

CITY OF HAVERHILL, MASSACHUSETTS

Financial Statements

June 30, 2013

(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, 2013, (December 31, 2012 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, 2013 (and the Contributory Retirement System as of December 31, 2012) 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, 2014, 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

March 27, 2014

City of Haverhill, Massachusetts
Management's Discussion and Analysis
June 30, 2013

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, 2013. 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 \$91,753,944 (*net position*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$5,286,917, or 3 percent of total general fund expenditures.
- The City of Haverhill, Massachusetts' total debt decreased by \$619,462 during the current year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Haverhill's June 30, 2013 **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, 2013, 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, 2013 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					
	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Current and Other Assets	\$ 37,697,946	\$ 40,216,411	\$ 9,886,980	\$ 8,801,608	\$ 47,584,926	\$ 49,018,019
Capital Assets	150,804,062	150,941,515	58,720,159	59,411,967	209,524,221	210,353,482
Total Assets	<u>188,502,008</u>	<u>191,157,926</u>	<u>68,607,139</u>	<u>68,213,575</u>	<u>257,109,147</u>	<u>259,371,501</u>
Current Liabilities	23,208,037	19,182,847	2,623,217	3,260,674	25,831,254	22,443,521
Long Term Liabilities	114,743,159	108,753,815	24,780,790	25,477,319	139,523,949	134,231,134
Total Liabilities	<u>137,951,196</u>	<u>127,936,662</u>	<u>27,404,007</u>	<u>28,737,993</u>	<u>165,355,203</u>	<u>156,674,655</u>
Net Position:						
Invested in Capital Assets						
Net of Related Debt	123,912,245	129,902,277	33,559,517	32,288,615	157,471,762	162,190,892
Restricted	(347,608)	2,930,388	1,603,785	(1,573,823)	1,256,177	1,356,565
Unrestricted (Deficit) - (See Note 17 on Page 46)	(73,013,825)	(69,611,401)	6,039,830	8,760,790	(66,973,995)	(60,850,611)
Total Net Position	<u>\$ 50,550,812</u>	<u>\$ 63,221,264</u>	<u>\$ 41,203,132</u>	<u>\$ 39,475,582</u>	<u>\$ 91,753,944</u>	<u>\$ 102,696,846</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.

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 7,550,448	\$ 5,702,761	\$ 15,012,767	\$ 13,995,957	\$ 22,563,215	\$ 19,698,718
Operating Grants and Contributions	76,009,910	74,577,676	-	-	76,009,910	74,577,676
Capital Grants and Contributions	5,151,567	6,219,056	-	(308,476)	5,151,567	5,910,580
General Revenues:						
Real Estate and Personal Property Taxes	83,904,402	83,423,189	-	-	83,904,402	83,423,189
Excises	6,121,362	6,196,540	-	-	6,121,362	6,196,540
Other Taxes, Assessments and in Lieu Payments	4,337,801	2,594,395	-	-	4,337,801	2,594,395
Intergovernmental Not Restricted to a Specific Program	8,664,587	7,038,661	-	-	8,664,587	7,038,661
Earnings on Investment	18,606	97,073	-	-	18,606	97,073
Other Revenue	210,007	1,548,158	-	-	210,007	1,548,158
Total Revenues	191,968,691	187,397,509	15,012,767	13,687,481	206,981,458	201,084,990
Expenses						
General Government	3,470,236	3,295,898	-	-	3,470,236	3,295,898
Public Safety	20,104,583	20,114,203	-	-	20,104,583	20,114,203
Education	90,636,686	85,339,712	-	-	90,636,686	85,339,712
Public Works	11,713,594	11,256,418	-	-	11,713,594	11,256,418
Human Services	5,517,080	3,611,500	-	-	5,517,080	3,611,500
Community Development	1,924,452	2,699,874	-	-	1,924,452	2,699,874
Debt Service	1,839,038	444,604	-	-	1,839,038	444,604
Intergovernmental	5,403,284	5,117,944	-	-	5,403,284	5,117,944
Health Insurance and Other						
Employee Benefits	30,206,073	32,617,192	-	-	30,206,073	32,617,192
Pension Benefits	12,135,823	11,177,543	-	-	12,135,823	11,177,543
Landfill	-	3,414,910	-	-	-	3,414,910
Other Expenditures	5,112,076	2,313,989	-	-	5,112,076	2,313,989
Water and Sewer	-	-	12,555,883	18,695,202	12,555,883	18,695,202
Teacher's Retirement on Behalf Payments	17,305,651	16,364,752	-	-	17,305,651	16,364,752
Total Expenses	205,368,576	197,768,539	12,555,883	18,695,202	217,924,459	216,463,741
Increase (Decrease) in Net Position						
Before Special items	(13,399,886)	(10,371,030)	2,456,884	(5,007,721)	(10,943,002)	(15,378,751)
Special Items - Transfers	729,333	-	(729,333)	-	-	-
Increase (Decrease) in Net Position	\$ (12,670,553)	\$ (10,371,030)	\$ 1,727,551	\$ (5,007,721)	\$ (10,943,002)	\$ (15,378,751)

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, 2013 the general fund includes the stabilization fund balance of \$1,077,268.

****As we noted on page four, during the fiscal year ended June 30, 2013, 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, 2013 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).

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

<u>Fiscal Year Ended June 30</u>	<u>Total General Fund Fund Balance</u>	<u>Unassigned/Unreserved Fund Balance</u>	<u>Free Cash</u>
2013	\$ 8,440,747 ****	\$ 5,286,917 ****	Not Yet Certified
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, 2013, amounts to \$209,524,420 (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, 2013 and June 30, 2012
(Net of Depreciation)**

	<u>Governmental Activities</u>		<u>Business Activities</u>		<u>Total</u>	
	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
Buildings	\$ 69,304,992	\$ 71,756,012	\$ 45,735	\$ 50,616	\$ 69,350,727	\$ 71,806,628
Equipment	354,320	436,409	12,692,280	13,578,376	13,046,599	14,014,785
Improvements	1,943,328	2,175,919	-	-	1,943,328	2,175,919
Land	9,848,536	9,848,436	1,580,632	1,580,632	11,429,168	11,429,068
Construction Work in Process	6,620,867	1,241,393	7,388,730	5,556,843	14,009,597	6,798,236
Infrastructure	62,226,385	64,836,705	37,010,593	38,630,762	99,236,978	103,467,467
Vehicles	505,634	646,641	2,388	14,737	508,022	661,378
Total	<u>\$ 150,804,062</u>	<u>\$ 150,941,515</u>	<u>\$ 58,720,358</u>	<u>\$ 59,411,966</u>	<u>\$ 209,524,420</u>	<u>\$ 210,353,481</u>

Debt

The City had \$69,952,909 in Governmental Activities debt and \$25,192,152 in Business Type activity debt outstanding on June 30, 2013. This represents a \$1,311,738 increase (or 2%) for Governmental Activities, from the previous year and a \$1,941,200 decrease (or 7%) for Business Type activities from the previous year. During the fiscal year ended June 30, 2013, 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, 2013 and June 30, 2012

Governmental Activities	<u>2013</u>	<u>2012</u>
Notes Payable	\$ 8,296,697	\$ 6,100,687
General Obligation Bonds Payable	61,656,211	62,540,484
Total Governmental Activities	<u>\$ 69,952,908</u>	<u>\$ 68,641,171</u>
Business-type Activities		
Water	\$ 4,740,511	\$ 5,321,350
Sewer	20,451,641	21,802,002
Total Business-type Activities	<u>\$ 25,192,152</u>	<u>\$ 27,123,352</u>

Fiscal Year 2013 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 2013 without the necessity for an override.

