

CITY OF HAVERHILL, MASSACHUSETTS

Financial Statements

June 30, 2010

(With Accountants' Report Thereon)

Giusti, Hingston and Company
Certified Public Accountants

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City of Haverhill, Massachusetts
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For the Year Ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS - CITY OF
HAVERHILL, MASSACHUSETTS

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the City of Haverhill, Massachusetts as of and for the year ended June 30, 2010, (December 31, 2009 for the Contributory Retirement System) which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Haverhill, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the City of Haverhill, Massachusetts as of June 30, 2010 (and the Contributory Retirement System as of December 31, 2009) and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 8, 2010 on our consideration of the City of Haverhill, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the City of Haverhill taken as a whole. In addition, the other supplemental schedules listed in the table of contents are presented for purpose of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the examination of the basic financial statements, and, accordingly, we express no opinion on them.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
December 8, 2010

City of Haverhill, Massachusetts
Management's Discussion and Analysis
June 30, 2010

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, 2010. We encourage readers to consider the information presented here in conjunction with the attached financial statements and notes to the financial statements.

Financial Statements

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

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

Financial Highlights

- The assets of the City of Haverhill, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$122,891,816 (*net assets*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$6,678,969, or 3 percent of total general fund expenditures.
- The City of Haverhill, Massachusetts' total long term debt increased by \$2,438,623 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, 2010 **basic financial statements**. The City of Haverhill's basic financial statements comprise three components: 1) **government-wide financial statements**, 2) **fund financial statements**, and 3) **notes to the financial statements**. This report also contains other supplementary information in addition to the basic financial statements themselves. Please refer to the Table of Contents for a concise breakdown of the financial statements.

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

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

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise of the

change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statement activities are explained below:

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

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

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

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

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

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

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

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

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

Financial Analysis of the Government-wide Financial Statements

Net Assets

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

Net Assets

	Governmental Activities		Change
	June 30, 2010	June 30, 2009	
Current and Other Assets	\$ 61,612,408	\$ 60,114,519	\$ 1,497,889
Capital Assets	217,703,363	224,720,102	(7,016,739)
Total Assets	<u>279,315,771</u>	<u>284,834,621</u>	<u>(5,518,850)</u>
Other Liabilities	26,490,775	31,521,675	(5,030,900)
Long Term Liabilities	129,933,181	123,386,841	6,546,341
Total Liabilities	<u>156,423,956</u>	<u>154,908,516</u>	<u>1,515,440</u>
Net Assets:			
Invested in Capital Assets			
Net of Related Debt	164,743,275	169,753,190	(5,009,915)
Restricted	4,336,064	2,425,254	1,910,810
Unrestricted	(46,187,523)	(42,560,873)	(3,626,650)
Total Net Assets	<u>\$ 122,891,816</u>	<u>\$ 129,617,571</u>	<u>\$ (6,725,755)</u>

Governmental Activities – The above net assets balances for the period June 30, 2009, have been changed to reflect prior period adjustments. The above net assets, 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 \$164,743,275 in net assets; and the assets restricted for specific purposes represent \$4,336,064 in net assets. As these two components of net assets exceed total net assets, unrestricted net assets showed a (\$46,187,523) deficit at the end of the year. This deficit does not mean that the City does not have resources available to pay its bills. Rather, it is the result of having long-term commitments that are greater than currently available resources. The reason this unrestricted deficit is so large is because the debt borrowed by the City that is related to the Hale Hospital, has no related capital asset reflected on the Statement of Net Assets.

Changes in Net Assets

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

	Governmental Activities		Change
	June 30, 2010	June 30, 2009	
Revenues			
Program Revenues:			
Charges for Services	\$ 20,261,824	\$ 20,140,343	\$ 121,481
Operating Grants and Contributions	73,274,956	69,218,464	4,056,492
Capital Grants and Contributions	7,545,900	5,897,402	1,648,498

	Governmental Activities		
	June 30, 2010	June 30, 2009	Change
General Revenues:			
Real Estate and Personal Property Taxes	77,653,734	75,281,551	2,372,183
Excises	5,260,902	5,265,838	(4,936)
Other Taxes, Assessments and in Lieu Payments	2,693,789	2,400,821	292,968
Intergovernmental Not Restricted to a Specific Program	5,572,961	8,449,556	(2,876,595)
Earnings on Investment	234,408	310,727	(76,319)
Other Revenue	889,529	1,646,436	(756,907)
Total Revenues	193,388,003	188,611,136	4,776,867
Expenses			
General Government	4,798,550	4,786,339	12,211
Public Safety	18,096,786	18,329,223	(232,436)
Education	83,839,644	84,094,591	(254,947)
Public Works	10,805,321	13,441,056	(2,635,735)
Human Services	3,600,028	3,570,135	29,893
Community and Economic Development	2,869,195	3,050,112	(180,917)
Debt Service	1,872,504	1,977,173	(104,669)
Intergovernmental	4,855,795	4,476,328	379,467
Health Insurance and Other Employee Benefits	25,684,094	23,821,857	1,862,237
Pension Benefits	9,838,385	9,457,975	380,410
Landfill and Other	3,268,806	2,995,309	273,497
Water and Sewer	16,194,155	12,662,283	3,531,872
Teacher's Retirement on Behalf Payments	14,524,229	12,788,322	1,735,907
Total Expenses	200,247,492	195,450,702	4,796,789
Increase (Decrease) in Net Assets Before Special items	(6,859,489)	(6,839,566)	(19,922)
Special Items - Transfers	133,728	-	133,728
Increase (Decrease) in Net Assets	\$ (6,725,761)	\$ (6,839,566)	\$ 113,806

The above table shows the increase (decrease) in net assets (including prior period adjustments).

Governmental Activities – In fiscal year 2010, property tax accounted for approximately 40% of the Governmental revenues.

Financial Analysis of the City's Funds

Governmental Funds

General Fund – Fund Balance - The year-end fund balance of the general fund was \$1,649,040 less than the prior year's fund balance.

Based upon the balance sheet as of the close of each fiscal year, the Commonwealth of Massachusetts' Department of Revenue (DOR) determines the amount of general fund - fund balance available for appropriation. In general, this amount (commonly known as "free cash") is generated when actual revenues on a cash basis exceed budgeted amounts and expenditures and encumbrances (unpaid commitments) are less than appropriations, or both. The City reports the Water and Sewer funds as a component of the general fund because it has not formally adopted enterprise fund legislation (MGL Chapter 44 Section 53F ½). In addition, the Water and Sewer funds do not meet the criteria established by GASB 34 that would require that the Water and Sewer funds be shown in the financial statements as Enterprise funds. We have listed below a summary of the fund balance and free cash amounts:

Fiscal Year Ended <u>June 30</u>	Total General Fund <u>Fund Balance</u>	Unreserved General Fund <u>Fund Balance</u>	<u>Free Cash</u>	
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	
2007	14,436,550	9,825,003	2,175,064	
2006	14,299,597	8,284,962	3,339,090	
2005	10,182,424	6,014,036	975,099	
2004	6,527,417	3,330,156	174,310	

**** The fiscal year 2010 free cash amount is much higher than the fiscal year 2009 free cash amount because the calculation made by the DOR for fiscal year 2009 reflected a reduction to free cash for the water and sewer general ledger fund balance accounts that were reserved for special purposes and reserved for subsequent year expenditures. However, the 2010 free cash calculation did not include 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. The calculation of free cash for fiscal year 2008 and prior included only the General Fund and did not include the water and sewer fund balance accounts.

