

CITY OF HOLYOKE, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2009

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	17
Proprietary Funds:	
Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets	19
Statement of Cash Flows	20
Fiduciary Funds:	
Statement of Fiduciary Net Assets	21
Statement of Changes in Fiduciary Net Assets	22
Notes to Financial Statements	23
SUPPLEMENTARY INFORMATION:	
Schedule of Funding Progress	48

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.

Melanson Heath & Company, PC

Certified Public Accountants
Management Advisors

*51 Davis Street
Greenfield, MA 01301
Tel (413) 773-5405 Fax (413) 773-7304
www.melansonheath.com*

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, 2009 (except for the Holyoke Contributory Retirement System, which is as of and for the year ended December 31, 2008), 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 United States of America require to be reported with the financial data of the City's

Additional Offices:

Andover, MA • Manchester, NH • Nashua, NH • Ellsworth, ME

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, 2009 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 \$ 5,645,361 in the accompanying balance sheet, and \$ 640,051 (net of allowance) in the statement of net assets, as of June 30, 2009.

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, 2009 (except for the Holyoke Contributory Retirement System, which is as of and for the year ended December 31, 2008) 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 April 25, 2011 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
April 25, 2011

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, 2009.

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 \$ 59,244,668 (i.e., net assets), a decrease of \$ (10,955,199) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 27,108,023, a decrease of \$ (1,147,096) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 7,228,245, a decrease of \$ (340,490) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 44,042,509, a decrease of \$ (4,779,493) 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		Business-Type		Total	
	<u>Activities</u>		<u>Activities</u>			
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 45,516	\$ 51,250	\$ 5,831	\$ 5,482	\$ 51,347	\$ 56,732
Capital assets	69,027	69,443	33,362	34,482	102,389	103,925
Total assets	114,543	120,693	39,193	39,964	153,736	160,657
Long-term liabilities out-						
standing	48,806	39,194	25,142	26,134	73,948	65,328
Other liabilities	17,731	22,990	2,812	2,139	20,543	25,129
Total liabilities	66,537	62,184	27,954	28,273	94,491	90,457
Net assets:						
Invested in capital assets,						
net	46,882	46,548	7,785	7,619	54,667	54,167
Restricted	10,330	8,563	-	-	10,330	8,563
Unrestricted	(9,206)	3,398	3,454	4,072	(5,752)	7,470
Total net assets	\$ 48,006	\$ 58,509	\$ 11,239	\$ 11,691	\$ 59,245	\$ 70,200

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charges for services	\$ 6,765	\$ 6,773	\$ 8,068	\$ 9,781	\$ 14,833	\$ 16,554
Operating grants and contributions	105,351	100,021	-	-	105,351	100,021
Capital grants and contributions	1,101	3,692	-	52	1,101	3,744
General revenues:						
Property taxes	44,456	41,349	-	-	44,456	41,349
Excises	2,025	2,473	-	-	2,025	2,473
Penalties, interest on taxes, and other taxes	2,245	1,817	-	-	2,245	1,817
Grants and contributions not restricted to specific programs	13,638	12,725	-	-	13,638	12,725
Investment income	(60)	842	6	19	(54)	861
Miscellaneous	-	1,137	-	-	-	1,137
Total revenues	<u>175,521</u>	<u>170,829</u>	<u>8,074</u>	<u>9,852</u>	<u>183,595</u>	<u>180,681</u>
Expenses:						
General government	8,843	7,914	-	-	8,843	7,914
Public safety	24,264	24,125	-	-	24,264	24,125
Education	96,826	96,891	-	-	96,826	96,891
Public works	6,958	6,956	-	-	6,958	6,956
Human services	1,300	1,290	-	-	1,300	1,290
Culture and recreation	2,404	2,267	-	-	2,404	2,267
Employee benefits	32,755	31,373	-	-	32,755	31,373
Interest on long-term debt	904	1,022	-	908	904	1,930
Intergovernmental	11,770	11,333	-	-	11,770	11,333
Sewer operations	-	-	8,526	8,617	8,526	8,617
Total expenses	<u>186,024</u>	<u>183,171</u>	<u>8,526</u>	<u>9,525</u>	<u>194,550</u>	<u>192,696</u>
Change in net assets	(10,503)	(12,342)	(452)	327	(10,955)	(12,015)
Net assets - beginning 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>
Net assets - end of year	<u>\$ 48,006</u>	<u>\$ 58,509</u>	<u>\$ 11,239</u>	<u>\$ 11,691</u>	<u>\$ 59,245</u>	<u>\$ 70,200</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 \$ 59,244,668, a decrease of \$ (10,955,199) from the prior year.

