

CITY OF HOLYOKE, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2012

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MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and City Council

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, 2012, (except for the Holyoke Contributory Retirement System which is as of and for the year ended December 31, 2011) which collectively comprise the City's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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, Holyoke Library Commission, and HPL Realty Corp. In addition, 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 primary government is not included. 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, 2012 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.

In our opinion, except for the effects of excluding the Holyoke Gas and Electric Department Enterprise Fund as part of the business-type activities, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the City of Holyoke, Massachusetts as of June 30, 2012, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In addition, in our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Holyoke, Massachusetts, as of June 30, 2012, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 5, 2013, 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.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and Schedule of Funding Progress be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Melanson, Heath + Company P.C.
March 5, 2013

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, 2012.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to 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, enterprise funds are 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 service funds are used to account for the 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 is 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 \$ 38,244,510 (i.e., net assets), a change of \$ (16,487,261) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$ 28,691,180, a change of \$ (2,527,301) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 6,114,765, a change of \$ (4,791,869) in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 53,934,848, a change of \$ 13,543,187 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:

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | | <u>Total</u> | |
|-----------------------------------|------------------------------------|------------------|-------------------------------------|------------------|------------------|------------------|
| | <u>2012</u> | <u>2011</u> | <u>2012</u> | <u>2011</u> | <u>2012</u> | <u>2011</u> |
| Current and other assets | \$ 52,874 | \$ 55,267 | \$ 4,917 | \$ 5,100 | \$ 57,791 | \$ 60,367 |
| Capital assets | <u>93,998</u> | <u>82,302</u> | <u>31,808</u> | <u>31,796</u> | <u>125,806</u> | <u>114,098</u> |
| Total Assets | 146,872 | 137,569 | 36,725 | 36,896 | 183,597 | 174,465 |
| Long-term liabilities outstanding | 98,281 | 73,327 | 23,144 | 24,151 | 121,425 | 97,478 |
| Other liabilities | <u>21,163</u> | <u>20,280</u> | <u>2,765</u> | <u>1,975</u> | <u>23,928</u> | <u>22,255</u> |
| Total Liabilities | 119,444 | 93,607 | 25,909 | 26,126 | 145,353 | 119,733 |
| Net assets: | | | | | | |
| Invested in capital assets, net | 64,509 | 62,397 | 6,957 | 6,036 | 71,466 | 68,433 |
| Restricted | 11,898 | 12,443 | - | - | 11,898 | 12,443 |
| Unrestricted | <u>(48,979)</u> | <u>(30,878)</u> | <u>3,859</u> | <u>4,734</u> | <u>(45,120)</u> | <u>(26,144)</u> |
| Total Net Assets | <u>\$ 27,428</u> | <u>\$ 43,962</u> | <u>\$ 10,816</u> | <u>\$ 10,770</u> | <u>\$ 38,244</u> | <u>\$ 54,732</u> |

CHANGES IN NET ASSETS

| | <u>Governmental</u> | | <u>Business-Type</u> | | <u>Total</u> | |
|---|---------------------|------------------|----------------------|------------------|------------------|------------------|
| | <u>Activities</u> | | <u>Activities</u> | | | |
| | <u>2012</u> | <u>2011</u> | <u>2012</u> | <u>2011</u> | <u>2012</u> | <u>2011</u> |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 6,477 | \$ 6,416 | \$ 8,058 | \$ 8,899 | \$ 14,535 | \$ 15,315 |
| Operating grants and contributions | 111,226 | 108,883 | - | - | 111,226 | 108,883 |
| Capital grants and contributions | 2,591 | 9,117 | 782 | 110 | 3,373 | 9,227 |
| General revenues: | | | | | | |
| Property taxes | 47,185 | 47,408 | - | - | 47,185 | 47,408 |
| Excises | 2,270 | 1,925 | - | - | 2,270 | 1,925 |
| Penalties, interest and other taxes | 2,110 | 1,937 | - | - | 2,110 | 1,937 |
| Investment income | 820 | 990 | 8 | 4 | 828 | 994 |
| Grants and contributions not restricted | 8,770 | 8,619 | - | - | 8,770 | 8,619 |
| Miscellaneous | 636 | 144 | - | - | 636 | 144 |
| Transfers, net | <u>5</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>5</u> | <u>-</u> |
| Total Revenues | <u>182,090</u> | <u>185,439</u> | <u>8,848</u> | <u>9,013</u> | <u>190,938</u> | <u>194,452</u> |
| Expenses: | | | | | | |
| General government | 6,228 | 7,892 | - | - | 6,228 | 7,892 |
| Public safety | 27,518 | 22,366 | - | - | 27,518 | 22,366 |
| Education | 103,644 | 100,980 | - | - | 103,644 | 100,980 |
| Public works | 7,323 | 7,774 | - | - | 7,323 | 7,774 |
| Health and human services | 1,371 | 2,714 | - | - | 1,371 | 2,714 |
| Culture and recreation | 2,371 | 954 | - | - | 2,371 | 954 |
| Employee benefits | 32,594 | 32,870 | - | - | 32,594 | 32,870 |
| Interest on long-term debt | 818 | 687 | - | - | 818 | 687 |
| Intergovernmental | 12,358 | 12,655 | - | - | 12,358 | 12,655 |
| Payment to refunding agent | 4,399 | - | - | - | 4,399 | - |
| Sewer operations | <u>-</u> | <u>-</u> | <u>8,802</u> | <u>8,582</u> | <u>8,802</u> | <u>8,582</u> |
| Total expenses | <u>198,624</u> | <u>188,892</u> | <u>8,802</u> | <u>8,582</u> | <u>207,426</u> | <u>197,474</u> |
| Change in net assets | (16,534) | (3,453) | 46 | 431 | (16,488) | (3,022) |
| Net assets - beginning of year | <u>43,962</u> | <u>47,415</u> | <u>10,770</u> | <u>10,339</u> | <u>54,732</u> | <u>57,754</u> |
| Net assets - end of year | <u>\$ 27,428</u> | <u>\$ 43,962</u> | <u>\$ 10,816</u> | <u>\$ 10,770</u> | <u>\$ 38,244</u> | <u>\$ 54,732</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 \$ 38,244,510, a change of \$ (16,487,261) from the prior year.

The largest portion of net assets \$ 71,467,036 reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), 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 \$ 11,897,709 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets \$ (45,120,235), results in a deficit, which was caused by unfunded Other Post Employment Benefit (OPEB) accrued liabilities (see footnote 19).

Governmental activities. Governmental activities for the year resulted in a change in net assets of \$ (16,534,083). Key elements of this change are as follows (in thousands):

| | |
|--|--------------------|
| General fund operations | \$ 880 |
| Major fund - Senior center expenditures in excess of revenues | (1,651) |
| Major fund - Library renovation revenues over expenditures | 3,909 |
| Non-major fund expenditures and transfers out over revenues and transfers in | (5,665) |
| Depreciation expense in excess of principal debt service | (2,933) |
| Capital assets purchased with tax levy and grant funds | 16,899 |
| Bond proceeds | (16,821) |
| Internal service fund operations | (41) |
| Change in compensated absence liability | (417) |
| Change in other post-employment benefits liability | (9,986) |
| Other GAAP accruals | <u>(708)</u> |
| Total | <u>\$ (16,534)</u> |

Business-type activities. Business-type activities for the year resulted in a change in net assets of \$ 46,822. This change resulted primarily from user fees collected being greater 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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 28,691,180, a change of \$ (2,527,301) in comparison to the prior year. Key elements of this change are as follows (in thousands):

| | |
|---|-------------------|
| General fund revenues and transfers in excess of expenditures and transfers out | \$ 880 |
| Major fund - Senior center expenditures in excess of revenues | (1,651) |
| Major fund - Library renovation revenues over expenditures | 3,909 |
| Special revenue fund expenditures in excess of revenues | (3,933) |
| Closing of debt service fund | (3,942) |
| Trust fund revenues over expenditures | 34 |
| Excess of current year bond proceeds over current year capital expenditures | <u>2,176</u> |
| Total | <u>\$ (2,527)</u> |

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 6,114,765, while total fund balance was \$ 24,590,056. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below (in thousands).

| <u>General Fund</u> | <u>2012</u> | <u>2011</u> | <u>Change</u> | <u>% of Total 2012 General Fund Expenditures</u> |
|-------------------------|-------------|-------------|---------------|--|
| Unassigned fund balance | \$ 6,115 | \$ 10,907 | \$ (4,792) | 4.1% |
| Total fund balance | 24,590 | 23,710 | 880 | 16.6% |

