are established and may be amended from time to time.

Annual OPEB Cost and OPEB Obligation. The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the City, an amount that has been actuarially determined in accordance with the parameters of GASB 43 and 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table

shows the components of the City's annual OPEB cost for the fiscal year ended June 30, 2014, the amount actually contributed to the plan, and the City's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$16,287,334
Interest on Net OPEB Obligation	1,587,616
Adjustment to Annual Required Contribution	(1,516,668)
Annual OPEB Cost (Expense)	<u>16,358,282</u>
Contributions Made	<u>(12,109,295)</u>
Increase in Net OPEB Obligation	4,248,987
Net OPEB Obligation (NOO)- Beginning of Year	<u>39,690,410</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$43,939,397</u></u>
Percentage of Annual OPEB Cost Contributed	74%

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

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Actual</u> <u>Contributions</u>	<u>Percentage</u> <u>Contributed</u>
2008	\$15,362,934	\$8,846,909	58%
2009	16,700,010	11,226,557	67%
2010	17,405,977	12,297,533	71%
2011	18,105,857	13,283,061	73%
2012	19,753,183	11,131,024	56%
2013	20,542,475	11,394,942	55%
2014	16,358,282	12,109,295	74%

Funding Status and Funding Progress. As of June 30, 2014, the most recent actuarial valuation date, no funding to the plan has been made. The Actuarial Accrued Liability (AAL) for benefits was \$270,890,482, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$270,890,482.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

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

In the June 30, 2014, actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), and an annual healthcare cost trend rate of 7.5 percent, reduced by decrements to an ultimate rate of 4.5 percent after six years. The actuarial value of assets was determined using market value. The UAAL is being amortized over a thirty year amortization period.

12. Deferred Compensation Plan

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

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

It is the opinion of the City that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the City's general creditors; however, plan assets have not been used in the past to satisfy such claims. The value of the plan assets as of June 30, 2014 was approximately \$19,000,000.

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

13. Risk Management

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

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

14. Commitments and Contingent Liabilities

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

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

The City's financial exposure with respect to responsibility for Landfill closure will be affected by several factors, including the relative allocation of costs shared by Bardon and the City, the ability of the owners to recover assessment and remediation costs from other parties associated with Landfill operations, and the specific methods of Landfill closure determined to be acceptable by regulatory authorities. The City has recorded a liability of \$18,084,301 in the Financial Statements which represents legal counsel's best estimate of the City's liability for the Landfill closure and post closure costs.

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

In addition, the City is involved in an enforcement action involving the EPA concerning the cleanup of the Beede Waste Oil Superfund (Site) in Plaistow, New Hampshire. Various municipal departments of the City generated hazardous substances (waste oil) which was sent to the site, along with numerous other responsible parties. The City and EPA have had discussions with regard to a comprehensive resolution of the outstanding claim. It is anticipated that the City will seek to bond sufficient funds to pay any judgment which may be entered, less revenue from the water and wastewater departments, the Haverhill Housing Authority (a separate legal entity), along with some funds coming from accounts maintained by the City to cover obligations from the former Haverhill Municipal (Hale) Hospital.

Various legal actions and other claims are pending against the City. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2014 cannot be ascertained, management believes that any resulting liability should be covered by insurance and will not materially affect the financial statements of the City.

In addition to the above matters, the City had been liable for prior year outstanding electricity invoices to National Grid. These invoices relate to a meter that was replaced during a school renovation project, which National Grid did not bill the School for. The School Department obtained a settlement agreement with National Grid, dated March 10, 2009, where the City was required to pay \$233,000 to National Grid. As of June 30, 2014, this settlement has been paid in full by the City.

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

15. Interfund Transfers in Fund Financial Statements

Interfund transfers are listed below:

	Transfers <u>In</u>	Transfers <u>(Out)</u>	<u>Total</u>
General	\$ 752,566	\$ (818,500)	\$ (65,934)
Non-major Governmental	1,261,302	(579,122)	682,180
Trust and Agency Fund	131,320	-	131,320
Enterprise - Business Type	-	(747,566)	(747,566)
Total	<u>\$ 2,145,188</u>	<u>\$ (2,145,188)</u>	<u>\$ -</u>

Interfund receivables and payables (Due From/To Other Funds) are established in the accounting records of the City because the actual cash received and disbursed is accounted for in the general fund (these accounts are presented on the balance sheet in the financial statements). For example, when money is received from the federal government, relating to a federal grant (which is accounted for in the special revenue fund), the money received is accounted for by debiting cash in the general fund, but at the same time an entry is made which credits “due to the special revenue fund”, which keeps the general fund in balance. A corresponding “due from the general fund” account is debited in the special revenue fund. In addition, the correct special revenue fund revenue account is credited in the special revenue fund, to keep this fund in balance. This type of accounting system is in accordance with generally accepted accounting principles. During the fiscal year ended June 30, 2014 the accounting system refers to the due to/from accounts in the general ledger as “pooled cash”.

16. Subsequent Events

During December of 2014, the City voted to use \$2,400,000 of the available stabilization fund balance to fund the fiscal year 2015 budget. This vote was necessary because of state aid cuts relating to the City’s fiscal year 2015 budget.

