

**CITY OF HOLYOKE, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2010**

## TABLE OF CONTENTS

	<u>PAGE</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	3
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Assets	11
Statement of Activities	12
<b>Fund Financial Statements:</b>	
<b>Governmental Funds:</b>	
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
<b>Proprietary Funds:</b>	
Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets	19
Statement of Cash Flows	20
<b>Fiduciary Funds:</b>	
Statement of Fiduciary Net Assets	21
Statement of Changes in Fiduciary Net Assets	22
<b>Notes to Financial Statements</b>	23
<b>SUPPLEMENTARY INFORMATION:</b>	
Schedule of Funding Progress	49

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, 2010 (except for the Holyoke Contributory Retirement System, which is as of and for the year ended December 31, 2009), 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, 2010 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 property tax, motor vehicle excise tax, tax lien, tax foreclosure and demolition liens account receivable balances, we were unable to form an opinion as to the accuracy of these balances. The balances in these accounts are stated at \$ 3,292,122, \$ 1,304,861, \$ 6,099,165 and \$ 260,015 respectively in the accompanying balance sheet, and \$ 2,782,663, \$ 630,354, \$ 733,244 and \$ 17,710 (net of allowances) in the statement of net assets, as of June 30, 2010.

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, 2010 (except for the Holyoke Contributory Retirement System, which is as of and for the year ended December 31, 2009) 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 November 16, 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  
November 16, 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, 2010.

### **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 \$ 57,753,615 (i.e., net assets), a decrease of \$ (1,491,054) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 26,095,735, a decrease of \$ (1,012,288) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 6,361,255, a decrease of \$ (866,990) in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 39,534,436, a decrease of \$ (4,508,073) 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	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 52,435	\$ 45,516	\$ 4,445	\$ 5,831	\$ 56,880	\$ 51,347
Capital assets	77,131	69,027	32,579	33,362	109,710	102,389
Total assets	129,566	114,543	37,024	39,193	166,590	153,736
Long-term liabilities out-						
standing	57,955	48,806	24,152	25,142	82,107	73,948
Other liabilities	24,196	17,731	2,533	2,812	26,729	20,543
Total liabilities	82,151	66,537	26,685	27,954	108,836	94,491
Net assets:						
Invested in capital assets,						
net	55,061	46,882	6,764	7,785	61,825	54,667
Restricted	8,610	10,330	-	-	8,610	10,330
Unrestricted	(16,256)	(9,206)	3,575	3,454	(12,681)	(5,752)
Total net assets	\$ 47,415	\$ 48,006	\$ 10,339	\$ 11,239	\$ 57,754	\$ 59,245

CHANGES IN NET ASSETS

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues:						
Program revenues:						
Charges for services	\$ 5,863	\$ 6,765	\$ 7,459	\$ 8,068	\$ 13,322	\$ 14,833
Operating grants and contributions	106,310	105,351	-	-	106,310	105,351
Capital grants and contributions	9,226	1,101	8	-	9,234	1,101
General revenues:						
Property taxes	45,778	44,456	-	-	45,778	44,456
Excises	2,191	2,025	-	-	2,191	2,025
Penalties, interest on taxes, and other taxes	2,058	2,245	-	-	2,058	2,245
Grants and contributions not restricted to specific programs	9,017	13,638	-	-	9,017	13,638
Investment income	978	(60)	12	6	990	(54)
Miscellaneous	-	-	-	-	-	-
Total revenues	<u>181,421</u>	<u>175,521</u>	<u>7,479</u>	<u>8,074</u>	<u>188,900</u>	<u>183,595</u>
Expenses:						
General government	8,232	8,843	-	-	8,232	8,843
Public safety	22,769	24,264	-	-	22,769	24,264
Education	96,637	96,826	-	-	96,637	96,826
Public works	6,448	6,958	-	-	6,448	6,958
Human services	1,503	1,300	-	-	1,503	1,300
Culture and recreation	2,270	2,404	-	-	2,270	2,404
Employee benefits	31,243	32,755	-	-	31,243	32,755
Interest on long-term debt	788	904	-	-	788	904
Intergovernmental	12,122	11,770	-	-	12,122	11,770
Sewer operations	-	-	8,379	8,526	8,379	8,526
Total expenses	<u>182,012</u>	<u>186,024</u>	<u>8,379</u>	<u>8,526</u>	<u>190,391</u>	<u>194,550</u>
Change in net assets	(591)	(10,503)	(900)	(452)	(1,491)	(10,955)
Net assets - beginning 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>
Net assets - end of year	<u>\$ 47,415</u>	<u>\$ 48,006</u>	<u>\$ 10,339</u>	<u>\$ 11,239</u>	<u>\$ 57,754</u>	<u>\$ 59,245</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 \$ 57,753,615, a decrease of \$ (1,491,054) from the prior year.