By far the largest portion of net assets, \$ 54,666,610, 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, \$ 10,329,690, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ (5,751,632) if a surplus, 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 \$ (10,753,002). Key elements of this change are as follows:

General fund operations	\$ 418,939
Major fund – Stabilization investment losses	(274,537)
Non-major fund expenditures over revenues	(1,291,498)
Depreciation expense in excess of principle debt service	(1,286,184)
Capital assets purchased with tax levy and grant funds	4,678,223
Internal service fund operations	19,395
Change in compensated absence liability	(124,209)
Change in other post-employment benefits liability	(13,015,246)
Other GAAP accruals	<u>372,263</u>
Total	<u>\$ (10,502,854)</u>

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ (452,345). This change resulted primarily from users fees collected being less than 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 \$ 27,108,023 a decrease of \$ (1,147,096) in comparison with the prior year. Key elements of this change are as follows:

General fund operations	\$ 418,939
Major fund – Stabilization investment losses	(274,537)
Non-major fund expenditures over revenues	<u>(1,291,498)</u>
Total	\$ <u>(1,147,096)</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 \$ 7,228,245, while total fund balance was \$ 11,881,754. 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 5.2 percent of total general fund expenditures, while total fund balance represents 8.5 percent of that same amount.

The fund balance of the general fund changed by \$ 418,939 during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:

State and local revenues less than budget	\$ (4,359,139)
Shortfall of tax collections compared to budget	(59,552)
Budgetary appropriations unspent by department	8,435,065
Use of free cash as a funding source	(4,234,314)

Timing Differences:

Difference between prior year encumbrances spent in the current year and current year encumbrances to be spent in the subsequent period	759,429
Effect of prior year and current year GAAP accruals	<u>(122,550)</u>
Total	\$ <u>418,939</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 \$ 3,454,246, a change of \$ (452,345) 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 \$ 199,121, an increase of \$ 19,395 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 \$ 3,928,314. The primary reason for the increase was the appropriation of surplus funds (free cash) of \$ 3,928,314, for various operating and capital expenditures.

The budget and actual statement reflects an under collection of Intergovernmental revenue primarily resulting from State Aid (Chapter 70) reductions implemented by the Commonwealth in fiscal year 2009. The Chapter 70 reductions were partially offset by an American Recovery and Reinvestment Act (ARRA) grant which is reported in a separate major fund in accordance with the transparency requirements of the Act. The general fund revenue shortfall is offset by budgetary turn backs in education expenditures. The turn backs result from the City transferring costs to the ARRA major fund.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 102,388,217 (net of accumulated depreciation), a decrease of \$ (1,536,125) 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	\$ (6,536,296)
• Infrastructure	
Sewer infrastructure	228,633
Roadway and sidewalk improvements	945,176
• Building and improvements	
Various school buildings improvements	36,506
Jones Ferry Center	952,646
• Departmental vehicle purchase	
Police vehicle replacements	219,060
• Departmental equipment purchases	
Grounds keeping vehicle	9,584
School Department computers	30,691
Police Department equipment	136,696
• Construction in progress	
Sewer	93,315
Governmental	2,347,864

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 44,042,509 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 G. 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, 2009

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 32,653,475	\$ 2,824,127	\$ 35,477,602
Investments	6,609,484	-	6,609,484
Receivables, net of allowance for uncollectibles:			
Property taxes	2,895,944	-	2,895,944
Excises	655,728	-	655,728
User fees	-	3,007,235	3,007,235
Departmental and other	301,390	-	301,390
Intergovernmental	1,533,820	-	1,533,820
Due from fiduciary fund	180,277	-	180,277
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Tax liens and foreclosures	640,051	-	640,051
Demolition liens	46,302	-	46,302
Land and construction in process	17,973,199	443,315	18,416,514
Capital assets, net of accumulated depreciation	<u>51,053,407</u>	<u>32,918,296</u>	<u>83,971,703</u>
TOTAL ASSETS	114,543,077	39,192,973	153,736,050
LIABILITIES			
Current:			
Warrants payable	2,985,969	465,268	3,451,237
Accounts payable	802,485	993,064	1,795,549
Accrued payroll and withholdings	4,371,076	2,582	4,373,658
Accrued interest payable	221,722	369,903	591,625
Accrued claims payable	183,752	-	183,752
Other current liabilities	42,046	-	42,046
Notes payable	5,597,000	-	5,597,000
Current portion of long-term liabilities:			
Bonds payable	3,527,001	981,071	4,508,072
Noncurrent:			
Bonds payable, net of current portion	14,392,314	25,142,123	39,534,437
Net OPEB obligation	25,922,094	-	25,922,094
Compensated absences	<u>8,491,912</u>	<u>-</u>	<u>8,491,912</u>
TOTAL LIABILITIES	66,537,371	27,954,011	94,491,382
NET ASSETS			
Invested in capital assets, net of related debt	46,881,894	7,784,716	54,666,610
Restricted for:			
Grants and other statutory restrictions	4,996,886	-	4,996,886
Debt service funds	4,882,220	-	4,882,220
Permanent funds:			
Expendable	450,584	-	450,584
Unrestricted	<u>(9,205,878)</u>	<u>3,454,246</u>	<u>(5,751,632)</u>
TOTAL NET ASSETS	<u>\$ 48,005,706</u>	<u>\$ 11,238,962</u>	<u>\$ 59,244,668</u>