17. Subsequent Year Authorization

The City has voted fiscal year 2015 budget amounts totaling \$183,258,867. Fiscal year 2015 budgetary amounts which are not reflected in the accompanying financial statements will be financed by the following sources:

Property Taxes, State Aid and Non-Property Tax Revenue	\$ 163,734,916
Enterprise Fund Revenues and Available Funds	15,183,951
Other Available Funds	4,340,000
Total	<u><u>\$ 183,258,867</u></u>

18. Net Position – Unrestricted (Deficit)

Governmental Activities – The net position, entitled “Net Investment in Capital Assets” (e.g. land, buildings, equipment, infrastructure, etc.), that was needed to acquire or construct the assets represents \$126,619,716 in net position; and the assets restricted for specific purposes represent (\$1,402,313) in net position. As these two components of net position exceed total net position, unrestricted net position showed a (\$68,627,412) deficit at the end of the year. This deficit does not mean that the City does not have resources available to pay its bills. Rather, it is the result of having long-term commitments that are greater than currently available resources. Part of the reason this unrestricted deficit is so large is because the debt borrowed by the City that is related to the Hale Hospital, has no related capital asset reflected on the Statement of Net Position. In addition, significant liabilities relating to the closure of the landfill and relating to the GASB 43 and 45 Other Post Employment Benefits liability are recorded on the Statement of Net Position in accordance with GASB standards. These liabilities increased the Unrestricted Net Position deficit.

18. Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

	Beginning Balance	Additions	Retirements and Adjustments	Ending Balance
Government Activities:				
Land	\$ 9,848,536	\$ -	\$ -	\$ 9,848,536
Construction Work in Process	6,620,867	-	-	6,620,867
Totals Capital Assets not Being Depreciated	<u>16,469,403</u>	<u>-</u>	<u>-</u>	<u>16,469,403</u>
Assets Being Depreciated:				
<u>Cost:</u>				
Buildings	117,251,723	-	-	117,251,723
Equipment	1,446,585	164,119	-	1,610,704
Improvements	5,067,686	-	-	5,067,686
Infrastructure	136,237,976	-	-	136,237,976
Vehicles	6,012,054	142,700	-	6,154,754
Total Capital Assets Being Depreciated	<u>266,016,024</u>	<u>306,819</u>	<u>-</u>	<u>266,322,843</u>
Less Accumulated Depreciation:				
Buildings	(47,946,731)	(2,355,075)	-	(50,301,807)
Equipment	(1,092,266)	(84,222)	-	(1,176,487)
Improvements	(3,124,358)	(231,072)	-	(3,355,429)
Infrastructure	(74,011,591)	(2,605,118)	-	(76,616,709)
Vehicles	(5,506,420)	(119,479)	-	(5,625,899)
Total Accumulated Depreciation	<u>(131,681,366)</u>	<u>(5,394,966)</u>	<u>-</u>	<u>(137,076,331)</u>
Capital Assets Being Depreciation, Net	134,334,659	(5,088,147)	-	129,246,512
Government Activities - Capital Assets, Net	<u>\$ 150,804,062</u>	<u>\$ (5,088,147)</u>	<u>\$ -</u>	<u>\$ 145,715,915</u>
Business Type Activities:				
Land	\$ 1,580,632	\$ -	\$ -	\$ 1,580,632
Construction Work in Process	7,388,730	4,715,050	-	12,103,780
Totals Capital Assets Not Being Depreciated	<u>8,969,362</u>	<u>4,715,050</u>	<u>-</u>	<u>13,684,412</u>
Assets Being Depreciated:				
<u>Cost:</u>				
Buildings	171,720	-	-	171,720
Equipment	24,871,614	-	(165,000)	24,706,614
Improvements	319,757	-	-	319,757
Infrastructure	88,402,146	-	-	88,402,146
Vehicles	935,825	-	-	935,825
Total Capital Assets Being Depreciated	<u>114,701,063</u>	<u>-</u>	<u>(165,000)</u>	<u>114,536,063</u>

18. Capital Assets (Continued)

	Beginning		Retirements	Ending
	Balance	Additions	and Adjustments	Balance
Less Accumulated Depreciation:				
Buildings	(125,985)	(4,881)	-	(130,866)
Equipment	(12,179,334)	(885,537)	165,000	(12,899,871)
Improvements	(319,757)	-	-	(319,757)
Infrastructure	(51,391,554)	(1,617,862)	-	(53,009,415)
Vehicles	(933,437)	(7,304)	-	(940,741)
Total Accumulated Depreciation	<u>(64,950,067)</u>	<u>(2,515,582)</u>	<u>165,000</u>	<u>(67,300,649)</u>
Capital Assets Being Depreciation, Net	<u>49,750,996</u>	<u>(2,515,582)</u>	<u>-</u>	<u>47,235,413</u>
Business Type Activities - Capital Assets, Net	<u>\$ 58,720,358</u>	<u>\$ 2,199,467</u>	<u>\$ -</u>	<u>\$ 60,919,825</u>

19. Prior Period Adjustments

During fiscal year 2014, debt relating to the Water and Sewer Enterprise Fund was moved from Governmental Activities to Business Type Activities in the Government-Wide Financial Statements, as noted in the debt footnote (\$8,862,897). In addition, capital project funds relating to the Water and Sewer Enterprise Fund were moved from Governmental Activities to Business Type Activities in the Government-Wide Financial Statements (\$1,672,809). There were also certain correcting adjustments relating to the prior period made to the Fund Financial Statements (\$1,106,671).