By far the largest portion of net assets, \$ 61,825,410, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is



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

An additional portion of net assets, \$ 8,609,992, represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ (12,681,787) 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 \$ (590,674). Key elements of this change are as follows:

General fund operations	\$ 3,278,777
Major fund – Stabilization investment income	880,727
Major fund – High school renovation expenditures over revenues	(2,624,853)
Non-major fund expenditures and transfers out over revenues and transfers in	(2,546,939)
Depreciation expense in excess of principal debt service	(1,636,713)
Capital assets purchased with tax levy and grant funds	13,268,316
Internal service fund operations	(184,967)
Change in compensated absence liability	161,078
Change in other post-employment benefits liability	(11,292,457)
Other GAAP accruals	<u>106,357</u>
Total	<u>\$ (590,674)</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net assets of \$ (990,380). 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 \$ 26,095,735, a decrease of \$ (1,012,288) in comparison with the prior year. Key elements of this change are as follows:

General fund operations	\$ 3,278,777
Major fund - Stabilization investment income	880,727
Non-major fund - High school renovation expenditures over revenues	(2,624,853)
Non-major fund expenditures and transfers out over revenues and transfers in	<u>(2,546,939)</u>
Total	<u>\$ (1,012,288)</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 \$ 6,361,255, while total fund balance was \$ 15,160,531. 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 4.49 percent of total general fund expenditures, while total fund balance represents 10.7 percent of that same amount.

The fund balance of the general fund changed by \$ 3,278,777 during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:

State and local revenues greater than budget	\$ 3,382,725
Shortfall of tax collections compared to budget	(277,106)
Budgetary appropriations unspent by department	1,431,834
Use of free cash as a funding source	(5,352,191)

Timing Differences:

Difference between prior year encumbrances spent in the current year and current year encumbrances to be spent in the subsequent period	4,145,768
Effect of prior year and current year GAAP accruals	<u>(52,253)</u>
Total	<u>\$ 3,278,777</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 \$ 3,574,576, a change of \$ 120,330 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 \$ 14,154, a decrease of \$ (184,967) 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 \$ 3,272,296. The primary reason for the increase was the appropriation of surplus funds (free cash) of \$ 4,202,191, for various operating and capital expenditures and to reduce the tax levy \$ (929,895).

## **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 109,709,937 (net of accumulated depreciation), an increase of \$ 7,321,720 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	\$ (6,622,852)
• Infrastructure	
Sewer infrastructure	769,571
Roadway and sidewalk improvements	1,459,726
• Building and improvements	
Museum renovations	1,037,938
Other	488,218
• Departmental vehicle purchase	
Departmental vehicle replacements	239,410
• Departmental equipment purchases	
Governmental	51,831
School Department equipment	744,422
• Construction in progress	
Governmental	11,362,962
Sewer	103,070
Sewer placed in service	(196,385)
Governmental placed in service	(2,116,191)

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$ 39,534,436 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, 2010

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 38,877,984	\$ 2,092,062	\$ 40,970,046
Investments	7,598,930	-	7,598,930
Receivables, net of allowance for uncollectibles:			
Property taxes	2,782,663	-	2,782,663
Motor vehicle excise	630,354	-	630,354
User fees	-	2,352,727	2,352,727
Departmental and other	98,685	-	98,685
Intergovernmental	1,412,504	-	1,412,504
Due from fiduciary fund	173,632	-	173,632
Other current assets	108,700	-	108,700
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Tax liens and foreclosures	733,244	-	733,244
Demolition liens	17,710	-	17,710
Land and construction in process	27,219,973	350,000	27,569,973
Capital assets, net of accumulated depreciation	49,911,235	32,228,729	82,139,964
<b>TOTAL ASSETS</b>	<b>129,565,614</b>	<b>37,023,518</b>	<b>166,589,132</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	2,770,303	512,967	3,283,270
Accounts payable	2,064,133	-	2,064,133
Accrued payroll and withholdings	8,683,779	3,001	8,686,780
Accrued interest payable	160,422	354,245	514,667
Accrued claims payable	131,499	-	131,499
Deferred revenue	9,659	-	9,659
Notes payable	8,330,930	672,600	9,003,530
Other current liabilities	62,158	-	62,158
Current portion of long-term liabilities:			
Bonds payable	1,983,173	990,602	2,973,775
Noncurrent:			
Bonds payable, net of current portion	12,409,140	24,151,521	36,560,661
Net OPEB obligation	37,214,551	-	37,214,551
Compensated absences	8,330,834	-	8,330,834
<b>TOTAL LIABILITIES</b>	<b>82,150,581</b>	<b>26,684,936</b>	<b>108,835,517</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	55,061,404	6,764,006	61,825,410
Restricted for:			
Grants and other statutory restrictions	4,236,541	-	4,236,541
Debt service funds	3,916,920	-	3,916,920
Permanent funds:			
Expendable	456,531	-	456,531
Unrestricted	(16,256,363)	3,574,576	(12,681,787)
<b>TOTAL NET ASSETS</b>	<b>\$ 47,415,033</b>	<b>\$ 10,338,582</b>	<b>\$ 57,753,615</b>