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

	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	\$ 8,843,118	\$ 1,018,509	\$ 3,900,191	\$ -	\$ (3,924,418)	\$ -	\$ (3,924,418)
Public safety	24,264,080	1,366,116	2,214,769	-	(20,683,195)	-	(20,683,195)
Education	96,825,545	3,443,227	97,549,966	573,757	4,741,405	-	4,741,405
Public works	6,957,879	462,286	797,473	429,704	(5,268,416)	-	(5,268,416)
Health and human services	1,299,956	60,869	634,556	97,398	(507,133)	-	(507,133)
Culture and recreation	2,403,697	414,032	254,132	-	(1,735,533)	-	(1,735,533)
Employee benefits and insurance	32,754,614	-	-	-	(32,754,614)	-	(32,754,614)
Interest	904,448	-	-	-	(904,448)	-	(904,448)
Intergovernmental	11,769,569	-	-	-	(11,769,569)	-	(11,769,569)
Total Governmental Activities	186,022,906	6,765,039	105,351,087	1,100,859	(72,805,921)	-	(72,805,921)
Business-Type Activities:							
Sewer services	8,526,410	8,067,586	-	-	-	(458,824)	(458,824)
Total Business-Type Activities	8,526,410	8,067,586	-	-	-	(458,824)	(458,824)
Total	\$ 194,549,316	\$ 14,832,625	\$ 105,351,087	\$ 1,100,859	(72,805,921)	(458,824)	(73,264,745)
General Revenues:							
Property taxes					44,455,661	-	44,455,661
Excises					2,024,470	-	2,024,470
Penalties, interest and other taxes					2,244,636	-	2,244,636
Grants and contributions not restricted to specific programs					13,638,118	-	13,638,118
Investment earnings / (losses)					(59,818)	6,479	(53,339)
Total general revenues					62,303,067	6,479	62,309,546
Change in Net Assets					(10,502,854)	(452,345)	(10,955,199)
Net Assets:							
Beginning of year					58,508,560	11,691,307	70,199,867
End of year					\$ 48,005,706	\$ 11,238,962	\$ 59,244,668

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

	<u>General</u>	<u>Stabilization Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS				
Cash and short-term investments	\$ 18,353,895	\$ 2,512,492	\$ 11,603,135	\$ 32,469,522
Investments	-	6,609,484	-	6,609,484
Receivables:				
Property taxes	3,332,571	-	-	3,332,571
Tax liens and foreclosures	5,645,361	-	-	5,645,361
Demolition liens	463,025	-	-	463,025
Motor vehicle excise	1,286,450	-	-	1,286,450
Departmental	780,785	-	134,112	914,897
Intergovernmental	-	-	1,505,368	1,505,368
Due from other funds	<u>180,277</u>	<u>-</u>	<u>-</u>	<u>180,277</u>
TOTAL ASSETS	<u>\$ 30,042,364</u>	<u>\$ 9,121,976</u>	<u>\$ 13,242,615</u>	<u>\$ 52,406,955</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 2,428,198	\$ -	\$ 544,487	\$ 2,972,685
Accounts payable	232,443	-	570,042	802,485
Accrued payroll and withholdings	4,053,029	-	318,047	4,371,076
Accrued claims payable	183,752	-	-	183,752
Deferred revenues	11,221,188	-	108,700	11,329,888
Other liabilities	42,000	-	46	42,046
Notes payable	<u>-</u>	<u>-</u>	<u>5,597,000</u>	<u>5,597,000</u>
TOTAL LIABILITIES	18,160,610	-	7,138,322	25,298,932
Fund Balances:				
Reserved for:				
Encumbrances	4,653,509	-	-	4,653,509
Unreserved:				
Undesignated, reported in:				
General fund	7,228,245	-	-	7,228,245
Special revenue funds	-	9,121,976	4,996,886	14,118,862
Capital projects funds	-	-	(4,225,397)	(4,225,397)
Debt service fund	-	-	4,882,220	4,882,220
Permanent funds	<u>-</u>	<u>-</u>	<u>450,584</u>	<u>450,584</u>
TOTAL FUND BALANCES	<u>11,881,754</u>	<u>9,121,976</u>	<u>6,104,293</u>	<u>27,108,023</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 30,042,364</u>	<u>\$ 9,121,976</u>	<u>\$ 13,242,615</u>	<u>\$ 52,406,955</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, 2009

Total Governmental Fund Balances	\$ 27,108,023
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	69,026,606
<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.	199,121
<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.	(221,722)
<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.	(52,333,321)
<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>4,226,999</u>
Net Assets of Governmental Activities	<u><u>\$ 48,005,706</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, 2009