General Fund Budgetary Highlights

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

Capital Asset and Debt Administration

Capital assets. The City of Haverhill, Massachusetts’ investments in capital assets for its governmental type activities as of June 30, 2010, amounts to \$217,703,363 (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, 2010 and June 30, 2009
(Net of Depreciation)**

	Governmental Activities	
	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Buildings	\$ 43,401,479	\$ 45,259,004
Equipment	15,839,963	16,508,901
Improvements	487,791	524,950
Land	11,429,068	11,429,068
Construction Work in Process	35,897,528	42,106,996
Infrastructure	109,557,329	113,732,879
Vehicles	1,090,205	1,367,772
Total	<u>\$ 217,703,363</u>	<u>\$ 230,929,570</u>

Debt

The City had \$110,327,481 in debt outstanding on June 30, 2010. This represents a \$4,323,438 decrease (or 3%) from the previous year. The City carries an underlying bond rating of “Baa1” from Moody’s and “A-” from Standard and Poor’s.

Outstanding Debt at June 30, 2010 and June 30, 2009

Governmental Activities	<u>2010</u>	<u>2009</u>
Notes Payable	\$ 8,565,112	\$ 15,327,173
General Obligation Bonds Payable	<u>101,762,369</u>	<u>99,323,746</u>
Total Governmental Activities	<u>\$ 110,327,481</u>	<u>\$ 114,650,919</u>

Fiscal Year 2010 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 2010 without the necessity for an override.

City of Haverhill, Massachusetts
Statement of Net Assets
June 30, 2010
(Continued on Page 10)

		Government- Wide Governmental Activities <u>Total</u>
ASSETS		
CURRENT:		
Cash/Investments	\$	33,600,893
Receivables:		
Real Estate and Personal Property		1,957,964
Motor Vehicle and Other Excise		1,382,271
Tax Liens and Foreclosures		1,683,532
Other		278,462
Due from Other Funds		850,018
User Charges		2,412,746
Due from Commonwealth of Massachusetts - SBAB		3,257,251
Due from Commonwealth of Massachusetts - Other		1,302,367
NONCURRENT:		
Due from Commonwealth of Massachusetts - SBAB		14,886,904
Capital Assets:		
Capital Asset, Net		217,703,363
TOTAL ASSETS		279,315,771
 LIABILITIES		
CURRENT:		
Warrants Payable		2,470,551
Accrued Salaries Payable		1,101
Other Liabilities		3,426,599
Temporary Loans		8,565,112
Accrued Liabilities		1,770,000
Accrued Interest		909,818
Bonds Payable		9,347,594
NONCURRENT:		
Bonds Payable		92,414,775
Longevity Payable		979,602
Other Accrued Liabilities - GASB 43 and 45		17,097,922
Compensated Absences		2,173,882
Landfill Liabilities		17,267,000
TOTAL LIABILITIES		156,423,956

City of Haverhill, Massachusetts
Statement of Net Assets
June 30, 2010
(Continued from Page 9)

	Government- Wide Governmental Activities <u>Total</u>
 NET ASSETS	
Invested in Capital Assets, Net of Related Debt	164,743,275
Restricted for:	
Special Revenue	4,336,064
Unrestricted (Deficit) (Note 17)	(46,187,523)
TOTAL NET ASSETS	<u><u>\$ 122,891,816</u></u>

City of Haverhill, Massachusetts

Statement of Activities

Fiscal Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expenses)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenues and Changes in Net Assets
					Total Governmental Activities
<i>Governmental Activities:</i>					
General Government	\$ 4,798,550	\$ 1,497,475	\$ 2,062,598	\$ -	\$ (1,238,477)
Public Safety	18,096,786	605,049	956,993	-	(16,534,744)
Education	83,839,644	2,276,610	53,450,521	6,340,935	(21,771,578)
Public Works	10,805,321	10,110	12,212	1,204,967	(9,578,032)
Human Services	3,600,028	920,404	925,258	-	(1,754,366)
Community and Economic Development	2,869,195	918,427	1,343,145	-	(607,623)
Debt Service	1,872,504	-	-	-	(1,872,504)
Intergovernmental	4,855,795	-	-	-	(4,855,795)
Health Insurance and Other Employee Benefits	25,684,094	-	-	-	(25,684,094)
Pension Benefits	9,838,385	-	-	-	(9,838,385)
Landfill and Other	3,268,806	-	-	470,846	(2,797,960)
Water and Sewer	16,194,155	14,033,749	-	(470,848)	(2,631,254)
Teacher's Retirement on Behalf Payments	14,524,229	-	14,524,229	-	-
Total Governmental Activities	<u>\$ 200,247,492</u>	<u>\$ 20,261,824</u>	<u>\$ 73,274,956</u>	<u>\$ 7,545,900</u>	<u>\$ (99,164,812)</u>
<i>General Revenues:</i>					
					Real Estate and Personal Property Taxes - Net
					77,653,734
					Excises
					5,260,902
					Other Taxes, Assessments and
					in Lieu Payments
					2,693,789
					Intergovernmental
					5,572,961
					Earnings on Investments
					234,408
					Other Revenue
					<u>889,529</u>
					Special Items:
					Transfers
					<u>133,728</u>
					Total General Revenues, Special Items and Transfers
					<u>92,439,051</u>
					Change in Net Assets
					<u>(6,725,761)</u>
					Beginning of the Year
					136,135,573
					Prior Period Adjustment
					<u>(6,517,996)</u>
					Beginning of the Year, as Restated
					<u>129,617,577</u>
					End of the Year
					<u>\$ 122,891,816</u>

City of Haverhill, Massachusetts
 Governmental Funds
 Balance Sheet
 June 30, 2010

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Cash/Investments	\$ 33,600,893	\$ -	\$ 33,600,893
Receivables:			
Real Estate and Property Taxes	1,957,964	-	1,957,964
Motor Vehicle and Other Excise	1,382,271	-	1,382,271
Tax Liens and Foreclosures	1,683,532	-	1,683,532
Other	278,462	-	278,462
Due From Other Funds	-	12,182,748	12,182,748
User Charges	2,412,746	-	2,412,746
Due from Commonwealth of Massachusetts - MSBA	18,144,155	-	18,144,155
Due from Commonwealth of Massachusetts - Other	-	1,302,367	1,302,367
Total Assets	\$ 59,460,023	\$ 13,485,115	\$ 72,945,138
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Warrants Payable	\$ 2,470,551	\$ -	\$ 2,470,551
Accrued Salaries Payable	1,101	-	1,101
Due to Other Funds	17,231,694	-	17,231,694
Other Liabilities	8,185	3,418,414	3,426,599
Temporary Loans	-	8,565,112	8,565,112
Deferred Revenue:			
Deferred Revenue - Due from Commonwealth of Massachusetts	18,144,155	-	18,144,155
Deferred Revenue - Other	7,655,276	-	7,655,276
Total Liabilities	45,510,962	11,983,526	57,494,488
Fund Equity:			
Fund Balances:			
Reserved for Encumbrances	739,460	-	739,460
Reserved for Special Purposes	4,514,874	-	4,514,874
Unreserved:			
Designated for:			
Subsequent Year's Expenditures	2,478,018	-	2,478,018
Snow and Ice Deficit	(462,260)	-	(462,260)
Undesignated, Reported in:			
General Fund	6,678,969	-	6,678,969
Special Revenue Fund	-	4,336,064	4,336,064
Capital Projects Fund	-	(3,559,375)	(3,559,375)
Permanent Funds	-	724,900	724,900
Total Fund Balances	13,949,061	1,501,589	15,450,650
Total Liabilities and Fund Balances	\$ 59,460,023	\$ 13,485,115	\$ 72,945,138