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
General government	\$ 8,232,032	\$ 1,449,316	\$ 2,574,621	\$ -	\$ (4,208,095)	\$ -	\$ (4,208,095)
Public safety	22,768,624	730,059	1,405,806	-	(20,632,759)	-	(20,632,759)
Education	96,637,528	3,162,776	101,905,737	7,615,433	16,046,418	-	16,046,418
Public works	6,447,727	319,917	-	699,833	(5,427,977)	-	(5,427,977)
Health and human services	1,503,247	72,597	274,143	910,693	(245,814)	-	(245,814)
Culture and recreation	2,269,715	128,355	144,314	-	(1,997,046)	-	(1,997,046)
Employee benefits and insurance	31,242,799	-	5,620	-	(31,237,179)	-	(31,237,179)
Interest	787,626	-	-	-	(787,626)	-	(787,626)
Intergovernmental	12,122,240	-	-	-	(12,122,240)	-	(12,122,240)
Total Governmental Activities	182,011,538	5,863,020	106,310,241	9,225,959	(60,612,318)	-	(60,612,318)
<b>Business-Type Activities:</b>							
Sewer services	8,378,925	7,458,733	-	7,841	-	(912,351)	(912,351)
Total Business-Type Activities	8,378,925	7,458,733	-	7,841	-	(912,351)	(912,351)
Total	\$ <u>190,390,463</u>	\$ <u>13,321,753</u>	\$ <u>106,310,241</u>	\$ <u>9,233,800</u>	(60,612,318)	(912,351)	(61,524,669)
<b>General Revenues:</b>							
Property taxes					45,777,876	-	45,777,876
Excises					2,191,296	-	2,191,296
Penalties, interest and other taxes					2,057,977	-	2,057,977
Grants and contributions not restricted to specific programs					9,016,726	-	9,016,726
Investment earnings					977,769	11,971	989,740
Total general revenues					60,021,644	11,971	60,033,615
Change in Net Assets					(590,674)	(900,380)	(1,491,054)
<b>Net Assets:</b>							
Beginning of year					48,005,707	11,238,962	59,244,669
End of year					\$ <u>47,415,033</u>	\$ <u>10,338,582</u>	\$ <u>57,753,615</u>

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2010

<b>ASSETS</b>	<u>General</u>	<u>Stabilization Fund</u>	<u>High School Renovation Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and short-term investments	\$ 21,496,652	\$ 4,922,542	\$ 969,762	\$ 11,485,605	\$ 38,874,561
Investments	2,518,769	5,080,161	-	-	7,598,930
Receivables:					
Property taxes	3,292,122	-	-	-	3,292,122
Tax liens and foreclosures	6,099,165	-	-	-	6,099,165
Demolition liens	260,015	-	-	-	260,015
Motor vehicle excise	1,304,861	-	-	-	1,304,861
Departmental	724,095	-	-	-	724,095
Intergovernmental	-	-	-	1,384,036	1,384,036
Due from other funds	173,632	-	-	-	173,632
Other assets	-	-	-	108,700	108,700
<b>TOTAL ASSETS</b>	<b>\$ <u>35,869,311</u></b>	<b>\$ <u>10,002,703</u></b>	<b>\$ <u>969,762</u></b>	<b>\$ <u>12,978,341</u></b>	<b>\$ <u>59,820,117</u></b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Warrants payable	\$ 1,240,761	\$ -	\$ -	\$ 1,511,805	\$ 2,752,566
Accounts payable	575,770	-	1,126,075	362,288	2,064,133
Accrued payroll and withholdings	7,108,022	-	-	1,575,757	8,683,779
Accrued claims payable	131,499	-	-	-	131,499
Deferred revenues	11,590,617	-	-	108,700	11,699,317
Notes payable	-	-	4,327,000	4,003,930	8,330,930
Other liabilities	62,111	-	-	47	62,158
<b>TOTAL LIABILITIES</b>	<b>20,708,780</b>	<b>-</b>	<b>5,453,075</b>	<b>7,562,527</b>	<b>33,724,382</b>
Fund Balances:					
Reserved for:					
Encumbrances	8,799,276	-	-	-	8,799,276
Unreserved:					
Undesignated, reported in:					
General fund	6,361,255	-	-	-	6,361,255
Special revenue funds	-	10,002,703	-	4,236,541	14,239,244
Capital projects funds	-	-	(4,483,313)	(3,194,178)	(7,677,491)
Debt service fund	-	-	-	3,916,920	3,916,920
Permanent funds	-	-	-	456,531	456,531
<b>TOTAL FUND BALANCES</b>	<b><u>15,160,531</u></b>	<b><u>10,002,703</u></b>	<b><u>(4,483,313)</u></b>	<b><u>5,415,814</u></b>	<b><u>26,095,735</u></b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ <u>35,869,311</u></b>	<b>\$ <u>10,002,703</u></b>	<b>\$ <u>969,762</u></b>	<b>\$ <u>12,978,341</u></b>	<b>\$ <u>59,820,117</u></b>

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, 2010

<b>Total Governmental Fund Balances</b>	\$ 26,095,735
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	77,131,208
<ul style="list-style-type: none"><li>• 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.</li></ul>	14,154
<ul style="list-style-type: none"><li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(160,422)
<ul style="list-style-type: none"><li>• 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.</li></ul>	(59,937,698)
<ul style="list-style-type: none"><li>• 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.</li></ul>	<u>4,272,056</u>
<b>Net Assets of Governmental Activities</b>	<u><u>\$ 47,415,033</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, 2010