The total fund balance of the general fund changed by \$ 880,120 during the current fiscal year. Key factors in this change are as follows (in thousands):

| | |
|--|---------------|
| Use of free cash and as a funding source | \$ (3,156) |
| Revenues in excess of budget | 2,277 |
| Expenditures less than budget | 2,205 |
| Expenditures of prior year encumbrances | (40) |
| Change in stabilization/capital reserve | 553 |
| Other | <u>(959)</u> |
| Total | <u>\$ 880</u> |

Included in the total general fund balance is the City's stabilization reserve account with the following balances:

| | <u>06/30/12</u> | <u>06/30/11</u> | <u>Change</u> |
|-----------------------|----------------------|----------------------|-------------------|
| General stabilization | \$ <u>11,268,853</u> | \$ <u>10,716,342</u> | \$ <u>552,511</u> |
| Total | <u>\$ 11,268,853</u> | <u>\$ 10,716,342</u> | <u>\$ 552,511</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 \$ 3,858,741, a change of \$ (875,038) in comparison to the prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$ 1,511,330. The primary reason for the increase was the appropriation of surplus funds (free cash) for various operating and capital expenditures.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$ 125,805,963 (net of accumulated depreciation), a change of \$ 11,708,180 from the prior year. This investment in capital assets includes land, buildings and system improvements, and machinery and equipment.

Major capital asset events during the current fiscal year included the following (in thousands):

| | |
|------------------------------------|------------|
| • Depreciation expense | \$ (6,704) |
| • Infrastructure | |
| Sewer infrastructure | 1,233 |
| Roadway and sidewalk improvements | 1,339 |
| • Building and improvements | |
| War memorial | 92 |
| • Departmental vehicle purchase | |
| Departmental vehicle replacements | 390 |
| • Departmental equipment purchases | |
| Governmental | 60 |
| School Department equipment | 385 |
| • Construction in progress | |
| High school renovations | 4,095 |
| Community field improvements | 2,721 |
| Senior center | 4,152 |
| Library renovation | 3,467 |

| | |
|---------------------------|-----|
| Parking garage renovation | 199 |
| Sewer | 279 |

Additional information on capital assets can be found in the notes to the financial statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$ 53,934,848, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to the Financial Statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City'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, 2012

| | Governmental Activities | Business-Type Activities | Total |
|---|-----------------------------|-----------------------------|-----------------------------|
| ASSETS | | | |
| Current: | | | |
| Cash and short-term investments | \$ 24,253,198 | \$ 2,309,238 | \$ 26,562,436 |
| Investments | 12,842,619 | - | 12,842,619 |
| Receivables, net of allowance for uncollectibles: | | | |
| Property taxes | 2,162,703 | - | 2,162,703 |
| Excises | 589,048 | - | 589,048 |
| User fees | 48,395 | 2,608,150 | 2,656,545 |
| Departmental and other | 109,539 | - | 109,539 |
| Intergovernmental | 1,615,377 | - | 1,615,377 |
| Advance to library project | 10,229,171 | - | 10,229,171 |
| Due from other funds | 200,313 | - | 200,313 |
| Other assets | 109,900 | - | 109,900 |
| Noncurrent: | | | |
| Receivables, net of allowance for uncollectibles: | | | |
| Tax liens and foreclosures | 713,706 | - | 713,706 |
| Capital Assets: | | | |
| Land and construction in progress | 49,426,672 | 628,731 | 50,055,403 |
| Other assets, net of accumulated depreciation | <u>44,571,007</u> | <u>31,179,553</u> | <u>75,750,560</u> |
| TOTAL ASSETS | 146,871,648 | 36,725,672 | 183,597,320 |
| LIABILITIES | | | |
| Current: | | | |
| Warrants payable | 1,227,068 | 456,857 | 1,683,925 |
| Accounts payable | 2,664,746 | 278,731 | 2,943,477 |
| Accrued payroll | 3,740,825 | - | 3,740,825 |
| Accrued liabilities | 358,572 | 323,045 | 681,617 |
| Notes payable | 12,143,900 | 1,706,420 | 13,850,320 |
| Tax refunds payable | 963,635 | - | 963,635 |
| Other current liabilities | 64,424 | - | 64,424 |
| Current portion of long-term liabilities: | | | |
| Bonds payable | 3,125,914 | 1,014,878 | 4,140,792 |
| Other liabilities | 881,843 | - | 881,843 |
| Noncurrent: | | | |
| Bonds payable, net of current portion | 27,664,761 | 22,129,295 | 49,794,056 |
| Net OPEB obligation | 58,671,312 | - | 58,671,312 |
| Other liabilities, net of current portion | <u>7,936,584</u> | <u>-</u> | <u>7,936,584</u> |
| TOTAL LIABILITIES | 119,443,584 | 25,909,226 | 145,352,810 |
| NET ASSETS | | | |
| Invested in capital assets, net of related debt | 64,509,331 | 6,957,705 | 71,467,036 |
| Restricted for: | | | |
| Grants and other statutory restrictions | 11,385,648 | - | 11,385,648 |
| Permanent funds: | | | |
| Expendable | 512,061 | - | 512,061 |
| Unrestricted | <u>(48,978,976)</u> | <u>3,858,741</u> | <u>(45,120,235)</u> |
| TOTAL NET ASSETS | \$ <u>27,428,064</u> | \$ <u>10,816,446</u> | \$ <u>38,244,510</u> |

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

| | Expenses | Program Revenues | | | Net(Expenses) Revenues and Changes in Net Assets | | |
|--|----------------|----------------------|------------------------------------|----------------------------------|--|--------------------------|----------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| Governmental Activities: | | | | | | | |
| General government | \$ 6,227,884 | \$ 888,413 | \$ 4,301,155 | \$ 3,000 | \$ (1,035,316) | \$ - | \$ (1,035,316) |
| Public safety | 27,518,112 | 860,734 | 1,256,936 | - | (25,400,442) | - | (25,400,442) |
| Education | 103,644,403 | 3,864,506 | 104,746,839 | - | 4,966,942 | - | 4,966,942 |
| Public works | 7,322,893 | 642,017 | 43,790 | 1,166,594 | (5,470,492) | - | (5,470,492) |
| Health and human services | 1,370,674 | 71,440 | 274,250 | - | (1,024,984) | - | (1,024,984) |
| Culture and recreation | 2,370,518 | 150,106 | 602,582 | 1,421,183 | (196,647) | - | (196,647) |
| Employee benefits | 32,594,478 | - | - | - | (32,594,478) | - | (32,594,478) |
| Interest | 817,577 | - | - | - | (817,577) | - | (817,577) |
| Intergovernmental | 12,357,797 | - | - | - | (12,357,797) | - | (12,357,797) |
| Total Governmental Activities | 194,224,336 | 6,477,216 | 111,225,552 | 2,590,777 | (73,930,791) | - | (73,930,791) |
| Business-Type Activities: | | | | | | | |
| Sewer services | 8,801,588 | 8,057,796 | - | 782,163 | - | 38,371 | 38,371 |
| Total Business-Type Activities | 8,801,588 | 8,057,796 | - | 782,163 | - | 38,371 | 38,371 |
| Total | \$ 203,025,924 | \$ 14,535,012 | \$ 111,225,552 | \$ 3,372,940 | (73,930,791) | 38,371 | (73,892,420) |
| General Revenues and Transfers: | | | | | | | |
| Property taxes | | | | | 47,184,999 | - | 47,184,999 |
| Excises | | | | | 2,270,368 | - | 2,270,368 |
| Penalties, interest and other taxes | | | | | 2,109,435 | - | 2,109,435 |
| Grants and contributions not restricted to specific programs | | | | | 8,770,277 | - | 8,770,277 |
| Investment income | | | | | 819,813 | 8,390 | 828,203 |
| Miscellaneous | | | | | 636,151 | - | 636,151 |
| Payment to refunding agent for G&E refunding | | | | | (4,399,425) | - | (4,399,425) |
| Transfers, net | | | | | 5,090 | 61 | 5,151 |
| Total general revenues and transfers | | | | | 57,396,708 | 8,451 | 57,405,159 |
| Change in Net Assets | | | | | (16,534,083) | 46,822 | (16,487,261) |
| Net Assets: | | | | | | | |
| Beginning of year | | | | | 43,962,147 | 10,769,624 | 54,731,771 |
| End of year | | | | | \$ 27,428,064 | \$ 10,816,446 | \$ 38,244,510 |