City of Haverhill, Massachusetts
Statement of Net Position
June 30, 2013
(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	\$ 28,063,519	\$ -	\$ 28,063,519
Receivables:			
Real Estate and Personal Property	1,009,534	-	1,009,534
Motor Vehicle and Other Excise	1,458,442	-	1,458,442
Tax Liens and Foreclosures	3,666,514	-	3,666,514
Other	155,785	-	155,785
Due From (To) Other Funds	(7,853,433)	8,098,848	245,415
User Charges	-	1,788,132	1,788,132
Due from Commonwealth of Massachusetts - SBAB	2,255,641	-	2,255,641
Due from Commonwealth of Massachusetts - MWPAT	1,225,590	-	1,225,590
Due from Commonwealth of Massachusetts - Other	598,490	-	598,490
Noncurrent:			
Due from Commonwealth of Massachusetts - SBAB	7,117,864	-	7,117,864
Capital Assets:			
Not Being Depreciated	16,469,403	8,939,587	25,408,990
Assets Being Depreciated, Net	134,334,659	49,780,572	184,115,230
Total Assets	188,502,008	68,607,139	257,109,147
Liabilities			
Current:			
Warrants Payable	1,460,000	327,057	1,787,057
Other Liabilities	2,647,611	-	2,647,611
Temporary Loans	8,296,697	-	8,296,697
Accrued Liabilities	3,400,332	-	3,400,332
Accrued Interest	458,040	362,847	820,887
Bonds Payable	6,945,357	1,933,312	8,878,669
Noncurrent:			
Bonds Payable	54,710,854	23,258,840	77,969,694
Accrued Longevity Payable	1,054,932	-	1,054,932
Accrued OPEB Liability	38,380,627	1,309,783	39,690,410
Accrued Compensated Absences	2,512,445	212,167	2,724,612
Accrued Landfill Liabilities	18,084,301	-	18,084,301
Total Liabilities	137,951,196	27,404,006	165,355,202

City of Haverhill, Massachusetts
Statement of Net Position
June 30, 2013
(Continued from Page 10)

	Governmental <u>Activites</u>	Business Type <u>Activities</u>	Government Wide <u>Total</u>
Net Position			
Invested in Capital Assets, Net of Related Debt	123,912,245	33,559,517	157,471,762
Restricted for:			
Capital Projects and Other Items	-	1,603,785	1,603,785
Special Revenue	(347,608)	-	(347,608)
Unrestricted (Deficit) - (See Note 17 on Page 46)	<u>(73,013,825)</u>	<u>6,039,830</u>	<u>(66,973,995)</u>
 Total Net Position	 <u>\$ 50,550,812</u>	 <u>\$ 41,203,132</u>	 <u>\$ 91,753,944</u>

City of Haverhill, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total Governmental Activities	Total	
						Business Type Activities	Total
General Government	\$ 3,470,236	\$ 1,399,148	\$ 338,411	\$ 58,466	\$ (1,674,210)	\$ -	\$ (1,674,210)
Public Safety	20,104,583	783,885	1,570,289	-	(17,750,409)	-	(17,750,409)
Education	90,636,686	3,663,842	53,865,987	4,055,255	(29,051,602)	-	(29,051,602)
Public Works	11,713,594	8,233	10,191	1,037,846	(10,657,324)	-	(10,657,324)
Human Services	5,517,080	866,635	1,817,061	-	(2,833,385)	-	(2,833,385)
Community Development	1,924,452	828,704	1,102,320	-	6,572	-	6,572
Debt Service	1,839,038	-	-	-	(1,839,038)	-	(1,839,038)
Intergovernmental	5,403,284	-	-	-	(5,403,284)	-	(5,403,284)
Health Insurance and Other Employee Benefits	30,206,073	-	-	-	(30,206,073)	-	(30,206,073)
Pension Benefits	12,135,823	-	-	-	(12,135,823)	-	(12,135,823)
Other Expenditures	5,112,076	-	-	-	(5,112,076)	-	(5,112,076)
Teacher's Retirement on Behalf Payments	17,305,651	-	17,305,651	-	-	-	-
	<u>205,368,576</u>	<u>7,550,448</u>	<u>76,009,910</u>	<u>5,151,567</u>	<u>(116,656,651)</u>	<u>-</u>	<u>(116,656,651)</u>
<i>Business-Type Activities:</i>							
Water	5,640,313	6,809,710	-	-	-	1,169,397	1,169,397
Sewer	6,915,570	8,203,057	-	-	-	1,287,487	1,287,487
	<u>12,555,883</u>	<u>15,012,767</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,456,884</u>	<u>2,456,884</u>
	<u>\$ 217,924,459</u>	<u>\$ 22,563,215</u>	<u>\$ 76,009,910</u>	<u>\$ 5,151,567</u>	<u>(116,656,651)</u>	<u>2,456,884</u>	<u>(114,199,767)</u>
<i>General Revenues:</i>							
					83,904,402		83,904,402
					6,121,362		6,121,362
					4,337,801		4,337,801
					8,664,587		8,664,587
					18,606		18,606
					210,007		210,007
					729,333	(729,333)	-
					<u>103,986,099</u>	<u>(729,333)</u>	<u>103,256,766</u>
							-
					<u>(12,670,553)</u>	<u>1,727,551</u>	<u>(10,943,002)</u>
<i>Net Position:</i>							
					102,696,947	-	102,696,947
					(39,475,581)	39,475,581	-
					<u>63,221,366</u>	<u>39,475,581</u>	<u>102,696,947</u>
					<u>\$ 50,550,813</u>	<u>\$ 41,203,132</u>	<u>\$ 91,753,945</u>

City of Haverhill, Massachusetts
Governmental Funds
Balance Sheet
June 30, 2013

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash/Investments	\$ 28,063,519	\$ -	\$ 28,063,519
Receivables:			
Real Estate and Property Taxes	1,009,534	-	1,009,534
Motor Vehicle and Other Excise	1,458,442	-	1,458,442
Tax Liens and Foreclosures	3,666,514	-	3,666,514
Other	155,785	-	155,785
Due From Other Funds	-	6,959,020	6,959,020
Due from Commonwealth of Massachusetts - MSBA	9,373,505	-	9,373,505
Due from Commonwealth of Massachusetts - MWPAT	-	1,225,590	1,225,590
Due from Commonwealth of Massachusetts - Other	-	598,490	598,490
Total Assets	\$ 43,727,299	\$ 8,783,100	\$ 52,510,399
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Warrants Payable	\$ 1,460,000	\$ -	\$ 1,460,000
Other Accrued Liabilities	126,464	-	126,464
Due to Other Funds	18,342,187	347,608	18,689,795
Other Liabilities	-	2,647,614	2,647,614
Temporary Loans	-	8,296,697	8,296,697
Unearned Revenue:			
Unearned Revenue - Due from Commonwealth of Mass	9,373,505	-	9,373,505
Unearned Revenue - Other	5,984,396	-	5,984,396
Total Liabilities	35,286,552	11,291,919	46,578,471
Fund Equity:			
Fund Balances:			
Committed	-	77,568	77,568
Assigned	3,153,830	-	3,153,830
Unassigned	5,286,917	(2,586,387)	2,700,530
Total Fund Balances	8,440,747	(2,508,819)	5,931,928
Total Liabilities and Fund Balances	\$ 43,727,299	\$ 8,783,100	\$ 52,510,399

City of Haverhill, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2013

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Real Estate and Personal Property Taxes - Net	\$ 84,822,801	\$ -	\$ 84,822,801
Excises	6,466,681	-	6,466,681
Fees, Departmental and Charges for Services	3,804,207	4,218,899	8,023,106
Intergovernmental	55,005,044	19,771,010	74,776,054
Earnings on Investments	18,605	-	18,605
Other Taxes, Assessments and In Lieu Payments	2,109,728	-	2,109,728
Teacher's Retirement on Behalf Payments	17,305,651	-	17,305,651
Other Revenue	159,331	65,547	224,878
Total Revenues	<u>169,692,048</u>	<u>24,055,456</u>	<u>193,747,504</u>
Expenditures:			
Current			
General Government	2,825,838	409,975	3,235,813
Public Safety	18,895,551	1,013,562	19,909,113
Education	69,979,110	23,892,110	93,871,220
Public Works	7,607,649	1,431,986	9,039,635
Human Services	2,695,473	2,728,851	5,424,324
Community and Economic Development	664,074	1,120,599	1,784,673
Debt Service	8,432,853	-	8,432,853
Intergovernmental	5,322,285	-	5,322,285
Health Insurance and Other Employee Benefits	21,700,964	-	21,700,964
Pension Benefits	12,135,823	-	12,135,823
Landfill	-	772,697	772,697
Other Expenditures	2,791,238	2,085,332	4,876,570
Teacher's Retirement on Behalf Payments	17,305,651	-	17,305,651
Total Expenditures	<u>170,356,509</u>	<u>33,455,112</u>	<u>203,811,621</u>
Excess of Revenues Over (Under) Expenditures	<u>(664,461)</u>	<u>(9,399,656)</u>	<u>(10,064,117)</u>
Other Financing Sources (Uses):			
Operating Transfers In	1,365,247	418,750	1,783,997
Operating Transfers (Out)	(418,750)	(635,914)	(1,054,664)
Proceeds from Borrowing	-	5,572,880	5,572,880
Total Other Financing Sources (Uses)	<u>946,497</u>	<u>5,355,716</u>	<u>6,302,213</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>282,036</u>	<u>(4,043,940)</u>	<u>(3,761,904)</u>
Fund Balance, Beginning	<u>14,860,600</u>	<u>1,535,121</u>	<u>16,395,721</u>
Prior Period Adjustment	<u>(6,701,889)</u>	<u>-</u>	<u>(6,701,889)</u>
Fund Balance, Beginning as Restated	<u>8,158,711</u>	<u>1,535,121</u>	<u>9,693,832</u>
Fund Balance, Ending	<u>\$ 8,440,747</u>	<u>\$ (2,508,819)</u>	<u>\$ 5,931,928</u>

