

CITY OF HOLYOKE, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2008

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The logo for Melanson Heath & Company, PC, featuring the letters "MH&Co" in a white serif font inside a dark blue rectangular box with a thin white border.

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council
City of Holyoke, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Holyoke, Massachusetts, as of and for the year ended June 30, 2008 (except for the Holyoke Contributory Retirement System, which is as of and for the year ended December 31, 2007), which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Holyoke's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 opinions.

The financial statements referred to above include only the primary government of the City of Holyoke, Massachusetts, which consists of all funds, organizations, institutions, agencies, departments and offices that comprise the City's legal entity. The financial statements do not include financial data for certain of the City's legally separate component units, including the City of Holyoke Board of Water Commissioners, City of Holyoke Geriatric Authority and the City of Holyoke Gas and Electric Department Enterprise Fund, which accounting principles generally accepted in the

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United States of America require to be reported with the financial data of the City's primary government. As a result, the primary government financial statements do not purport to, and do not present fairly, the financial position of the reporting entity of the City of Holyoke, Massachusetts as of June 30, 2008 and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Due to the lack of adequate detail to support the City's tax lien and tax foreclosure account receivable balances, we were unable to form an opinion as to the accuracy of these balances. The combined balance in these accounts is stated at \$ 4,975,871 in the accompanying balance sheet, and \$ 638,948 (net of allowance) in the statement of net assets, as of June 30, 2008.

In our opinion, except for the matter discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information for the primary government of the City of Holyoke, Massachusetts as of June 30, 2008 (except for the Holyoke Contributory Retirement System, which is as of and for the year ended December 31, 2007) and the respective changes in financial position and cash flows, where applicable, thereof for the year(s) then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis appearing on the following pages, and the supplementary information appearing in the back of this report, are not required parts of the basic financial statements but are supplementary information required by the *Governmental Accounting Standards Board*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated May 6, 2010 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson Heath + Company P.C.

Greenfield, Massachusetts
May 6, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Holyoke, we offer readers this narrative overview and analysis of the financial activities of the City of Holyoke for the fiscal year ended June 30, 2008.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Holyoke's basic financial statements. The basic financial statements comprise of 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.

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

The statement of net assets presents information on all assets and liabilities, with the difference 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 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 to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, employee benefits, interest, and intergovernmental. The business-type activities include sewer enterprise fund 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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

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

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, the enterprise fund is used to account for sewer operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal services funds are used to account for the residual activity of the discontinued self-insured employee health program, and fuel depot operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 70,199,867 (i.e., net assets), a decrease of \$ (12,015,607) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 28,255,112, an increase of \$ 1,515,317 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 7,568,375, an increase of \$ 1,073,960 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 48,822,002, an increase of \$ 7,835,827 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years presented in thousands.

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Current and other assets	\$ 51,250	\$ 44,308	\$ 5,482	\$ 7,395	\$ 56,732	\$ 51,703
Capital assets	69,443	70,146	34,482	33,033	103,925	103,179
Total assets	120,693	114,454	39,964	40,428	160,657	154,882
Long-term liabilities out- standing	39,194	26,679	26,134	18,107	65,328	44,786
Other liabilities	22,990	16,924	2,139	10,957	25,129	27,881
Total liabilities	62,184	43,603	28,273	29,064	90,457	72,667
Net assets:						
Invested in capital assets, net	46,548	44,210	7,619	8,324	54,167	52,534
Restricted	8,563	7,108	-	-	8,563	7,108
Unrestricted	3,398	19,533	4,072	3,040	7,470	22,573
Total net assets	\$ 58,509	\$ 70,851	\$ 11,691	\$ 11,364	\$ 70,200	\$ 82,215

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2008	2007	2008	2007	2008	2007
Revenues:						
Program revenues:						
Charges for services	\$ 6,773	\$ 7,114	\$ 9,781	\$ 6,548	\$ 16,554	\$ 13,662
Operating grants and contributions	100,021	101,755	-	-	100,021	101,755
Capital grants and contributions	3,692	4,527	52	278	3,744	4,805
General revenues:						
Property taxes	41,349	40,861	-	-	41,349	40,861
Excises	2,473	2,549	-	-	2,473	2,549
Penalties, interest on taxes, and other taxes	1,817	1,424	-	-	1,817	1,424
Grants and contributions not restricted to specific programs	12,725	11,962	-	-	12,725	11,962
Investment income	842	2,103	19	33	861	2,136
Miscellaneous	1,137	270	-	7	1,137	277
Total revenues	<u>170,829</u>	<u>172,565</u>	<u>9,852</u>	<u>6,866</u>	<u>180,681</u>	<u>179,431</u>
Expenses:						
General government	7,914	7,066	-	-	7,914	7,066
Public safety	24,125	22,405	-	-	24,125	22,405
Education	96,891	97,706	-	-	96,891	97,706
Public works	6,956	6,357	-	-	6,956	6,357
Human services	1,290	1,227	-	-	1,290	1,227
Culture and recreation	2,267	2,121	-	-	2,267	2,121
Employee benefits	31,373	17,935	-	-	31,373	17,935
Interest on long-term debt	1,022	1,250	908	410	1,930	1,660
Intergovernmental	11,333	11,261	-	-	11,333	11,261
Sewer operations	-	-	8,617	7,265	8,617	7,265
Total expenses	<u>183,171</u>	<u>167,328</u>	<u>9,525</u>	<u>7,675</u>	<u>192,696</u>	<u>175,003</u>
Change in net assets	(12,342)	5,237	327	(809)	(12,015)	4,428
Net assets - beginning of year	<u>70,851</u>	<u>65,614</u>	<u>11,364</u>	<u>12,173</u>	<u>82,215</u>	<u>77,787</u>
Net assets - end of year	<u>\$ 58,509</u>	<u>\$ 70,851</u>	<u>\$ 11,691</u>	<u>\$ 11,364</u>	<u>\$ 70,200</u>	<u>\$ 82,215</u>

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 70,199,867, a decrease of \$ (12,015,607) from the prior year.

By far the largest portion of net assets, \$ 54,167,663, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is

reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets, \$ 8,562,734, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 7,469,470, may be used to meet the government's on-going obligations to citizens and creditors.