City of Haverhill, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2010

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>REVENUES:</u>			
Real Estate and Personal Property Taxes - Net	\$ 77,749,017	\$ -	\$ 77,749,017
Excises	5,130,721	-	5,130,721
Fees, Departmental and Charges for Services	3,906,076	2,871,848	6,777,924
Intergovernmental	49,392,669	25,591,392	74,984,061
Earnings on Investments	234,408	-	234,408
Other Taxes, Assessments and In Lieu Payments	1,962,108	-	1,962,108
Water and Sewer	13,881,173	-	13,881,173
Teacher's Retirement on Behalf Payments	14,524,229	-	14,524,229
Other Revenue	644,751	372,206	1,016,957
TOTAL REVENUES	167,425,152	28,835,446	196,260,598
<u>EXPENDITURES:</u>			
Current			
General Government	2,529,768	2,201,762	4,731,530
Public Safety	16,675,359	1,137,823	17,813,182
Education	62,478,642	19,846,079	82,324,721
Public Works	6,742,153	1,293,353	8,035,506
Human Services	2,367,788	1,009,886	3,377,674
Community and Economic Development	1,282,529	1,596,709	2,879,238
Debt Service	10,276,029	-	10,276,029
Intergovernmental	4,855,795	-	4,855,795
Health Insurance and Other Employee Benefits	21,548,864	-	21,548,864
Pension Benefits	9,838,385	-	9,838,385
Landfill and Other Expenditures	2,782,078	486,728	3,268,806
Water and Sewer	13,593,517	434,524	14,028,041
Teacher's Retirement on Behalf Payments	14,524,229	-	14,524,229
TOTAL EXPENDITURES	169,495,136	28,006,864	197,502,000
Excess of Revenues Over (Under) Expenditures	(2,069,984)	828,582	(1,241,402)
Other Financing Sources (Uses):			
Operating Transfers In	950,311	605,918	1,556,229
Operating Transfers (Out)	(529,368)	(893,133)	(1,422,501)
Proceeds from Borrowing	-	10,788,000	10,788,000
Total Other Financing Sources (Uses)	420,943	10,500,785	10,921,728
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(1,649,041)	11,329,367	9,680,326
Fund Balance, Beginning	15,598,102	(9,519,244)	6,078,858
Prior Period Adjustment	-	(308,534)	(308,534)
Fund Balance, Beginning as Restated	15,598,102	(9,827,778)	5,770,324
Fund Balance, Ending	\$ 13,949,061	\$ 1,501,589	\$ 15,450,650

City of Haverhill, Massachusetts
 Reconciliation of the Governmental Funds Balance Sheet
 Total Fund Balances to the Statement of Net Assets
 Fiscal Year Ended June 30, 2010

Total Governmental Fund Balances	\$ 15,450,650
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	217,703,363
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	25,799,431
Internal service funds are used to account for the health insurance trust fund. The assets and liabilities of the internal service fund is included in the governmental activities in the statement of net assets.	4,128,964
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(101,762,369)
Accrued Interest on Bonds	(909,818)
Landfill Accrued Liability	(17,267,000)
Compensated Absences	(2,173,882)
Longevity Liability	(979,602)
OPEB Liability	(17,097,922)
Net Assets of Governmental Activities	\$ 122,891,815

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, 2010

Net change in fund balances - total governmental funds	\$ 9,680,326
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.	(7,016,739)
Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.	(2,872,594)
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(2,438,623)
Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.	2,952
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.	54,147
OPEB cost relating to the current year GASB 45 accrual amount	(5,108,444)
Internal Service funds are used to account for the Health Insurance Trust Fund. The net activity of the internal service fund is reported with governmental activities.	<u>973,214</u>
Change in Net Assets of Governmental Activities	<u><u>\$ (6,725,761)</u></u>

City of Haverhill, Massachusetts
 Proprietary Funds
 Statement of Net Assets
 June 30, 2010

	<u>Governmental Activities</u>	<u>Internal Service Fund</u>
ASSETS		
Due from Other Funds	\$ 5,898,964	<u>5,898,964</u>
TOTAL ASSETS		<u>5,898,964</u>
LIABILITIES		
Accrued Liabilities	1,770,000	<u>1,770,000</u>
TOTAL LIABILITIES		<u>1,770,000</u>
NET ASSETS		
Unrestricted	4,128,964	<u>4,128,964</u>
TOTAL NET ASSETS	\$ 4,128,964	<u><u>4,128,964</u></u>

City of Haverhill, Massachusetts
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
Fiscal Year Ended June 30, 2010

	<u>Governmental Activities</u>	<u>Internal Service Fund</u>
Operating Revenues:		
Contributions	\$ 31,634,242	
Total Operating Revenues	31,634,242	
Operating Expenditures:		
Employee Benefits	30,661,028	
Total Operating Expenditures	30,661,028	
Operating Income (Loss)	973,214	
Net Assets at Beginning of Year	3,155,750	
Net Assets at End of Year	\$ 4,128,964	

City of Haverhill, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2010

Governmental
Activities

Internal
Service Fund

Cash Flows from Operating Activities:

Net Income (Loss)	\$ 973,214
Net Cash Flows Provided (Used) by Operating Activities	<u>973,214</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>\$ 973,214</u>

City of Haverhill, Massachusetts
Statement of Net Assets
Fiduciary Funds
June 30, 2010

	Pension Trust Fund As of <u>December 31, 2009</u>	Private Purpose <u>Trust Funds</u>
ASSETS		
Cash and Equivalent	\$ 1,322,910	\$ 6,921,619
Due from(to) Other Funds	-	(850,018)
Receivables:		
Dividend and Interest	183,167	-
Employee Contributions	34,790	-
Due from Other Systems	293,914	-
Due from Others	10,929	-
Investments Sold - Funds Not Received	244,383	-
Total Receivables	767,183	-
Investments at Fair Value:		
Stocks	38,886,735	-
Fixed Income Securities	14,465,321	-
Real Estate and Other Investments	82,606,748	-
Total Investments	135,958,804	-
TOTAL ASSETS	138,048,897	6,071,601
LIABILITIES		
Accounts Payable	133,798	-
Amounts Due to Other Systems	524,923	-
Investments Purchased - Not Yet Paid For	250,800	-
TOTAL LIABILITIES	909,521	-
NET ASSETS		
Net Assets Held in Trust	\$ 137,139,376	\$ 6,071,601