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

| | <u>General</u> | Senior Center Project <u>Fund</u> | Library Project <u>Fund</u> | Nonmajor Governmental <u>Funds</u> | Total Governmental <u>Funds</u> |
|--|----------------------|---|--------------------------------|--|---------------------------------------|
| ASSETS | | | | | |
| Cash and short-term investments | \$ 17,107,112 | \$ 3,339,074 | \$ 1,630,357 | \$ 2,176,655 | \$ 24,253,198 |
| Investments | 12,842,619 | - | - | - | 12,842,619 |
| Receivables: | | | | | |
| Property taxes | 2,009,296 | - | - | - | 2,009,296 |
| Tax liens and foreclosures | 12,972,243 | - | - | - | 12,972,243 |
| Excises | 1,237,357 | - | - | - | 1,237,357 |
| Departmental and other | 763,653 | - | - | - | 763,653 |
| Intergovernmental | - | - | - | 1,615,377 | 1,615,377 |
| Advance to library project | - | - | 10,229,171 | - | 10,229,171 |
| Due from other funds | 232,172 | - | - | - | 232,172 |
| Other assets | 1,200 | - | - | 108,700 | 109,900 |
| TOTAL ASSETS | \$ 47,165,652 | \$ 3,339,074 | \$ 11,859,528 | \$ 3,900,732 | \$ 66,264,986 |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| Warrants payable | \$ 675,307 | \$ 50,877 | \$ - | \$ 459,606 | \$ 1,185,790 |
| Accounts payable | 881,818 | 793,756 | 989,172 | - | 2,664,746 |
| Accrued payroll and withholdings | 3,288,672 | - | - | 452,153 | 3,740,825 |
| Accrued claims payable | 97,916 | - | - | - | 97,916 |
| Deferred revenues | 16,603,870 | - | - | 108,700 | 16,712,570 |
| Notes payable | - | 5,600,000 | 5,843,900 | 700,000 | 12,143,900 |
| Tax refunds payable | 963,635 | - | - | - | 963,635 |
| Other liabilities | 64,378 | - | - | 46 | 64,424 |
| TOTAL LIABILITIES | 22,575,596 | 6,444,633 | 6,833,072 | 1,720,505 | 37,573,806 |
| Fund Balances: | | | | | |
| Restricted | - | - | 5,026,456 | 7,599,435 | 12,625,891 |
| Committed | 11,268,853 | - | - | - | 11,268,853 |
| Assigned | 7,206,438 | - | - | - | 7,206,438 |
| Unassigned | 6,114,765 | (3,105,559) | - | (5,419,208) | (2,410,002) |
| TOTAL FUND BALANCES | 24,590,056 | (3,105,559) | 5,026,456 | 2,180,227 | 28,691,180 |
| TOTAL LIABILITIES AND FUND BALANCES | \$ 47,165,652 | \$ 3,339,074 | \$ 11,859,528 | \$ 3,900,732 | \$ 66,264,986 |

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, 2012

| | |
|--|-----------------------------|
| Total Governmental Fund Balances | \$ 28,691,180 |
| <ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 93,997,679 |
| <ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting and are not deferred until collection. | 3,305,017 |
| <ul style="list-style-type: none">• Internal service funds are used by management to account for fuel depot activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets. | (24,742) |
| <ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. | (260,656) |
| <ul style="list-style-type: none">• Future expenses related to providing other post employment benefits (OPEB's) are not due and payable in the current period and, therefore, are not reported in the governmental funds. | (58,671,312) |
| <ul style="list-style-type: none">• Long-term liabilities, including bonds payable and compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds. | <u>(39,609,102)</u> |
| Net Assets of Governmental Activities | <u><u>\$ 27,428,064</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, 2012

| | General | Senior Center Project Fund | Library Project Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|----------------------|----------------------------------|-------------------------|-----------------------------------|--------------------------------|
| Revenues: | | | | | |
| Property taxes | \$ 47,856,471 | \$ - | \$ - | \$ - | \$ 47,856,471 |
| Excises | 2,214,623 | - | - | - | 2,214,623 |
| Penalties, interest, and other taxes | 2,109,435 | - | - | - | 2,109,435 |
| Charges for services | 1,028,516 | - | - | 4,298,389 | 5,326,905 |
| Intergovernmental | 94,140,361 | - | 1,310,278 | 26,766,856 | 122,217,495 |
| Licenses and permits | 537,359 | - | - | - | 537,359 |
| Fines and forfeitures | 350,607 | - | - | - | 350,607 |
| Contributions and donations | - | - | 256,000 | 113,111 | 369,111 |
| Investment income | 773,089 | - | 10,056 | 36,668 | 819,813 |
| Miscellaneous | 32,164 | - | - | 603,987 | 636,151 |
| Total Revenues | 149,042,625 | - | 1,576,334 | 31,819,011 | 182,437,970 |
| Expenditures: | | | | | |
| Current: | | | | | |
| General government | 3,648,778 | - | - | 2,666,799 | 6,315,577 |
| Public safety | 21,294,821 | - | - | 5,309,574 | 26,604,395 |
| Education | 77,204,101 | - | - | 29,115,077 | 106,319,178 |
| Public works | 5,044,416 | - | - | 1,357,082 | 6,401,498 |
| Health and human services | 1,352,726 | 4,151,481 | - | 69,119 | 5,573,326 |
| Culture and recreation | 1,684,042 | - | 3,466,909 | 3,073,975 | 8,224,926 |
| Employee benefits | 22,608,562 | - | - | - | 22,608,562 |
| Debt service | 2,986,677 | - | - | - | 2,986,677 |
| Intergovernmental | 12,357,797 | - | - | - | 12,357,797 |
| Total Expenditures | 148,181,920 | 4,151,481 | 3,466,909 | 41,591,626 | 197,391,936 |
| Excess (deficiency) of revenues over expenditures | 860,705 | (4,151,481) | (1,890,575) | (9,772,615) | (14,953,966) |
| Other Financing Sources (Uses): | | | | | |
| Proceeds of bonds | 2,894,708 | 2,500,000 | 5,500,000 | 8,821,000 | 19,715,708 |
| Payment to refunding agent | (2,894,708) | - | - | (4,399,425) | (7,294,133) |
| Transfers in | 44,915 | - | 300,000 | 25,500 | 370,415 |
| Transfers out | (25,500) | - | - | (339,825) | (365,325) |
| Total Other Financing Sources (Uses) | 19,415 | 2,500,000 | 5,800,000 | 4,107,250 | 12,426,665 |
| Change in fund balance | 880,120 | (1,651,481) | 3,909,425 | (5,665,365) | (2,527,301) |
| Fund Equity, at Beginning of Year, as reclassified | 23,709,936 | (1,454,078) | 1,117,031 | 7,845,592 | 31,218,481 |
| Fund Equity, at End of Year | \$ 24,590,056 | \$ (3,105,559) | \$ 5,026,456 | \$ 2,180,227 | \$ 28,691,180 |

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, 2012

| | | | | | | | | | | | | | | | | | | | |
|--|-------------------------------|--------------------------|------------|--------------|-------------|--|-----------|------------------|--------------|--------------------|-----------|--|-----------|----------------------|-----------|--------------------------------|-------------|--|-----------------|
| Net Changes In Fund Balances - Total Governmental Funds | \$ (2,527,301) | | | | | | | | | | | | | | | | | | |
| <ul style="list-style-type: none"> • 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: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">16,899,271</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(5,203,409)</td> </tr> </table> • 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 (e.g., property taxes) differ between the two statements. This amount represents the net change in deferred revenue. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(606,959)</td> </tr> </table> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table border="0" style="margin-left: 40px;"> <tr> <td>Issuance of debt</td> <td style="text-align: right;">(16,821,000)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">2,270,465</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(101,365)</td> </tr> </table> • Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td>Compensated absences</td> <td style="text-align: right;">(416,905)</td> </tr> <tr> <td>Other post-employment benefits</td> <td style="text-align: right;">(9,985,916)</td> </tr> </table> • Internal service funds are used by management to account for fuel depot activities. The net activity of internal service funds is reported with Governmental Activities. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;"><u>(40,964)</u></td> </tr> </table> | | Capital outlay purchases | 16,899,271 | Depreciation | (5,203,409) | | (606,959) | Issuance of debt | (16,821,000) | Repayments of debt | 2,270,465 | | (101,365) | Compensated absences | (416,905) | Other post-employment benefits | (9,985,916) | | <u>(40,964)</u> |
| Capital outlay purchases | 16,899,271 | | | | | | | | | | | | | | | | | | |
| Depreciation | (5,203,409) | | | | | | | | | | | | | | | | | | |
| | (606,959) | | | | | | | | | | | | | | | | | | |
| Issuance of debt | (16,821,000) | | | | | | | | | | | | | | | | | | |
| Repayments of debt | 2,270,465 | | | | | | | | | | | | | | | | | | |
| | (101,365) | | | | | | | | | | | | | | | | | | |
| Compensated absences | (416,905) | | | | | | | | | | | | | | | | | | |
| Other post-employment benefits | (9,985,916) | | | | | | | | | | | | | | | | | | |
| | <u>(40,964)</u> | | | | | | | | | | | | | | | | | | |
| Change In Net Assets of Governmental Activities | \$ <u>(16,534,083)</u> | | | | | | | | | | | | | | | | | | |