	<u>General</u>	<u>Stabilization Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:				
Property taxes	\$ 43,861,770	\$ -	\$ -	\$ 43,861,770
Excises	2,219,758	-	-	2,219,758
Penalties, interest and other taxes	2,139,533	-	-	2,139,533
Charges for services	1,457,347	-	4,681,321	6,138,668
Intergovernmental	89,237,953	-	33,141,843	122,379,796
Licenses and permits	439,139	-	-	439,139
Fines and forfeitures	474,158	-	-	474,158
Investment earnings/(losses)	206,639	(274,537)	-	(67,898)
Miscellaneous	37,180	-	-	37,180
	<u>140,073,477</u>	<u>(274,537)</u>	<u>37,823,164</u>	<u>177,622,104</u>
Total Revenues				
Expenditures:				
Current:				
General government	4,732,145	-	4,037,282	8,769,427
Public safety	21,142,010	-	2,286,505	23,428,515
Education	68,878,811	-	27,789,927	96,668,738
Public works	5,758,271	-	1,294,351	7,052,622
Health and human services	1,215,347	-	96,001	1,311,348
Culture and recreation	1,628,298	-	1,765,196	3,393,494
Employee benefits and insurance	19,536,644	-	-	19,536,644
Debt service	4,750,719	-	1,885,400	6,636,119
Intergovernmental	11,972,293	-	-	11,972,293
	<u>139,614,538</u>	<u>-</u>	<u>39,154,662</u>	<u>178,769,200</u>
Total Expenditures				
Excess (deficiency) of revenues over expenditures	458,939	(274,537)	(1,331,498)	(1,147,096)
Other Financing Sources (Uses):				
Transfers in	-	-	40,000	40,000
Transfers out	(40,000)	-	-	(40,000)
	<u>(40,000)</u>	<u>-</u>	<u>40,000</u>	<u>-</u>
Total Other Financing Sources (Uses)				
Change in fund balance	418,939	(274,537)	(1,291,498)	(1,147,096)
Fund Equity, July 1, 2008	<u>11,462,815</u>	<u>9,396,513</u>	<u>7,395,791</u>	<u>28,255,119</u>
Fund Equity, June 30, 2009	<u>\$ 11,881,754</u>	<u>\$ 9,121,976</u>	<u>\$ 6,104,293</u>	<u>\$ 27,108,023</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, 2009

Net Changes in Fund Balances

Total Governmental Funds \$ (1,147,096)

- 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	4,678,223
Depreciation	(5,094,335)

- 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.

334,143

- The issuance of long-term debt (e.g., bonds) 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:

Repayments of debt principal	3,808,151
------------------------------	-----------

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

38,120

- 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	(124,209)
Other post-employment benefits	(13,015,246)

- 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.

19,395

Change in Net Assets of Governmental Activities \$ (10,502,854)

See notes to financial statements.

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, 2009

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 43,921,322	\$ 43,921,322	\$ 43,921,322	\$ -
Excise	1,880,000	1,880,000	2,219,758	339,758
Penalties, interest and other taxes	1,100,000	1,100,000	2,139,533	1,039,533
Charges for services	787,950	787,950	1,457,347	669,397
Intergovernmental	83,407,677	83,407,677	77,010,784	(6,396,893)
Licenses and permits	350,050	350,050	439,139	89,089
Fines and forfeits	318,000	318,000	474,158	156,158
Interest earnings	500,000	500,000	206,639	(293,361)
Miscellaneous	-	-	37,180	37,180
Other sources	306,000	4,234,314	4,234,314	-
Total Revenues and Other Sources	132,570,999	136,499,313	132,140,174	(4,359,139)
Expenditures and Other Uses:				
General government	4,063,223	4,885,846	4,657,934	227,912
Public safety	20,162,641	21,984,405	21,624,780	359,625
Education	63,721,583	63,721,583	56,592,468	7,129,115
Public works	5,336,980	6,090,535	6,026,158	64,377
Human services	1,250,794	1,317,957	1,299,530	18,427
Culture and recreation	1,656,885	1,696,224	1,491,443	204,781
Debt service	4,773,438	4,751,438	4,750,719	719
Intergovernmental	11,886,355	11,886,355	12,073,953	(187,598)
Employee benefits and insurance	19,719,100	20,124,970	19,507,263	617,707
Transfers out	-	40,000	40,000	-
Total Expenditures and Other Uses	132,570,999	136,499,313	128,064,248	8,435,065
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 4,075,926	\$ 4,075,926

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2009

	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	\$ 2,824,127	\$ 183,953
User fees, net of allowance for uncollectibles	3,007,235	-
Intergovernmental receivable	-	28,452
	<hr/>	<hr/>
Total current assets	5,831,362	212,405
Noncurrent:		
Land and construction in process	443,315	-
Property, plant and equipment, net of accumulated depreciation	32,918,296	-
	<hr/>	<hr/>
Total noncurrent assets	33,361,611	-
	<hr/>	<hr/>
TOTAL ASSETS	39,192,973	212,405
<u>LIABILITIES</u>		
Current:		
Warrants payable	465,268	13,284
Accounts payable	993,064	-
Accrued payroll and withholdings	2,582	-
Accrued interest payable	369,903	-
Current portion of long-term liability:		
Bonds payable	981,071	-
	<hr/>	<hr/>
Total current liabilities	2,811,888	13,284
Noncurrent:		
Bonds payable, net of current portion	25,142,123	-
	<hr/>	<hr/>
Total noncurrent liabilities	25,142,123	-
	<hr/>	<hr/>
TOTAL LIABILITIES	27,954,011	13,284
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	7,784,716	-
Unrestricted	3,454,246	199,121
	<hr/>	<hr/>
TOTAL NET ASSETS	\$ 11,238,962	\$ 199,121
	<hr/>	<hr/>