***REQUIRED SUPPLEMENTARY
INFORMATION***

City of Haverhill, Massachusetts
Statement of Revenues and Expenditures - Budget and Actual
General Fund (Budgetary Basis)
Fiscal Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
<u>Revenues</u>				
Real Estate and Personal Property Taxes - Net	\$ 88,037,871	\$ 88,037,871	\$ 88,770,934	\$ 733,063
Excises	6,278,664	6,278,664	7,145,992	867,328
Fees, Departmental and Charges for Services	3,682,394	3,682,394	3,876,912	194,518
Intergovernmental	59,688,437	59,688,437	60,296,156	607,719
Earnings on Investments	18,600	18,600	19,316	716
Other Taxes, Assessments and In Lieu Payments	2,112,707	2,112,707	2,070,430	(42,277)
Other Revenue	220,000	220,000	692,028	472,028
Total Revenues	<u>160,038,673</u>	<u>160,038,673</u>	<u>162,871,768</u>	<u>2,833,095</u>
<u>Expenditures</u>				
General Government	3,089,907	3,201,907	3,143,631	58,276
Public Safety	19,515,551	19,515,551	18,717,239	798,312
Education	72,382,587	72,382,587	72,234,766	147,821
Public Works	7,519,765	7,567,765	8,177,700	(609,935)
Human Services	2,585,371	2,965,371	2,922,495	42,876
Community and Economic Development	771,854	771,854	745,330	26,524
Debt Service	9,328,138	9,328,138	8,516,430	811,708
Intergovernmental	5,495,035	5,495,035	5,417,811	77,224
Health Insurance and Other Employee Benefits	22,629,545	22,629,545	21,327,342	1,302,203
Pension Benefits	12,843,054	12,843,054	12,843,054	-
Other Expenditures	3,720,002	3,720,002	2,928,933	791,069
Total Expenditures	<u>159,880,809</u>	<u>160,420,809</u>	<u>156,974,731</u>	<u>3,446,078</u>
Excess of Revenues Over (Under) Expen	<u>157,864</u>	<u>(382,136)</u>	<u>5,897,037</u>	<u>6,279,173</u>
Other Financing Sources (Uses):				
Other Available Funds - Free Cash	1,611,571	2,151,571	2,151,571	-
Operating Transfers In	752,565	752,565	752,565	-
Operating Transfers Out	(2,522,000)	(2,522,000)	(2,518,500)	3,500
Total Other Financing Sources (Uses)	<u>(157,864)</u>	<u>382,136</u>	<u>385,636</u>	<u>3,500</u>
Excess Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,282,673</u>	<u>\$ 6,282,673</u>

City of Haverhill Retirement System
(A Component Unit of the City of Haverhill, Massachusetts)
Required Supplementary Information-Schedule of Funding Progress
Year Ended December 31, 2013

Actuarial Valuation <u>Date</u>	Actuarial Value <u>of Assets</u>	Actuarial Accrued Liability("AAL")	Unfunded Actuarial Accrued Liability ("UAAL")	Funded <u>Ratio</u>	Covered <u>Payroll</u>	UAAL as a Percentage of <u>Covered Payroll</u>
January 1, 2012	\$ 150,438,000	\$ 306,054,000	\$ 155,616,000	49.0%	\$ 36,455,000	426.9%
January 1, 2010	146,003,639	284,159,660	138,156,021	51.4%	35,788,543	386.0%
January 1, 2009	144,291,740	282,521,561	138,229,821	51.1%	38,301,434	360.9%
January 1, 2008	167,717,317	271,423,257	103,705,940	61.8%	37,172,147	279.0%
January 1, 2007	160,749,194	262,172,666	101,423,472	61.3%	36,870,523	275.1%
January 1, 2006	155,995,609	256,457,734	100,462,125	60.8%	35,282,797	284.7%
January 1, 2005	152,334,152	247,959,579	95,625,427	61.4%	33,472,330	285.7%

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

<u>Year Ended</u> <u>December 31</u>	<u>Annual</u> <u>Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2011	\$ 12,341,752	100%
2010	11,322,708	100%
2009	10,621,368	100%
2008	10,540,861	100%
2007	9,696,127	100%
2006	8,808,425	100%
2005	7,676,608	100%
2004	7,154,297	100%

City of Haverhill, Massachusetts
 Required Supplementary Information - GASB 43 and 45
 Schedule of Funding Progress
 Fiscal Year Ended June 30, 2014