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, 2012

| | Original Budget | Final Budget | Actual Amounts (Budgetary Basis) | Variance with Final Budget Positive (Negative) |
|--|--------------------|--------------------|---|---|
| Revenues and other sources: | | | | |
| Property taxes | \$ 48,815,550 | \$ 48,815,550 | \$ 48,815,550 | \$ - |
| Excise taxes | 1,750,000 | 1,750,000 | 2,214,623 | 464,623 |
| Interest, penalties, and other taxes | 1,570,000 | 1,570,000 | 2,109,435 | 539,435 |
| Licenses and permits | 370,600 | 370,600 | 537,359 | 166,759 |
| Intergovernmental | 78,174,564 | 78,174,564 | 78,850,150 | 675,586 |
| Charges for services | 660,950 | 660,950 | 1,028,516 | 367,566 |
| Investment income | 250,000 | 250,000 | 220,578 | (29,422) |
| Fines and Forfeitures | 335,000 | 335,000 | 350,607 | 15,607 |
| Miscellaneous | - | - | 32,164 | 32,164 |
| Other financing sources: | | | | |
| Transfers in | - | - | 44,915 | 44,915 |
| Use of fund balance | 1,644,352 | 3,155,682 | 3,155,682 | - |
| Total Revenues | 133,571,016 | 135,082,346 | 137,359,579 | 2,277,233 |
| Expenditures and other uses: | | | | |
| Current: | | | | |
| General government | 3,371,263 | 3,893,049 | 3,621,091 | 271,958 |
| Public safety | 20,796,496 | 21,708,350 | 21,256,096 | 452,254 |
| Education | 62,879,111 | 62,534,758 | 62,534,758 | - |
| Public works | 4,638,456 | 4,888,456 | 4,753,633 | 134,823 |
| Health and human services | 1,296,903 | 1,417,053 | 1,350,761 | 66,292 |
| Culture and recreation | 1,692,005 | 1,694,805 | 1,615,101 | 79,704 |
| Employee benefits | 22,932,446 | 22,981,539 | 22,375,331 | 606,208 |
| Debt service | 3,030,981 | 3,030,981 | 2,986,677 | 44,304 |
| Intergovernmental | 12,907,855 | 12,907,855 | 12,357,797 | 550,058 |
| Other financing uses: | | | | |
| Transfers out | 25,500 | 25,500 | 25,500 | - |
| Total Expenditures | 133,571,016 | 135,082,346 | 132,876,745 | 2,205,601 |
| Excess of revenues and other sources over expenditures and other uses | \$ - | \$ - | \$ 4,482,834 | \$ 4,482,834 |

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2012

| | Business-Type Activities Enterprise Funds | Governmental Activities |
|--|--|------------------------------|
| | Sewer Fund | Internal Service Funds |
| <u>ASSETS</u> | | |
| Current: | | |
| Cash and short-term investments | \$ 2,309,238 | \$ - |
| User fees, net of allowance for uncollectibles | 2,608,150 | - |
| Intergovernmental receivables | - | 48,395 |
| Total current assets | <u>4,917,388</u> | <u>48,395</u> |
| Noncurrent: | | |
| Capital assets, net of accumulated depreciation | <u>31,808,284</u> | <u>-</u> |
| Total noncurrent assets | <u>31,808,284</u> | <u>-</u> |
| TOTAL ASSETS | 36,725,672 | 48,395 |
| <u>LIABILITIES</u> | | |
| Current: | | |
| Warrants payable | 456,857 | 41,278 |
| Accounts payable | 278,731 | - |
| Accrued liabilities | 323,045 | - |
| Notes payable | 1,706,420 | - |
| Due to other funds | - | 31,859 |
| Current portion of long-term liabilities: | | |
| Bonds payable | <u>1,014,878</u> | <u>-</u> |
| Total current liabilities | <u>3,779,931</u> | <u>73,137</u> |
| Noncurrent: | | |
| Bonds payable, net of current portion | <u>22,129,295</u> | <u>-</u> |
| Total noncurrent liabilities | <u>22,129,295</u> | <u>-</u> |
| TOTAL LIABILITIES | 25,909,226 | 73,137 |
| <u>NET ASSETS</u> | | |
| Invested in capital assets, net of related debt | 6,957,705 | - |
| Unrestricted | <u>3,858,741</u> | <u>(24,742)</u> |
| TOTAL NET ASSETS | \$ <u>10,816,446</u> | \$ <u>(24,742)</u> |

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2012

| | Business-Type Activities <u>Enterprise Funds</u> | Governmental <u>Activities</u> |
|---|---|------------------------------------|
| | Sewer <u>Fund</u> | Internal Service <u>Fund</u> |
| Operating Revenues: | | |
| Charges for services | \$ 8,037,504 | \$ 772,930 |
| Other | <u>20,292</u> | <u>-</u> |
| Total Operating Revenues | 8,057,796 | 772,930 |
| Operating Expenses: | | |
| Salaries and wages | 148,938 | - |
| Operating expenses | 6,441,012 | 813,894 |
| Depreciation | <u>1,500,576</u> | <u>-</u> |
| Total Operating Expenses | <u>8,090,526</u> | <u>813,894</u> |
| Operating Income (Loss) | (32,730) | (40,964) |
| Nonoperating Revenues (Expenses): | | |
| Intergovernmental revenue | 782,163 | - |
| Investment income | 8,390 | - |
| Interest expense | <u>(711,062)</u> | <u>-</u> |
| Total Nonoperating Revenues (Expenses), Net | <u>79,491</u> | <u>-</u> |
| Income (loss) before transfers | 46,761 | (40,964) |
| Transfers: | | |
| Transfers in | <u>61</u> | <u>-</u> |
| Change in net assets | 46,822 | (40,964) |
| Net Assets at Beginning of Year | <u>10,769,624</u> | <u>16,222</u> |
| Net Assets at End of Year | <u>\$ 10,816,446</u> | <u>\$ (24,742)</u> |

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2012

| | Business-Type Activities <u>Enterprise Funds</u> | Governmental Activities Internal Service Fund |
|---|---|---|
| | Sewer Fund | |
| <u>Cash Flows From Operating Activities:</u> | | |
| Receipts from customers and users | \$ 8,279,848 | \$ - |
| Receipts from interfund service provided | - | 768,252 |
| Payments to vendors and employees | <u>(5,897,757)</u> | <u>(768,252)</u> |
| Net Cash Provided By (Used For) Operating Activities | 2,382,091 | - |
| <u>Cash Flows From Capital and Related Financing Activities:</u> | | |
| Proceeds from issuance of bonds and notes | 97,820 | - |
| Acquisition and construction of capital assets | (1,512,894) | - |
| Principal payments on bonds and notes | (1,007,348) | - |
| Interest expense | (711,062) | - |
| Intergovernmental revenue | 782,163 | - |
| Transfer in | <u>61</u> | <u>-</u> |
| Net Cash (Used For) Capital and Related Financing Activities | (2,351,260) | - |
| <u>Cash Flows From Investing Activities:</u> | | |
| Investment income | <u>8,390</u> | <u>-</u> |
| Net Cash Provided by Investing Activities | <u>8,390</u> | <u>-</u> |
| Net Change in Cash and Short-Term Investments | 39,221 | - |
| Cash and Short-Term Investments, Beginning of Year | <u>2,270,017</u> | <u>-</u> |
| Cash and Short-Term Investments, End of Year | <u>\$ 2,309,238</u> | <u>\$ -</u> |
| <u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u> | | |
| Operating income (loss) | \$ (32,730) | \$ (40,964) |
| Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities: | | |
| Depreciation | 1,500,576 | |
| Changes in assets and liabilities: | | |
| User fees | | |
| Intergovernmental receivables | 222,052 | (4,678) |
| Warrants and accounts payable | 709,273 | 41,247 |
| Due to other funds | - | 4,395 |
| Accrued liabilities | <u>(17,080)</u> | <u>-</u> |
| Net Cash Provided By (Used For) Operating Activities | <u>\$ 2,382,091</u> | <u>\$ -</u> |

See notes to financial statements.