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (12,342,406). Key elements of this change are as follows:

General fund operations	\$ (2,705,125)
Major fund – Stabilization revenues over expenditures	194,499
Non-major fund revenues over expenditures	4,025,943
Depreciation expense in excess of principle debt service	(1,429,095)
Capital assets purchased with tax levy and grant funds	1,433,876
Internal service fund operations	(9,662)
Change in compensated absence liability	(613,155)
Other post-employment benefits liability	(12,906,848)
Other GAAP accruals	<u>(332,839)</u>
Total	<u>\$ (12,342,406)</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 326,799. This change resulted primarily from users fees collected exceeding operating costs.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

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

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 28,255,112 an increase of \$ 1,515,317 in comparison with the prior year. Key elements of this change are as follows:

General fund operations	\$ (2,705,125)
Major fund – Stabilization revenues over expenditures	194,499
Non-major fund revenues over expenditures	<u>4,025,943</u>
Total	<u>\$ 1,515,317</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 7,568,735, while total fund balance was \$ 11,462,815. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5.1 percent of total general fund expenditures, while total fund balance represents 7.7 percent of that same amount.

The fund balance of the general fund changed by \$ (2,705,125) during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:

State and local revenues in excess of budget	\$ 4,493,030
Excess of tax collections compared to budget	(492,274)
Budgetary appropriations unspent by department	1,663,987
Use of free cash and overlay surplus as a funding source	(4,499,802)

Timing Differences:

Difference between prior year encumbrances spent in the current year and current year encumbrances to be spent in the subsequent period	(3,779,084)
Reversal of prior year GAAP accruals	<u>(90,982)</u>
Total	<u>\$ (2,705,125)</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 4,071,947, a change of \$ 326,799 in comparison with the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

Unrestricted net assets of the internal service funds at the end of the year amounted to \$ 179,726, a decrease of \$ (9,662) in comparison with the prior year.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 1,738,098. The primary reason for the increase was the appropriation of surplus funds (free cash and overlay surplus) of \$ 1,713,291, for various operating and capital expenditures.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 103,924,342 (net of accumulated depreciation), an increase of \$ 745,660 from the prior year. This investment in capital assets includes land, land improvements, buildings and improvements, machinery and equipment, and infrastructure. Major capital asset events during the current year included the following:

• Depreciation expense	\$ (6,406,079)
• Infrastructure	
Sewer infrastructure	17,929,230
Roadway and sidewalk improvements	1,781,696
• Building, land and land improvements:	
Sewer	5,666,117
Various school buildings improvements	76,927
Various City buildings	57,173
Open space acquisition	1,200,000
• Departmental vehicle purchase:	
Police/Fire/DPW vehicle replacement	513,721
• Departmental equipment purchases	
Groundskeeping vehicle	77,345
Other City departmental equipment	82,088
School department equipment	120,933
• Construction in progress purchases/ (placed in service)	(20,353,411)

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 48,822,002 all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Holyoke's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mr. Brian Smith, City Auditor
City of Holyoke
20 Korean Veterans Plaza
City Hall Annex
Holyoke, MA 01040

CITY OF HOLYOKE, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 38,370,830	\$ 1,188,935	\$ 39,559,765
Investments	7,027,275	-	7,027,275
Receivables, net of allowance for uncollectibles:			
Property taxes	2,392,364	-	2,392,364
Excises	671,422	-	671,422
User fees	-	4,277,306	4,277,306
Departmental and other	438,706	-	438,706
Intergovernmental	1,486,945	15,976	1,502,921
Due from fiduciary fund	172,355	-	172,355
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Tax liens and foreclosures	638,948	-	638,948
Demolition liens	51,256	-	51,256
Land and construction in process	15,625,335	350,000	15,975,335
Capital assets, net of accumulated depreciation	<u>53,817,383</u>	<u>34,131,624</u>	<u>87,949,007</u>
TOTAL ASSETS	120,692,819	39,963,841	160,656,660
LIABILITIES			
Current:			
Warrants payable	11,208,571	521,368	11,729,939
Accounts payable	1,026,404	240,328	1,266,732
Accrued payroll and withholdings	4,071,920	2,065	4,073,985
Accrued interest payable	259,835	402,645	662,480
Accrued claims payable	202,724	-	202,724
Tax refunds payable	703,951	-	703,951
Other current liabilities	69,838	-	69,838
Notes payable	1,639,000	-	1,639,000
Current portion of long-term liabilities:			
Bonds payable	3,808,151	971,343	4,779,494
Noncurrent:			
Bonds payable, net of current portion	17,919,314	26,123,194	44,042,508
Other post employment benefits	12,906,848	-	12,906,848
Compensated absences	<u>8,367,703</u>	<u>11,591</u>	<u>8,379,294</u>
TOTAL LIABILITIES	62,184,259	28,272,534	90,456,793
NET ASSETS			
Invested in capital assets, net of related debt	46,548,303	7,619,360	54,167,663
Restricted for:			
Grants and other statutory restrictions	4,392,646	-	4,392,646
Debt service funds	3,771,817	-	3,771,817
Permanent funds:			
Expendable	398,271	-	398,271
Unrestricted	<u>3,397,523</u>	<u>4,071,947</u>	<u>7,469,470</u>
TOTAL NET ASSETS	\$ <u>58,508,560</u>	\$ <u>11,691,307</u>	\$ <u>70,199,867</u>

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2008

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 7,913,760	\$ 1,204,321	\$ 2,503,929	\$ -	\$ (4,205,510)	\$ -	\$ (4,205,510)
Public safety	24,125,354	1,109,282	1,587,074	-	(21,428,998)	-	(21,428,998)
Education	96,890,890	3,835,155	93,500,681	1,982,098	2,427,044	-	2,427,044
Public works	6,955,759	373,478	1,993,114	1,709,494	(2,879,673)	-	(2,879,673)
Health and human services	1,290,453	68,296	308,111	-	(914,046)	-	(914,046)
Culture and recreation	2,266,820	182,865	127,879	-	(1,956,076)	-	(1,956,076)
Employee benefits and insurance	31,372,900	-	-	-	(31,372,900)	-	(31,372,900)
Interest	1,022,036	-	-	-	(1,022,036)	-	(1,022,036)
Intergovernmental	11,332,559	-	-	-	(11,332,559)	-	(11,332,559)
Total Governmental Activities	183,170,531	6,773,397	100,020,788	3,691,592	(72,684,754)	-	(72,684,754)
Business-Type Activities:							
Sewer services	9,524,920	9,781,331	-	51,708	-	308,119	308,119
Total Business-Type Activities	9,524,920	9,781,331	-	51,708	-	308,119	308,119
Total	\$ 192,695,451	\$ 16,554,728	\$ 100,020,788	\$ 3,743,300	(72,684,754)	308,119	(72,376,635)
General Revenues:							
Property taxes					41,348,992	-	41,348,992
Excises					2,473,025	-	2,473,025
Penalties, interest and other taxes					1,816,533	-	1,816,533
Grants and contributions not restricted to specific programs					12,724,839	-	12,724,839
Investment income					841,739	18,680	860,419
Miscellaneous					1,137,220	-	1,137,220
Total general revenues					60,342,348	18,680	60,361,028
Change in Net Assets					(12,342,406)	326,799	(12,015,607)
Net Assets:							
Beginning of year					70,850,966	11,364,508	82,215,474
End of year					\$ 58,508,560	\$ 11,691,307	\$ 70,199,867