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, 2013

Total Governmental Fund Balances	\$ 5,931,928
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	150,804,062
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	15,357,901
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.	603,474
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(61,656,211)
Accrued Interest on Bonds	(458,040)
Landfill Accrued Liability	(18,084,298)
Compensated Absences	(2,512,445)
Longevity Liability	(1,054,932)
OPEB Liability	(38,380,627)
	(118,146,553)
Net Position of Governmental Activities	\$ 50,550,812

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, 2013

Net change in fund balances - total governmental funds	\$ (3,761,904)
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.	(137,552)
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.	(1,778,817)
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.	884,276
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.	572,993
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.	55,660
OPEB cost relating to the current year GASB 45 accrual amount	(8,845,664)
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.	340,555
Change in Net Position of Governmental Activities	\$ (12,670,453)

City of Haverhill, Massachusetts
 Proprietary Funds
 Statement of Net Position
 June 30, 2013

	<u>Governmental Activities</u>	<u>Internal Service Fund</u>
ASSETS		
Due from Other Funds	\$ 3,877,342	
TOTAL ASSETS	3,877,342	
LIABILITIES		
Accrued Liabilities	3,273,868	
TOTAL LIABILITIES	3,273,868	
NET POSITION		
Unrestricted	603,474	
TOTAL NET POSITION	\$ 603,474	

City of Haverhill, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Fiscal Year Ended June 30, 2013

	<u>Governmental Activities</u>	<u>Internal Service Fund</u>
Operating Revenues:		
Contributions	\$ 30,611,540	
Total Operating Revenues	30,611,540	
Operating Expenditures:		
Employee Benefits	30,270,985	
Total Operating Expenditures	30,270,985	
Operating Income (Loss)	340,555	
Net Position at Beginning of Year	262,919	
Net Position at End of Year	\$ 603,474	

City of Haverhill, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2013

Governmental
Activities

Internal
Service Fund

Cash Flows from Operating Activities:

Net Income (Loss)	<u>\$ 340,555</u>
Net Cash Flows Provided (Used) by Operating Activities	<u>340,555</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u><u>\$ 340,555</u></u>

City of Haverhill, Massachusetts
Proprietary Funds
Statement of Net Position
June 30, 2013

	<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	\$ 5,044,086	\$ 3,013,946	\$ 40,816	\$ 8,098,848
Receivables, Net of Allowance for Uncollectibles:				
User Charges	839,821	948,311	-	1,788,132
Noncurrent:				
Capital Assets:				
Assets Not Being Depreciated	3,843,503	5,096,084	-	8,939,587
Assets Being Depreciated, Net	18,320,456	31,460,115	-	49,780,572
Total Assets	<u>28,047,866</u>	<u>40,518,456</u>	<u>40,816</u>	<u>68,607,139</u>
Liabilities				
Current:				
Warrants Payable	141,685	185,372	-	327,057
Accrued Interest Payable	31,881	330,966	-	362,847
Bonds Payable	608,868	1,324,444	-	1,933,312
Noncurrent:				
Bonds Payable	4,131,643	19,127,197	-	23,258,840
Accrued OPEB Liability	714,427	595,356	-	1,309,783
Compensated Absences	107,931	104,236	-	212,167
Total Liabilities	<u>5,736,435</u>	<u>21,667,571</u>	<u>-</u>	<u>27,404,006</u>
Net Position				
Invested in Capital Assets, Net of Related Debt	17,433,318	16,126,199	-	33,559,517
Restricted for:				
Capital Projects and Other Items	684,434	878,535	40,816	1,603,785
Unrestricted	4,193,679	1,846,151	-	6,039,830
Total Net Position	<u>\$ 22,311,431</u>	<u>\$ 18,850,885</u>	<u>\$ 40,816</u>	<u>\$ 41,203,132</u>

City of Haverhill, Massachusetts
Statement of Revenues, Expenses and Changes in Net Position
Proprietary Funds
June 30, 2013

Business-Type Activities

	<u>Water Enterprise</u>	<u>Sewer Enterprise</u>	<u>Other Enterprise</u>	<u>Total</u>
Operating Revenues:				
Charges for Services	\$ 6,863,218	\$ 8,226,719	\$ -	\$ 15,089,937
Total Operating Revenues	<u>6,809,710</u>	<u>8,203,057</u>	<u>-</u>	<u>15,012,767</u>
Operating Expenditures:				
Personal Services	2,234,743	1,893,310	-	4,128,053
Nonpersonal Service	2,431,412	2,482,389	-	4,913,801
Depreciation	798,626	1,724,870	-	2,523,496
Total Operating Expenditures	<u>5,464,781</u>	<u>6,100,569</u>	<u>-</u>	<u>11,565,350</u>
Operating Income (Loss)	<u>1,344,929</u>	<u>2,102,488</u>	<u>-</u>	<u>3,447,417</u>
Nonoperating Revenues (Expenses):				
Interest on Debt	<u>(175,532)</u>	<u>(815,001)</u>	<u>-</u>	<u>(990,533)</u>
Total Nonoperating Revenues (Expenses)	<u>(175,532)</u>	<u>(815,001)</u>	<u>-</u>	<u>(990,533)</u>
Income Before Transfers	<u>1,169,397</u>	<u>1,287,487</u>	<u>-</u>	<u>2,456,884</u>
Operating Transfers Out	<u>(216,583)</u>	<u>(512,750)</u>	<u>-</u>	<u>(729,333)</u>
Total Transfers	<u>(216,583)</u>	<u>(512,750)</u>	<u>-</u>	<u>(729,333)</u>
Change in Net Position	<u>952,814</u>	<u>774,737</u>	<u>-</u>	<u>1,727,551</u>
Total Net Assets July 1, 2012	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Prior Period Adjustment	<u>21,358,617</u>	<u>18,076,148</u>	<u>40,816</u>	<u>39,475,581</u>
Total Net Position June 30, 2013	<u>\$ 22,311,431</u>	<u>\$ 18,850,885</u>	<u>\$ 40,816</u>	<u>\$ 41,203,132</u>

City of Haverhill, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2013

	<u>Water</u>	<u>Sewer</u>	<u>Other</u>	<u>Total</u>
Cash Flows from Operating Activities:				
Receipts from Customers	\$ 6,863,218	\$ 8,203,057	\$ -	\$ 15,066,275
Payments to Employees	(2,234,743)	(1,893,310)	-	(4,128,053)
Payments to Vendors	(2,266,756)	(2,345,176)	-	(4,611,932)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Cash Flows Provided (Used) by Operating Activities	2,361,719	3,964,571	-	6,326,290
	<hr/>	<hr/>	<hr/>	<hr/>
Cash Flows from Non Capital Related Financing Activities:				
Transfer From (To) Other Funds	(216,583)	(512,750)	-	(729,333)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	(216,583)	(512,750)	-	(729,333)
	<hr/>	<hr/>	<hr/>	<hr/>
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	(887,799)	(944,088)	-	(1,831,887)
Principal Payments on Notes and Bonds	(580,839)	(1,350,360)	-	(1,931,199)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	(1,468,638)	(2,294,448)	-	(3,763,086)
	<hr/>	<hr/>	<hr/>	<hr/>
Net Increase (Decrease) in Cash and Cash Equivalents	676,498	1,157,373	-	1,833,871
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and Cash Equivalents, July 1, 2012	4,367,588	1,856,573	40,816	6,264,977
	<hr/>	<hr/>	<hr/>	<hr/>
Cash and Cash Equivalents, June 30, 2013	\$ 5,044,086	\$ 3,013,946	\$ 40,816	\$ 8,098,848
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 1,344,929	\$ 2,102,488	\$ -	\$ 3,447,417
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:				
Depreciation Expense	798,626	1,724,870	-	2,523,496
(Increase) Decrease in Assets:				
Accounts Receivable - Customer	53,508	-	-	53,508
Increase (Decrease) in Liabilities:				
Warrants and Accounts Payable	164,656	137,213	-	301,869
Net Cash Provided by Operating Activities	\$ 2,361,719	\$ 3,964,571	\$ -	\$ 6,326,290
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

City of Haverhill, Massachusetts
Statement of Net Position
Fiduciary Funds
June 30, 2013

	Pension Trust	
	Fund	Private
	As of	Purpose
	<u>December 31, 2012</u>	<u>Trust Funds</u>
Net Position		
Cash and Equivalent	\$ 1,773,070	\$ 6,258,404
Due from(to) Other Funds	-	(245,417)
Receivables:		
Dividend and Interest	95,409	-
Employee Contributions	59,441	-
Due from Other Systems	262,796	-
Investments Sold - Funds Not Received	52,419	-
Miscellaneous	3,269	-
	<hr/>	<hr/>
Total Receivables	473,334	-
	<hr/>	<hr/>
Investments at Fair Value:		
Stocks	32,408,008	-
Fixed Income Securities	9,348,655	-
Real Estate and Other Investments	106,960,286	-
	<hr/>	<hr/>
Total Investments	148,716,949	-
	<hr/>	<hr/>
Total Net Position	150,963,353	6,012,987
	<hr/>	<hr/>
Liabilities		
Accounts Payable	129,694	-
Amounts Due to Other Systems	486,761	-
Unearned Revenue	34,660	-
Investments Purchased - Not Yet Paid For	88,269	-
	<hr/>	<hr/>
Total Liabilities	739,384	-
	<hr/>	<hr/>
Net Position		
Net Position Held in Trust	\$ 150,223,969	\$ 6,012,987
	<hr/> <hr/>	<hr/> <hr/>