CITY OF HOLYOKE, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET ASSETS
 JUNE 30, 2012

| | <u>Agency Funds</u> | <u>Private Purpose Trust Funds</u> | <u>Pension Trust Fund December 31, 2011</u> |
|--|-------------------------|--|---|
| <u>ASSETS</u> | | | |
| Cash and short-term investments | \$ 910,383 | \$ 157,520 | \$ 559,226 |
| Investments | - | - | 162,531,971 |
| Accounts receivable | <u>200,314</u> | <u>-</u> | <u>1,002,269</u> |
| Total Assets | 1,110,697 | 157,520 | 164,093,466 |
| <u>LIABILITIES AND NET ASSETS</u> | | | |
| Accounts payable | - | - | 90,371 |
| Payroll withholdings | 734,021 | - | - |
| Due to other funds | 200,313 | - | - |
| Other liabilities | <u>176,363</u> | <u>-</u> | <u>-</u> |
| Total Liabilities | <u>1,110,697</u> | <u>-</u> | <u>90,371</u> |
| <u>NET ASSETS</u> | | | |
| Net assets | <u>\$ -</u> | <u>\$ 157,520</u> | <u>\$ 164,003,095</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, 2012

| | <u>Private Purpose Trust Funds</u> | <u>Pension Trust Fund (For the Year Ended December 31, 2011)</u> |
|--|--|--|
| Additions: | | |
| Contributions: | | |
| Employers | \$ - | \$ 13,886,595 |
| Other systems and Commonwealth of Massachusetts | - | 608,309 |
| Plan members | - | 5,448,288 |
| Total contributions | <u>-</u> | <u>19,943,192</u> |
| Investment Income: | | |
| Interest and dividends | 12,166 | 2,050,622 |
| Realized gain on sale of investments | - | 1,889,052 |
| Decrease in fair value of investments | - | (3,434,112) |
| Less: management fees | - | (1,102,815) |
| Net investment income | <u>12,166</u> | <u>(597,253)</u> |
| Total additions | 12,166 | 19,345,939 |
| Deductions: | | |
| Scholarships | 2,750 | - |
| Benefit payments to plan members and beneficiaries | - | 20,556,594 |
| Reimbursements to other systems | - | 490,744 |
| Refunds to plan members | - | 854,849 |
| Administrative expenses | - | 466,140 |
| Total deductions | <u>2,750</u> | <u>22,368,327</u> |
| Net increase (decrease) | 9,416 | (3,022,388) |
| Net assets: | | |
| Beginning of year | <u>148,104</u> | <u>167,025,483</u> |
| End of year | <u>\$ 157,520</u> | <u>\$ 164,003,095</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 2012, it was determined that the City of Holyoke Board of Water Commissioners, City of Holyoke Geriatric Authority, Holyoke Library Commission, HPL Realty Corp., and the City of Holyoke Gas and Electric Company enterprise fund met the required GASB 39 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 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 Changes in Net Assets) 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 is 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 *senior center project fund*, which accounts for the resources obtained and used in the renovating of the Holyoke senior center.
- The *library project fund*, which accounts for the resources obtained and used in the renovation/expansion project at the Holyoke public library.

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

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

The government reports the following major proprietary funds:

- 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.

The *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

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 short-term investments". The interest earnings attributable to each fund type are included under investment income.

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

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 2½” has limited 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 is voted. The actual fiscal year 2012 tax levy reflected an excess capacity of \$ 2,518.

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 either “due from/to other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans).

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 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

Fund equity at the governmental fund financial reporting level is classified as "fund balance". Fund equity for all other reporting is classified as "net assets".

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The City reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The City's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the City Council).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have

been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.

- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the City uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

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 to 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> | <u>Revenues and Other Financing Sources</u> | <u>Expenditures and Other Financing Uses</u> |
|--|---|--|
| Revenues/Expenditures (GAAP basis) | \$ 149,042,625 | \$ 148,181,920 |
| Other financing sources/uses (GAAP basis) | 2,939,623 | 2,920,208 |
| Adjust tax revenue to accrual basis | 959,079 | |
| Reverse beginning of year appropriation carry- forwards from expenditures | - | (7,246,902) |
| Add end of year appropriation carryforwards to expenditures | - | 7,206,438 |
| To reverse the effect of non-budgeted State contributions for teachers retirement | (15,290,211) | (15,290,211) |
| Recognize use of fund balance as funding source | 3,155,682 | - |
| To reverse the effect of non-budgeted activity | <u>(3,447,219)</u> | <u>(2,894,708)</u> |
| Budgetary basis | <u>\$ 137,359,579</u> | <u>\$ 132,876,745</u> |

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2012:

| | |
|-------------------------------------|----------------|
| Special Revenue Funds: | |
| State of emergency deficit spending | \$ (4,275,612) |
| Holyoke Canal Walk | \$ (80,114) |
| Economic development initiative | \$ (56,205) |
| School to work grant | \$ (41,552) |
| Foundation reserve | \$ (17,704) |
| Homeland security | \$ (17,495) |
| Ed jobs grant | \$ (15,515) |
| Police special task forces | \$ (11,525) |
| Trans equity act | \$ (8,047) |
| Selective enforcement | \$ (7,211) |
| SETB training | \$ (5,298) |
| Bulletproof vest program | \$ (5,250) |
| Depot square redevelopment | \$ (4,060) |
| ROTC program | \$ (2,111) |
| MA family literature grant | \$ (1,593) |
| Child car safety seats | \$ (787) |
| NEA Innovation | \$ (671) |
| ABCC sting program | \$ (416) |
| Gateway city - veterans park | \$ (285) |
| Capital Project Funds: | |
| Senior center | \$ (3,105,559) |
| Community field improvements | \$ (328,058) |
| Geriatric Authority land purchase | \$ (205,000) |
| Parking garage | \$ (198,712) |
| High School renovation | \$ (135,849) |
| Agency Fund: | |
| Police outside detail | \$ (200,314) |

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 and Contributory Retirement System's (the System) deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the City's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent 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." Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The City and System do not have a deposit policy for custodial credit risk.

As of June 30, 2012 and December 31, 2011, \$ 1,326,330 and none of the City's and System's bank balance(s) of \$ 30,197,859 and \$ 653,474, respectively, were exposed to custodial credit risk as uninsured or uncollateralized.

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</u> | <u>Aa</u> | <u>A</u> |
| Federal Securities | \$ 1,742,602 | \$ - | \$ 1,742,602 | \$ - | \$ - |
| Municipal Bonds | 1,119,183 | - | 285,456 | 769,266 | 64,461 |
| Corporate Bonds | 1,349,250 | - | - | 563,647 | 785,603 |
| Equity Investments | 158,570 | 158,570 | - | - | - |
| CDs | 1,743,637 | 1,743,637 | - | - | - |
| Mutual Funds | <u>6,729,377</u> | <u>6,729,377</u> | - | - | - |
| Total investments | \$ <u>12,842,619</u> | \$ <u>8,631,584</u> | \$ <u>2,028,058</u> | \$ <u>1,332,913</u> | \$ <u>850,064</u> |

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

Presented below is the actual rating as of year-end of the System:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Exempt From Disclosure</u> |
|------------------------|-----------------------|-------------------------------|
| Pooled funds | \$ 144,591,490 | \$ 144,591,490 |
| Mutual funds | <u>17,940,481</u> | <u>17,940,481</u> |
| Total | <u>\$ 162,531,971</u> | <u>\$ 162,531,971</u> |

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.*

B. Custodial Credit Risk

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

The City's and System's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered, and/or held by the City's and System's brokerage firm, which is also the Counterparty to these securities.

C. Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. Investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments are as follows:

| | |
|------------------------|--------------|
| Easthampton Savings CD | \$ 1,330,291 |
|------------------------|--------------|

The System does not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The City and System do not have a formal investment policy that limits investment maturities as a means of

managing its exposure to fair value losses arising from increasing interest rates.