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b) - (a)	Funded Ratio (a) / (b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b) - (a) / (c)]
12/31/2006	\$0	\$247,859,068	\$247,859,068	0%	\$ 69,827,255	355%
12/31/2008	0	299,042,345	299,042,345	0%	77,262,106	387%
06/30/2012	0	323,004,713	323,004,713	0%	80,000,000	404%
06/30/2014	0	270,890,482	270,890,482	0%	86,898,971	311%

This schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

City of Haverhill, Massachusetts
 Required Supplementary Information - GASB 43 and 45
 Valuation Details
 Fiscal Year Ended June 30, 2014

Valuation Date	June 30, 2014
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Payments increasing at 3%
Remaining Amortization Period	30 years open
Asset Valuation Method	Market Value

Actuarial Assumptions:

Investment Rate of Return	4.0%, pay-as-you-go scenario
Inflation Rate	3.0 %
Medical/Drug Cost Trend Rate	7.5 decreasing by .5% per year for six years to an ultimate level of 4.5 % per year

Plan Membership:

Current retirees, beneficiaries, and dependents	2,012
Current active members	<u>1,169</u>
Total	<u>3,181</u>

City of Haverhill, Massachusetts
Notes to the Required Supplementary Information
June 30, 2014

A. Budgetary Information

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

B. Pension Plans

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

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

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

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

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

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

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

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

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

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

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

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

Annual Required Contribution – The City's annual required contribution for the fiscal year ended June 30, 2014 was as follows:

Annual Required Contribution ("ARC")	<u>\$12,341,752</u>
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The annual required contribution for the current year was determined as part of the January 1, 2008 actuarial valuation using the individual entry age normal cost method. The actuarial assumptions included (a) 8.5% investment rate of return and (b) projected salary increases of 5% to 5.5% per year. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five year period.

2. Other Retirement Plans

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

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

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

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

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

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

3. Actuarial Assumptions

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

Valuation Date:

- * January 1, 2010

Actuarial Cost Method:

- * Entry Age Normal Cost Method

Amortization Method:

- * Unfunded liability amortized in payments increasing 4.0% annually

Remaining Amortization Period:

- * 22 years remaining as of July 1, 2010

Asset Valuation Method:

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

Actuarial Assumptions:

- * Investment rate of return - 8.25%
- * Projected salary increase – 3.0% in 2011, 3.5% in 2012, 4.0% in 2013, 4.5% in 2014 and 5.0% thereafter
- * Cost-of-living adjustments - 3.0% on first \$12,000 of retirement income

C. Other Post Employment Benefits (OPEB)

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

Plan Description. In addition to providing pension benefits described above, the City provides the majority of retired employees with payments for a portion of their health care and life insurance benefits. All of the City retirees receiving a pension from the City of Haverhill Retirement System or the Massachusetts Teachers Retirement System are eligible for post retirement medical benefits. Currently there are approximately 1,169 active employees and 2,012 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan. The benefits are provided primarily through Blue Cross of Massachusetts, Inc.

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

City of Haverhill, Massachusetts
Schedule of Indebtedness
June 30, 2014
(Continued on Page 59)

<u>Description</u>	<u>Original Balance</u>	<u>Interest Rate %</u>	<u>Fiscal Year of Issue</u>	<u>Fiscal Year of Maturity</u>	<u>Outstanding Balance 6/30/2014</u>
Hospital Deficit Funding Bonds	15,000,000	4.00	2001	2021	6,620,000
Hospital Deficit Funding Bonds	500	4.00	2001	2021	2,005,000
Sludge Dewatering	3,018,888	4.70	2002	2015	301,050
Sludge Dewatering	121,428	4.00	2002	2017	27,232
Title V Septic Loan	143,100	0.00	2002	2020	44,877
Hospital Deficit Funding Bonds	5,000,000	4.00	2002	2022	2,475,000
Hospital Deficit Funding Bonds	4,403,000	4.00	2003	2022	2,405,000
Hospital Deficit Funding Bonds	597,000	4.00	2003	2023	325,000
Hospital Deficit Deferral	-	-	-	-	2,967,500
MWPAT	428,719	variable	2003	2023	245,000
MWPAT	78,696	variable	2004	2023	40,793
MWPAT	1,186,121	variable	2004	2023	687,084
Combined Sewer Overflow	333,281	5.60	2005	2019	138,100
Combined Sewer Overflow	416,108	5.20	2005	2021	205,000
School Planning	401,825	5.20	2006	2015	48,825
School Land Acquisition	179,980	5.30	2006	2016	38,800
School Construction	15,830,330	5.30	2006	2017	4,559,975
Fire Station Remodeling	190,900	5.21	2006	2017	48,800
Construction-Police Station	1,004,050	5.23	2006	2017	290,600
Construction-Library	603,000	5.23	2006	2017	176,100
Sewer	80,495	5.15	2006	2017	14,400
Drainage	276,550	5.20	2006	2017	73,200
Sludge Composting	50,233	5.23	2006	2017	14,700
Water Pumping Station	75,700	5.12	2006	2017	14,600
School Roof Remodeling	824,640	4.96	2007	2018	350,000
School Bonds	10,535,860	4.96	2007	2019	5,660,000
Water Bonds	3,012,500	4.96	2007	2019	1,615,000
MWPAT	81,806	4.43	2007	2024	50,000
MWPAT	360,078	4.43	2007	2023	238,361
MWPAT	623,608	Variable	2007	2025	422,237
MWPAT	11,463,447	Variable	2007	2034	9,182,751
Parking Deck 1	161,115	4.00	2007	2017	45,000
Parking Deck 2	240,885	4.00	2007	2017	65,000
MWPAT	1,500,000	Variable	2007	2027	975,000
Whittier School Roof	710,000	4.00	2007	2017	210,000