City of Haverhill, Massachusetts
Statement of Changes in Net Position
Fiduciary Funds
Year Ended June 30, 2013

	Pension Trust Fund Fiscal Year Ended <u>December 31, 2012</u>	Private Purpose Trust <u>Funds</u>
Additions:		
Contributions:		
Employer	\$ 12,872,132	\$ -
Employee	3,661,475	-
Private Donations and Earnings on Investments	-	(251)
Intergovernmental	349,446	-
Total Contributions	<u>16,883,053</u>	<u>(251)</u>
Transfers from Other Systems	<u>574,302</u>	<u>-</u>
Net Investment Income (Loss) :		
Net Appreciation in the Fair Value of Plan Assets and Gains and (Losses)	15,641,684	-
Interest and Dividends	<u>2,862,239</u>	<u>52,648</u>
Total Investment Income (Loss)	18,503,923	52,648
Less Investment Expense	<u>1,230,926</u>	<u>-</u>
Net Investment Income (Loss)	<u>17,272,997</u>	<u>52,648</u>
Total Additions (Reductions)	<u>34,730,352</u>	<u>52,397</u>
Deductions:		
Benefit Payments to Retirees, Survivors, and Disability Retirees	22,233,517	-
Refunds to Members Leaving the Plan	271,510	-
Transfers to Other Systems	606,204	-
Administrative Expenses	363,524	-
Scholarships and Other Expenses	-	154,829
Total Deductions	<u>23,474,755</u>	<u>154,829</u>
Net Increase (Decrease)	<u>11,255,597</u>	<u>(102,432)</u>
Net Position Held In Trust:		
Beginning of Year	<u>138,968,372</u>	<u>6,115,419</u>
End of Year	<u>\$ 150,223,969</u>	<u>\$ 6,012,987</u>

City of Haverhill, Massachusetts
Notes to the Financial Statements
June 30, 2013

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, 2013. 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, 2013.

(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, 2013 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 an 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, 2013, the Commonwealth paid \$17,305,651 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, 2013, or fund balances at June 30, 2013.

(R) Prior Period Adjustment

As we noted on page four, during the fiscal year ended June 30, 2013, 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, 2013 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).

A prior period adjustment was made to the Fund Financial Statements to reclassify the Water and Sewer Fund Balances from the General Fund to the Business Type Enterprise Funds in the amount of \$6,701,889.

Government Wide Financial Statements

Because of the establishment of the Water and Sewer Enterprise Funds by the City during the fiscal year ended June 30, 2013, the following prior period adjustment was made. This entry was made for items that were previously recorded as part of the Governmental Activities, but are now part of the Business-Type, Enterprise Funds:

➤	Accrual of OPEB Liability	\$1,007,914
➤	Accrual of Compensated Absences	212,371
➤	Accounts Receivable Accrual	(1,865,303)
➤	Capital Assets – Net of Depreciation	(59,411,966)
➤	Enterprise Fund Debt	27,123,351
➤	Accrued Interest on Debt	394,358
➤	Reclassification of Fund Balance Accounts	
➤	and Other Items	<u>(6,936,306)</u>
	Total	<u>(\$39,475,581)</u>

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, 2013, \$ 18,915,917 of the City's bank balance of \$ 30,063,099 was uninsured and uncollateralized.

Uninsured and Uncollateralized \$ 18,915,917

ii. Investments

a) As of June 30, 2013, 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	\$ 862,045	\$ 862,045	\$ -	\$ -
Mutual Funds	2,904,965	2,904,965	-	-
Equities	729,967	-	-	729,967
Corporate Bonds and Other	<u>756,392</u>	<u>756,392</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 5,253,369</u>	<u>\$ 4,523,402</u>	<u>\$ -</u>	<u>\$ 729,967</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, 2012, \$373,846 of the Plan's bank balance of \$623,846 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$ 373,846

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, 2012, 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:				
Foreign Government Obligations	\$ 7,278,045	\$ 115,884	\$ 2,594,962	\$ 4,567,199
Corporate Bonds	<u>2,070,610</u>	<u>354,716</u>	<u>156,195</u>	<u>1,559,699</u>
Total Debt Related Securities:	<u>9,348,655</u>	<u>\$ 470,600</u>	<u>\$ 2,751,157</u>	<u>\$ 6,126,898</u>
Other Investments:				
Stocks	32,408,008			
Real Estate & Other Investments	<u>106,960,286</u>			
Total Other Investments	<u>139,368,294</u>			
Total Investments	<u>\$ 148,716,949</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

(A) Assets

i Accounts Receivable

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

General Fund

Property Taxes Receivable:

Real Estate Taxes

2013	<u>\$ 881,513</u>	
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Total Real Estate Taxes		<u>\$ 881,513</u>
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Personal Property Taxes

2013	32,286	
2012	15,687	
2011	15,817	
2010	12,228	
2009	10,402	
2008 & Prior	<u>41,601</u>	

Total Personal Property Taxes		<u>128,021</u>
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Total Property Taxes Receivable		<u><u>\$ 1,009,534</u></u>
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Tax Liens and Foreclosures		<u><u>\$ 3,666,514</u></u>
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Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2013	\$ 499,019	
2012	187,022	
2011	86,284	
2010	67,328	
2009	51,986	
2008 & Prior	<u>547,076</u>	

Total Motor Vehicle Excise Taxes		<u>\$ 1,438,714</u>
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Boat Excise Taxes

2013	3,019	
2012	2,157	
2011	1,797	
2010	1,816	
2009	1,688	
2008 & Prior	<u>9,252</u>	

Total Boat Excise Taxes		<u>19,729</u>
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4. Accounts Receivable (Continued)

Total Motor Vehicle and Other Excise Taxes	<u>\$ 1,458,442</u>
Other Accounts Receivable	<u>\$ 155,785</u>
User Charges - Water and Sewer	<u>\$ 1,788,132</u>

Due from Commonwealth of Massachusetts

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

The \$9,373,505 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 \$598,490, Due from Commonwealth of Massachusetts-Other, includes an amount due to the City as of June 30, 2013 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, 2013, the City had outstanding Bond Anticipation Notes (BAN's) and State Aid Anticipation Notes (SAAN's) used to finance various capital projects. All such notes are included in temporary loans in the Capital Projects Fund (Non Major Funds Column), as noted below.

Changes in Short Term Debt – the following is a summary of the short term debt transactions for the fiscal year ended June 30, 2013:

<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	\$ 4,100,687	\$ 7,546,697	\$ 4,100,687	\$ 7,546,697
SAAN's	2,000,000	750,000	2,000,000	750,000
Total	<u>\$ 6,100,687</u>	<u>\$ 8,296,697</u>	<u>\$ 6,100,687</u>	<u>\$ 8,296,697</u>

6. Long Term Debt

General obligation bonds outstanding at June 30, 2013 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, 2013:

	<u>Governmental Activities</u>	<u>Business Activities</u>	<u>Total</u>
Balance 7/01/2012	\$ 62,621,484	\$ 27,042,352	89,663,836
Add: New Issues	5,572,882	-	5,572,882
Less: Maturities	(6,538,097)	(1,850,200)	(8,388,297)
Balance 6/30/2013	<u>\$ 61,656,211</u>	<u>\$ 25,192,153</u>	<u>\$ 86,848,364</u>

(B) Summary of Debt Service Requirements to Maturity:

	Governmental Activities		Business Activities	
	Principal	Interest	Principal	Interest
2014	\$ 6,945,357	\$ 2,310,832	\$ 1,933,312	\$ 915,188
2015	7,186,314	2,079,338	1,982,733	843,301
2016	7,383,775	1,783,174	1,670,735	772,585
2017	5,982,444	1,465,320	1,702,653	712,518
2018	5,352,649	1,221,324	1,710,126	650,372
2019-2023	21,684,980	3,132,080	6,962,326	2,411,397
2024-2028	4,658,612	607,291	4,955,789	1,424,840
2029-2033	2,462,080	150,330	3,074,479	656,296
2034 and thereafter	-	-	1,200,000	60,250
	<u>\$ 61,656,211</u>	<u>\$ 12,749,689</u>	<u>\$ 25,192,153</u>	<u>\$ 8,446,747</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 Principal and Interest	Refunding Bonds 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	<u>\$3,358,656</u>	<u>\$3,225,904</u>