Information about the sensitivity of the fair values of the City's investments to market interest rate fluctuations is as follows:

| <u>Investment Type</u> | <u>Investment Maturities (in Years)</u> | | | | | |
|--------------------------|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| | <u>Fair Value</u> | <u>Less Than 1</u> | <u>1-5</u> | <u>6-10</u> | <u>More Than 10</u> | <u>N/A</u> |
| Federal Securities | \$ 1,742,602 | \$ - | \$ 1,082,328 | \$ 660,274 | \$ - | \$ - |
| Municipal Bonds | 1,119,183 | - | - | 705,223 | 413,960 | - |
| Corporate Bonds | 1,349,250 | - | 1,158,181 | 191,069 | - | - |
| Equity Investments | 158,570 | - | - | - | - | 158,570 |
| CDs | 1,743,637 | 1,330,291 | 413,346 | - | - | - |
| Mutual Funds | 6,729,377 | - | - | - | - | 6,729,377 |
| Total investments | \$ 12,842,619 | \$ 1,330,291 | \$ 2,653,855 | \$ 1,556,566 | \$ 413,960 | \$ 6,887,947 |

Information about the sensitivity of the fair values of the System's investments to market interest rate fluctuations is as follows:

| <u>Investment Type</u> | <u>Fair Value</u> | <u>Exempt from Disclosure</u> |
|--------------------------|-----------------------|-------------------------------|
| Pooled funds | \$ 144,591,490 | \$ 144,591,490 |
| Mutual funds | 17,940,481 | 17,940,481 |
| Total investments | \$ 162,531,971 | \$ 162,531,971 |

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 Assessor's 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 taxpayers' 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, 2012 consist of the following (in thousands):

| | | |
|----------------------------|------------|------------------|
| Real Estate | | |
| 2012 | \$ 1,650 | |
| 2011 | 39 | |
| 2010 | 50 | |
| 2009 | 7 | |
| Prior | <u>12</u> | |
| | | 1,758 |
| Personal Property | | |
| 2012 | 9 | |
| 2011 | 6 | |
| 2010 | 4 | |
| 2009 | 16 | |
| Prior | <u>216</u> | |
| | | 251 |
| Tax Liens and Foreclosures | | <u>12,972</u> |
| Total | | <u>\$ 14,981</u> |

6. Allowance for Doubtful Accounts

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

| | <u>Governmental</u> | <u>Business-Type</u> |
|----------------------------|---------------------|----------------------|
| Property taxes | \$ 250 | \$ - |
| Excises | 648 | - |
| Tax liens and foreclosures | 11,855 | - |
| Other | 654 | 1,224 |

7. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2012.

8. Advance to Library Project

The City established HPL Realty LLC for the purpose of renovating the existing City library. The project is being funded by a combination of long-term borrowing, various grants, tax credits, and library endowment and fundraising contributions. This balance represents the amount advanced to HPL Realty which had not been spent as of June 30, 2012.

9. 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, 2012 balances in interfund receivable and payable accounts:

| <u>Fund</u> | <u>Due From Other Funds</u> | <u>Due To Other Funds</u> |
|------------------------|---------------------------------|-------------------------------|
| General Fund | \$ 232,172 | \$ - |
| Internal Service Funds | - | 31,859 |
| Agency Funds | - | <u>200,313</u> |
| Total | <u>\$ 232,172</u> | <u>\$ 232,172</u> |

10. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows (in thousands):

| | Beginning Balance | Increases | Decreases | Ending Balance |
|--|----------------------|------------------|-------------|-------------------|
| Governmental Activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 107,134 | \$ 92 | \$ - | \$ 107,226 |
| Machinery, equipment, and furnishings | 22,331 | 834 | - | 23,165 |
| Land improvements | 3,171 | - | - | 3,171 |
| Infrastructure | <u>14,081</u> | <u>1,339</u> | <u>-</u> | <u>15,420</u> |
| Total capital assets, being depreciated | 146,717 | 2,265 | - | 148,982 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (69,862) | (2,434) | - | (72,296) |
| Machinery, equipment, and furnishings | (19,100) | (1,148) | - | (20,248) |
| Land improvements | (2,574) | (279) | - | (2,853) |
| Infrastructure | <u>(7,672)</u> | <u>(1,343)</u> | <u>-</u> | <u>(9,015)</u> |
| Total accumulated depreciation | <u>(99,208)</u> | <u>(5,204)</u> | <u>-</u> | <u>(104,412)</u> |
| Total capital assets, being depreciated, net | 47,509 | (2,939) | - | 44,570 |
| Capital assets, not being depreciated: | | | | |
| Land | 15,297 | - | - | 15,297 |
| Construction in progress (CIP) | <u>19,496</u> | <u>14,634</u> | <u>-</u> | <u>34,130</u> |
| Total capital assets, not being depreciated | <u>34,793</u> | <u>14,634</u> | <u>-</u> | <u>49,427</u> |
| Governmental activities capital assets, net | <u>\$ 82,302</u> | <u>\$ 11,695</u> | <u>\$ -</u> | <u>\$ 93,997</u> |
| Business-Type Activities: | | | | |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | \$ 40,000 | \$ - | \$ - | \$ 40,000 |
| Machinery, equipment, and furnishings | 1,262 | - | - | 1,262 |
| Infrastructure | <u>52,309</u> | <u>1,233</u> | <u>-</u> | <u>53,542</u> |
| Total capital assets, being depreciated | 93,571 | 1,233 | - | 94,804 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (34,526) | (255) | - | (34,781) |
| Machinery, equipment, and furnishings | (1,222) | (5) | - | (1,227) |
| Infrastructure | <u>(26,377)</u> | <u>(1,240)</u> | <u>-</u> | <u>(27,617)</u> |
| Total accumulated depreciation | <u>(62,125)</u> | <u>(1,500)</u> | <u>-</u> | <u>(63,625)</u> |
| Total capital assets, being depreciated, net | 31,446 | (267) | - | 31,179 |
| Capital assets, not being depreciated: | | | | |
| Land | 350 | - | - | 350 |
| Construction in progress (CIP) | <u>-</u> | <u>279</u> | <u>-</u> | <u>279</u> |
| Total capital assets, not being depreciated | <u>350</u> | <u>279</u> | <u>-</u> | <u>629</u> |
| Business-type activities capital assets, net | <u>\$ 31,796</u> | <u>\$ 12</u> | <u>\$ -</u> | <u>\$ 31,808</u> |

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

| | |
|---|--------------------|
| Governmental Activities: | |
| General government | \$ 6 |
| Public safety | 1,120 |
| Education | 1,824 |
| Public works | 1,820 |
| Human services | 2 |
| Culture and recreation | <u>432</u> |
| Total depreciation expense - governmental activities | <u>\$ 5,204</u> |
| | |
| Business-Type Activities: | |
| Sewer | <u>\$ 1,500</u> |
| Total depreciation expense - business-type activities | <u>\$ 1,500</u> |

11. Warrants and Accounts Payable

Warrants payable represent 2012 expenditures paid by July 15, 2012. Accounts payable represent additional 2012 expenditures paid after July 15, 2012.

12. 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, 2012 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

13. Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2012:

| | <u>Interest Rate(s) %</u> | <u>Date of Issue</u> | <u>Date of Maturity</u> | <u>Balance at June 30, 2012</u> |
|---------------------------------|-------------------------------|--------------------------|-----------------------------|-------------------------------------|
| <u>Governmental Activities</u> | | | | |
| Bond anticipation | 1.50% | 11/14/11 | 11/14/12 | \$ 5,843,900 |
| Bond anticipation | 1.25% | 06/28/12 | 02/22/13 | 5,600,000 |
| Bond anticipation | 1.25% | 06/28/12 | 02/22/13 | <u>700,000</u> |
| Total Governmental Activities | | | | 12,143,900 |
| <u>Business-Type Activities</u> | | | | |
| MWPAT | 2.00% | 03/02/11 | upon completion | 882,715 |
| Bond anticipation | 1.25% | 02/14/12 | 02/22/13 | <u>823,705</u> |
| Total Business-Type | | | | <u>1,706,420</u> |
| Total | | | | <u>\$ 13,850,320</u> |

The following summarizes activity in notes payable during fiscal year 2012:

| | <u>Balance Beginning of Year</u> | <u>New Issues</u> | <u>Maturities</u> | <u>Balance End of Year</u> |
|-------------------|--|-----------------------|------------------------|------------------------------------|
| Bond anticipation | \$ <u>13,160,100</u> | \$ <u>19,350,320</u> | \$ <u>(18,660,100)</u> | \$ <u>13,850,320</u> |
| Total | \$ <u>13,160,100</u> | \$ <u>19,350,320</u> | \$ <u>(18,660,100)</u> | \$ <u>13,850,320</u> |