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, 2009

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Sewer <u>Fund</u>	Internal Service <u>Funds</u>
Operating Revenues:		
Charges for services	\$ <u>8,067,586</u>	\$ <u>570,585</u>
Total Operating Revenues	8,067,586	570,585
Operating Expenses:		
Salaries and wages	116,358	-
Operating expenses	6,169,282	551,190
Depreciation	<u>1,441,961</u>	<u>-</u>
Total Operating Expenses	<u>7,727,601</u>	<u>551,190</u>
Operating income (loss)	339,985	19,395
Nonoperating Revenues (Expenses):		
Investment income	6,479	-
Interest expense	<u>(798,809)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(792,330)</u>	<u>-</u>
Change in net assets	(452,345)	19,395
Net Assets at Beginning of Year	<u>11,691,307</u>	<u>179,726</u>
Net Assets at End of Year	<u>\$ 11,238,962</u>	<u>\$ 199,121</u>

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2009

	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	\$ 9,353,633	\$ -
Receipts from interfund service provided	-	597,435
Payments to vendors and employees	<u>(5,632,820)</u>	<u>(564,958)</u>
Net Cash Provided by Operating Activities	3,720,813	32,477
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Acquisition and construction of capital assets	(321,948)	-
Repayment of bonds payable	(971,343)	-
Interest expense	<u>(798,809)</u>	<u>-</u>
Net Cash (Used for) Capital and Related Financing Activities	(2,092,100)	-
<u>Cash Flows From Investing Activities:</u>		
Investment income	<u>6,479</u>	<u>-</u>
Net Cash Provided by Investing Activities	<u>6,479</u>	<u>-</u>
Net Change in Cash	1,635,192	32,477
Cash, Beginning of Year	<u>1,188,935</u>	<u>151,476</u>
Cash, End of Year	<u>\$ 2,824,127</u>	<u>\$ 183,953</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>		
Operating income	\$ 339,985	\$ 19,395
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	1,441,961	-
Changes in assets and liabilities:		
User fees	1,286,047	-
Intergovernmental receivables	-	26,850
Warrants payable	(56,100)	-
Accrued liabilities	517	(13,768)
Accounts payable	752,736	-
Accrued interest	(32,742)	-
Accrued compensated absences	<u>(11,591)</u>	<u>-</u>
Net Cash Provided by Operating Activities	<u>\$ 3,720,813</u>	<u>\$ 32,477</u>

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2009

<u>ASSETS</u>	Agency <u>Funds</u>	Private Purpose <u>Funds</u>	Pension Trust Fund (For the Year Ended <u>December 31, 2008</u>)
Cash and short-term investments	\$ 976,543	\$ 248,249	\$ 1,418,668
Investments	-	-	121,453,043
Accounts receivable	<u>206,104</u>	<u>-</u>	<u>233,523</u>
Total Assets	1,182,647	248,249	123,105,234
 <u>LIABILITIES AND NET ASSETS</u>			
Accounts payable	-	-	80,365
Accrued payroll	41,437	-	-
Payroll withholdings	833,190	-	-
Due to other funds	180,277	-	-
Deferred revenue	-	-	4,356,743
Other liabilities	<u>127,743</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>1,182,647</u>	<u>-</u>	<u>4,437,108</u>
Total net assets held in trust for pension benefits and other purposes	\$ <u><u>-</u></u>	\$ <u><u>248,249</u></u>	\$ <u><u>118,668,126</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, 2009

	Private Purpose Funds	Pension Trust Fund (For the Year Ended December 31, 2008)
Additions:		
Contributions:		
Employers	\$ -	\$ 11,928,338
Plan members	-	4,794,754
Other	<u>96,359</u>	<u>762,429</u>
Total contributions	<u>96,359</u>	<u>17,485,521</u>
Investment Income:		
Interest and dividends	3,929	3,630,939
Realized loss on sale of investments	-	(2,067,712)
Net depreciation in fair value of investments	-	(60,737,740)
Less: management fees	<u>-</u>	<u>(916,864)</u>
Net investment income	<u>3,929</u>	<u>(60,091,377)</u>
Total additions, net	100,288	(42,605,856)
Deductions:		
Benefit payments to plan members and beneficiaries	-	18,231,940
Reimbursements to other systems	-	262,469
Refunds to plan members	-	1,107,874
Administrative expenses	<u>-</u>	<u>307,509</u>
Total deductions	<u>-</u>	<u>19,909,792</u>
Net increase (decrease)	100,288	(62,515,648)
Net assets held in trust for pension benefits and other purposes:		
Beginning of year	<u>147,961</u>	<u>181,183,774</u>
End of year	<u>\$ 248,249</u>	<u>\$ 118,668,126</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 2009, 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 of 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 2009 tax levy reflected an excess capacity of \$ 19,956.