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2008

	<u>General</u>	<u>Stabilization Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 25,364,277	\$ 2,369,238	\$ 10,485,839	\$ 38,219,354
Investments	-	7,027,275	-	7,027,275
Receivables:				
Property taxes	2,796,940	-	-	2,796,940
Tax liens and foreclosures	4,975,871	-	-	4,975,871
Demolition liens	512,565	-	-	512,565
Motor vehicle excise	1,282,269	-	-	1,282,269
Departmental	824,290	-	206,970	1,031,260
Intergovernmental	-	-	1,431,643	1,431,643
Due from other funds	172,355	-	-	172,355
TOTAL ASSETS	<u>\$ 35,928,567</u>	<u>\$ 9,396,513</u>	<u>\$ 12,124,452</u>	<u>\$ 57,449,532</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 9,182,203	\$ -	\$ 1,999,316	\$ 11,181,519
Accounts payable	54,800	-	971,604	1,026,404
Accrued payroll and withholdings	4,061,918	-	10,002	4,071,920
Accrued claims payable	202,724	-	-	202,724
Deferred revenues	10,190,364	-	108,700	10,299,064
Tax refunds payable	703,951	-	-	703,951
Other liabilities	69,792	-	46	69,838
Notes payable	-	-	1,639,000	1,639,000
TOTAL LIABILITIES	24,465,752	-	4,728,668	29,194,420
Fund Balances:				
Reserved for:				
Encumbrances	3,894,080	-	-	3,894,080
Unreserved:				
Undesignated, reported in:				
General fund	7,568,735	-	-	7,568,735
Special revenue funds	-	9,396,513	4,392,646	13,789,159
Capital projects funds	-	-	(1,166,950)	(1,166,950)
Debt service fund	-	-	3,771,817	3,771,817
Permanent funds	-	-	398,271	398,271
TOTAL FUND BALANCES	<u>11,462,815</u>	<u>9,396,513</u>	<u>7,395,784</u>	<u>28,255,112</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 35,928,567</u>	<u>\$ 9,396,513</u>	<u>\$ 12,124,452</u>	<u>\$ 57,449,532</u>

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET ASSETS OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2008

Total governmental fund balances	\$ 28,255,112
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	69,442,718
<ul style="list-style-type: none">• Internal service funds are used by management to account for health insurance run-out claims and the fuel depot. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	179,726
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(259,835)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, other post-employment benefits and accrued compensated absences, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(43,002,016)
<ul style="list-style-type: none">• In the statement of activities, accounts receivable is accrued, net of an allowance for uncollectible accounts. In governmental funds, all receivables are deferred, except for property tax received within 60 days after year end.	<u>3,892,855</u>
Net assets of governmental activities	<u><u>\$ 58,508,560</u></u>

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Stabilization Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 41,717,573	\$ -	\$ -	\$ 41,717,573
Excises	2,492,697	-	-	2,492,697
Penalties, interest and other taxes	1,816,533	-	-	1,816,533
Charges for services	1,183,897	-	5,577,162	6,761,059
Intergovernmental	97,019,910	-	22,290,009	119,309,919
Licenses and permits	542,901	-	-	542,901
Fines and forfeitures	545,271	-	-	545,271
Interest earnings	647,320	194,499	-	841,819
Miscellaneous	2,209	-	-	2,209
Total Revenues	<u>145,968,311</u>	<u>194,499</u>	<u>27,867,171</u>	<u>174,029,981</u>
Expenditures:				
Current:				
General government	4,960,609	-	2,950,680	7,911,289
Public safety	21,492,246	-	1,244,631	22,736,877
Education	78,347,327	-	17,214,839	95,562,166
Public works	6,614,600	-	850,084	7,464,684
Health and human services	1,192,139	-	1,291,496	2,483,635
Culture and recreation	1,637,478	-	321,528	1,959,006
Employee benefits and insurance	18,466,052	-	-	18,466,052
Debt service	4,528,696	-	2,872,700	7,401,396
Intergovernmental	11,332,559	-	-	11,332,559
Total Expenditures	<u>148,571,706</u>	<u>-</u>	<u>26,745,958</u>	<u>175,317,664</u>
Excess (deficiency) of revenues over expenditures	(2,603,395)	194,499	1,121,213	(1,287,683)
Other Financing Sources (Uses):				
Bond proceeds	-	-	2,803,000	2,803,000
Transfers in	24,770	-	126,500	151,270
Transfers out	(126,500)	-	(24,770)	(151,270)
Total Other Financing Sources (Uses)	<u>(101,730)</u>	<u>-</u>	<u>2,904,730</u>	<u>2,803,000</u>
Change in fund balance	(2,705,125)	194,499	4,025,943	1,515,317
Fund Equity, July 1, 2007	<u>14,167,940</u>	<u>9,202,014</u>	<u>3,369,841</u>	<u>26,739,795</u>
Fund Equity, June 30, 2008	<u>\$ 11,462,815</u>	<u>\$ 9,396,513</u>	<u>\$ 7,395,784</u>	<u>\$ 28,255,112</u>

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2008

**NET CHANGES IN FUND BALANCES -
TOTAL GOVERNMENTAL FUNDS**

\$ 1,515,317

- 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:

Construction in progress (net of items placed in service) and capital outlay purchases	4,236,876
Depreciation	(4,939,777)

- 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, net of allowance. (328,817)

- The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets:

Issuance of long term debt	(2,803,000)
Repayments of debt principal	3,510,682

- In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. (4,022)

- Some expenses reported in the Statement of Activities, such as other post-employment benefits and compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds.