14. Long-Term Debt

A. General Obligation Bonds

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

| | Serial Maturities Through | Interest Rate(s) % | Amount Outstanding as of June 30, 2012 |
|-------------------------------------|---------------------------------|-----------------------|---|
| <u>Governmental Activities:</u> | | | |
| Outdoor Athletic Facility | 08/01/12 | 3.5 - 4.40 | \$ 175,000 |
| Police Station (refund) | 08/01/13 | 3.1 - 4.125 | 383,485 |
| Land Acquisition (refund) | 06/15/15 | 2.5 - 5.00 | 146,674 |
| Recreational Facility (refund) | 09/01/15 | 2.0 - 3.0 | 104,000 |
| Police Station (refund) | 06/15/16 | 2.5 - 5.00 | 978,466 |
| School Roof Remodeling (refund) | 06/15/16 | 2.5 - 5.00 | 861,050 |
| Recreational Facility (refund) | 09/01/16 | 2.0 - 3.0 | 551,000 |
| City Hall Remodeling (refund) | 09/01/17 | 2.0 - 2.5 | 970,000 |
| Building Demolition (refund) | 09/01/18 | 3.9 | 909,700 |
| Central Fuel Facility (refund) | 09/01/18 | 3.9 | 326,200 |
| Fire Station (refund) | 09/01/19 | 3.9 | 3,194,100 |
| Wistariahurst Museum | 06/30/21 | 2.0 - 4.0 | 390,000 |
| Wistariahurst Museum | 06/30/21 | 2.0 - 4.0 | 175,000 |
| Community Field | 06/30/21 | 2.0 - 4.0 | 165,000 |
| Jones Ferry River Access | 06/30/25 | 2.0 - 4.0 | 620,000 |
| School Lots/Fields/Lights | 06/30/25 | 2.0 - 4.0 | 595,000 |
| High School Remodeling | 07/15/27 | 4.45 | 940,000 |
| School Roofs | 07/15/27 | 4.45 | 140,000 |
| School Lots/Field/Lights | 07/15/27 | 4.45 | 590,000 |
| Building Demolition | 07/15/27 | 4.45 | 180,000 |
| High School Remodeling | 06/30/29 | 2.0 - 4.2 | 1,575,000 |
| School | 03/01/32 | 2.0 - 4.0 | 5,765,000 |
| Geriatric Authority Land | 03/01/32 | 2.0 - 4.0 | 945,000 |
| Community Field Park | 03/01/32 | 2.0 - 4.0 | 2,111,000 |
| Senior Center | 03/01/32 | 2.0 - 4.0 | 2,500,000 |
| Library | 03/01/32 | 2.0 - 4.0 | 5,500,000 |
| Total Governmental Activities Debt | | | <u>\$ 30,790,675</u> |
| <u>Business-Type Activities:</u> | | | |
| Sewer Bond | 08/01/12 | 3.5 - 4.40 | \$ 35,000 |
| Sewer Bond (refund) | 08/01/13 | 3.5 - 4.125 | 96,134 |
| MWPAT | 07/20/16 | 2.00 | 15,750,039 |
| Sewer CSO Planning refunding | 09/01/16 | 2.0 - 3.0 | 128,000 |
| Sewer CSO Projects | 07/15/27 | 4.45 | 2,335,000 |
| Sewer Plant Improvements | 07/15/27 | 4.45 | 4,800,000 |
| Total Business-Type Activities Debt | | | <u>\$ 23,144,173</u> |

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2012 are as follows:

| <u>Governmental</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------|----------------------|---------------------|----------------------|
| 2013 | \$ 3,125,914 | \$ 1,012,591 | \$ 4,138,505 |
| 2014 | 2,973,567 | 906,999 | 3,880,566 |
| 2015 | 2,821,508 | 812,123 | 3,633,631 |
| 2016 | 2,744,686 | 710,955 | 3,455,641 |
| 2017 | 2,235,000 | 604,229 | 2,839,229 |
| 2018 - 2022 | 7,655,000 | 2,088,930 | 9,743,930 |
| 2023 - 2027 | 5,270,000 | 1,120,465 | 6,390,465 |
| 2028 - 2032 | <u>3,965,000</u> | <u>374,947</u> | <u>4,339,947</u> |
| Total | \$ <u>30,790,675</u> | \$ <u>7,631,239</u> | \$ <u>38,421,914</u> |

| <u>Business-Type</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|----------------------|----------------------|---------------------|----------------------|
| 2013 | \$ 1,014,878 | \$ 683,127 | \$ 1,698,005 |
| 2014 | 1,029,861 | 648,525 | 1,678,386 |
| 2015 | 989,250 | 614,369 | 1,603,619 |
| 2016 | 997,907 | 580,842 | 1,578,749 |
| 2017 | 1,004,840 | 546,047 | 1,550,887 |
| 2018 - 2022 | 4,968,344 | 2,217,805 | 7,186,149 |
| 2023 - 2027 | 5,282,122 | 1,394,664 | 6,676,786 |
| 2028 - 2032 | 3,928,668 | 679,035 | 4,607,703 |
| Thereafter | <u>3,928,303</u> | <u>234,615</u> | <u>4,162,918</u> |
| Total | \$ <u>23,144,173</u> | \$ <u>7,599,029</u> | \$ <u>30,743,202</u> |

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2012, the following changes occurred in long-term liabilities (in thousands):

| | <u>Total Balance July 1, 2011</u> | <u>Additions</u> | <u>Reductions</u> | <u>Total Balance June 30, 2012</u> | <u>Less Current Portion</u> | <u>Long-Term Portion June 30, 2012</u> |
|---------------------------------|---|------------------|-------------------|--|-------------------------------------|--|
| <u>Governmental Activities</u> | | | | | | |
| Bonds payable | \$ 16,240 | \$ 16,821 | \$ (2,270) | \$ 30,791 | \$ (3,126) | \$ 27,665 |
| Other: | | | | | | |
| Net OPEB obligation | 48,685 | 9,986 | - | 58,671 | - | 58,671 |
| Accrued compensated absences | <u>8,402</u> | <u>416</u> | <u>-</u> | <u>8,818</u> | <u>(882)</u> | <u>7,936</u> |
| Totals | \$ <u>73,327</u> | \$ <u>27,223</u> | \$ <u>(2,270)</u> | \$ <u>98,280</u> | \$ <u>(4,008)</u> | \$ <u>94,272</u> |
| <u>Business-Type Activities</u> | | | | | | |
| Bonds payable | \$ <u>24,151</u> | \$ - | \$ (1,007) | \$ 23,144 | \$ (1,015) | \$ 22,129 |
| Totals | \$ <u>24,151</u> | \$ - | \$ (1,007) | \$ 23,144 | \$ (1,015) | \$ 22,129 |

D. Advance and Current Refundings

Current Refunding

In August 2011, the City issued general obligation refunding bonds in the amount of \$ 2,090,000 (\$ 970,000 governmental and \$ 1,120,000 Water Enterprise) with an interest rate of approximately 2% to refund \$ 2,070,000 of term bonds (\$ 960,000 governmental and \$ 1,110,000 Water Enterprise) with a variable interest rate ranging from 4.3% to 5.25%. The term bonds were scheduled to mature on August 1, 2017 and were called by the City for redemption on September 15, 2011.

The refunding bonds were issued at 102.2% and, after paying issuance costs of \$ 52,694, the net proceeds were \$ 2,083,156. The net proceeds from the refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent until the term bonds were redeemed on September 15, 2011. The refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the City's financial statements.

As a result of this current refunding, the City reduced its total debt service cash flow requirements by \$ 206,326 (\$ 92,709 governmental and \$ 113,617 Water Enterprise), which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$ 195,866.

No defeased debt related to this refunding was outstanding at June 30, 2012.

Advance Refunding

In April 2012, the City issued general obligation refunding bonds in the amount of \$ 31,315,000 (\$ 655,000 governmental, \$ 128,000 Sewer Enterprise and \$ 30,532,000 Gas and Electric Enterprise) with an average interest rate ranging from 2.9% to 4.4% to advance refund \$ 795,000 of term bonds (\$ 665,000 governmental and \$ 130,000 Sewer Enterprise) with a variable interest rate ranging from 3.5% to 4.4% and \$ 35,895,000 of Gas and Electric revenue bonds with an interest rate ranging from 5% to 5.375%. The term bonds mature August 1, 2016 and are callable on August 1, 2012. The revenue bonds mature on December 1, 2031 and are callable on December 1, 2012.