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)	\$ 140,073,477	\$ 139,614,538
Other financing sources/uses (GAAP basis)	-	40,000
Adjust tax revenue to accrual basis	59,552	-
Adjust for other GAAP accruals	-	(122,550)
Reverse beginning of year appropriation carryforwards from expenditures	-	(3,894,080)
Add end of year appropriation carryforwards to expenditures	-	4,653,509
To reverse the effect of nonbudgeted State contributions for teachers retirement	(12,227,169)	(12,227,169)
Recognize use of fund balance as a funding source	<u>4,234,314</u>	<u>-</u>
Budgetary basis	<u>\$ 132,140,174</u>	<u>\$ 128,064,248</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2009:

Capital Project Funds:		
Wistariahurst renovations	\$	(220,709)
Schools: fields/lights/lots/etc.		(65,058)
Jones Ferry River Access		(855,248)
Geriatric Authority land purchase		(1,200,000)
High School renovation		(1,727,626)
Agency Fund:		
Police outside detail		(221,714)

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, 2009, \$ 5,320,260 of the City's bank balance of \$ 35,300,753 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, 2008, \$ 897,690 of the Contributory Retirement System's bank balance of \$ 1,625,310 was exposed to credit risk as uninsured, uncollateralized and collateral held by pledging banks trust department not in the System's name.

4. Investments

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>AAA/A1</u>	<u>A2/AA2</u>	<u>A3/AA3</u>	<u>CA</u>
Preferred stocks	\$ 136,082	\$ -	\$ -	\$ -	\$ 89,300	\$ 46,782
Corporate bonds	1,003,855	-	106,107	627,200	270,548	-
Mutual funds	3,666,069	3,666,009	-	-	-	-
Federal agency securities	<u>1,803,478</u>	<u>-</u>	<u>1,803,478</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 6,609,484</u>	<u>\$ 3,666,009</u>	<u>\$ 1,909,585</u>	<u>\$ 627,200</u>	<u>\$ 359,848</u>	<u>\$ 46,782</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.

Presented below is the actual rating as of year end for each investment of the System (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>AAA</u>
Certificates of deposit	\$ 1,200,000	\$ 1,200,000	\$ -
Pooled funds	100,823,228	100,823,228	-
Mutual funds	17,029,995	17,029,995	-
Federal agency securities	<u>2,399,820</u>	<u>-</u>	<u>2,399,820</u>
Total investments	<u>\$ 121,453,043</u>	<u>\$ 119,053,223</u>	<u>\$ 2,399,820</u>

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 and System's investments of \$ 6,609,484 and \$ 121,453,043 respectively, are exposed to credit risk because the related securities are uninsured, unregistered and held by the City's and System's brokerage firms, which are 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 and System's investments to market interest rate fluctuations respectively, is as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt from Disclosure</u>	<u>Investment Maturities (in Years)</u>		
			<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>
Preferred stock	\$ 136,082	\$ 136,082	\$ 56,416	\$ 947,439	\$ -
Corporate bonds	1,003,855	-	-	-	-
Mutual funds	3,666,069	3,666,069	-	-	-
Federal agency securities	1,803,478	-	-	1,703,009	100,469
Total	\$ 6,609,484	\$ 3,802,151	\$ 56,416	\$ 2,650,448	\$ 100,469

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt from Disclosure</u>	<u>Investment Maturities (in Years)</u>
			<u>1-5</u>
Certificates of deposit	\$ 1,200,000	\$ -	\$ 1,200,000
Pooled funds	100,823,228	100,823,228	-
Mutual funds	17,029,995	17,029,995	-
Federal agency securities	2,399,820	-	2,399,820
Total	\$ 121,453,043	\$ 117,853,223	\$ 3,599,820

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, 2009 consist of the following:

Real Estate			
2009	\$	1,684,514	
2008 and Prior		<u>1,324,443</u>	
			3,008,957
Personal Property			
2009		117,108	
2008 and Prior		<u>206,506</u>	
			<u>323,614</u>
Total	\$	<u>3,332,571</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	\$ 436,627	\$ -
Tax liens and foreclosures	5,005,310	-
Demolition liens	416,723	-
Excises	630,722	-
Departmental and other	613,507	1,193,446

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 2009 that are expected to be reimbursed in 2010.

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, 2009 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 180,277	\$ -
Agency Funds – Police Outside Detail	<u>-</u>	<u>180,277</u>
Total	<u>\$ 180,277</u>	<u>\$ 180,277</u>