City of Haverhill, Massachusetts
Statement of Changes in Net Assets
Fiduciary Funds
Year Ended June 30, 2010

	Pension Trust Fund As of <u>December 31, 2009</u>	Private Purpose Trust <u>Funds</u>
Additions:		
Contributions:		
Employer	\$ 10,621,894	\$ -
Employee	3,218,332	-
Private Donations and Earnings on Investments	-	616,778
Intergovernmental	478,759	-
Total Contributions	<u>14,318,985</u>	<u>616,778</u>
Transfers from Other Systems	<u>399,483</u>	<u>-</u>
Net Investment Income (Loss):		
Net Appreciation in the Fair Value of Plan Assets and Gains and (Losses)	23,560,024	-
Miscellaneous Income	6,000	-
Interest and Dividends	<u>2,589,414</u>	<u>-</u>
Total Investment Income (Loss)	26,155,438	-
Less Investment Expense	<u>1,355,724</u>	<u>-</u>
Net Investment Income (Loss)	<u>24,799,714</u>	<u>-</u>
Total Additions (Reductions)	<u>39,518,182</u>	<u>616,778</u>
Deductions:		
Benefit Payments to Retirees, Survivors, and Disability Retirees	21,004,784	-
Refunds to Members Leaving the Plan	381,956	-
Transfers to Other Systems	781,115	-
Administrative Expenses	359,162	-
Scholarships and Other Expenses	-	300,334
Total Deductions	<u>22,527,017</u>	<u>300,334</u>
Net Increase (Decrease)	<u>16,991,165</u>	<u>316,444</u>
Net Assets Held In Trust:		
Beginning of Year	<u>120,148,211</u>	<u>5,755,157</u>
End of Year	<u>\$ 137,139,376</u>	<u>\$ 6,071,601</u>

City of Haverhill, Massachusetts
Notes to the Financial Statements
June 30, 2010

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, 2010. 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, 2010.

(B) Blended Component Units

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

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

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

(C) Government-wide and fund financial statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or

privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

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

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

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

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

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

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

(E) Financial Statement Presentation

The accounting policies of the City of Haverhill, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2010 conform to generally accepted accounting principles for local government units, except as indicated hereafter, as amended by Statement 1, Governmental Accounting and Financial Reporting Principles, issued by the National Council on Governmental Accounting.

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

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

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

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

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

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

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

(F) Budgets and Appropriations

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

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

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

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

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

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

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

(G) Cash and Cash Equivalents

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

(H) Investments

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

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

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

(I) Restricted Assets

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

(J) Capital Assets

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

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

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

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

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

(K) Other Assets

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

(L) Compensated Absences

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

(M) Encumbrances

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

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

(N) Transfers

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

(O) Risk Financing

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

(P) Use of Estimates

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

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

(Q) On Behalf Payments

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

For the fiscal year ended June 30, 2010, the Commonwealth paid \$14,524,229 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, 2010, or fund balances at June 30, 2010.

(R) Prior Period Adjustment

Certain reclassifications or adjustments have been made to prior period amounts to conform to the current period presentation. A prior period adjustment was made to the fund financial statements for \$308,534 that relates to capital projects fund adjustments. In addition, a prior period adjustment for \$6,209,462 was made that relates to the construction work in process amount recorded on the required GASB 34 capital asset footnote. The total of these two adjustments, of \$6,517,996, is shown on the government wide statement of activities.

2. Deposits and Investments

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, 2010, \$21,865,586 of the City's bank balance of \$34,629,776 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$ 21,865,586

ii. Investments

a) As of June 30, 2010, the City had the following investments and maturities.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>Over 5</u>
U.S. Treasury / Agency Securities	\$ 3,823,763	\$ 3,823,763	\$ -	\$ -
Mutual Funds	150,808	150,808	-	-
Equities	497,013	-	-	497,013
Corporate Bonds and Other	<u>1,610,461</u>	<u>1,610,461</u>	-	-
Total	<u>\$ 6,082,045</u>	<u>\$ 5,585,032</u>	<u>\$ -</u>	<u>\$ 497,013</u>

b) Interest Rate Risk

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

c) Credit Risk

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

d) Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City does not have a formal policy that limits the amount it may invest in a single user (State law limits the amount that may be deposited in a financial institution without collateralization). More than 5 percent of the City's investments are in Equity Funds (8%).

Contributory Retirement System

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, 2009, the City of Haverhill Retirement System investments that are required to be disclosed in accordance with GASB Statement No. 40, are noted below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>Over 5</u>
U. S. Government Obligations	\$ 1,787,066	\$ -	\$ 880,965	\$ 906,101
Foreign Government Obligations	7,000,791	-	1,411,942	5,588,849
Corporate Bonds	<u>5,677,464</u>	<u>399,541</u>	<u>3,394,849</u>	<u>1,883,074</u>
Total	<u>\$ 14,465,321</u>	<u>\$ 399,541</u>	<u>\$ 5,687,756</u>	<u>\$ 8,378,024</u>

3. Property Taxes

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

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

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

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

4. Accounts Receivable

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

General Fund

Property Taxes Receivable:

Real Estate Taxes

2010	\$ 1,735,397	
2009	135,675	
Total Real Estate Taxes		<u>\$ 1,871,072</u>

Personal Property Taxes

2010	31,011	
2009	22,630	
2008	6,540	
2007	5,863	
2006 & Prior	20,848	
Total Personal Property Taxes		<u>86,892</u>

Total Property Taxes Receivable \$ 1,957,964

Tax Liens and Foreclosures \$ 1,683,532

Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2010	\$ 557,831	
2009	158,604	
2008	94,234	
2007	82,009	
2006 & Prior	475,848	
Total Motor Vehicle Excise Taxes		<u>1,368,526</u>

Boat Excise Taxes

2010	2,165	
2009	1,903	
2008	1,746	
2007	1,814	
2006 & Prior	6,116	
Total Boat Excise Taxes		<u>13,744</u>

Total Motor Vehicle and Other Excise Taxes \$ 1,382,270

4. Accounts Receivable (Continued)

Other Accounts Receivable	<u>\$ 278,462</u>
User Charges - Water and Sewer	<u>\$ 2,412,746</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 \$18,144,155 General Fund Due from Commonwealth of Massachusetts-MSBA (Massachusetts School Building Authority) amount relates to the total amount due to the City of Haverhill relating to school building projects. The amount due to the City was determined under Chapter 645 of the Acts of 1948. The City either constructed a new school building or made major improvements to an existing school building and the state entered into a grant agreement with the City to reimburse the City for a predetermined percentage of allowable costs and interest expense. The reimbursement to the City for its portion of the debt service and allowable costs is made in equal installments over the life of the bond issue and is subject to only the appropriation of the state legislature. In July of 2004, the governor signed Chapter 208 and Chapter 210 of the Acts of 2004 into law, which makes substantial changes to the School Building Assistance (SBA) Program. This legislation (Ch. 208) transfers responsibility for the School Building Assistance Program from the Department of Education to the Massachusetts School Building Authority (MSBA), under the Office of the State Treasurer. The authority is a new and independent governing body comprised of seven members. The legislation under Chapter 210 dedicates 1 percent of the sales tax receipts to help fund School Building projects. The authority shall examine applications for assistance and designate a school project as approved if it meets the following requirements. The school project will be viewed with respect to its site, type of construction, sufficiency of accommodations, open space preservation, urban development, urban sprawl, energy efficiency and otherwise. The project must be necessary to meet educational standards of the curriculum frameworks established by the Board of Education. The project must have a value over its useful life and be within the capacity of the authority to finance within revenues projected to be available to the trust. A major feature of the new law is the up front cash grant program. When a project is approved for funding, the program will make a single payment of 75% of the full amount of the state's reimbursement. The balance of the state share will be paid when the project audit is completed.