	<u>General</u>	<u>Stabilization Fund</u>	<u>High School Renovation Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>					
Property taxes	\$ 45,638,853	\$ -	\$ -	\$ -	\$ 45,638,853
Excises	2,216,670	-	-	-	2,216,670
Penalties, interest and other taxes	2,057,977	-	-	-	2,057,977
Charges for services	1,272,229	-	-	3,828,256	5,100,485
Intergovernmental	92,720,588	-	6,915,328	25,876,690	125,512,606
Licenses and permits	441,740	-	-	-	441,740
Fines and forfeitures	389,387	-	-	-	389,387
Investment earnings	236,152	880,727	-	-	1,116,879
Miscellaneous	<u>214,040</u>	<u>-</u>	<u>-</u>	<u>145,667</u>	<u>359,707</u>
Total Revenues	145,187,636	880,727	6,915,328	29,850,613	182,834,304
<b>Expenditures:</b>					
Current:					
General government	4,804,858	-	-	3,336,046	8,140,904
Public safety	20,168,971	-	-	1,820,238	21,989,209
Education	72,227,372	-	9,540,181	23,835,881	105,603,434
Public works	5,572,437	-	-	807,028	6,379,465
Health and human services	1,292,021	-	-	208,963	1,500,984
Culture and recreation	1,498,264	-	-	469,043	1,967,307
Employee benefits and insurance	19,749,116	-	-	1,052,706	20,801,822
Debt service	4,375,927	-	-	965,300	5,341,227
Intergovernmental	<u>12,122,240</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>12,122,240</u>
Total Expenditures	<u>141,811,206</u>	<u>-</u>	<u>9,540,181</u>	<u>32,495,205</u>	<u>183,846,592</u>
Excess (deficiency) of revenues over expenditures	3,376,430	880,727	(2,624,853)	(2,644,592)	(1,012,288)
<b>Other Financing Sources (Uses):</b>					
Transfers in	-	-	-	131,148	131,148
Transfers out	<u>(97,653)</u>	<u>-</u>	<u>-</u>	<u>(33,495)</u>	<u>(131,148)</u>
Total Other Financing Sources (Uses)	<u>(97,653)</u>	<u>-</u>	<u>-</u>	<u>97,653</u>	<u>-</u>
Change in fund balance	3,278,777	880,727	(2,624,853)	(2,546,939)	(1,012,288)
Fund Equity, July 1, 2009, as reclassified	<u>11,881,754</u>	<u>9,121,976</u>	<u>(1,858,460)</u>	<u>7,962,753</u>	<u>27,108,023</u>
Fund Equity, June 30, 2010	<u>\$ 15,160,531</u>	<u>\$ 10,002,703</u>	<u>\$ (4,483,313)</u>	<u>\$ 5,415,814</u>	<u>\$ 26,095,735</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, 2010

**Net Changes in Fund Balances**

**Total Governmental Funds** \$ (1,012,288)

- 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	13,268,316
Depreciation	(5,163,714)

- 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.

45,057

- 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	3,527,001
------------------------------	-----------

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

61,300

- 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	161,078
Other post-employment benefits	(11,292,457)

- 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.

(184,967)

**Change in Net Assets of Governmental Activities** \$ (590,674)

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, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues and Other Sources:</b>				
Taxes	\$ 46,845,854	\$ 45,915,959	\$ 45,915,959	\$ -
Excise	1,750,000	1,750,000	2,216,670	466,670
Penalties, interest and other taxes	1,400,000	1,400,000	2,057,977	657,977
Charges for services	674,900	674,900	1,272,229	597,329
Intergovernmental	78,038,403	78,038,403	79,442,683	1,404,280
Licenses and permits	374,850	374,850	441,740	66,890
Fines and forfeits	350,000	350,000	389,387	39,387
Interest earnings	300,000	300,000	236,152	(63,848)
Miscellaneous	-	-	214,040	214,040
Other sources	1,150,000	5,352,191	5,352,191	-
<b>Total Revenues and Other Sources</b>	<b>130,884,007</b>	<b>134,156,303</b>	<b>137,539,028</b>	<b>3,382,725</b>
<b>Expenditures and Other Uses:</b>				
General government	4,311,992	5,218,183	4,975,700	242,483
Public safety	19,755,847	20,436,956	20,072,130	364,826
Education	62,321,060	62,591,165	62,591,165	-
Public works	5,674,747	6,338,962	6,019,032	319,930
Human services	696,071	1,286,763	1,215,629	71,134
Culture and recreation	1,613,197	1,648,597	1,515,944	132,653
Debt service	4,263,107	4,375,937	4,375,927	10
Intergovernmental	12,138,426	12,138,426	12,020,580	117,846
Employee benefits and insurance	20,104,560	20,023,661	19,840,709	182,952
Transfers out	5,000	97,653	97,653	-
<b>Total Expenditures and Other Uses</b>	<b>130,884,007</b>	<b>134,156,303</b>	<b>132,724,469</b>	<b>1,431,834</b>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 4,814,559	\$ 4,814,559

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2010

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u> Internal Service <u>Funds</u>
	Sewer <u>Fund</u>	
<b><u>ASSETS</u></b>		
Current:		
Cash and short-term investments	\$ 2,092,062	\$ 3,423
User fees, net of allowance for uncollectibles	2,352,727	-
Intergovernmental receivable	-	28,468
	<hr/>	<hr/>
Total current assets	4,444,789	31,891
Noncurrent:		
Land and construction in process	350,000	-
Property, plant and equipment, net of accumulated depreciation	32,228,729	-
	<hr/>	<hr/>
Total noncurrent assets	32,578,729	-
	<hr/>	<hr/>
<b>TOTAL ASSETS</b>	37,023,518	31,891
<b><u>LIABILITIES</u></b>		
Current:		
Warrants payable	512,967	17,737
Accrued payroll and withholdings	3,001	-
Accrued interest payable	354,245	-
Notes payable	672,600	-
Current portion of long-term liability:		
Bonds payable	990,602	-
	<hr/>	<hr/>
Total current liabilities	2,533,415	17,737
Noncurrent:		
Bonds payable, net of current portion	24,151,521	-
	<hr/>	<hr/>
Total noncurrent liabilities	24,151,521	-
	<hr/>	<hr/>
<b>TOTAL LIABILITIES</b>	26,684,936	17,737
<b><u>NET ASSETS</u></b>		
Invested in capital assets, net of related debt	6,764,006	-
Unrestricted	3,574,576	14,154
	<hr/>	<hr/>
<b>TOTAL NET ASSETS</b>	\$ 10,338,582	\$ 14,154
	<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, 2010