(C) Long -Term Debt Authorizations

General Obligation Bonds authorized and unissued at June 30, 2013 are summarized as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
7/29/1998	Wastewater	\$ 50,000
2/3/1999	1999 School Remodeling	2,680,000
12/2/1999	Sewer	1,520,000
11/2/2001	MWPAT	22,432
1/17/2002	Planning CSO	200,000
3/13/2003	2003 School Remodeling High School	1,094,012
5/2/2003	MWPAT	4,995
6/16/2003	CSO Project MWPAT	969,063
8/26/2004	2005 Departmental Equipment	142,000
5/24/2005	Sewer	321,426
10/13/2005	2006 Greenleaf School Boiler	995
10/13/2005	High Street Fire Station Roof	10,000
10/13/2005	2006 Whittier School Roof	15,000
12/6/2005	2005 Parking Deck	280
12/20/2006	2007 Park Dept Building Repairs	53,000
1/16/2007	2007 School Books	125,325

(C) Long -Term Debt Authorizations (Continued)

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
3/23/2010	Water Meters	1,600,000
12/21/2010	Bridge Repairs	205,499
4/19/2011	South Main St. Water	349,112
10/25/2011	School Tech HS	803,000
12/10/2011	Green School Project	4,986,777
3/13/2012	Hunking Repairs	400,000
4/12/2012	Department Equipment	1,757,000
9/4/2012	Feasibility Study Hunking School	800,000
	Total	<u>\$ 18,109,916</u>

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>	Non Major <u>Funds</u>	<u>Total</u>
Committed to:			
General Government	\$ -	\$ 11,697	\$ 11,697
Public Safety	-	30,550	30,550
Public Works	-	35,321	35,321
Total Committed	<u>-</u>	<u>77,568</u>	<u>77,568</u>
Assigned to:			
Reserved for Expenditures	2,688,839	-	2,688,839
General Government	80,043	-	80,043
Public Safety	190,290	-	190,290
Education	86,485	-	86,485
Public Works	99,434	-	99,434
Human Services	8,739	-	8,739
Total Assigned	<u>3,153,830</u>	<u>-</u>	<u>3,153,830</u>
Unassigned	<u>5,286,917</u>	<u>(2,586,387)</u>	<u>2,700,530</u>
Total Fund Balances	<u>\$ 8,440,747</u>	<u>\$ (2,508,819)</u>	<u>\$ 5,931,928</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, 2013. The budget amounts include special City Council meeting votes applicable to June 30, 2013.

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

	<u>Revenues</u>
As Reported Budget Basis	\$ 152,961,504
Adjustments:	
Sixty Day Property Tax Accrual - Net	(577,396)
Other adjustment	2,289
Teacher Retirement on Behalf Payments	17,305,651
As Reported GAAP Statement	<u>\$ 169,692,048</u>

	<u>Expenditures</u>
As Reported Budget Basis	\$ 152,960,412
Adjustments:	
July 1, 2012 Encumbrances	554,812
June 30, 2013 Encumbrances	(464,366)
Teacher Retirement on Behalf Payments	17,305,651
As Reported GAAP Statement	<u>\$ 170,356,509</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, 2012 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 1,133 active employees and 1,828 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, 2013, the amount actually contributed to the plan, and the City's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$20,158,404
Interest on Net OPEB Obligation	1,221,715
Adjustment to Annual Required Contribution	(837,644)
Annual OPEB Cost (Expense)	<u>20,542,475</u>
Contributions Made	<u>(11,394,942)</u>
Increase in Net OPEB Obligation	9,147,533
Net OPEB Obligation (NOO)- Beginning of Year	<u>30,542,877</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$39,690,410</u></u>
Percentage of Annual OPEB Cost Contributed	56%

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%

Funding Status and Funding Progress. As of June 30, 2012, the most recent actuarial valuation date, no funding to the plan has been made. The Actuarial Accrued Liability (AAL) for benefits was \$323,004,713, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$323,004,713.

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, 2013, 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, 2013 was \$19,662,385.

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, 2013 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, 2013, the \$233,000 amount of 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	\$ 1,365,247	\$ (418,750)	\$ 946,497
Non-major Governmental	418,750	(635,914)	(217,164)
Enterprise - Business Type	-	(729,333)	(729,333)
Total	<u>\$ 1,783,997</u>	<u>\$ (1,783,997)</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, 2013 the accounting system refers to the due to/from accounts in the general ledger as “pooled cash”.

16. Subsequent Year Authorization

The City has voted fiscal year 2014 budget amounts totaling \$179,895,295. Fiscal year 2014 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	\$ 161,828,488
Enterprise Fund Revenues and Available Funds	15,388,906
Other Available Funds	<u>2,677,901</u>
Total	<u><u>\$ 179,895,295</u></u>

17. Net Position – Unrestricted (Deficit)

Governmental Activities – The net position, entitled Invested in Capital Assets (e.g. land, buildings, equipment, infrastructure, etc.), Net of Any Related Debt that was needed to acquire or construct the assets represents \$123,912,245 in net position; and the assets restricted for specific purposes represent (\$347,608) in net position (deficit). As these two components of net position exceed total net position, unrestricted net position showed a (\$73,013,825) 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, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements and Adjustments</u>	<u>Ending Balance</u>
Government Activities:				
Land	\$ 9,848,436	\$ 100	\$ -	\$ 9,848,536
Construction Work in Process	1,241,393	5,379,474	-	6,620,867
Totals Capital Assets not Being Depreciated	<u>11,089,829</u>	<u>5,379,574</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	-	-	1,446,585
Improvements	5,067,686	-	-	5,067,686
Infrastructure	136,237,976	-	-	136,237,976
Vehicles	6,012,054	-	-	6,012,054
Total Capital Assets Being Depreciated	<u>266,016,024</u>	<u>-</u>	<u>-</u>	<u>266,016,024</u>
Less Accumulated Depreciation:				
Buildings	(45,495,711)	(2,451,020)	-	(47,946,731)
Equipment	(1,010,177)	(82,089)	-	(1,092,266)
Improvements	(2,891,767)	(232,591)	-	(3,124,358)
Infrastructure	(71,401,271)	(2,610,320)	-	(74,011,591)
Vehicles	(5,365,413)	(141,007)	-	(5,506,420)
Total Accumulated Depreciation	<u>(126,164,339)</u>	<u>(5,517,027)</u>	<u>-</u>	<u>(131,681,366)</u>
Capital Assets Being Depreciation, Net	139,851,686	(5,517,027)	-	134,334,659
Government Activities - Capital Assets, Net	<u>\$ 150,941,515</u>	<u>\$ (137,453)</u>	<u>\$ -</u>	<u>\$ 150,804,062</u>
Business Type Activities:				
Land	\$ 1,580,632	\$ -	\$ -	\$ 1,580,632
Construction Work in Process	5,556,843	1,831,887	-	7,388,730
Totals Capital Assets Not Being Depreciated	<u>7,137,475</u>	<u>1,831,887</u>	<u>-</u>	<u>8,969,362</u>
Assets Being Depreciated:				
<u>Cost:</u>				
Buildings	171,720	-	-	171,720
Equipment	24,871,614	-	-	24,871,614
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>-</u>	<u>114,701,063</u>

18. Capital Assets (Continued)

	Beginning		Retirements	Ending
	<u>Balance</u>	<u>Additions</u>	<u>and Adjustments</u>	<u>Balance</u>
Less Accumulated Depreciation:				
Buildings	(121,104)	(4,881)	-	(125,985)
Equipment	(11,293,238)	(886,096)	-	(12,179,334)
Improvements	(319,757)	-	-	(319,757)
Infrastructure	(49,771,384)	(1,620,170)	-	(51,391,554)
Vehicles	(921,088)	(12,349)	-	(933,437)
Total Accumulated Depreciation	<u>(62,426,571)</u>	<u>(2,523,496)</u>	<u>-</u>	<u>(64,950,067)</u>
Capital Assets Being Depreciation, Net	<u>52,274,492</u>	<u>(2,523,496)</u>	<u>-</u>	<u>49,750,996</u>
Business Type Activities - Capital Assets, Net	<u>\$ 59,411,967</u>	<u>\$ (691,609)</u>	<u>\$ -</u>	<u>\$ 58,720,358</u>

***REQUIRED SUPPLEMENTARY
INFORMATION***

City of Haverhill, Massachusetts
Statement of Revenues and Expenditures - Budget and Actual
General Fund (Budgetary Basis)
Fiscal Year Ended June 30, 2013