The Non Major Governmental Funds column amount of \$1,302,367, Due from Commonwealth of Massachusetts, includes an amount due to the City as of June 30, 2010 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, 2010, 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, 2010:

<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	\$ 13,696,007	\$ 4,574,158	\$ 13,696,007	\$ 4,574,158
TAN's	-	1,996,588	-	1,996,588
SAAN's	1,631,096	1,994,366	1,631,096	1,994,366
Total	<u>\$ 15,327,103</u>	<u>\$ 8,565,112</u>	<u>\$ 15,327,103</u>	<u>\$ 8,565,112</u>

6. Long Term Debt

General obligation bonds outstanding at June 30, 2010 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, 2010:

	<u>Governmental Activities</u>
Balance 7/01/09	\$ 99,323,746
Add: New Issues	10,788,000
Less: Maturities	(8,349,377)
Balance 6/30/10	<u>\$ 101,762,369</u>

(B) Summary of Debt Service Requirements to Maturity:

	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 9,347,594	\$ 4,199,672
2012	9,398,571	3,819,320
2013	7,986,546	3,470,975
2014	8,179,311	3,104,200
2015	8,476,778	2,753,800
2016-2020	33,373,148	8,441,085
2021-2025	17,534,982	2,574,947
2026-2030	4,600,438	826,269
2031-2035	<u>2,865,000</u>	<u>189,311</u>
	<u>\$ 101,762,369</u>	<u>\$ 29,379,578</u>

(C) Long -Term Debt Authorizations

General Obligation Bonds authorized and unissued at June 30, 2010 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	4,345,034
3/13/2003	2003 School Remodeling Boilers	641,777
5/2/2003	MWPAT	4,995
6/16/2003	CSO Project MWPAT	969,063
3/23/2004	Landfill Closure	719,351
8/26/2004	2005 Departmental Equipment	142,000
5/24/2005	Sewer	422,901
5/24/2005	Watermain Improvement	2,248,354
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
6/24/2008	Landfill Closure	600,000
6/25/2009	Water Pumps	1,491,960
	Total	<u>\$ 16,262,467</u>

7. Components of Fund Balance

General Fund – Fund Balances:

The fund balance shown in the General Fund financial statements includes Unreserved Fund Balance and other accounts maintained by the City in accordance with the Commonwealth of Massachusetts' statutes and requirements prescribed by the Bureau of Accounts. The City reports the Water and Sewer funds as a component of the general fund because it has not formally adopted enterprise fund legislation (MGL Chapter 44 Section 53F ½). In addition, the Water and Sewer funds do not meet

the criteria established by GASB 34 that would require that the Water and Sewer funds be shown in the financial statements as Enterprise funds. At the time the annual budget is approved by the City Council, the amount of the fund balances which will be utilized to finance the succeeding fiscal year's operations, are transferred from unappropriated fund balances to appropriated fund balances. The components of the General Fund – Fund Balance at June 30, 2010 are as follows:

Reserved for Encumbrances	\$ 739,460
Reserved for Subsequent Years Expenditures	2,478,018
Reserved for Special Purposes	4,514,874
Reserved for Snow and Ice Deficit	(462,260)
Undesignated Fund Balance	6,678,969
Total General Fund - Fund Balance	<u><u>\$ 13,949,061</u></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, 2010. The budget amounts include special City Council meeting votes applicable to June 30, 2010.

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	\$ 153,453,214
Adjustments:	
Sixty Day Property Tax Accrual - Net	(552,291)
Teacher Retirement on Behalf Payments	14,524,229
As Reported GAAP Statement	<u><u>\$ 167,425,152</u></u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 155,330,144
Adjustments:	
July 1, 2009 Encumbrances	380,222
June 30, 2010 Encumbrances	(739,460)
Teacher Retirement on Behalf Payments	14,524,229
As Reported GAAP Statement	<u><u>\$ 169,495,135</u></u>

9. Contributory Retirement System

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

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

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

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

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

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

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

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

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

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

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

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

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

Annual Required Contribution (“ARC”)	<u>\$10,597,069</u>
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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 1160 active employees and 1838 retired employees (including beneficiaries and dependents) who are eligible to participate in the plan. The benefits are provided primarily through Blue Cross of Massachusetts, Inc.

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

Annual OPEB Cost and OPEB Obligation. The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the City, an amount that has been actuarially determined in accordance with the parameters of GASB 43 and 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The following table shows the components of the City’s annual OPEB cost for the fiscal year ended June 30, 2010, the amount actually contributed to the plan, and the City’s Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$17,244,995
Interest on Net OPEB Obligation	599,474
Adjustment to Annual Required Contribution	(438,492)
Annual OPEB Cost (Expense)	<u>17,405,977</u>
Contributions Made	<u>(12,297,533)</u>
Increase in Net OPEB Obligation	5,108,444
Net OPEB Obligation (NOO)- Beginning of Year	<u>11,989,478</u>
Net OPEB Obligation (NOO)- End of Year	<u><u>\$17,097,922</u></u>
Percentage of Annual OPEB Cost Contributed	67%

Funding Status and Funding Progress. As of December 31, 2009, the most recent actuarial valuation date, no funding to the plan has been made. The Actuarial Accrued Liability (AAL) for benefits was \$299,042,035, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$299,042,345.

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

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

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

12. Deferred Compensation Plan

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

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

It is the opinion of the City that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the City's general creditors; however, plan assets have not been used in the past to satisfy such claims. The value of the plan assets as of June 30, 2010 was \$14,815,081.

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

13. Risk Management

The City is self-insured for all group health insurance and is exposed to various risks of losses related to health insurance. Claim expenditures and liabilities are reported when it is probable that a loss has

occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. To limit the City's exposure to loss, the City has a stop loss policy that becomes effective on any individual case that exceeds \$175,000 (per person, per incident). This stop loss provision relates only to health related claims.

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

14. Commitments and Contingent Liabilities

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

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

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

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

In addition, the City is involved in an enforcement action involving the EPA concerning the cleanup of the Beede Waste Oil Superfund (Site) in Plaistow, New Hampshire. Various municipal departments of the City generated hazardous substances (waste oil) which was sent to the site, along with numerous other responsible parties. The claim presented by the EPA is in the amount of \$249,419, which is not covered by insurance. 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, 2010 cannot be ascertained, management believes that any resulting liability should be covered by insurance and will not materially affect the financial statements of the City.