Compensated absences	(613,155)
Other post-employment benefits	(12,906,848)

- Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. (9,662)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES

\$ (12,342,406)

CITY OF HOLYOKE, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 42,209,847	\$ 42,209,847	\$ 42,209,847	\$ -
Excise	1,875,000	1,875,000	2,492,697	617,697
Penalties, interest and other taxes	1,100,000	1,100,000	1,816,533	716,533
Charges for services	1,430,800	1,430,800	1,183,897	(246,903)
Intergovernmental	82,817,177	82,817,177	85,631,566	2,814,389
Licenses and permits	341,350	341,350	542,901	201,551
Fines and forfeits	305,000	305,000	545,271	240,271
Interest earnings	500,000	500,000	647,320	147,320
Miscellaneous	-	-	2,209	2,209
Transfers in	-	24,807	24,770	(37)
Other sources	<u>2,786,511</u>	<u>4,499,802</u>	<u>4,499,802</u>	<u>-</u>
Total Revenues and Other Sources	133,365,685	135,103,783	139,596,813	4,493,030
Expenditures and Other Uses:				
General government	5,129,867	5,255,331	4,974,007	281,324
Public safety	21,173,722	21,440,122	21,220,612	219,510
Education	63,577,479	64,237,479	64,218,610	18,869
Public works	5,629,485	6,038,699	5,853,948	184,751
Human services	1,203,066	1,229,464	1,162,193	67,271
Culture and recreation	1,709,449	1,801,071	1,679,010	122,061
Debt service	4,595,020	4,595,020	4,528,696	66,324
Intergovernmental	11,874,795	11,874,795	11,332,559	542,236
Employee benefits and insurance	18,370,302	18,505,302	18,343,661	161,641
Transfers out	<u>102,500</u>	<u>126,500</u>	<u>126,500</u>	<u>-</u>
Total Expenditures and Other Uses	<u>133,365,685</u>	<u>135,103,783</u>	<u>133,439,796</u>	<u>1,663,987</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>6,157,017</u>	\$ <u>6,157,017</u>

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2008

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u> Internal Service <u>Funds</u>
	Sewer <u>Fund</u>	
<u>ASSETS</u>		
Current:		
Cash and short-term investments	\$ 1,188,935	\$ 151,476
User fees, net of allowance for uncollectibles	4,277,306	-
Intergovernmental receivable	<u>15,976</u>	<u>55,302</u>
Total current assets	5,482,217	206,778
Noncurrent:		
Land and construction in process	350,000	-
Property, plant and equipment, net of accumulated depreciation	<u>34,131,624</u>	<u>-</u>
Total noncurrent assets	<u>34,481,624</u>	<u>-</u>
TOTAL ASSETS	39,963,841	206,778
<u>LIABILITIES</u>		
Current:		
Warrants payable	521,368	27,052
Accounts payable	240,328	-
Accrued payroll and withholdings	2,065	-
Accrued interest payable	402,645	-
Current portion of long-term liability: Bonds payable	<u>971,343</u>	<u>-</u>
Total current liabilities	2,137,749	27,052
Noncurrent:		
Bonds payable, net of current portion	26,123,194	-
Compensated absences	<u>11,591</u>	<u>-</u>
Total noncurrent liabilities	<u>26,134,785</u>	<u>-</u>
TOTAL LIABILITIES	28,272,534	27,052
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	7,619,360	-
Unrestricted	<u>4,071,947</u>	<u>179,726</u>
TOTAL NET ASSETS	<u>\$ 11,691,307</u>	<u>\$ 179,726</u>

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2008

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u> Internal Service <u>Funds</u>
	Sewer <u>Fund</u>	
Operating Revenues:		
Charges for services	\$ 9,737,640	\$ 710,359
Other income	<u>43,691</u>	<u>-</u>
Total Operating Revenues	9,781,331	710,359
Operating Expenses:		
Salaries and wages	118,781	-
Operating expenses	7,032,018	720,021
Depreciation	<u>1,466,302</u>	<u>-</u>
Total Operating Expenses	<u>8,617,101</u>	<u>720,021</u>
Operating income (loss)	1,164,230	(9,662)
Nonoperating Revenues (Expenses):		
Grant income	51,708	-
Investment income	18,680	-
Interest expense	<u>(907,819)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(837,431)</u>	<u>-</u>
Change in net assets	326,799	(9,662)
Net Assets at Beginning of Year	<u>11,364,508</u>	<u>189,388</u>
Net Assets at End of Year	<u>\$ 11,691,307</u>	<u>\$ 179,726</u>

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2008

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u> Internal Service <u>Funds</u>
	Sewer <u>Fund</u>	
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 10,560,987	\$ -
Receipts from interfund service provided	-	693,817
Payments to vendors and employees	<u>(7,504,190)</u>	<u>(713,389)</u>
Net Cash Provided by / (Used for) Operating Activities	3,056,797	(19,572)
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Proceeds from issuance of bonds	8,543,509	-
Acquisition and construction of capital assets	(2,914,863)	-
Repayment of notes payable	(8,981,100)	-
Interest expense	(907,819)	-
Grant income	<u>51,708</u>	<u>-</u>
Net Cash (Used for) Capital and Related Financing Activities	(4,208,565)	-
<u>Cash Flows From Investing Activities:</u>		
Investment income	<u>18,680</u>	<u>-</u>
Net Cash Provided by Investing Activities	<u>18,680</u>	<u>-</u>
Net Change in Cash	(1,133,088)	(19,572)
Cash, Beginning of Year	<u>2,322,023</u>	<u>171,048</u>
Cash, End of Year	<u>\$ 1,188,935</u>	<u>\$ 151,476</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>		
Operating income (loss)	\$ 1,164,230	\$ (9,662)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	1,466,302	-
Changes in assets and liabilities:		
User fees	(2,027,769)	-
Intergovernmental accounts receivable	2,807,425	(16,542)
Warrants payable	(114,146)	6,632
Accrued liabilities	366	-
Accounts payable	(394,446)	-
Accrued interest	155,494	-
Accrued compensated absences	<u>(659)</u>	<u>-</u>
Net Cash Provided by / (Used for) Operating Activities	<u>\$ 3,056,797</u>	<u>\$ (19,572)</u>

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

<u>ASSETS</u>	Agency Funds	Private Purpose Funds	Pension Trust Fund (For the Year Ended <u>December 31, 2007</u>)
Cash and short-term investments	\$ 136,951	\$ 147,961	\$ 19,434,465
Investments:			
Mutual funds	<u>-</u>	<u>-</u>	<u>163,516,634</u>
Total Investments	-	-	163,516,634
Accounts receivable	<u>205,259</u>	<u>-</u>	<u>2,391,998</u>
Total Assets	342,210	147,961	185,343,097
 <u>LIABILITIES AND NET ASSETS</u>			
Accounts payable	4,325	-	27,954
Accrued payroll	32,904	-	-
Due to other funds	172,355	-	-
Deferred revenue	-	-	4,131,369
Other liabilities	<u>132,626</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>342,210</u>	<u>-</u>	<u>4,159,323</u>
Total net assets held in trust for pension benefits and other purposes	\$ <u><u>-</u></u>	\$ <u><u>147,961</u></u>	\$ <u><u>181,183,774</u></u>