City of Haverhill, Massachusetts

Schedule of Indebtedness

June 30, 2014

(Continued on Page 60)

<u>Description</u>	<u>Original Balance</u>	<u>Interest Rate %</u>	<u>Fiscal Year of Issue</u>	<u>Fiscal Year of Maturity</u>	<u>Outstanding Balance 6/30/2014</u>
Greenleaf School Boiler	53,000	4.00	2007	2017	15,000
MWPAT	4,730,937	2.00	2007	2027	3,291,039
MWPAT	2,150,381	2.00	2008	2028	1,595,302
MWPAT	269,626	Variable	2010	2027	194,730
MWPAT	191,047	2.00	2010	2024	133,616
MWPAT	1,049,821	2.00	2010	2028	848,044
High St Fire Station	28,000	3.50%	2010	2024	20,000
Fire Truck	830,000	2.80%	2010	2019	460,000
Ladder Truck	138,000	3.40%	2010	2025	95,000
Rink boards	91,000	2.80%	2010	2020	50,000
School Remodeling I	640,000	3.60%	2010	2026	480,000
School Remodeling II	2,580,000	3.60%	2010	2026	1,932,000
School Remodeling III	3,650,000	3.60%	2010	2026	2,736,000
School Remodeling IV	500,000	3.80%	2010	2028	388,000
School Remodeling V	1,473,000	3.80%	2010	2029	1,161,000
Water	245,264	2.00	2010	2015	49,000
Sewer	187,800	3.90	2010	2029	149,000
Willow Ave Drainage	97,261	3.50	2010	2029	65,000
MWPAT CW-06-38 Landfill	575,500	2.00	2011	2031	503,143
MWPAT CW-08-28 Landfill	743,851	2.00	2011	2031	650,328
MWPAT CW-05-17	978,574	2.00	2011	2031	855,540
Hospital Restructuring	9,680,000	4.30	2011	2022	8,065,000
School Remodeling	153,000	4.03	2012	2023	137,000
School Equipment	203,100	4.04	2012	2023	182,000
Fire Dept Equipment	102,000	4.03	2012	2023	91,000
Sewer Tank	299,300	4.03	2012	2023	266,300
Sewer Boiler	101,600	4.04	2012	2023	90,600
Sewer Pipes	117,200	3.93	2012	2023	100,800
Sewer Planning	726,200	4.02	2012	2023	644,700
Water Pump Treatment	483,000	4.02	2012	2023	430,000
Hospital Equipment	304,600	4.33	2012	2023	272,600
MWPAT CW-09-05	1,127,862	2.00	2012	2031	1,027,628

City of Haverhill, Massachusetts
Schedule of Indebtedness
June 30, 2014
(Continued from Page 59)

<u>Description</u>	<u>Original Balance</u>	<u>Interest Rate %</u>	<u>Fiscal Year of Issue</u>	<u>Fiscal Year of Maturity</u>	<u>Outstanding Balance 6/30/2014</u>
School 1 (ISQ)	387,705	3.00	2012	2032	365,000
School 2 (ISQ)	112,295	3.00	2012	2032	105,000
School 3 (ISQ)	1,500,000	3.00	2012	2032	1,395,000
Water 1 (O)	735,000	2.00	2012	2021	590,000
Water 2 (O)	756,000	2.00	2012	2020	585,000
MWPAT DW-05-10A	2,200,000	2.00	2013	2033	2,111,008
MWPAT CWP-10-23	3,300,957	2.00	2013	2033	3,167,430
MWPAT CW-08-28-A	71,925	2.00	2013	2031	68,617
Bridge Repairs	205,000	3.47	2014	2034	205,000
Fire Truck	260,000	3.68	2014	2028	260,000
Citizen Center Improvement	638,000	3.37	2014	2034	638,000
Flood Walls	280,000	0.07	2014	2018	280,000
East Broadway Bridge	400,000	3.43	2014	2034	400,000
Dock Improvements	100,000	2.89	2014	2030	100,000
Fire SCBA	79,000	1.36	2014	2021	79,000
Hunking Repairs	400,000	3.47	2014	2034	400,000
School Technology High School	803,000	1.64	2014	2022	803,000
Water Meters	1,600,000	1.78	2014	2023	1,600,000
GRAND TOTAL	<u>\$ 112,263,149</u>				<u>\$ 82,711,410</u>

City of Haverhill, Massachusetts
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2014