9. Capital Assets

Capital asset activity for the year ended June 30, 2009 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	\$ 104,320	\$ 989	\$ -	\$ 105,309
Machinery, equipment, and furnishings	20,086	396	-	20,482
Land improvements	3,171	-	-	3,171
Infrastructure	10,092	945	-	11,037
Total capital assets, being depreciated	<u>137,669</u>	<u>2,330</u>	<u>-</u>	<u>139,999</u>
Less accumulated depreciation for:				
Buildings and improvements	(62,276)	(2,501)	-	(64,777)
Machinery, equipment, and furnishings	(15,767)	(1,198)	-	(16,965)
Land improvements	(1,699)	(291)	-	(1,990)
Infrastructure	(4,109)	(1,104)	-	(5,213)
Total accumulated depreciation	<u>(83,851)</u>	<u>(5,094)</u>	<u>-</u>	<u>(88,945)</u>
Total capital assets, being depreciated, net	53,818	(2,764)	-	51,054
Capital assets, not being depreciated:				
Land	15,297	-	-	15,297
Construction in progress	328	2,348	-	2,676
Total capital assets, not being depreciated	<u>15,625</u>	<u>2,348</u>	<u>-</u>	<u>17,973</u>
Governmental activities capital assets, net	<u>\$ 69,443</u>	<u>\$ (416)</u>	<u>\$ -</u>	<u>\$ 69,027</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 40,000	\$ -	\$ -	\$ 40,000
Machinery, equipment, and furnishings	1,262	-	-	1,262
Infrastructure	50,636	229	-	50,865
Total capital assets, being depreciated	91,898	229	-	92,127
Less accumulated depreciation for:				
Buildings and improvements	(33,824)	(234)	-	(34,058)
Machinery, equipment, and furnishings	(1,174)	(22)	-	(1,196)
Infrastructure	(22,768)	(1,186)	-	(23,954)
Total accumulated depreciation	(57,766)	(1,442)	-	(59,208)
Total capital assets, being depreciated, net	34,132	(1,213)	-	32,919
Capital assets, not being depreciated:				
Land	350	-	-	350
Construction in progress	-	93	-	93
Total capital assets, not being depreciated	350	93	-	443
Governmental activities capital assets, net	\$ 34,482	\$ (1,120)	\$ -	\$ 33,362

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

Governmental Activities:	
General government	\$ 21
Public safety	1,232
Education	1,870
Public works	1,591
Culture and recreation	379
Human services	1
Total depreciation expense - governmental activities	\$ <u>5,094</u>
Business-Type Activities:	
Sewer	\$ <u>1,442</u>
Total depreciation expense - business-type activities	\$ <u>1,442</u>

10. Warrants and Accounts Payable

Warrants payable represent 2009 expenditures paid by July 15, 2009 as permitted by law. Accounts payable represent additional 2009 expenditures paid after July 15, 2009.

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, 2009 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections.

12. Notes Payable

The City had the following notes outstanding at June 30, 2009:

	Interest Rate	Date of Issue	Date of Maturity	Balance at June 30, 2009
Bond anticipation	2.50%	05/29/09	05/28/10	\$ 327,000
Bond anticipation	2.50%	05/29/09	05/28/10	2,000,000
Bond anticipation	2.50%	05/29/09	05/28/10	62,000
Bond anticipation	2.50%	05/29/09	05/28/10	258,000
Bond anticipation	2.50%	05/29/09	05/28/10	1,200,000
Bond anticipation	2.50%	05/29/09	05/28/10	50,000
Bond anticipation	2.50%	05/29/09	05/28/10	400,000
Bond anticipation	2.17%	05/29/09	05/28/10	1,300,000
Total				<u>\$ 5,597,000</u>

The following summarizes activity in notes payable during fiscal year 2009:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ <u>1,639,000</u>	\$ <u>10,597,000</u>	\$ <u>(6,639,000)</u>	\$ <u>5,597,000</u>

13. 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, 2009
<u>Governmental Activities:</u>			
4 School Additions (refund)	08/01/10	4.3 – 5.25	\$ 1,530,000
Building Demolitions	09/01/11	5.54	405,000
Central Fuel Facility	09/01/11	5.54	135,000
Fire Station	09/01/11	5.54	1,155,000
Police Station (refund)	08/01/13	3.1 - 4.125	1,150,600
Land Acquisition (refund)	06/15/15	2.5 – 5.00	299,086
Police Station (refund)	06/15/16	2.5 – 5.00	1,744,420
School Roof Remodeling (refund)	06/15/16	2.5 – 5.00	1,535,209
Outdoor Athletic Facility	08/01/16	3.5 – 4.40	1,390,000
City Hall Remodeling	08/01/17	4.3 – 5.25	1,440,000
Building Demolition (refund)	09/01/18	3.9	940,900
Central Fuel Facility (refund)	09/01/18	3.9	337,200
Fire Station (refund)	09/01/19	3.9	3,301,900
High School Remodeling	07/15/27	4.45	1,135,000
School Roofs	07/15/27	4.45	170,000
School Lots/Field/Lights	07/15/27	4.45	1,025,000
Building Demolition	07/15/27	4.45	225,000
Total Governmental Activities			\$ 17,919,315
<u>Business-Type Activities:</u>			
Sewer Bond (refund)	08/01/13	3.5 – 4.125	\$ 231,117
Sewer Bond	08/01/16	3.5 – 4.40	270,000
MWPAT	07/20/06	2	17,092,077
Sewer CSO Projects	07/15/27	4.45	2,830,000
Sewer Plant Improvements	07/15/27	4.45	5,700,000
Total Business-Type Activities			\$ 26,123,194
Total Debt			\$ 44,042,509