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

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

15. Interfund Transfers in Fund Financial Statements

Interfund transfers are listed below:

	Transfers <u>In</u>	Transfers <u>(Out)</u>	<u>Total</u>
General	\$ 950,311	\$ (529,368)	\$ 420,943
Non-major Governmental	605,918	(893,133)	(287,215)
Trust and Agency Fund	-	(133,728)	(133,728)
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 1,556,229</u>	<u>\$ (1,556,229)</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, 2010 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 2011 budget amounts totaling \$157,353,502. Fiscal year 2011 budgetary amounts which are not reflected in the accompanying financial statements (except for reserved for subsequent year’s expenditures) will be financed by the following sources:

Property Taxes	\$80,912,353
Estimated Receipts, Other Revenue	
Sources and Other Available Funds	<u>76,441,149</u>
Total	<u>\$157,353,502</u>

17. Net Assets – Unrestricted (Deficit)

The net assets, invested in capital assets (e.g. land, buildings, equipment, infrastructure, etc.), net of any related debt outstanding that was needed to acquire or construct the assets represents \$164,743,275 in net assets; and the assets restricted for specific purposes represent \$4,336,064 in net assets. As these two components of net assets exceed total net assets, unrestricted net assets showed a (\$46,187,523) deficit at the end of the year. This deficit does not mean that the City does not have resources available to pay its bills. Rather, it is the result of having long-term commitments that are greater than currently available resources. The reason this unrestricted deficit is so large is because the debt borrowed by the City that is related to the Hale Hospital, has no related capital asset reflected on the Statement of Net Assets.

18. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements and Adjustments</u>	<u>Ending Balance</u>
<u>Government Activities:</u>				
<u>General Fund</u>				
<u>Cost:</u>				
Buildings	\$ 84,160,665	\$ -	\$ -	\$ 84,160,665
Equipment	1,242,890	-	-	1,242,890
Improvements	3,085,569	-	-	3,085,569
Land	9,848,436	-	-	9,848,436
Construction Work in Process	31,942,471	-	-	31,942,471
Infrastructure	136,237,976	-	-	136,237,976
Vehicles	6,012,054	-	-	6,012,054
Totals - Cost	<u>272,530,062</u>	<u>-</u>	<u>-</u>	<u>272,530,062</u>
 <u>Government Activities:</u>				
<u>General Fund</u>				
<u>Less Accumulated Depreciation:</u>				
Buildings	38,966,919	1,852,645	-	40,819,564
Equipment	658,333	128,029	-	786,362
Improvements	2,560,619	37,159	-	2,597,778
Infrastructure	63,561,030	2,616,435	-	66,177,465
Vehicles	4,729,669	251,036	-	4,980,705
Totals- Accumulated Depreciation	<u>110,476,570</u>	<u>4,885,304</u>	<u>-</u>	<u>115,361,874</u>
General Fund - Capital Assets, Net	<u>\$ 162,053,492</u>	<u>\$(4,885,304)</u>	<u>\$ -</u>	<u>\$ 157,168,188</u>
 <u>General Fund - Water and Sewer Assets</u>				
<u>Cost:</u>				
Buildings	\$ 171,720	\$ -	\$ -	\$ 171,720
Equipment	24,848,381	403,233	(380,000)	24,871,614
Improvements	319,757	-	-	319,757
Construction Work in Process	3,955,057	-	-	3,955,057
Land	1,580,632	-	-	1,580,632
Infrastructure	86,057,198	-	-	86,057,198
Vehicles	935,825	-	-	935,825
Totals - Cost	<u>117,868,571</u>	<u>403,233</u>	<u>(380,000)</u>	<u>117,891,804</u>

18. Capital Assets (Continued)

Less Accumulated Depreciation for:

Buildings	106,462	4,881	-	111,343
Equipment	8,924,037	944,141	(380,000)	9,488,179
Improvements	319,757	-	-	319,757
Infrastructure	45,001,266	1,559,115	-	46,560,381
Vehicles	850,438	26,531	-	876,969
Totals- Accumulated Depreciation	<u>55,201,961</u>	<u>2,534,668</u>	<u>(380,000)</u>	<u>57,356,629</u>
General Fund - Water and Sewer Capital				
Assets, Net	<u>62,666,610</u>	<u>(2,131,435)</u>	-	<u>60,535,175</u>
Total General Fund Capital Assets, Net	<u>\$ 224,720,102</u>	<u>\$(7,016,739)</u>	<u>\$ -</u>	<u>\$217,703,363</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, 2010

	<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	\$ 77,551,910	\$ 77,566,276	\$ 78,301,309	\$ 735,033
Excises	5,416,702	5,386,202	5,130,721	(255,481)
Fees, Departmental and Charges for Services	4,188,785	3,965,285	3,906,076	(59,209)
Intergovernmental	49,349,473	49,382,244	49,392,669	10,425
Earnings on Investments	478,203	313,203	234,408	(78,795)
Other Taxes, Assessments and In Lieu Payments	1,909,071	1,939,071	1,962,108	23,037
Water and Sewer	14,421,871	14,434,031	13,881,173	(552,858)
Other Revenue	884,000	640,000	644,750	4,750
	<u>154,200,015</u>	<u>153,626,312</u>	<u>153,453,214</u>	<u>(173,098)</u>
<u>Expenditures</u>				
General Government	2,520,916	2,580,382	2,532,310	48,072
Public Safety	16,905,666	16,927,450	16,718,405	209,045
Education	62,478,642	62,478,642	62,478,642	-
Public Works	6,362,688	6,494,318	6,817,760	(323,442)
Human Services	2,430,985	2,409,650	2,368,703	40,947
Community and Economic Development	1,310,806	1,302,655	1,251,889	50,766
Debt Service	10,480,153	10,427,153	10,276,029	151,124
Intergovernmental	4,695,905	4,695,905	4,855,795	(159,890)
Health Insurance and Other Employee Benefits	21,790,391	21,740,391	21,548,864	191,527
Pension Benefits	9,854,595	9,854,595	9,838,385	16,210
Other Expenditures	4,427,456	4,179,194	2,784,156	1,395,038
Water and Sewer	13,003,919	13,003,919	13,859,206	(855,287)
	<u>156,262,122</u>	<u>156,094,254</u>	<u>155,330,144</u>	<u>764,110</u>
Excess of Revenues Over (Under) Expenditures	<u>(2,062,107)</u>	<u>(2,467,942)</u>	<u>(1,876,930)</u>	<u>591,012</u>
Other Financing Sources (Uses):				
Other Available Funds	1,788,000	2,047,000	2,047,000	-
Operating Transfers In	759,868	950,310	950,310	-
Operating Transfers Out	(485,761)	(529,368)	(529,368)	-
	<u>2,062,107</u>	<u>2,467,942</u>	<u>2,467,942</u>	<u>-</u>
Excess Revenue and Other Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 591,012</u>	<u>\$ 591,012</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, 2009