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
<u>Revenues</u>				
Real Estate and Personal Property Taxes - Net	\$ 85,362,538	\$ 85,192,908	\$ 85,603,099	\$ 410,191
Excises	5,955,465	5,955,465	6,263,781	308,316
Fees, Departmental and Charges for Services	3,524,746	3,524,746	3,804,207	279,461
Intergovernmental	55,245,288	55,245,288	55,005,044	(240,244)
Earnings on Investments	30,000	30,000	18,605	(11,395)
Other Taxes, Assessments and In Lieu Payments	2,063,292	2,063,292	2,109,728	46,436
Other Revenue	100,000	100,000	157,040	57,040
	<u>152,281,329</u>	<u>152,111,699</u>	<u>152,961,504</u>	<u>849,805</u>
<u>Expenditures</u>				
General Government	2,813,861	2,878,886	2,854,285	24,601
Public Safety	19,049,992	18,988,760	18,664,426	324,334
Education	68,394,114	69,936,894	70,059,414	(122,520)
Public Works	6,369,132	7,024,488	7,637,455	(612,967)
Human Services	2,370,950	2,715,281	2,700,684	14,597
Community and Economic Development	670,758	678,758	665,366	13,392
Debt Service	9,256,463	9,256,463	8,432,853	823,610
Intergovernmental	5,377,973	5,315,202	5,322,285	(7,083)
Health Insurance and Other Employee Benefits	22,195,537	22,195,950	21,696,709	499,241
Pension Benefits	12,159,264	12,159,264	12,135,823	23,441
Other Expenditures	4,048,590	3,334,396	2,791,112	543,284
	<u>152,706,634</u>	<u>154,484,342</u>	<u>152,960,412</u>	<u>1,523,930</u>
Excess of Revenues Over (Under) Expenditures	<u>(425,305)</u>	<u>(2,372,643)</u>	<u>1,092</u>	<u>2,373,735</u>
Other Financing Sources (Uses):				
Other Available Funds	750,000	1,786,434	1,786,434	-
Operating Transfers In	825,305	2,154,959	2,167,259	12,300
Operating Transfers Out	<u>(1,150,000)</u>	<u>(1,568,750)</u>	<u>(1,568,750)</u>	<u>-</u>
	<u>425,305</u>	<u>2,372,643</u>	<u>2,384,943</u>	<u>12,300</u>
Excess Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,386,035</u>	<u>\$ 2,386,035</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, 2012

Schedule I

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability("AAL")	Unfunded Actuarial Accrued Liability ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2012	\$ 150,438,000	\$ 306,054,000	\$ 155,616,000	49.0%	\$ 36,455,000	427.0%
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, 2013

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%

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, 2013

Valuation Date	June 30, 2012
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	1,828
Current active members	<u>1,133</u>
Total	<u>2,961</u>

City of Haverhill, Massachusetts
Notes to the Required Supplementary Information
June 30, 2013

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, 2012 was as follows:

Annual Required Contribution ("ARC")	<u>\$12,341,752</u>
--------------------------------------	---------------------

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

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 1,133 active employees and 1,828 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, 2013
(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 6/30/2013</u>
Hospital Deficit Funding Bonds	\$ 15,000,000	4.00	2001	2021	\$ 7,425,000
Hospital Deficit Funding Bonds	5,000,000	4.00	2001	2021	2,250,000
Sludge Dewatering	3,018,888	4.70	2002	2015	585,866
Sludge Dewatering	121,428	4.00	2002	2017	35,776
Title V Septic Loan	143,100	0.00	2002	2020	52,469
Hospital Deficit Funding Bonds	5,000,000	4.00	2002	2022	2,735,000
Hospital Deficit Funding Bonds	4,403,000	4.00	2003	2022	2,625,000
Hospital Deficit Funding Bonds	597,000	4.00	2003	2023	355,000
Hospital Deficit Deferral	-	-	-	-	2,967,500
MWPAT	428,719	variable	2003	2023	270,000
MWPAT	78,696	variable	2004	2023	45,326
MWPAT	1,186,121	variable	2004	2023	751,643
Combined Sewer Overflow	333,281	5.60	2005	2019	163,400
Combined Sewer Overflow	416,108	5.20	2005	2021	230,000
School Planning	401,825	5.20	2006	2015	97,825
School Land Acquisition	179,980	5.30	2006	2016	58,440
School Construction	15,830,330	5.30	2006	2017	6,423,580
Fire Station Remodeling	190,900	5.21	2006	2017	68,600
Construction-Police Station	1,004,050	5.23	2006	2017	389,400
Construction-Library	603,000	5.23	2006	2017	235,800
Sewer	80,495	5.15	2006	2017	19,295
Drainage	276,550	5.20	2006	2017	97,900
Sludge Composting	50,233	5.23	2006	2017	19,660
Water Pumping Station	75,700	5.12	2006	2017	19,500
School Roof Remodeling	824,640	4.96	2007	2018	440,000
School Bonds	10,535,860	4.96	2007	2019	6,650,000
Water Bonds	3,012,500	4.96	2007	2019	1,900,000
MWPAT	81,806	4.43	2007	2024	55,024
MWPAT	360,078	4.43	2007	2023	257,541
MWPAT	623,608	Variable	2007	2025	453,374
MWPAT	11,463,447	Variable	2007	2034	9,464,175
Parking Deck 1	161,115	4.00	2007	2017	60,000
Parking Deck 2	240,885	4.00	2007	2017	90,000
MWPAT	1,500,000	Variable	2007	2027	1,050,000
Whittier School Roof	710,000	4.00	2007	2017	280,000

City of Haverhill, Massachusetts

Schedule of Indebtedness

June 30, 2013

(Continued on Page 61)

<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 6/30/2013</u>
Greenleaf School Boiler	53,000	4.00	2007	2017	20,000
MWPAT	4,730,937	2.00	2007	2027	3,510,507
MWPAT	2,150,381	2.00	2008	2028	1,693,061
MWPAT	269,626	Variable	2010	2027	209,709
MWPAT	191,047	2.00	2010	2024	145,566
MWPAT	1,049,821	2.00	2010	2028	900,011
High St Fire Station	28,000	3.50%	2010	2024	22,000
Fire Truck	830,000	2.80%	2010	2019	552,000
Ladder Truck	138,000	3.40%	2010	2025	105,000
Rink boards	91,000	2.80%	2010	2020	60,000
School Remodeling I	640,000	3.60%	2010	2026	520,000
School Remodeling II	2,580,000	3.60%	2010	2026	2,094,000
School Remodeling III	3,650,000	3.60%	2010	2026	2,964,000
School Remodeling IV	500,000	3.80%	2010	2028	416,000
School Remodeling V	1,473,000	3.80%	2010	2029	1,239,000
Water	245,264	2.00	2010	2015	98,000
Sewer	187,800	3.90	2010	2029	157,000
Willow Ave Drainage	97,261	3.50	2010	2029	73,000
Hospital Restructure	9,680,000	5.94	2011	2022	8,890,000
MWPAT CW-06-38 Landfill	575,500	2.00	2011	2031	551,805
MWPAT CW-08-28 Landfill	743,851	2.00	2011	2031	682,128
MWPAT CW-05-17	978,574	2.00	2011	2031	897,374
School Remodeling	153,000	4.03	2012	2023	153,000
School Equipment	203,100	4.04	2012	2023	203,100
Fire Dept Equipment	102,000	4.03	2012	2023	102,000
Hospital Equipment	304,600	4.33	2012	2023	304,600
Sewer Tank	299,300	4.03	2012	2023	299,300
Sewer Boiler	101,600	4.04	2012	2023	101,600
Sewer Pipes	117,200	3.93	2012	2023	117,200
Sewer Planning	726,200	4.02	2012	2023	726,200
Water Pump Treatment	483,000	4.02	2012	2023	483,000
MWPAT CW-09-05	1,127,862	2.00	2012	2031	1,078,227

City of Haverhill, Massachusetts

Schedule of Indebtedness

June 30, 2013

(Continued from 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 6/30/2013</u>
School 1 (ISQ)	387,705	3.00	2012	2032	380,000
School 2 (ISQ)	112,295	3.00	2012	2032	110,000
School 3 (ISQ)	1,500,000	3.00	2012	2032	1,455,000
Water 1 (O)	735,000	2.00	2012	2021	665,000
Water 2 (O)	756,000	2.00	2012	2020	675,000
MWPAT DW-05-10A	2,200,000	2.00	2013	2033	2,200,000
MWPAT CWP-10-23	3,300,957	2.00	2013	2033	3,300,957
MWPAT CW-08-28-A	<u>71,925</u>	2.00	2013	2031	<u>71,925</u>
GRAND TOTAL	<u>\$ 127,498,149</u>				<u>\$ 86,848,364</u>

City of Haverhill, Massachusetts
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013
(Continued on Page 63)