	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	\$ 7,458,733	\$ 509,456
Total Operating Revenues	7,458,733	509,456
Operating Expenses:		
Salaries and wages	140,042	-
Operating expenses	6,003,360	700,043
Depreciation	1,459,138	-
Total Operating Expenses	7,602,540	700,043
Operating (loss)	(143,807)	(190,587)
Nonoperating Revenues (Expenses):		
Investment income	11,971	5,620
Interest expense	(776,385)	-
Intergovernmental revenue	7,841	-
Total Nonoperating Revenues (Expenses), Net	(756,573)	5,620
Change in net assets	(900,380)	(184,967)
Net Assets at Beginning of Year	11,238,962	199,121
Net Assets at End of Year	\$ 10,338,582	\$ 14,154

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2010

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u> <u>Internal</u> <u>Service</u> <u>Funds</u>
	Sewer <u>Fund</u>	
<b><u>Cash Flows From Operating Activities:</u></b>		
Receipts from customers and users	\$ 8,113,241	\$ -
Receipts from interfund service provided	-	509,440
Payments to vendors and employees	<u>(7,104,006)</u>	<u>(695,590)</u>
Net Cash Provided by / (Used for) Operating Activities	1,009,235	(186,150)
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>		
Acquisition and construction of capital assets	(676,256)	-
Repayment of bonds payable	(981,071)	-
Proceeds of anticipation note	672,600	-
Intergovernmental revenue	7,841	-
Interest expense	<u>(776,385)</u>	<u>-</u>
Net Cash (Used for) Capital and Related Financing Activities	(1,753,271)	-
<b><u>Cash Flows From Investing Activities:</u></b>		
Investment income	<u>11,971</u>	<u>5,620</u>
Net Cash Provided by Investing Activities	<u>11,971</u>	<u>5,620</u>
Net Change in Cash	(732,065)	(180,530)
Cash, Beginning of Year	<u>2,824,127</u>	<u>183,953</u>
Cash, End of Year	<u>\$ 2,092,062</u>	<u>\$ 3,423</u>
<b><u>Reconciliation of Operating Income to Net Cash</u></b>		
<b><u>Provided by (Used For) Operating Activities:</u></b>		
Operating (loss)	\$ (143,807)	\$ (190,587)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	1,459,138	-
Changes in assets and liabilities:		
User fees	654,508	-
Intergovernmental receivables	-	(16)
Warrants payable	47,699	4,453
Accrued liabilities	419	-
Accounts payable	(993,064)	-
Accrued interest	<u>(15,658)</u>	<u>-</u>
Net Cash Provided by / (Used for) Operating Activities	<u>\$ 1,009,235</u>	<u>\$ (186,150)</u>

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

<u>ASSETS</u>	Agency Funds	Private Purpose Funds	Pension Trust Fund (For the Year Ended December 31, 2009)
Cash and short-term investments	\$ 799,014	\$ 261,735	\$ 1,760,580
Investments	-	-	145,573,113
Accounts receivable	<u>214,744</u>	<u>-</u>	<u>309,196</u>
Total Assets	1,013,758	261,735	147,642,889
 <u>LIABILITIES AND NET ASSETS</u>			
Accounts payable	-	-	120,268
Accrued payroll	41,112	-	-
Payroll withholdings	640,980	-	-
Due to other funds	173,632	-	-
Deferred revenue	-	-	1,488,163
Other liabilities	<u>158,034</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>1,013,758</u>	<u>-</u>	<u>1,608,431</u>
 Total net assets held in trust for pension benefits and other purposes	 \$ <u><u>-</u></u>	 \$ <u><u>261,735</u></u>	 \$ <u><u>146,034,458</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, 2010

	Private Purpose <u>Funds</u>	Pension Trust Fund (For the Year Ended <u>December 31, 2009</u> )
Additions:		
Contributions:		
Employers	\$ -	\$ 12,117,761
Plan members	-	4,949,874
Other	<u>24,105</u>	<u>703,195</u>
Total contributions	<u>24,105</u>	<u>17,770,830</u>
Investment Income:		
Interest and dividends	1,606	2,516,648
Realized loss on sale of investments	-	(13,168,635)
Net appreciation in fair value of investments	-	41,581,002
Less: management fees	<u>-</u>	<u>(944,469)</u>
Net investment income	<u>1,606</u>	<u>29,984,546</u>
Total additions, net	25,711	47,755,376
Deductions:		
Scholarships	12,225	-
Benefit payments to plan members and beneficiaries	-	18,804,847
Reimbursements to other systems	-	563,097
Refunds to plan members	-	667,344
Administrative expenses	<u>-</u>	<u>353,756</u>
Total deductions	<u>12,225</u>	<u>20,389,044</u>
Net increase	13,486	27,366,332
Net assets held in trust for pension benefits and other purposes:		
Beginning of year	<u>248,249</u>	<u>118,668,126</u>
End of year	<u>\$ 261,735</u>	<u>\$ 146,034,458</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 2010, it was determined that the City of Holyoke Board of Water Commissioners, City of Holyoke Geriatric Authority, and the City of Holyoke Gas and Electric Company enterprise fund met the required GASB-14 criteria of component units.