Schedule I

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability("AAL")	Unfunded Actuarial Accrued Liability ("UAAL")	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
January 1, 2009	\$144,291,740	\$282,521,561	\$138,229,821	51.1%	\$38,301,434	360.9%
January 1, 2008	167,717,317	271,423,257	103,705,940	61.8%	37,172,147	279.0%
January 1, 2007	160,749,194	262,172,666	101,423,472	61.3%	36,870,523	275.1%
January 1, 2006	155,995,609	256,457,734	100,462,125	60.8%	35,282,797	284.7%
January 1, 2005	152,334,152	247,959,579	95,625,427	61.4%	33,472,330	285.7%
January 1, 2004	149,981,686	242,187,917	92,206,231	61.9%	32,030,938	287.9%
January 1, 2003	148,677,744	233,743,425	85,065,681	63.6%	39,066,392	217.7%
January 1, 2002	160,890,365	222,348,347	61,457,982	72.4%	37,384,107	164.4%
January 1, 2001 *	156,688,800	210,219,900	53,531,100	74.5%	55,875,300	95.8%
January 1, 2000	144,484,800	195,312,800	50,828,000	74.0%	53,469,200	95.1%
January 1, 1999	111,228,800	181,575,900	70,347,100	61.3%	48,847,800	144.0%
January 1, 1998	103,152,900	170,794,900	67,642,000	60.4%	46,744,300	144.7%
January 1, 1996	78,719,700	135,089,000	56,369,300	58.3%	41,771,600	134.9%
January 1, 1994	62,881,000	120,763,100	57,882,100	52.1%	38,721,700	149.5%
January 1, 1992	48,876,900	113,034,400	64,157,500	43.2%	36,244,700	177.0%
January 1, 1990	39,072,800	102,567,800	63,495,000	38.1%	35,026,100	181.3%

* January 1, 2001 figures include the additional liability for Section 90A, C and D benefit increases.

The closure of Glynn Memorial Nursing Home on June 30, 2001 and Hale Hospital on August 31, 2001 created a shift of active participants to inactive participants and retirees under the regulations of Section 10. The number of active participants decreased 31.3% from 1999 to 2001, while the inactive participants and retirees increased 48.7% and 20.7%, respectively. Since the total payroll has also decreased, the appropriations as a percentage of payroll will be greater than previous valuation reports.

City of Haverhill Retirement System
(A Component Unit of the City of Haverhill, Massachusetts)
Note to Schedule of Funding Progress
Year Ended December 31, 2009

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

Valuation Date:

- * January 1, 2008

Actuarial Cost Method:

- * Entry Age Normal Cost Method

Amortization Method:

- * Increasing at 4.5% per year

Remaining Amortization Period:

- * 20 years remaining as of July 1, 2008

Asset Valuation Method:

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

Actuarial Assumptions:

- * Investment rate of return - 8.5%
- * Projected salary increase - 5% for the next two years, 5.5% per year thereafter
- * Cost-of-living adjustments - 3.0% on first \$12,000 of retirement income

City of Haverhill, Massachusetts
Required Supplementary Information - GASB 43 and 45
Schedule of Employer Contributions
Fiscal Year Ended June 30, 2010

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

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Annual</u> <u>OPEB Cost</u>	<u>Actual</u> <u>Contributions</u>	<u>Percentage</u> <u>Contributed</u>
2008	\$15,362,934	\$8,846,909	58%
2009	16,700,010	11,226,557	67%
2010	17,405,977	12,297,533	71%

City of Haverhill, Massachusetts
 Required Supplementary Information - GASB 43 and 45
 Schedule of Funding Progress
 Fiscal Year Ended June 30, 2010

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

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

City of Haverhill, Massachusetts
 Required Supplementary Information - GASB 43 and 45
 Net OPEB Obligation (NOO)
 Fiscal Year Ended June 30, 2010

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

Fiscal Year <u>Ended June 30</u>	Annual Required Contribution (ARC) <u>(a)</u>	Interest on Existing NOO <u>(b)</u>	ARC Adjustment <u>(c)</u>	Annual OPEB Cost (a) + (b) + (c) <u>(d)</u>	Actual Contribution Amount <u>(e)</u>	Net Increase in NOO (d) - (e) <u>(f)</u>
2008	\$15,362,934	\$0	\$0	\$15,362,934	\$8,846,909	\$6,516,025
2009	16,612,520	325,801	(238,311)	16,700,010	11,226,557	5,473,453
2010	17,244,995	599,474	(438,492)	17,405,077	12,297,533	5,108,444

City of Haverhill, Massachusetts
 Required Supplementary Information - GASB 43 and 45
 Valuation Details
 Fiscal Year Ended June 30, 2010

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

Actuarial Assumptions:

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

Plan Membership:

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

City of Haverhill, Massachusetts
Schedule of Indebtedness
June 30, 2010
(Continued on Page 50)

<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 6/30/2010</u>
Remodeling School	677,253	4.45	1997	2011	99,717
School Bonds	899,633	4.45	1997	2011	154,561
School Bonds	10,498,114	4.45	1997	2012	3,065,722
School Construction	310,000	5.28	1997	2013	49,400
School Planning	950,000	5.20	1997	2015	246,925
School Land Acquisition	400,000	5.30	1997	2016	118,080
School Construction	18,000,000	5.30	1997	2016	11,450,180
Fire Station Remodeling	390,000	5.21	1997	2017	128,600
Construction-Police Station	2,000,000	5.23	1997	2017	689,400
Construction-Library	1,200,000	5.23	1997	2017	416,000
School Roof Remodeling	1,700,000	4.96	1999	2018	710,000
School Bonds	16,653,000	4.96	1999	2019	9,405,000
Sludge Dewatering	3,018,888	4.70	2001	2015	1,351,428
Sludge Dewatering	121,428	4.00	2001	2017	59,974
Title V Septic Loan	143,100	0.00	2001	2020	75,245
Hospital Deficit Funding Bonds	15,000,000	4.00	2001	2021	9,660,000
Hospital Deficit Funding Bonds	5,000,000	4.00	2001	2021	2,925,000
Hospital Deficit Funding Bonds	5,000,000	4.00	2002	2022	3,455,000
Hospital Deficit Funding Bonds	4,403,000	4.00	2003	2022	3,230,000
Hospital Deficit Funding Bonds	597,000	4.00	2003	2023	435,000
Hospital Refunding	14,400,000	5.94	2002	2022	11,155,000
Hospital Equipment	275,000	4.57	2003	2011	30,000
Hospital Deficit Deferral	-	-	-	-	2,967,500
School Remodeling	310,000	4.03	2003	2023	195,000
School Equipment	400,000	4.04	2003	2023	260,000
Fire Dept Equipment	210,000	4.03	2003	2023	130,000
Hospital Equipment	364,000	4.33	2003	2023	360,000
Sewer	445,307	4.45	1997	2012	84,660
Sewer	180,000	5.15	1997	2017	49,195
Drainage	573,000	5.20	1997	2017	183,000
Sludge Composting	100,000	5.23	1997	2017	34,720
Combined Sewer Overflow	412,225	5.60	1998	2019	224,349
Combined Sewer Overflow	497,038	5.20	2001	2021	304,174
Sewer Tank	597,000	4.03	2003	2023	385,000
Sewer Boiler	200,000	4.04	2003	2023	130,000