	Federal CFDA Number	Expenditures
U.S. Department of Agriculture:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	\$ 444,276
National School Lunch Program	10.555	1,686,737
Total Child Nutrition Cluster and U.S. Department of Agriculture		<u>2,131,013</u>
U.S. Department of Housing and Urban Development:		
CDBG - Entitlement Grant Cluster:		
Community Development Block Grant	14.218	1,019,961
Home Investment Partnership Program	14.239	9,933
Section 108 Loan Guarantees	14.248	32,560
Total Department of Housing and Urban Development		<u>1,062,454</u>
U.S. Department of Justice Cluster:		
Bureau of Justice - Police	16.803	6,800
JAG	16.804	38,496
Total U.S. Department of Environmental Protection		<u>45,296</u>
U.S. Department of Energy:		
ARRA-Energy Efficiency Recovery Block Grant	81.128	<u>4,590</u>
U.S. Department of Education:		
Title I, Part A Cluster:		
Title I	84.010	<u>1,595,430</u>
Special Education Cluster (IDEA):		
SPED 94-142 Allocation	84.027	2,311,336
SPED - Preschool/Early Childhood	84.173	69,936
Total Special Education Cluster		<u>2,381,272</u>
Other Department of Education Grants		
21st Century Community Learning	84.287	495,113
Dropout Prevention and Intervention	84.360	690,419
LEP Support	84.365	86,618
Teacher Quality	84.367	316,333
ARRA-Race to the Top	84.395	317,748
Total U.S. Department of Education		<u>5,882,933</u>
U.S. Department of Homeland Security		
Emergency Management	97.042	<u>27,500</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 9,153,786</u>

City of Haverhill, Massachusetts
Notes to Schedule of Expenditures of Federal Awards
June 30, 2014

(1) Scope of Audit

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

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

(2) Summary of Significant Accounting Policies

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

Federal grant expenditures are recognized in the City's governmental funds on the modified accrual basis of accounting whereby expenditures are recognized when the liability is incurred.

(3) Program Clusters

In accordance with Subpart A§.105 of OMB Circular No. A-133, *Audits of States, Local Governments and Non Profit Organizations*, certain programs have been clustered in determining major programs. The following identifies the clustered programs:

<u>Name of Cluster/Program</u>	<u>CFDA #</u>
<i>Child Nutrition Cluster</i>	
School Breakfast Program	10.553
National School Lunch Program	10.555
<i>Special Education Cluster</i>	
Special Education Grants to States	84.027
Special Education Preschool Grants	84.173

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING
STANDARDS*

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

We have audited, in accordance with the 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, the basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Haverhill, as of and for the year ended June 30, 2014, and the related notes to the financial statements and have issued our report thereon dated March 27, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Haverhill's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Haverhill's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Haverhill's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the deficiency described in the accompanying schedule of findings to be a significant deficiency in internal control over financial reporting (2014-1). A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider item 2014-1 to be a material weakness.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Giusti, Hingston and Company

Giusti, Hingston and Company

Certified Public Accountants

Georgetown, Massachusetts 01833

March 27, 2015

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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

Report on Compliance for Each Major Federal Program

We have audited the City of Haverhill, Massachusetts' compliance with the types of compliance requirements described in the OMB Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Haverhill, Massachusetts' major federal programs for the year ended June 30, 2014. The City of Haverhill, Massachusetts' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Haverhill, Massachusetts' major federal programs based on or audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Haverhill, Massachusetts' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City of Haverhill, Massachusetts' compliance.

Basis for Qualified Opinion on the U.S. Department of Education (Finding #2014-2): Drop Out Prevention (CFDA #84.360), SPED 94-142 Allocation (CFDA #84.027), SPED Preschool/Early Childhood (CFDA #84.173), ARRA-Race to the Top (CFDA #84.395) and U.S. Department of Education (Finding #2014-3): 21st Century Community Learning (CFDA #84.287), Title 1 (CFDA #84.010) and Teacher Quality (CFDA #84.367)

Finding #2014-2

As described in the accompanying schedule of findings and questioned costs, the City of Haverhill, Massachusetts did not comply with requirements regarding allowable costs/cost principals, relating to the United States Department of Education grants, Drop Out Prevention – (CFDA #84.360), SPED 94-142 Allocation (CFDA #84.027), SPED Preschool/Early Childhood (CFDA #84.173), and ARRA-Race to the

Top (CFDA #84.395) as explained in Finding #2014-2. Compliance with such requirements is necessary, in our opinion, for the City of Haverhill, Massachusetts to comply with the requirements applicable to that program.

Finding #2014-3

As described in the accompanying Schedule of Findings and Questioned Costs, the City of Haverhill, Massachusetts did not comply with the reporting requirements, relating to the U.S. Department of Education grants, 21st Century Community Learning (CFDA #84.287), Title 1 (CFDA #84.010) and Teacher Quality (CFDA #84.367).