	Federal CFDA <u>Number</u>	<u>Expenditures</u>
U.S. Department of Agriculture:		
Child Nutrition Cluster:		
School Breakfast Program	10.553	372,509
National School Lunch Program	10.555	1,498,456
Total Child Nutrition Cluster		<u>1,870,965</u>
Total Child Nutrition Cluster and U.S. Department of Agriculture		<u>1,870,965</u>
U.S. Department of Housing and Urban Development:		
CDBG - Entitlement Grant Cluster:		
Community Development Block Grant	14.218	1,087,509
Home Investment Partnership Program	14.239	26,007
ARRA-Community Development Block Grant-Neighborhood Stabilization Plan	14.256	33,887
Total Department of Housing and Urban Development		<u>1,147,403</u>
U.S. Department of Justice:		
Bureau of Justice - Police	16.803	8,675
JAG	16.804	50,205
Total U.S. Department of Environmental Protection		<u>58,880</u>
U.S. Department of Environmental Protection Agency:		
ARRA-Brownfields Grant	66.818	148,515
U.S. Department of Energy:		
ARRA-Energy Efficiency Recovery Block Grant	81.128	101,625
Total U.S. Department of Energy		<u>101,625</u>
U.S. Department of Education:		
Title I, Part A Cluster:		
Title I	84.010	2,142,039
Special Education Cluster (IDEA):		
SPED 94-142 Allocation	84.027	2,560,581
SPED - Preschool/Early Childhood	84.173	66,688
Total Special Education Cluster		<u>2,627,269</u>

City of Haverhill, Massachusetts
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2013
(Continued from Page 62)

	<u>Federal CFDA</u>	<u>Expenditures</u>
Education Technology Cluster		
Enhanced Ed. Through Tech.	84.318	2,301
Total Education Technology Cluster		<u>2,301</u>
Other Department of Education Grants		
21st Century Community Learning	84.287	464,059
Dropout Prevention and Intervention	84.360	1,048,731
LEP Support	84.365	58,650
Teacher Quality	84.367	456,732
ARRA-Race to the Top	84.395	529,866
Total U.S. Department of Education		<u>7,329,647</u>
 Total Schedule of Expenditures of Federal Awards		 <u><u>\$ 10,657,035</u></u>

City of Haverhill, Massachusetts
Notes to Schedule of Expenditures of Federal Awards
June 30, 2013

(1) Scope of Audit

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

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

(2) Summary of Significant Accounting Policies

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

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

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

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, 2013, and the related notes to the financial statements and have issued our report thereon dated March 27, 2014.

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 (2013-1). 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 2013-1 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, 2014

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, 2013. 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 – Title 1 (CFDA #84.010) and U.S. Department of Housing and Urban Development – (HUD) - CDBG (CFDA #14.218)

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, Title 1 – (CFDA #84.010) as explained in Finding #2013-2, and HUD - CDBG (CFDA #14.218) Finding #2013-3 (Allowable cost/cost principals and Davis Bacon Act). Compliance with such requirements is necessary, in our opinion, for the City of Haverhill, Massachusetts to comply with the requirements applicable to that program.

Qualified Opinion on the U.S. Department of Education Title 1 (CFDA #84.010 and CDBG (CFDA #14.218)

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 – Title 1 (CFDA #84.010) and HUD - CDBG (CFDA #14.218) for the year ended June 30, 2013.

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, 2013.

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 #2013-2 and #2013-3 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 01833
March 27, 2014

City of Haverhill, Massachusetts
 Schedule of Findings and Questioned Costs
 For the Year Ended June 30, 2013
 (Continued on Page 71)

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 2013-1).
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 \$319,711.
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, 2013
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II Findings – Financial Statement Audit

2013-1

Cash Reconciliation

As was the case last year, the City made progress during fiscal year ended June 30, 2013 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.

As we have noted in previous years, our 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, 2013, however a few accounts were not reconciled timely.

Mandatory Direct Deposit of Payroll Checks

One significant item that continues to slow down the entire process of reconciling cash each month, relates to the large volume of outstanding checks that must be reviewed and properly accounted for, relating to the City and School payroll bank accounts. As we noted in our prior audit report, a significant amount of time can be saved by requiring all employees to have their payroll checks directly deposited. If this change is implemented, the entire cash reconciliation process would be performed more efficiently and timely, which would in turn allow other reconciliations issues to be reviewed and corrected more timely. We recommend that the City implement mandatory direct deposit for all payroll checks.

Correct All Reconciling Items

In order for a proper and timely reconciliation of cash to happen, there are a number of reconciliation items that appear on some of the bank account monthly reconciliation worksheets that need to be reviewed and taken care of. One of the reconciliation issues relates to certain bank accounts that have transfers that have been made from one bank to another, that have been properly recorded at the bank, however they have not been recorded in the general ledger accounting system, or transfers properly recorded in the general ledger, but not recorded in the bank. These reconciling items have been identified on the monthly reconciliation sheets, but have not yet been corrected. Some of these items are being carried forward from month to month, which slows down the entire reconciliation process every month.

One specific example of this relates to the TC-Receipts depository account. During our review, we found several large bank account transfers that were made into this bank account (from the Municipal Escrow bank account) that were posted in the Budget Sense general ledger accounting system, however these transfers had not yet been made at the banks. These types of reconciliation items must be accounted for and recorded on the reconciliation worksheets every month, for both bank accounts, which slows down the entire process. It is important to correct these types of items as soon as possible to help make the entire process more efficient. In order to complete this process for one of the transfers relating to the street lighting escrow account, the Treasurer needs to know which street lighting individual accounts are affected, as well as the specific amounts to be charged to each individual street lighting escrow account. The steps currently being followed should be reviewed in order to make the process as efficient as possible so that the monthly bank account reconciliations for these two bank accounts can be performed in a timely manner each month.

City of Haverhill, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013
(Continued on Page 73)

Another reconciling item that appears on a certain bank account reconciliation sheet, relates to several months of deposits that were made in the bank, but not recorded in the general ledger. These items are recorded on the reconciliation worksheets month after month, slowing down the process each month. These and other reconciling items should be investigated and corrected to make the monthly process more efficient.

Correct and Use Bank Prepared Outstanding Check Lists

As we noted above, progress has been made reviewing and updating the outstanding check lists. This area is a critical part of the monthly reconciliation work. A large number of the outstanding checks shown on the outstanding lists were very old. A significant amount of time has been spent by the Treasurer's office researching the old outstanding checks on the list for matters such as void checks, reissued checks, etc. in an attempt to prepare an accurate list of outstanding checks. Certain corrections and adjustments were made to the list so that the list was accurate.

One very important additional step that should be taken, relating to the outstanding check lists for the vendor and payroll accounts, which will make the entire process much more efficient, involves making a concerted effort to review and correct the list that is prepared by the bank, so that it agrees with the list that has been separately prepared by the Treasurer's office. Once the outstanding list prepared by the bank is accurate, it can be used by the Treasurer's office when reconciling cash. This change will make the entire process more efficient. We recommend that the bank outstanding check lists be reviewed and corrected at the bank, and used by the Treasurer's office when doing the monthly reconciliations.

Tailings (Unclaimed Checks)

As we noted above, progress has been made reviewing the outstanding check lists and going through the process of putting older checks into tailings. We recommend that this effort continue. We have noted below the standard procedures that should be followed.

The normal process that is involved relating to outstanding vendor checks is to contact each active vendor who has an outstanding check on the list to determine whether the check represents a legitimate amount due to the vendor. If the vendor has a valid claim, the outstanding check should be voided and replaced. If there is not a legitimate claim, the check should be voided. Documentation of the communication and how the determination was made should be maintained. If the vendor or individual cannot be contacted, the following procedures should be followed:

1. Annually, the Treasurer should prepare a list of checks that have been outstanding for one year.
2. The checks should be removed from the outstanding list and an entry should be made in the general ledger to increase cash and the Tailings (unclaimed checks) liability account.
3. After a check has been in the Tailings (unclaimed checks) account for two years (outstanding for three years), the abandoned property process should begin.
4. The Treasurer must notify the owner of any check for \$10 or more of the procedures for claiming it. The notice must be sent by first class mail to the last known address of the owner. The notice is not required if the City's records disclose that the address is inaccurate (i.e. the check was previously sent there and returned undeliverable).

City of Haverhill, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013
(Continued on Page 74)

5. The Treasurer must also publish a list of checks that are \$100 or more. In order to comply with M.G.L. Chapter 200A Section 9.A (c), the notice of the checks must be published in a newspaper of general circulation.
6. After the notice/publication requirements have been met, any checks that remain unclaimed (claimants have one year to establish their claim) may be closed to the unreserved fund balance account.

Management Response/Corrective Action Plan

Cash Reconciliation

Action Taken:

As we had mentioned in the prior report, the City has implemented reconciliation procedures with all but two accounts that fully comply with the above recommendations. The remaining accounts procedures are still being evaluated and determination will be made in the next fiscal year as to the most efficient procedures. The city treasurer's office has taken the steps to close numerous accounts. The treasurer's office is in the process of completing the procedures as listed in Mass General Law (MGL) to 'cleaning up' the outstanding list. The implementation of the above procedures are subject to the limits of the current minimal office staffing levels.