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

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

##### B. Government-Wide and Fund Financial Statements

###### Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

#### Fund Financial Statements

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

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

#### Government-Wide Financial Statements

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

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

#### Fund Financial Statements

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

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

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *stabilization fund*, an account authorized by Massachusetts General Laws Chapter 40, Section 5B from which the City can appropriate funds for any legal purpose.
- The *high school renovation fund*, which accounts for the resources obtained and used in the renovating of the Holyoke High School.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 City's fuel depot operation is reported as an internal service fund 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 2010 tax levy reflected an excess capacity of \$ 12,620.

*G. Interfund Receivables and Payables*

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

*H. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Sewer infrastructure	40
Vehicles	5
Office equipment	5
Computer equipment	5

*I. Compensated Absences*

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

*J. Long-Term Obligations*

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

*K. Fund Equity*

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

*L. Use of Estimates*

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

**2. Stewardship, Compliance and Accountability**

*A. Budgetary Information*

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

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

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

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

*B. Budgetary Basis*

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

*C. Budget/GAAP Reconciliation*

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

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

<u>General Fund</u>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 145,187,636	\$ 141,811,206
Other financing sources/uses (GAAP basis)	-	97,653
Adjust tax revenue to accrual basis	277,106	-
Adjust for other GAAP accruals	-	(52,253)
Reverse beginning of year appropriation carry- forwards from expenditures	-	(4,653,508)
Add end of year appropriation carryforwards to expenditures	-	8,799,276
To reverse the effect of nonbudgeted State contributions for teachers retirement	(13,277,905)	(13,277,905)
Recognize use of fund balance as a funding source	<u>5,352,191</u>	<u>-</u>
Budgetary basis	<u>\$ 137,539,028</u>	<u>\$ 132,724,469</u>

**D. Deficit Fund Equity**

The following funds had deficits as of June 30, 2010:

Special Revenue Funds:	
Drug-free schools	\$ (101,817)
State targeted assistance	(18,057)
School to work grant	(30,967)
AFROTC program	(36,840)
Capital Project Funds:	
Wistariahurst renovations	(621,916)
Schools: fields/lights/lots/etc.	(655,094)
Jones Ferry River Access	(667,872)
Geriatric Authority land purchase	(1,200,000)
High School renovation	(4,483,313)
Community field improvement	(134,674)
Senior center	(157,496)
Agency Fund:	
Police outside detail	(214,745)

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, 2010, \$ 23,191,511 of the City's bank balance of \$ 36,828,862 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, 2009, none of the Contributory Retirement System's bank balance of \$ 1,905,563 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>
Corporate bonds	\$ 1,147,824	-	231,753	662,762	253,309
Mutual funds	4,300,258	4,300,258	-	-	-
Federal agency securities	2,150,848	-	2,150,848	-	-
<b>Total investments</b>	<b>\$ 7,598,930</b>	<b>\$ 4,300,258</b>	<b>\$ 2,382,601</b>	<b>\$ 662,762</b>	<b>\$ 253,309</b>

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	\$ 842,000	\$ 842,000	\$ -
Pooled funds	125,591,710	125,591,710	-
Mutual funds	18,877,215	18,877,215	-
Federal agency securities	262,188	-	262,188
<b>Total investments</b>	<b>\$ 145,573,113</b>	<b>\$ 145,310,925</b>	<b>\$ 262,188</b>

**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 govern-

ment 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 \$ 7,598,930 and \$ 145,573,113 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 and pooled 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>
Corporate bonds	\$ 1,147,824	-	57,848	1,089,976	-
Mutual funds	4,300,258	4,300,258	-	-	-
Federal agency securities	2,150,848	-	264,841	1,637,644	248,363
Total	<u>\$ 7,598,930</u>	<u>\$ 4,300,258</u>	<u>\$ 322,689</u>	<u>\$ 2,727,620</u>	<u>\$ 248,363</u>

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt from Disclosure</u>	<u>Investment Maturities (in Years)</u>
			<u>Less than 1 Year</u>
Certificates of deposit	\$ 842,000	\$ -	\$ 842,000
Pooled funds	125,591,710	125,591,710	-
Mutual funds	18,877,215	18,877,215	-
Federal agency securities	<u>262,188</u>	<u>-</u>	<u>262,188</u>
Total	<u>\$ 145,573,113</u>	<u>\$ 144,468,925</u>	<u>\$ 1,104,188</u>

*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, 2010 consist of the following:

Real Estate		
2010	\$ 1,648,273	
2009 and Prior	<u>1,363,005</u>	3,011,278
Personal Property		
2010	7,615	
2009 and Prior	<u>273,229</u>	<u>280,844</u>
Total		<u>\$ 3,292,122</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	\$ 509,459	\$ -
Tax liens and foreclosures	5,365,921	-
Demolition liens	242,305	-
Excises	674,507	-
Departmental and other	625,410	1,138,640

**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 2010 that are expected to be reimbursed in 2011.

**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, 2010 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 173,632	\$ -
Agency Funds – Police Outside Detail	-	173,632
Total	\$ <u>173,632</u>	\$ <u>173,632</u>