Qualified Opinion on the U.S. Department of Education (Finding #2014-2): Drop Out Prevention (CFDA #84.360), SPED 94-142 Allocation (CFDA #84.027), SPED Preschool/Early Childhood (CFDA #84.173), ARRA-Race to the Top (CFDA #84.395) and U.S. Department of Education (Finding #2014-3): 21st Century Community Learning (CFDA #84.287), Title 1 (CFDA #84.010) and Teacher Quality (CFDA #84.367)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Haverhill, Massachusetts, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the U.S. Department of Education: Drop Out Prevention (CFDA #84.360), SPED 94-142 Allocation (CFDA #84.027) SPED Preschool/Early Childhood (CFDA #84.173), ARRA-Race to the Top (CFDA #84.395) and U.S. Department of Education, 21st Century Community Learning (CFDA #84.287), Title 1 (CFDA #84.010) and Teacher Quality (CFDA #84.367).

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City of Haverhill, Massachusetts complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2014.

Other Matters

The City of Haverhill, Massachusetts' response to the noncompliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Haverhill, Massachusetts' response was not subjected to the auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

The management of the City of Haverhill, Massachusetts is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Haverhill, Massachusetts' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but, not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Haverhill, Massachusetts' internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance

that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies that may exist that were not identified. However, as discussed below, we identified deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as Item #2014-2 and #2014-3 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City of Haverhill, Massachusetts' response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City of Haverhill, Massachusetts' response was not subjected to the auditing procedures applied in the audit of compliance and accordingly, we express no opinion on the response.

The purposes of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
Georgetown, Massachusetts
March 27, 2015

City of Haverhill, Massachusetts
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2014
 (Continued on Page 69)

I Summary of Auditors' Results

1. The opinion on the financial statements was unmodified.
2. A significant deficiency in internal control was reported during the audit of the financial statements (see 2014-1).
3. No instances of noncompliance which were material to the financial statements were reported.
4. Material weaknesses in internal control relating to major programs were found during the audit.
5. The opinion on compliance with requirements applicable to major programs was qualified.
6. There were findings related to major federal award programs as noted in Part III below.
7. The major programs identified were:

<u>Funding Source</u>	<u>Federal Program</u>	<u>CFDA#</u>
U.S. Department of Agriculture	School Breakfast Program	10.553
U.S. Department of Agriculture	National School Lunch Program	10.555
U.S. Department of Housing and Urban Development	Community Development Block Grant	14.218
U.S. Department of Education	Title 1	84.010
U.S. Department of Education	SPED 94-142 Allocation	84.027
U.S. Department of Education	SPED – Preschool/Early Childhood	84.173
U.S. Department of Education	21 st Century Community Learning	84.287
U.S. Department of Education	Dropout Prevention and Intervention	84.360
U.S. Department of Education	Teacher Quality	84.367
U.S. Department of Education	ARRA – Race to the Top	84.395

8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The auditee did not qualify as low risk.

City of Haverhill, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014
(Continued on Page 70)

II Findings – Financial Statement Audit – #2014-1

Cash Reconciliation

In addition to the normal review of the City's cash reconciliation procedures, we perform during our audit annual audit, this year we also performed additional cash reconciliation work for the period ending June 30, 2014. During the month of June of 2014, we spent a considerable amount of extra time reviewing the status of the fiscal year 2014 cash reconciliation work. The reason for this extra review, of the status of the City's cash reconciliation work, was that the City's Chief Financial Officer was leaving the City on July 2, 2014, for a position in another Town. Before his departure, we felt that it was very important that we spend time working with the City Auditors office and the Treasurer's office to determine the current status of all cash reconciliation matters. During this review we prepared a detailed list of the most important matters that needed to be addressed currently. We gave a copy of this list to the Treasurer and City Auditor and reviewed it with them. We also provided instructions and assistance on certain corrections and adjustments that we were aware of, so these items could be recorded in the books of the City by the Treasurer or City Auditor.

Before the City Auditor left the City, we had a meeting with the Mayor and all of the City personnel involved in the cash reconciliation work. During this meeting the Mayor approved the hiring of an outside consultant to provide assistance with the entire cash reconciliation process.

As we noted in previous years, the biggest concern continues to be the timeliness of preparing the cash reconciliation work for a few significant accounts. Most bank accounts were reconciled in a timely manner each month, during the fiscal year ended June 30, 2014, however a few accounts were not reconciled timely.

As was the case in the prior year, the City made progress during fiscal year ended June 30, 2014 in preparing accurate outstanding check lists for the City vendor and payroll accounts and the School payroll account. Preparing these outstanding lists is an extremely important part of the cash reconciliation process. While performing these tasks, good progress has been made cleaning up the outstanding lists for items such as void checks, reissued checks, etc., and in going through the proper procedures to put the older checks into tailings. In order to be able to perform the entire cash reconciliation process in a timely manner, it is extremely important that this work continue every month. During fiscal year 2015, these outstanding lists are now being properly prepared every month in a timely manner.

Working closely in conjunction with the consultant, we reviewed the specific details of the cash reconciliation work as of June 30, 2014. During this review performed in September of 2014, we found that a significant amount of cash reconciliation work still remained uncompleted. One of the issues noted relates to bank balances not being accurately posted and monitored in the general ledger accounting system. In some cases, deposits were missing, duplicated or posted to the wrong bank account. We also found some instances where returned checks were not followed up on for repayment. In other instances, transactions were posted to incorrect bank accounts.