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2008

	Private Purpose Funds	Pension Trust Fund (For the Year Ended December 31, 2007)
Additions:		
Contributions:		
Employers	\$ -	\$ 11,743,833
Plan members	-	4,581,564
Other	-	707,558
Total contributions	<u>-</u>	<u>17,032,955</u>
Investment Income:		
Interest and dividends	13,658	3,585,939
Realized gain on sale of investments	-	9,219,398
Appreciation in fair value of investments	-	1,572,827
Less: management fees	-	(1,105,823)
Net investment income	<u>13,658</u>	<u>13,272,341</u>
Total additions, net	13,658	30,305,296
Deductions:		
Benefit payments to plan members and beneficiaries	-	17,575,063
Reimbursements to other systems	-	423,221
Refunds to plan members	-	1,142,753
Administrative expenses	-	316,875
Total deductions	<u>-</u>	<u>19,457,912</u>
Net increase	13,658	10,847,384
Net assets held in trust for pension benefits and other purposes:		
Beginning of year	<u>134,303</u>	<u>170,336,390</u>
End of year	<u>\$ 147,961</u>	<u>\$ 181,183,774</u>

See notes to financial statements.

City of Holyoke, Massachusetts

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the City of Holyoke (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected City Council. These financial statements include only the primary government of the City of Holyoke. They do not include the component units for which the government is considered to be financially accountable. In fiscal year 2008, it was determined that the City of Holyoke Board of Water Commissioners, City of Holyoke Geriatric Authority, and the City of Holyoke Gas and Electric Company enterprise fund met the required GASB-14 criteria of component units.

Blended Component Units - Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government:

In the Fiduciary Funds: The Holyoke Contributory Retirement System which was established to provide retirement benefits primarily to employees and their beneficiaries. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements. Additional financial information of the System can be obtained by contacting the System located at 20 Korean Veterans Plaza, City Hall Annex, Holyoke, MA 01040.

B. Government-Wide and Fund Financial Statements

Government-Wide 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 nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental 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.

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*.

Fund Financial Statements

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

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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 and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they

are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental funds:

- 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 *stabilization fund*, an account authorized by Massachusetts General Laws Chapter 40, Section 5B from which the City can appropriate funds for any legal purpose.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary fund:

- The *sewer enterprise fund*, which accounts for the operations of the City's wastewater treatment facility and supporting infrastructure.

The self-insured employee health program and fuel depot operation are reported as internal service funds in the accompanying financial statements.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and cash equivalents". The interest earnings attributable to each fund type is included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be cash equivalents.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System and Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2008 tax levy reflected an excess capacity of \$ 23,153.

G. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due from/to other funds”.

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type 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 \$ 5,000 and an estimated useful life in excess of two years. 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 costs 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. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets 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	40
Building improvements	20
Sewer infrastructure	40
Vehicles	5
Office equipment	5
Computer equipment	5

I. Compensated Absences

It is the government’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

J. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

L. Use of Estimates

The preparation of basic 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 disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance and Accountability

A. Budgetary Information

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the City Council is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The General Fund final appropriation appearing on the “Budget and Actual” page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 145,968,311	\$ 148,571,706
Other financing sources/uses (GAAP basis)	24,770	126,500
Adjust tax revenue to accrual basis	492,274	-
Adjust for other GAAP accruals	-	(90,982)
Reverse beginning of year appropriation carry- forwards from expenditures	-	(7,673,164)
Add end of year appropriation carryforwards to expenditures	-	3,894,080
To reverse the effect of nonbudgeted State contributions for teachers retirement	(11,388,344)	(11,388,344)
Recognize use of fund balance as a funding source	<u>4,499,802</u>	<u>-</u>
Budgetary basis	<u>\$ 139,596,813</u>	<u>\$ 133,439,796</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2008:

Special Revenue Funds:		
School lunch	\$	(235,805)
Highway and bridges Ch. 90		(90,174)
Various other special revenue funds		(72,824)
Capital Project Funds:		
Wistariahurst renovations		(32,070)
Schools: fields/lights/lots/etc.		(28,552)
Geriatric Authority land purchase		(1,200,000)
High School renovation		(198,066)
Internal Service Funds:		
Fuel depot		(15,880)
Agency Fund:		
Police outside detail		(38,352)

The deficits in these funds will be eliminated through future departmental revenues, bond proceeds and transfers from other funds.

3. Cash and Short-Term 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. Massachusetts General Laws Chapter 44, Section 55 limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty per cent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The City and the Contributory Retirement System do not have a deposit policy for custodial credit risk.

As of June 30, 2008, \$ 4,114,321 of the City's bank balance of \$ 31,850,476 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the City's name.

As of December 31, 2007, \$ 28,732 of the Contributory Retirement System's bank balance of \$ 19,532,887 was exposed to credit risk as uninsured, uncollateralized and collateral held by pledging banks trust department not in the System's name.

4. Investments (Also see Note 17)

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts

General Law, Chapter 44, Section 55, limits the City's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below is the actual rating as of year end for each investment of the City (All federal agency securities have an implied credit rating of AAA.):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>	
			<u>A+</u>	<u>AA-</u>
Preferred stocks	\$ 393,320	\$ 393,320	\$ -	\$ -
Corporate bonds	448,427	-	190,973	257,454
Mutual funds	3,900,819	3,900,819	-	-
Federal agency securities	<u>2,284,709</u>	<u>2,284,709</u>	-	-
Total investments	<u>\$ 7,027,275</u>	<u>\$ 6,578,848</u>	<u>\$ 190,973</u>	<u>\$ 257,454</u>

Massachusetts General Law, Chapter 32, Section 23, limits the investment of System funds, to the extent not required for current disbursements, in the PRIT Fund or in securities, other than mortgages or collateral loans, which are legal for the investment of funds in savings banks under the laws of the Commonwealth, provided that no more than the established percentage of assets is invested in any one security.

All of the System's investments consist of mutual funds which are exempt from credit risk disclosure requirements.

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The City and System do not have policies for custodial credit risk.

All of the City's investments of \$ 7,027,275, are exposed to credit risk because the related securities are uninsured, unregistered and held by the City's brokerage firm, which is also the Counterparty to these securities.

C. Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. The City does not have any Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments.

The Contributory Retirement System does not have any investments in one issuer (other than mutual funds) that represent greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City and System do not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. Information about the sensitivity of the fair values of the City’s investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt from Disclosure</u>	<u>Investment Maturities (in Years)</u>	
			<u>6-10</u>	<u>More Than 10</u>
Preferred stock	\$ 393,320	\$ 393,320	\$ -	\$ -
Corporate bonds	448,427	-	448,427	-
Mutual funds	3,900,819	3,900,819	-	-
Federal agency securities	<u>2,284,709</u>	<u>-</u>	<u>2,264,703</u>	<u>20,006</u>
Total	<u>\$ 7,027,275</u>	<u>\$ 4,294,139</u>	<u>\$ 2,713,130</u>	<u>\$ 20,006</u>

All of the System’s investments are comprised of mutual funds, which are not subject to interest rate risk.

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City and System do not have policies for foreign currency risk.

5. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessors for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayer’s property. The City has an ultimate right to

foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2008 consist of the following:

Real Estate			
2008	\$	1,465,374	
2007 and Prior		<u>1,117,189</u>	
			2,582,563
Personal Property			
2008		20,838	
2007 and Prior		<u>193,539</u>	
			<u>214,377</u>
Total	\$		<u><u>2,796,940</u></u>

6. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts:

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 404,576	\$ -
Tax liens and foreclosures	4,336,923	-
Demolition liens	461,309	-
Excises	610,847	-
Departmental and other	592,554	1,234,898

7. Intergovernmental Receivables

The majority of the receivable reported in the governmental funds represents reimbursements requested from Federal and State agencies for grant expenditures incurred in fiscal year 2008 that are expected to be reimbursed in 2009.

8. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2008 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 172,355	\$ -
Agency Funds – Police Outside Detail	<u>-</u>	<u>172,355</u>
Total	<u><u>\$ 172,355</u></u>	<u><u>\$ 172,355</u></u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 104,186	\$ 134	\$ -	\$ 104,320
Machinery, equipment, and furnishings	19,292	794	-	20,086
Land improvements	3,171	-	-	3,171
Infrastructure	8,310	1,782	-	10,092
Total capital assets, being depreciated	134,959	2,710	-	137,669
Less accumulated depreciation for:				
Buildings and improvements	(59,815)	(2,461)	-	(62,276)
Machinery, equipment, and furnishings	(14,589)	(1,178)	-	(15,767)
Land improvements	(1,408)	(291)	-	(1,699)
Infrastructure	(3,099)	(1,010)	-	(4,109)
Total accumulated depreciation	(78,911)	(4,940)	-	(83,851)
Total capital assets, being depreciated, net	56,048	(2,230)	-	53,818
Capital assets, not being depreciated:				
Land	14,097	1,200	-	15,297
Construction in progress	1	327	-	328
Total capital assets, not being depreciated	14,098	1,527	-	15,625
Governmental activities capital assets, net	<u>\$ 70,146</u>	<u>\$ (703)</u>	<u>\$ -</u>	<u>\$ 69,443</u>
<u>Business-Type Activities:</u>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 34,334	\$ 5,666	\$ -	\$ 40,000
Machinery, equipment, and furnishings	1,262	-	-	1,262
Infrastructure	32,707	17,929	-	50,636
Total capital assets, being depreciated	68,303	23,595	-	91,898
Less accumulated depreciation for:				
Buildings and improvements	(33,567)	(257)	-	(33,824)
Machinery, equipment, and furnishings	(1,152)	(22)	-	(1,174)
Infrastructure	(21,581)	(1,187)	-	(22,768)
Total accumulated depreciation	(56,300)	(1,466)	-	(57,766)
Total capital assets, being depreciated, net	12,003	22,129	-	34,132
Capital assets, not being depreciated:				
Land	350	-	-	350
Construction in progress	20,680	-	(20,680)	-
Total capital assets, not being depreciated	21,030	-	(20,680)	350
Governmental activities capital assets, net	<u>\$ 33,033</u>	<u>\$ 22,129</u>	<u>\$ (20,680)</u>	<u>\$ 34,482</u>

Depreciation expense was charged to functions of the City as follows (in thousands):

Governmental Activities:	
General government	\$ 23
Public safety	1,186
Education	1,888
Public works	1,502
Culture and recreation	4
Human services	<u>337</u>
Total depreciation expense - governmental activities	<u>\$ 4,940</u>
Business-Type Activities:	
Sewer	<u>\$ 1,466</u>
Total depreciation expense - business-type activities	<u>\$ 1,466</u>

10. Warrants and Accounts Payable

Warrants payable represent 2008 expenditures paid by July 15, 2008 as permitted by law. Accounts payable represent additional 2008 expenditures paid after July 15, 2008.

11. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2008 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

12. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. Some of these cases are currently pending with the state Appellate Tax Board.

13. Notes Payable

The City had the following notes outstanding at June 30, 2008:

	Interest Rate	Date of Issue	Date of Maturity	Balance at June 30, 2008
Bond anticipation	2.71%	06/24/08	05/29/09	\$ 327,000
Bond anticipation	2.71%	06/24/08	05/29/09	62,000
Bond anticipation	2.71%	06/24/08	05/29/09	1,200,000
Bond anticipation	2.71%	06/24/08	05/29/09	50,000
Total				<u>\$ 1,639,000</u>

The following summarizes activity in notes payable during fiscal year 2008:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ <u>13,201,100</u>	\$ <u>1,639,000</u>	\$ <u>(13,201,100)</u>	\$ <u>1,639,000</u>

14. Long-Term Debt

A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental activities and business-type activities. General obligation bonds currently outstanding are as follows:

	Serial Maturities Through	Interest Rate(s)%	Outstanding as of June 30, 2008
<u>Governmental Activities:</u>			
Land Acquisition (refund)	11/01/08	2.0 - 3.00	\$ 32,699
St. Railway Bldg. (refund)	11/01/08	2.0 - 3.00	57,343
4 School Additions (refund)	11/01/08	2.0 - 3.00	244,954
4 School Additions (refund)	08/01/10	4.3 - 5.25	2,980,000
Building Demolitions	09/01/11	5.54	540,000
Central Fuel Facility	09/01/11	5.54	180,000
Fire Station	09/01/11	5.54	1,540,000
Police Station (refund)	08/01/13	3.1 - 4.125	1,414,165
Land Acquisition (refund)	06/15/15	2.5 - 5.00	353,341
Police Station (refund)	06/15/16	2.5 - 5.00	2,011,619
School Roof Remodeling (refund)	06/15/16	2.5 - 5.00	1,770,344
Outdoor Athletic Facility	08/01/16	3.5 - 4.40	1,575,000
City Hall Remodeling	08/01/17	4.3 - 5.25	1,600,000
Building Demolition (refund)	09/01/18	3.9	950,500
Central Fuel Facility (refund)	09/01/18	3.9	340,600
Fire Station (refund)	09/01/19	3.9	3,333,900
High School Remodeling	07/15/27	4.45	1,200,000
School Roofs	07/15/27	4.45	183,000
School Lots/Field/Lights	07/15/27	4.45	1,180,000
Building Demolition	07/15/27	4.45	240,000
Total Governmental Activities			<u>\$ 21,727,465</u>
<u>Business-Type Activities:</u>			
Sewer Bond (refund)	08/01/13	3.5 - 4.125	\$ 270,689
Sewer Bond	08/01/16	3.5 - 4.40	305,000
MWPAT	07/20/06	2	17,518,848
Sewer CSO Projects	07/15/27	4.45	3,000,000
Sewer Plant Improvements	07/15/27	4.45	6,000,000
Total Business-Type Activities			<u>27,094,537</u>
Total Debt			<u>\$ 48,822,002</u>

B. State Revolving Loan

The U.S. Environmental Protection Agency sponsors a low-interest rate loan program. The loans are administered by the Massachusetts Water Pollution Abatement Trust (MWPAT) and are used by local communities to improve their sewer and water systems.

The City has authorized and issued \$ 17,900,000 for the purpose of Combined Sewer Overflow (CSO) abatement at a rate of 2%. This amount is included in the total debt of the City's business-type activities.

C. Future Debt Service

The annual principal payments to retire all general obligation long-term debt outstanding as of June 30, 2008 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 3,808,151	\$ 885,274	\$ 4,693,425
2010	3,527,000	716,100	4,243,100
2011	1,983,173	592,455	2,575,628
2012	1,959,465	508,916	2,468,381
2013	1,919,914	421,888	2,341,802
2014-2018	6,914,762	1,019,559	7,934,321
2019-2023	1,270,000	151,537	1,421,537
2024-2028	345,000	37,134	382,134
Total	<u>\$ 21,727,465</u>	<u>\$ 4,332,863</u>	<u>\$ 26,060,328</u>
<u>Business-Type</u>			
2009	\$ 971,343	\$ 831,554	\$ 1,802,897
2010	981,071	792,045	1,773,116
2011	990,602	755,473	1,746,075
2012	1,005,348	720,417	1,725,765
2013	1,014,878	685,477	1,700,355
2014-2018	5,005,914	2,903,779	7,909,693
2019-2023	5,013,913	2,053,235	7,067,148
2024-2028	5,355,849	1,224,744	6,580,593
thereafter	6,755,619	737,634	7,493,253
Total	<u>\$ 27,094,537</u>	<u>\$ 10,704,358</u>	<u>\$ 37,798,895</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2008, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 07/01/07	Addition	Reduction	Total Balance 06/30/08	Less Current Portion	Equals Long-Term Portion 06/30/08
<u>Governmental Activities:</u>						
Bonds payable	\$ 22,435	\$ 2,803	\$ (3,511)	\$ 21,727	\$ (3,808)	\$ 17,919
Other:						
Other post employ- ment benefits	-	12,907	-	12,907	-	12,907
Accrued compensated absences	7,755	613	-	8,368	-	8,368
Total	\$ 30,190	\$ 16,323	\$ (3,511)	\$ 43,002	\$ (3,808)	\$ 39,194
<u>Business-Type Activities:</u>						
Bonds payable	\$ 18,551	\$ 9,000	\$ (456)	\$ 27,095	\$ (971)	\$ 26,124
Other:						
Accrued compensated absences	12	1	(1)	12	-	12
Total	\$ 18,563	\$ 9,001	\$ (457)	\$ 27,107	\$ (971)	\$ 26,136

E. Advance Refunding

Prior Year

In prior years, the City has defeased various bond issues by creating separate irrevocable trust funds. The proceeds from the new issuance of the general obligation bonds were used to purchase U.S. government securities, and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the refunded bonds mature in September 2009. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the City's balance sheet. As of June 30, 2008, the amount of defeased debt outstanding but removed from the governmental activities was \$ 4,275,000.

15. Restricted Net Assets

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets represent expendable trust funds which are available to be spent based on donor restrictions.

16. Reserves of Fund Equity

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following type of reserve is reported at June 30, 2008:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

17. Subsequent Events

A. Investments

Subsequent to June 30, 2008, the stock market suffered significant losses. As a result, there may be a substantial depreciation in the value of the organization’s investments.

B. Debt

Subsequent to June 30, 2008, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Bond anticipation note	\$ 1,300,000	2.17%	06/30/09	05/28/10
Bond anticipation note	<u>4,297,000</u>	2.25%	05/29/09	05/28/10
Total	<u>\$ 5,597,000</u>			

18. Commitments and Contingencies

Outstanding Lawsuits - There are various claims and suits pending against the City which arise in the normal course of the City’s activities. There are also several cases pending before the Appellate Tax Board in regard to discrepancies in property assessments. The probable outcome of these cases at the present time is indeterminable.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be

disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Combined Sewer Overflow - The City has reached an agreement with the U.S. Environmental Protection Agency (EPA) to implement a Consolidated Construction Project for the Mosher Street combined sewer overflows (CSO's). The project is intended to eliminate CSO discharges through the separation of the collection system tributary to the Mosher Street CSO outfall. The City began this project in the spring of 2004 and completed it in December 2007. The total cost of the project was approximately \$ 2.6 million, of which \$ 1,375,000 was funded by the EPA.

The City is also under an Administrative Consent Order with the U.S. Environmental Protection Agency (EPA) for the construction of the Berkshire Street CSO facility and elimination of overflows from that outfall. The City began this project during fiscal year 2006. The cost to remediate these CSO deficiencies is estimated at \$ 17.9 million which is funded through a Massachusetts Water Pollution Abatement Trust (MWPAT) loan. The project was completed by July 1, 2008.

Long-Term Contracts – On July 15, 2005, the City entered into an agreement (amended February 28, 2006) with United Water Environmental Services, Inc. (UWES) to operate, maintain and repair the City's wastewater system. UWES will also be responsible for the design, construction, start-up and testing of the initial capital improvements to the wastewater system including the combined sewer overflow abatement facility (under consent order with EPA) and certain other initial capital improvements totaling approximately \$ 6 million. In December 2006, the City authorized \$ 6 million in general obligation bonds to fund the capital improvements. As of June 30, 2008 the capital improvements have been substantially completed.