**9. Capital Assets**

Capital asset activity for the year ended June 30, 2010 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 105,309	\$ 1,526	\$ -	\$ 106,835
Machinery, equipment, and furnishings	20,482	1,036	-	21,518
Land improvements	3,171	-	-	3,171
Infrastructure	<u>11,037</u>	<u>1,460</u>	<u>-</u>	<u>12,497</u>
Total capital assets, being depreciated	139,999	4,022	-	144,021
Less accumulated depreciation for:				
Buildings and improvements	(64,777)	(2,577)	-	(67,354)
Machinery, equipment, and furnishings	(16,965)	(1,145)	-	(18,110)
Land improvements	(1,990)	(292)	-	(2,282)
Infrastructure	<u>(5,213)</u>	<u>(1,150)</u>	<u>-</u>	<u>(6,363)</u>
Total accumulated depreciation	<u>(88,945)</u>	<u>(5,164)</u>	<u>-</u>	<u>(94,109)</u>
Total capital assets, being depreciated, net	51,054	(1,142)	-	49,912
Capital assets, not being depreciated:				
Land	15,297	-	-	15,297
Construction in progress	<u>2,676</u>	<u>11,363</u>	<u>(2,116)</u>	<u>11,923</u>
Total capital assets, not being depreciated	<u>17,973</u>	<u>11,363</u>	<u>(2,116)</u>	<u>27,220</u>
Governmental activities capital assets, net	<u>\$ 69,027</u>	<u>\$ 10,221</u>	<u>\$ (2,116)</u>	<u>\$ 77,132</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities:</u>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 40,000	\$ -	\$ -	\$ 40,000
Machinery, equipment, and furnishings	1,262	-	-	1,262
Infrastructure	<u>50,864</u>	<u>770</u>	<u>-</u>	<u>51,634</u>
Total capital assets, being depreciated	92,126	770	-	92,896
Less accumulated depreciation for:				
Buildings and improvements	(34,058)	(234)	-	(34,292)
Machinery, equipment, and furnishings	(1,196)	(22)	-	(1,218)
Infrastructure	<u>(23,954)</u>	<u>(1,203)</u>	<u>-</u>	<u>(25,157)</u>
Total accumulated depreciation	<u>(59,208)</u>	<u>(1,459)</u>	<u>-</u>	<u>(60,667)</u>
Total capital assets, being depreciated, net	32,918	(689)	-	32,229
Capital assets, not being depreciated:				
Land	350	-	-	350
Construction in progress	<u>93</u>	<u>103</u>	<u>(196)</u>	<u>-</u>
Total capital assets, not being depreciated	<u>443</u>	<u>103</u>	<u>(196)</u>	<u>350</u>
Governmental activities capital assets, net	<u>\$ 33,361</u>	<u>\$ (586)</u>	<u>\$ (196)</u>	<u>\$ 32,579</u>

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

Governmental Activities:	
General government	\$ 20
Public safety	1,147
Education	1,875
Public works	1,669
Culture and recreation	2
Human services	451
Total depreciation expense - governmental activities	<u>\$ 5,164</u>
Business-Type Activities:	
Sewer	<u>\$ 1,459</u>
Total depreciation expense - business-type activities	<u>\$ 1,459</u>

**10. Warrants and Accounts Payable**

Warrants payable represent 2010 expenditures paid by July 15, 2010 as permitted by law. Accounts payable represent additional 2010 expenditures paid after July 15, 2010.

**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, 2010 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, 2010:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2010</u>
<u>Governmental Funds:</u>				
Bond anticipation	1.50%	05/28/10	02/25/11	\$ 5,633,400
Bond anticipation	1.19%	06/25/10	02/25/11	1,697,530
Bond anticipation	1.65%	06/30/10	02/25/11	<u>1,000,000</u>
Total Governmental funds				<u>8,330,930</u>
<u>Business-type Funds:</u>				
Bond anticipation	1.50%	05/28/10	02/25/11	<u>672,600</u>
Total Business-type funds				<u>672,600</u>
Total				<u>\$ 9,003,530</u>

The following summarizes activity in notes payable during fiscal year 2010:

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation	\$ 5,597,000	\$ 9,003,530	\$ (5,597,000)	\$ 9,003,530

### 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, 2010
<u>Governmental Activities:</u>			
Building Demolitions	09/01/11	5.54	\$ 270,000
Central Fuel Facility	09/01/11	5.54	90,000
Fire Station	09/01/11	5.54	770,000
Police Station (refund)	08/01/13	3.1 - 4.125	889,777
Land Acquisition (refund)	06/15/15	2.5 - 5.00	247,218
Police Station (refund)	06/15/16	2.5 - 5.00	1,484,148
School Roof Remodeling (refund)	06/15/16	2.5 - 5.00	1,306,170
Outdoor Athletic Facility	08/01/16	3.5 - 4.40	1,205,000
City Hall Remodeling	08/01/17	4.3 - 5.25	1,280,000
Building Demolition (refund)	09/01/18	3.9	930,900
Central Fuel Facility (refund)	09/01/18	3.9	333,700
Fire Station (refund)	09/01/19	3.9	3,265,400
High School Remodeling	07/15/27	4.45	1,070,000
School Roofs	07/15/27	4.45	160,000
School Lots/Field/Lights	07/15/27	4.45	880,000
Building Demolition	07/15/27	4.45	210,000
Total Governmental Activities			\$ 14,392,313
<u>Business-Type Activities:</u>			
Sewer Bond (refund)	08/01/13	3.5 - 4.125	\$ 186,943
Sewer Bond	08/01/16	3.5 - 4.40	235,000
MWPAT	07/20/16	2	16,655,180
Sewer CSO Projects	07/15/27	4.45	2,665,000
Sewer Plant Improvements	07/15/27	4.45	5,400,000
Total Business-Type Activities			\$ 25,142,123
Total Debt			\$ 39,534,436