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, 2009 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 3,527,001	\$ 716,100	\$ 4,243,101
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	1,793,567	345,323	2,138,890
2015-2019	5,696,195	729,585	6,425,780
2012-2024	770,000	109,839	879,839
2025-2028	270,000	23,483	293,483
Total	<u>\$ 17,919,315</u>	<u>\$ 3,447,589</u>	<u>\$ 21,366,904</u>

<u>Business-Type</u>			
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	1,029,861	650,148	1,680,009
2015-2019	4,955,615	2,729,256	7,684,871
2012-2024	5,076,038	1,890,453	6,966,491
2025-2029	4,996,325	1,062,322	6,058,647
thereafter	6,073,456	587,213	6,660,669
Total	<u>\$ 26,123,194</u>	<u>\$ 9,872,804</u>	<u>\$ 35,995,998</u>

D. Changes in General Long-Term Liabilities

During the year ended June 30, 2009, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>07/01/08</u>	<u>Addition</u>	<u>Reduction</u>	Total Balance <u>06/30/09</u>	Less Current Portion	Equals Long-Term Portion <u>06/30/09</u>
<u>Governmental Activities:</u>						
Bonds payable	\$ 21,727	\$ -	\$ (3,808)	\$ 17,919	\$ (3,527)	\$ 14,392
Other:						
Net OPEB obligation	12,907	13,015	-	25,922	-	25,922
Accrued compensated absences	8,368	124	-	8,492	-	8,492
Total	<u>\$ 43,002</u>	<u>\$ 13,139</u>	<u>\$ (3,808)</u>	<u>\$ 52,333</u>	<u>\$ (3,527)</u>	<u>\$ 48,806</u>
<u>Business-Type Activities:</u>						
Bonds payable	\$ 27,095	\$ -	\$ (972)	\$ 26,123	\$ (981)	\$ 25,142
Other:						
Accrued compensated absences	12	-	(12)	-	-	-
Total	<u>\$ 27,107</u>	<u>\$ -</u>	<u>\$ (984)</u>	<u>\$ 26,123</u>	<u>\$ (981)</u>	<u>\$ 25,142</u>

E. Advance Refunding

Prior Year

In prior years, the City 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, 2009, the amount of defeased debt outstanding but removed from the governmental activities was \$ 4,275,000.

14. 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.

15. 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, 2009:

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

16. Subsequent Events

Debt

Subsequent to June 30, 2009, 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	\$ 6,306,000	1.50%	05/28/10	02/25/11
Bond anticipation note	1,000,000	1.65%	06/25/10	02/25/11
Bond anticipation note	1,000,000	1.19%	06/25/10	02/25/11
Bond anticipation note	<u>697,530</u>	1.50%	06/25/10	02/25/11
Total	<u>\$ 9,003,530</u>			

17. **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.

Other CSO discharge locations along the Connecticut River bordering Holyoke have been identified. The estimated total cost to abate these issues is estimated at \$ 3.2 million, of which \$ 2 million will be funded by long-term bonds authorized by the City Council and \$ 1.2 million by various grants

provided by the Environmental Protection Agency (EPA). Completion of these projects is expected by December 2011.

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, 2009 the capital improvements have been 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.

18. Post-Retirement Health Care and Life Insurance Benefits

GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, 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 2009 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, 2009, 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)	\$ 20,454,823
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	<u>20,454,823</u>
Contributions made	<u>7,439,577</u>
Increase in net OPEB obligation	13,015,246
Net OPEB obligation - beginning of year	<u>12,906,848</u>
Net OPEB obligation - end of year	<u>\$ 25,922,094</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 <u>Ended</u>	OPEB <u>Cost</u>	OPEB <u>Cost Contributed</u>	Net OPEB <u>Obligation</u>
2008	\$ 19,471,267	33.71%	\$ 12,906,848
2009	\$ 20,454,823	36.37%	\$ 13,015,246

The City's net OPEB obligation as of June 30, 2009 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)	\$ 331,159,362
Actuarial value of plan assets	-
	<hr/>
Unfunded actuarial accrued liability (UAAL)	<u>331,159,362</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
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%.

19. 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, 2009, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	906
Terminated plan members entitled to but not yet receiving benefits	221
Active plan members	<u>1,231</u>
Total	<u><u>2,358</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 June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage 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%
2009	8,651,100	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)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Entry Age (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a Percent- age of Covered Payroll [(b-a)/c]</u>
01/01/09	\$ 149,634	\$ 284,186	\$ 134,552	52.65%	\$ 53,209	252.88%

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 \$ 134.5 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, 2009 the unfunded actuarially accrued liability is being amortized over 19 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 2009, the Commonwealth of Massachusetts contributed \$ 12,227,169 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

20. 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 \$ 183,752 for unpaid workers' compensation claims at June 30, 2009 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.

21. 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 Percent- age 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%
1/1/09	\$149,634	\$284,186	\$134,552	52.7%	\$53,209	252.9%

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 Percent- age of Covered Payroll [(b-a)/c]
06/30/07	\$ -	\$ 331,159	\$ 331,159	0.0%	N/A	N/A

See Independent Auditors' Report.