City of Haverhill, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014
(Continued on Page 71)

Status of Cash Reconciliation Procedures for June 30, 2014

We spent a significant amount of time with the outside cash consultant reviewing all of the cash reconciliation matters during September and October of 2014. When this work was complete, cash was properly reconciled from the Treasurer's records to the actual bank statements and from the Treasurer's cash balances to the City Auditor's general ledger cash accounts for the period ending June 30, 2014.

It is extremely important that timely cash reconciliation work be performed in a timely manner every month. We will work closely with the cash consultant and City personnel to be sure that all proper procedures are being followed in a timely manner during fiscal year 2015.

III Findings and Questioned Costs for Federal Awards

Finding Number

2014-2

Program

U.S. Department of Education – Drop Out Prevention (CFDA #84.360), SPED 94-142 Allocation (CFDA #84.027), SPED Preschool/Early Childhood (CFDA #84.173) and ARRA-Race to the Top (CFDA #84.395)

Payroll Certifications and Supporting Documentation

During our review of the payroll records, relating to the federal grants for the fiscal year ended June 30, 2014, we found that there was significant turnover of personnel in the School Accounting Department. During our audits performed in prior years, we found significant improvements relating to time and effort and payroll certification documentation. However, because of the significant turnover of accounting personnel, during fiscal year 2014, we found instances where some personnel did not have the required time and effort or payroll certification documentation.

In absence of signed timesheets to support payroll charges to federal grant programs, the United States Office of Management and Budget (OMB) Circular A-87 specifies that certain certifications must be made as noted below:

Under OMB Circular A-87, time-and-effort documentation for an employee whose salary is supported by only one Federal program or cost objective may be prepared on just a semiannual basis or the requirements may be satisfied by other simplified means. Employees supported by multiple cost objectives, however, must provide a monthly Personal Activity Report (PAR) or equivalent documentation supporting their time and effort. In practice, however, many of the individuals submitting PAR's may have schedules that do not change from week to week, meaning that they carry out the same duties for the same amount of time each pay period and thus submit the same documentation every month.

City of Haverhill, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2014
(Continued from Page 70)

OMB Circular A-87 authorizes the use of substitute systems for allocating salaries and wages to Federal awards in place of PAR's, subject to the approval of such systems by the cognizant Federal agency. Consistent with this authority, under the substitute system a State Educational Agency (SEA) would be permitted to allow a Local Educational Agency (LEA) to use alternative documentation – such as a teacher's course schedule instead of PAR's to document the time and effort of an individual who works on multiple activities or cost objectives but does so on a predetermined schedule.

An individual documenting time and effort under the substitute system would be permitted to certify time and effort on a semiannual basis, provided the LEA's substitute system meets the requirements detailed in Enclosure A issued with the September 7, 2012 letter from the U.S. Department of Education. A copy of the letter and a sample of the required documentation have been provided to the School.

The criteria for whether an employee may document time and effort using a semiannual certification or must fill out a monthly PAR must be carefully analyzed. In some instances, the monthly certifications may still be required.

We recommend that the School obtain the appropriate time and effort certifications from all employees charged to federal grants.

Management Response/Corrective Action Plan

The District hired a person that is responsible for monitoring and collecting staff "time and effort" reporting. The information is reviewed by the Grant Accountant.

Finding Number

2014-3

Program

U.S Department of Education – 21st Century Community Learning (CFDA #84.287), Title 1 (CFDA #84.010) and Teacher Quality (CFDA #84.367)

Final Report Submitted Late

As we noted in the above finding, there was significant turnover of personnel in the School's Accounting Department during fiscal year 2014. Because of this, the final report was not submitted by the due date for the three federal grants noted here.

Management Response/Corrective Action Plan

In June 2014 the School Department hired a Grant Accountant with several years of grant accounting experience. He has developed schedules of all open State and Federal grants. That schedule is reviewed in a weekly meeting with the Business Office Accountant and Business Manager. All open issues are resolved in that meeting.

City of Haverhill, Massachusetts
 Summary of Prior Years Findings and Questioned Costs
 For the Year Ended June 30, 2014

Prior Year
 Fiscal Year Ended
 June 30, 2013

Finding
 Number

Current Status

2013-1 Part II - Financial Statement Audit

Cash Reconciliation

Please see the fiscal year ended June 30, 2014, Schedule of Findings and Questioned Costs, Item #2014-1, for an explanation of the current status of this finding.

Department

2013-2 U.S. Department of Education - Title 1
 (CFDA #84.010)

Payroll Certification and Supporting Documentation

Please see the fiscal year ended June 30, 2014, Schedule of Findings and Questioned Costs, Item #2014-2.

2013-3 U.S. Department of Housing and
 Urban Development (HUD): CDBG
 (CFDA #14.218)

Program Monitoring Results

During fiscal year ended June 30, 2014, the Massachusetts State Office of Community Planning and Development (CPD), performed follow up procedures relating to their prior year (fiscal year ended June 30, 2013) monitoring findings. During our review of the correspondence relating to these matters, we found that the fiscal year 2013 findings, issued by CPD, have been closed.