UWES bills the City a monthly service fee for the performance of the management services and design/build work related to the wastewater system improvements. The fee includes a base monthly charge, any reimbursable costs, extraordinary items or base fee adjustments. The contract is for a term of 20 years.

19. Post-Retirement Health Care and Life Insurance Benefits

During the year, the City implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*. Statement 45 requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses,

and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

A. Plan Description

In addition to providing the pension benefits described in a subsequent footnote, the City provides post-employment health care and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2007, the actuarial valuation date, approximately 1450 retirees and 1433 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The City provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

C. Funding Policy

Retirees contribute 50% of the cost of the health plan, as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The City's fiscal year 2008 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2008, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of June 30, 2007.

Annual Required Contribution (ARC)	\$ 19,471,267
Interest on net OPEB obligation	-
Adjustment to ARC	-
	<hr/>
Annual OPEB cost	19,471,267
Contributions made	6,564,419
	<hr/>
Increase in net OPEB obligation	12,906,848
Net OPEB obligation - beginning of year	-
	<hr/>
Net OPEB obligation - end of year	<u>\$ 12,906,848</u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of OPEB Cost Contributed	Net OPEB Obligation
2008	\$ 19,471,267	33.71%	\$ 12,906,848

The City's net OPEB obligation as of June 30, 2008 is recorded as a separate line item in the accompanying statement of net assets.

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2007, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 300,166,313
Actuarial value of plan assets	-
	<hr/>
Unfunded actuarial accrued liability (UAAL)	300,166,313
	<hr/>
Funded ratio (actuarial value of plan assets/AAL)	0%
	<hr/>
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

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 following the notes to the financial statements, presents multiyear trend information that shows whether the actuarial

value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

F. Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the plan as understood by the City 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 City and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2007 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advance funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 4.5%. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 4.5%.

20. Contributory Retirement System

The City follows the provisions of GASB Statement No. 27, Accounting for Pensions by State and Local Government Employers, (as amended by GASB 50) with respect to the employees' retirement funds.

A. Plan Description and Contribution Information

Substantially all employees of the City, except teachers, are members of the Holyoke Contributory Retirement System (HCRS), a cost sharing, multiple employer defined benefit PERS. Eligible employees must participate in the HCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the HCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The HCRS Retirement Board does not have the authority to amend benefit provisions. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at January 1, 2007, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	915
Terminated plan members entitled to but not yet receiving benefits	227
Active plan members	<u>1,289</u>
Total	<u><u>2,431</u></u>
Number of participating employers	3

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$ 30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC). The City's Schedule of Employer Contributions is as follows:

Schedule of Employer Contributions:

<u>Year Ended</u> <u>June 30</u>	<u>Annual Required</u> <u>Contribution</u>	<u>Percentage</u> <u>Contributed</u>
2003	\$ 6,109,348	100%
2004	6,096,446	100%
2005	6,520,221	100%
2006	6,921,096	100%
2007	8,312,816	100%
2008	8,240,302	100%

B. Summary of Significant Accounting Policies

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions are recognized when due and the employer

has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Method Used to Value Investments - Investments are reported at fair value in accordance with PERAC requirements.

C. Funded Status and Funding Progress

The information presented below is from the Holyoke Contributory Retirement System's most recent valuation. (Amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
01/01/07	\$ 175,326	\$ 265,688	\$ 90,362	65.9%	\$ 49,763	181.60%

The Schedule of Funding Progress following the notes to the financial statements presents multi-year trend information about the actuarial value of plan assets relative to the actuarial accrued liability for benefits.

D. Actuarial Methods and Assumptions

The annual required contribution for the current year was determined as part of the actuarial valuation using the entry age normal actuarial cost method. Under this method an unfunded actuarial accrued liability of \$ 90.4 million was calculated. The actuarial assumptions included (a) 8.25% investment rate of return and (b) a projected salary increase of 4.0% per year. Liabilities for cost of living increases have been assumed at an annual increase of 3%, on the first \$ 12,000 of benefit payments. The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.25%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five-year period. As of January 1, 2007 the unfunded actuarially accrued liability is being amortized over 18 years using an open group method which assumes a 4.0% per year increase in payroll.

E. Teachers

As required by State statutes, teachers of the City are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The City is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participant's date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7% *
January 1, 1984 - June 30, 1996	8% *
July 1, 1996 - June 30, 2001	9% *
Beginning July 1, 2001	11%

* Effective January 1, 1990, all participants hired after January 1, 1979, who have not elected to increase to 11%, contribute an additional 2% of salary in excess of \$ 30,000.

The City's current year covered payroll for teachers and administrators was not available.

In fiscal year 2008, the Commonwealth of Massachusetts contributed \$ 11,388,344 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

21. Self Insurance

The City self insures against claims for workers compensation and unemployment and has a potential residual liability for certain health coverage. Annual estimated requirements for claims are provided in the City's annual operating budget.

Workers Compensation

The City contracts with Meditrol, Inc. for claims processing of the City's workers' compensation policy, which has no excess liability coverage for any employees. The City funds claims through a General Fund appropriation. The City determined that there was a liability of \$ 202,724 for unpaid workers' compensation claims at June 30, 2008 which is reflected as an accrued claims payable in the accompanying financial statements.

Health Insurance

Beginning in fiscal year 1997, the City began converting portions of its self-insured health plan to a premium-based policy and discontinued its self-insured plan completely in fiscal year 2005. The City remains liable for claims incurred prior to the plans' conversion dates. Accordingly, the City has reduced its insurance coverage from prior years to \$ 50,000 per incident with no aggregate liability coverage. The City continues to contract with an insurance carrier for excess liability coverage and an insurance consultant for claims processing.

22. Risk Management

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

CITY OF HOLYOKE, MASSACHUSETTS
SCHEDULE OF FUNDING PROGRESS
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
(Amounts Expressed in thousands)

Employees' Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/03	\$147,834	\$218,196	\$70,362	67.8%	\$45,374	155.0%
1/1/05	\$154,650	\$248,325	\$93,675	62.3%	\$47,515	197.2%
1/1/07	\$175,326	\$265,688	\$90,362	65.9%	\$49,763	181.6%

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
06/30/07	\$ -	\$ 300,166	\$ 300,166	0.0%	N/A	N/A

See Independent Auditors' Report.