**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, 2010 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,646,508	268,921	1,915,429
2016-2020	4,504,686	495,347	5,000,033
2021-2025	385,000	85,625	470,625
2026-2028	200,000	13,013	213,013
Total	\$ <u>14,392,313</u>	\$ <u>2,731,488</u>	\$ <u>17,123,801</u>

<u>Business-Type</u>			
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	991,250	615,411	1,606,661
2016-2020	4,956,730	2,556,317	7,513,047
2021-2025	5,139,756	1,727,342	6,867,098
2026-2030	4,638,591	917,195	5,555,786
thereafter	5,375,107	452,979	5,828,086
Total	\$ <u>25,142,123</u>	\$ <u>9,080,759</u>	\$ <u>34,222,882</u>

**D. Changes in General Long-Term Liabilities**

During the year ended June 30, 2010, the following changes occurred in long-term liabilities (in thousands):



	Total Balance <u>07/01/09</u>	Addition	Reduction	Total Balance <u>06/30/10</u>	Less Current Portion	Equals Long-Term Portion <u>06/30/10</u>
<u>Governmental Activities:</u>						
Bonds payable	\$ 17,919	\$ -	\$ (3,527)	\$ 14,392	\$ (1,983)	\$ 12,409
Other:						
Net OPEB obligation	25,922	11,293	-	37,215	-	37,215
Accrued compensated absences	8,492	-	(161)	8,331	-	8,331
Total	<u>\$ 52,333</u>	<u>\$ 11,293</u>	<u>\$ (3,688)</u>	<u>\$ 59,938</u>	<u>\$ (1,983)</u>	<u>\$ 57,955</u>
<u>Business-Type Activities:</u>						
Bonds payable	\$ 26,123	\$ -	\$ (981)	\$ 25,142	\$ (991)	\$ 24,151
Total	<u>\$ 26,123</u>	<u>\$ -</u>	<u>\$ (981)</u>	<u>\$ 25,142</u>	<u>\$ (991)</u>	<u>\$ 24,151</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 2010. 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, 2010, 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, 2010:

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, 2010, 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	\$ 5,144,600	0.90%	02/25/11	02/24/12
Bond anticipation note	8,015,000	0.72%	06/16/11	02/24/12
General obligation bond	970,000	1.70%	08/04/11	09/01/17
General obligation bond	<u>3,831,000</u>	3.50%	02/24/11	02/15/29
Total	<u>\$ 17,960,600</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 - 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, 2009, 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 2010 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, 2010, 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, 2009.

Annual Required Contribution (ARC)	\$ 18,695,275
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	<u>18,695,275</u>
Contributions made	<u>(7,402,818)</u>
Increase in net OPEB obligation	11,292,457
Net OPEB obligation - beginning of year	<u>25,922,094</u>
Net OPEB obligation - end of year	<u>\$ 37,214,551</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:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2008	\$ 19,471,267	33.71%	\$ 12,906,848
2009	\$ 20,454,823	36.37%	\$ 13,015,246
2010	\$ 18,695,275	37.67%	\$ 11,292,457

The City's net OPEB obligation as of June 30, 2010 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, 2009, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 354,738,776
Actuarial value of plan assets	-
	<hr/>
Unfunded actuarial accrued liability (UAAL)	354,738,776
	<hr/>
Funded ratio (actuarial value of plan assets/AAL)	0%
	<hr/>
Covered payroll (active plan members)	N/A
UAAL as a percentage of covered payroll	N/A

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

F. Actuarial Methods and Assumptions

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

In the June 30, 2009 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, 2010, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	900
Terminated plan members entitled to but not yet receiving benefits	188
Active plan members	<u>1,203</u>
Total	<u><u>2,291</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%
2010	8,706,430	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>
01/01/10	\$ 175,462	\$ 305,561	\$ 130,099	57.42%	\$ 54,172	240.16%

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 \$ 130.1 million was calculated. The actuarial assumptions included (a) 8.25% investment rate of return and (b) a projected salary increase of 4.5% 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, 2010 the unfunded actuarially accrued liability is being amortized over 18 years using an open group method which assumes a 4.5% 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 2010, the Commonwealth of Massachusetts contributed \$ 13,277,905 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 \$ 131,499 for unpaid workers' compensation claims at June 30, 2010 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.

**22. Beginning Fund Balance Reclassification**

The City's major governmental funds for fiscal year 2010, as defined by GASB Statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	Fund Equity 6/30/09 (as previously reported)	<u>Reclassification</u>	Fund Equity 6/30/09 (as reclassified)
Nonmajor funds	\$ 6,104,293	\$ 1,858,460	\$ 7,962,753
Major fund-High School Renovations	<u>-</u>	<u>(1,858,460)</u>	<u>(1,858,460)</u>
Total	<u>\$ 6,104,293</u>	<u>\$ -</u>	<u>\$ 6,104,293</u>

**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%
1/1/10	\$175,462	\$305,561	\$130,099	57.4%	\$54,172	240.2%

**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
06/30/09	\$ -	\$ 354,739	\$ 354,739	0.0%	N/A	N/A

See Independent Auditors' Report.