III Findings and Questioned Costs for Federal Awards

Finding Number

2013-2

Program

U.S. Department of Education – Title 1 (CFDA #84.010)

Payroll Certifications and Supporting Documentation

During our review for the fiscal year ended June 30, 2013, we found that seven staff members who worked on the Title I grant did not have completed time and effort documentation. Also, two staff members requiring semi-annual payroll certifications only had one of the two certifications completed. In addition, five staff members requiring monthly payroll certifications did not complete them.

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 PARs 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, 2013
(Continued on Page 75)

OMB Circular A-87 authorizes the use of substitute systems for allocating salaries and wages to Federal awards in place of PARs, 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 PARs 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

Because there has been turnover of personnel in the School Department during the past year (currently there is an Interim Business Manager in charge of the School Business Operations), the procedures relating to payroll certification and time and effort documentation, are matters that will be reviewed and evaluated on an ongoing basis. We are aware of your findings and recommendations and we will do all we can to be sure proper procedures are being followed.

Finding Number

2013-3

Program

U.S. Department of Housing and Urban Development – HUD - Community Development Block Grant – CDBG – (CFDA #14218)

For the fiscal year ended June 30, 2013, we performed an audit of the City of Haverhill’s Community Development Department in accordance with the Single Audit Act and the OMB Circular A-133 requirements. One of our required audit procedures is to determine if the Federal Department of Housing and Urban Development (HUD) or State Office of Housing and Community Development (DHCD) has performed a Program Monitoring of the City’s Community Development program during the period we are reviewing.

During our review, we found that a monitoring of the City’s Community Development Program had been performed on June 26, 2013 by HUD’s Massachusetts Division’s Office of Community Planning and Development (CPD). As a result of the monitoring conducted by CPD, a report was prepared that lists two findings and one concern that require corrective action. The report sent to the City of Haverhill is dated September 5, 2013.

City of Haverhill, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013
(Continued on Page 76)

The monitoring report includes a very detailed list of the matters identified and the steps that should be taken to correct the problems. During our audit, we carefully reviewed the CPD report and the findings. A brief summary of these matters is noted below:

Item Number 1

This matter indicates that the City provided a \$5,000 microenterprise loan to Bounce Imaging, a start-up that took part in the Merrimack Valley Entrepreneurial Sandbox Program under the Low-Moderate Income Limited Clientele national objective. The monitoring review revealed a lack of documentation regarding the income status of the owner of Bounce Imaging. Discussions with City staff suggested that the owner may not be low-moderate income, which would result in the activity not meeting a national objective and therefore be ineligible.

As a result of this monitoring finding, the City has submitted a check payable to HUD from Non-Federal funds in the amount of \$5,000. Because the City repaid these funds, CPD has sent a response to the City stating that the finding has been closed.

Item Number 2

This matter indicates that there was a lack of documentation in determining Service Areas for National Objective Compliance: IDIS #777 Code Enforcement, #823 Code Enforcement, #860 Portland Street Area ADA Sidewalk Improvements, #877 Target Area Sidewalk Improvements, #878 Temple Street Sidewalks, #884 Washington Square Improvements, and #886 Wilson Street Guardrail/Safety Improvements.

When the City received the Monitoring Report from CPD, it prepared a very detailed Corrective Action Plan and submitted this (along with detailed back up documentation) to CPD. This documentation was reviewed to determine service areas for national objective compliance and its new policies for certifying and documenting low-moderate income area national objective activities. Moving forward, code enforcement activity files must maintain the following documentation: the scope of work detailing the CDBG supported work code enforcement officials will be undertaking; a map illustrating where the work will be done; demographic analysis supporting the map; and a copy of the individual site visits undertaken by code enforcement officers in the identified service area. This information will be updated each year the code enforcement activity is funded.

CPD has closed this finding based upon the City' submittal

Concern (C1)

In the Monitoring Report received by the City, CPD had one Concern (C1), that indicated that the City is not completing activities and not entering complete data for individual activities in HUD IDIS in a timely manner.

In response to this concern, the City prepared and submitted a Corrective Action Plan to CPD that indicates that the Community Development Department has updated its process to review projects in IDIS on at least a weekly basis and over two dozen projects have been closed out and completed since the monitoring letter arrived. Also, flagged projects have been largely handled and dealt with conclusively. In addition, efforts have been increased to acquire data needed to report "CDBG Accomplishment" from vendors, sub-recipients and homeowners.

Also, less than a handful of projects, mostly slow-moving housing rehabilitation efforts, remain active in IDIS from prior Program Years and the most recent "CDBG Activities at Risk" report is showing significant progress from before.

City of Haverhill, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013
(Continued on Page 77)

We recommend that the City Community Development Department continue in its efforts to implement all of the changes recommended by CPD, and to continue to work diligently towards implementing the new policies and procedures it has developed.

Fair Labor Standards Compliance Review (Davis Bacon Act)

Subsequent to the monitoring performed by CPD on June 26, 2013, and explained above, another monitoring of the City of Haverhill's administering of the Federal Labor Standards Act was performed on September 27, 2013. The monitoring report received by the City on February 20, 2014 states that contract documents for two projects (Swasey Field and Temple Street), were reviewed and it was determined that the Haverhill Community Development Department did not conduct any employee interviews. When discussing this failure, the City of Haverhill Community Development Department indicated that no interviews were conducted on the Swasey Field project due to an oversight by the City and the fact that there was an uncertainty regarding the scheduling of the work. In the case of the Temple Street project it was noted that by the time the City became aware of the project, the work had been completed and the crew had moved on.

Management Response/Corrective Action Plan Relating to the Fair Labor Standards Compliance Review

HUD Finding 2013-1344.1-Rev. 2-1

There was one finding issued to the Haverhill Community Development Department from the Office of Labor Relations of the United States Department of Housing and Urban Development (HUD) after a 2013 monitoring. Overall, this HUD monitoring concludes that the City and "Community Development Department's administration of Federal Labor Standards (for HUD funds) is adequate."

For certain Community Development Block Grant [CDBG]-funded programs over \$2,000 in hard construction costs, there is a need for certifying compliance with Davis-Bacon wage standards. Many of the Community Development Department's largest activities-- such as housing rehabilitation and code correction for low-moderate income homeowners, public services, code enforcement, economic development, demolition/boarding, and first-time homebuyer programs-- are either exempt or not applicable to Davis-Bacon standards.

The only CDBG programs that are applicable to Davis-Bacon are Public Improvements performed by outside contractors (i.e. street/sidewalk paving, park improvements) as well as façade improvement activities for commercial properties. Construction and installation performed by City employees with CDBG funds are also not eligible. Projects that were eligible for Davis-Bacon compliance included the sidewalk paving projects on Temple Street and around the new Railroad Square Parking Garage, as well as the installation of a spray park at Swasey Field.

It was revealed that the City was correctly receiving, reviewing and monitoring payrolls for compliance with Davis-Bacon rates and regulations from private outside contractors and subcontractors as required.

However, on-site, on-the-job interviews with workers to ascertain their status and confirm pay rates were not done in certain cases. This was due to the fact that in some cases this work was performed and completed without Community Development knowledge of daily scheduling. While the Community Development Department could institute and manage its own paving and public works projects, the Department works through and with the City DPW to maximize professional expertise, efficiency and economy of scale, utilizing unit bid prices through the DPW Annual bids for highway work. In these cases, the DPW rescheduled these projects without notifying the Community Development Department, so there was no logistical coordination in which to conduct on-site interviews.

In addition, the City was not using an updated version of the HUD-approved interview form.

City of Haverhill, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2013
(Continued from Page 76)

CORRECTIVE ACTION: Moving forward, the Community Development Department will be kept apprised of any highway/paving or parks projects that are undertaken using CDBG funds. DPW management has been made aware of the impacts of work schedules and CDBG staff notification for these specially funded projects.

The Community Development Department has downloaded updated interview forms and will be on-site labor interviews with private contractors as jobs take place.

No other resolution or action is required to satisfy this finding.

City of Haverhill, Massachusetts
 Summary of Prior Years Findings and Questioned Costs
 For the Year Ended June 30, 2013

Prior Year
 Fiscal Year Ended
 June 30, 2012

Finding
 Number

Current Status

2012-1	Part II - Financial Statement Audit	<u>Cash Reconciliation</u> Please see the fiscal year ended June 30, 2013, Schedule of Findings and Questioned Costs, Item #2013-1.
	<u>Department</u>	
2012-2	U.S. Department of Education - Title 1 (CFDA #84.010) (Cluster #84.389)	<u>Payroll Certification and Supporting Documentation</u> Please see the fiscal year ended June 30, 2013, Schedule of Findings and Questioned Costs, Item #2013-2.
2012-3	U.S. Department of Housing and Urban Development (HUD): CDBG (CFDA #14.218)	<u>Allowable Cost Principals</u> Please see the fiscal year ended June 30, 2013, Schedule of Findings and Questioned Costs, Item #2013-3.