City of Haverhill, Massachusetts

Schedule of Indebtedness

June 30, 2010

(Continued from Page 49)

<u>Description</u>	<u>Original Balance</u>	<u>Interest Rate %</u>	<u>Fiscal Year of Issue</u>	<u>Fiscal Year of Maturity</u>	<u>Outstanding Balance 6/30/2010</u>
Sewer Pipes	\$ 265,000	3.93	2003	2023	\$ 160,000
Sewer Planning	1,446,000	4.02	2003	2023	940,000
MWPAT	95,275	variable	2003	2023	58,662
MWPAT	465,418	variable	2003	2023	333,171
MWPAT	1,391,554	variable	2003	2023	927,112
Water Bonds	169,693	4.45	1997	2012	35,340
Water Pumping Station	175,000	5.12	1997	2017	44,500
Water Bonds	4,835,000	4.96	1999	2019	2,690,000
Water Pump Treatment	978,000	4.02	2003	2023	625,000
MWPAT	94,022	4.43	2004	2034	68,943
MWPAT	631,729	4.43	2004	2034	310,778
MWPAT	675,579	Variable	2005	2025	541,745
MWPAT	11,463,447	Variable	2005	2035	10,261,924
Departmental Equipment	128,000	4.00	2006	2012	50,000
High Street Fire Roof	45,000	4.00	2006	2012	15,000
Parking Deck 1	161,115	4.00	2006	2017	105,000
Parking Deck 2	240,885	4.00	2006	2017	165,000
MWPAT	1,500,000	Variable	2007	2027	1,275,000
MWPAT	269,626	Variable	2007	2027	254,646
Whittier School Roof	710,000	4.00	2007	2017	490,000
Greenleaf School Boiler	53,000	4.00	2007	2017	35,000
MWPAT	191,047	2.00	2007	2024	180,016
MWPAT	4,730,937	2.00	2007	2027	4,143,178
MWPAT	2,150,381	2.00	2008	2028	1,974,876
MWPAT	1,166,883	2.00	2008	2028	1,071,647
High St Fire Station	28,000	3.50%	2010	2024	28,000
Fire Truck	830,000	2.80%	2010	2019	830,000
Ladder Truck	138,000	3.40%	2010	2025	138,000
Rink boards	91,000	2.80%	2010	2020	91,000
School Remodeling I	640,000	3.60%	2010	2026	640,000
School Text Books	327,675	1.40%	2010	2013	327,675
School Remodeling II	2,580,000	3.60%	2010	2026	2,580,000
School Remodeling III	3,650,000	3.60%	2010	2026	3,650,000
School Remodeling IV	500,000	3.80%	2010	2028	500,000
School Remodeling V	1,473,000	3.80%	2010	2029	1,473,000
Water	245,264	2.00	2010	2015	245,264
Sewer	187,800	3.90	2010	2029	187,800
Willow Ave Drainage	97,261	3.50	2010	2029	97,261
GRAND TOTAL	\$ 150,745,576				\$ 101,762,368

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

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

We have audited the basic financial statements of the City of Haverhill, Massachusetts, as of and for the year ended June 30, 2010, and have issued our report thereon dated December 8, 2010. We conducted our audit in accordance with accounting standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting (2010-1 and 2010-2).

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 2010-1 and 2010-2 to be material weaknesses.

Compliance and Other Matters

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

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

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
December 8, 2010

City of Haverhill, Massachusetts
Schedule of Findings
For the Year Ended June 30, 2010
(Continued on Page 54)

II Findings – Financial Statement Audit

2010-1 Cash Reconciliation

During our review of the cash reconciliation procedures for the fiscal year ended June 30, 2010, we found that the vast majority of bank accounts were reconciled from the actual bank statements to the general ledger cash balances, in a timely manner every month. However, as we have noted in the past, there are a few accounts that are not being reconciled in a timely manner. In order to be able to perform the entire cash reconciliation process in a timely manner, it is important to try to perform the work as efficiently as possible. One way to do this is to eliminate as many unneeded bank accounts as possible. The Treasurer is aware of this and continues to work on eliminating accounts whenever possible. During the prior years, over one hundred separate escrow bank accounts were closed and transferred into a new Municipal Escrow bank account. This new account has the ability to keep track of the required separate escrow activity relating to original deposits, investment income, disbursements, beginning and ending balances and any other related detailed activity. This change will allow the process of reconciling cash to be performed more efficiently and timely each month. In order to be able to perform all of the monthly cash reconciliation work in a timely manner, we recommend that the process of reviewing the remaining bank accounts continue, to determine if there are any other bank accounts that can be closed. In addition, the cash reconciliation outstanding checks lists should be reviewed for items such as void checks, reissued checks, old outstanding checks, etc. The old items should be reviewed and reconciled and any corrections or adjustments should be made to help with the timeliness of the reconciliation. We recommend that the City attempt to complete the monthly cash reconciliation work, for all bank accounts, within about 6-8 weeks after the end of each month.

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

2010-2 Debt Reconciliation and Capital Projects Accounting

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

City of Haverhill, Massachusetts
Schedule of Findings
For the Year Ended June 30, 2010
(Continued from Page 53)

2010-2 Debt Reconciliation and Capital Projects Accounting (Continued)

However, during our review of the City debt records, for the fiscal year ended June 30, 2010, we found that formal procedures had not yet been established to reconcile the total outstanding debt principal balances between the Treasurer's office and the City Auditor's office on an annual or quarterly basis. We recommend that the Treasurer established a debt worksheet that includes a detailed list of all of the debt issued by the City that will be able to be used in the future to reconcile all of the debt activity with the City Auditor, on a quarterly and annual basis.

We also found during our review of the short term debt (and related accounts receivable), relating to the MWPAT (Massachusetts Water Pollution Abatement Trust), that certain adjusting entries were needed. These adjustments relate to amounts received by the City, from MWPAT, that have not yet been formally bonded as long term debt, or amounts that have been bonded, but not yet paid to the City, from MWPAT. In addition, during our review of the capital projects fund accounting, we found that a system is not yet in place to capitalize the projects that have been completed. We recommend that the amounts received relating to the MWPAT projects be carefully reviewed and reconciled between the City Auditor's records and the records of the MWPAT agency, through direct communication with MWPAT. The information obtained from MWPAT would include not only the long term and short term debt outstanding balances at the end of the year, but also the cumulative project drawn down amount for all projects not yet bonded (this is the amount actually paid to the City from MWPAT, for projects that have not been formally bonded through MWPAT). We also recommend that a system be established to capitalize the capital projects once they have been completed. This will require a method of accounting for all costs relating to each project, then recording them in the fixed asset database and depreciating the assets over their respective useful lives. As the projects are ongoing, the expenses are considered construction work in process, and should be kept track of and accounted for at the end of each fiscal year.