The refunding bonds were issued at 110.3% and, after paying issuance costs of \$ 434,057, the net proceeds were \$ 34,101,459. The net proceeds, plus Gas and Electric debt service and reserve fund contribu-

tions of \$ 4,399,441, 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 term bonds are called on August 1, 2012 and the revenue bonds are called on December 1, 2012. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the City's financial statements and the revenue bonds were removed from Gas and Electric financial statements.

As a result of this advance refunding, the City reduced its total debt service cash flow requirements by \$ 48,042 (\$ 40,151 governmental and \$ 7,891 Sewer Enterprise), which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$ 47,522. The Gas and Electric Enterprise reduced its total debt service cash flow requirements by \$ 7,352,716, which resulted in an economic gain of \$ 4,393,162.

Defeased debt still outstanding at June 30, 2012 is \$ 795,000 of term bonds and \$ 35,895,000 of Gas and Electric revenue bonds.

15. Restricted Net Assets

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

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

16. Subsequent Events

Debt

Subsequent to June 30, 2012, 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 | \$ 3,643,900 | 1.00% | 11/14/12 | 11/14/13 |
| Bond anticipation note | <u>11,423,705</u> | 1.25% | 02/22/13 | 11/14/13 |
| Total | <u>\$ 15,067,605</u> | | | |

17. Governmental Funds – Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The City implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2012:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes general fund reserves for prepaid expenditures and nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes general fund encumbrances funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved by the City Council, capital reserve funds set aside for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

Assigned - Represents amounts that are constrained by the City's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various City departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the City's fund balances at June 30, 2012:

| | General Fund | Senior Center Project Fund | Library Project Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|----------------------------|-----------------|----------------------------------|----------------------------|-----------------------------------|--------------------------------|
| Restricted | | | | | |
| Bonded projects | \$ - | \$ - | \$ 5,026,456 | \$ 249,049 | \$ 5,275,505 |
| Special revenue funds | - | - | - | 6,838,325 | 6,838,325 |
| Expendable permanent funds | - | - | - | 512,061 | 512,061 |
| Total Restricted | - | - | 5,026,456 | 7,599,435 | 12,625,891 |
| Committed | | | | | |
| Stabilization fund | 11,268,853 | - | - | - | 11,268,853 |
| Total Committed | 11,268,853 | - | - | - | 11,268,853 |
| Assigned | | | | | |
| Encumbrances | 7,206,438 | - | - | - | 7,206,438 |
| Total Assigned | 7,206,438 | - | - | - | 7,206,438 |
| Unassigned | | | | | |
| | 6,114,765 | (3,105,559) | - | (5,419,208) | (2,410,002) |
| Total Fund Balance | \$ 24,590,056 | \$ (3,105,559) | \$ 5,026,456 | \$ 2,180,227 | \$ 28,691,180 |

18. Commitments and Contingencies

Outstanding Legal Issues - There are several pending legal issues in which the City is involved. The City's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

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.

Debt Responsibility – In fiscal year 2012, the City issued General Obligation State Qualified Refunding Bonds which included refunding of the 2001 Holyoke Gas & Electric revenue bonds that were previously issued by Holyoke Gas & Electric. If Holyoke Gas & Electric should default on their payments, the City would be responsible for repayment. At June 30, 2012 the outstanding principal balance was \$ 30,532,000.

Combined Sewer Overflow – CSO discharge locations along the Connecticut River bordering Holyoke have been identified. The estimated total cost to abate these issues is \$ 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). Work on these projects is ongoing.

Contracts – Most of the City’s collective bargaining agreements expired prior to fiscal year 2012 and are still in negotiations.

19. Post-Employment Healthcare and Life Insurance Benefits

Other Post-Employment 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 Activities 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, the City provides post-employment healthcare 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, 2011, the actuarial valuation date, approximately 1467 retirees and 1175 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 2012 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, 2012, 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, 2011.

| | |
|---|-----------------------------|
| Annual Required Contribution (ARC) | \$ 18,073,068 |
| Interest on net OPEB obligation | 1,947,416 |
| Adjustment to ARC | <u>(1,773,229)</u> |
| Annual OPEB cost | 18,247,255 |
| Contributions made | <u>(8,261,339)</u> |
| Increase in net OPEB obligation | 9,985,916 |
| Net OPEB obligation - beginning of year | <u>48,685,396</u> |
| Net OPEB obligation - end of year | <u><u>\$ 58,671,312</u></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</u> <u>Ended</u> | <u>Annual OPEB</u> <u>Costs</u> | <u>Percentage of</u> <u>OPEB Cost</u> <u>Contributed</u> | <u>Net</u> <u>OPEB</u> <u>Obligation</u> |
|------------------------------------|------------------------------------|--|--|
| 2012 | \$ 18,247,255 | 45.27% | \$ 9,985,916 |
| 2011 | \$ 20,103,398 | 42.94% | \$ 11,470,845 |
| 2010 | \$ 18,695,275 | 39.60% | \$ 11,292,457 |
| 2009 | \$ 20,454,823 | 36.37% | \$ 13,015,246 |

The City's net OPEB obligation as of June 30, 2012 is recorded as a long-term liability in the Statement of Net Assets.

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2011, the date of the most recent actuarial valuation was as follows:

| | |
|---|----------------|
| Actuarial accrued liability (AAL) | \$ 286,925,110 |
| Actuarial value of plan assets | - |
| | <hr/> |
| Unfunded actuarial accrued liability (UAAL) | \$ 286,925,110 |
| | <hr/> <hr/> |
| Funded ratio (actuarial value of plan assets/AAL) | 0% |
| | <hr/> <hr/> |
| Covered payroll (active plan members) | N/A |
| | <hr/> <hr/> |
| UAAL as a percentage of covered payroll | N/A |
| | <hr/> <hr/> |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included 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, 2011 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 9%, which decreases to a 5% long-term rate for all healthcare benefits after eight years. 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 3.5%.

20. Contributory Retirement System

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

A. Plan Description and Contribution Information

Substantially all employees of the City 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, 2011, the date of the latest actuarial valuation:

| | |
|--|---------------------|
| Retirees and beneficiaries receiving benefits | 922 |
| Terminated plan members entitled to but not yet receiving benefits | 152 |
| Active plan members | <u>1,228</u> |
| Total | <u><u>2,302</u></u> |
| Number of participating employers | 5 |

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:

| Year Ended <u>June 30</u> | Annual Required <u>Contribution</u> | Percentage <u>Contributed</u> |
|------------------------------|--|----------------------------------|
| 2003 | \$ 6,109,348 | 100% |
| 2004 | 6,096,446 | 100% |
| 2005 | 6,520,221 | 100% |
| 2006 | 6,921,096 | 100% |
| 2007 | 8,312,816 | 100% |
| 2008 | 8,240,302 | 100% |
| 2009 | 8,651,100 | 100% |
| 2010 | 8,706,430 | 100% |
| 2011 | 9,525,165 | 100% |
| 2012 | 10,035,815 | 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 (in thousands).

| Actuarial Valuation <u>Date</u> | Actuarial Value of Assets <u>(a)</u> | Actuarial Accrued Liability (AAL) - Entry Age <u>(b)</u> | Unfunded AAL (UAAL) <u>(b-a)</u> | Funded Ratio <u>(a/b)</u> | Covered Payroll <u>(c)</u> | UAAL as a Percent- age of Covered Payroll <u>[(b-a)/c]</u> |
|---------------------------------------|---|---|---|---------------------------------|----------------------------------|---|
| 1/1/2012 | \$ 171,323 | \$ 336,471 | \$ 165,148 | 50.92% | \$ 56,135 | 294.20% |

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 \$ 165.1 million was calculated. The actuarial assumptions included (a) 8.0% investment rate of return and (b) a projected salary increase between 4.75% and 5.25% 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 (8.0%) 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, 2012 the unfunded actuarially accrued liability is being amortized over 10 years for the 2010 Early Retirement Incentive and over 18 years for the remaining unfunded liability 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 2012, the Commonwealth of Massachusetts contributed \$ 15,290,211 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

21. Risk Management

The City 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 funds for fiscal year 2012, have been reclassified from the previous fiscal year. Accordingly, the following reconciliation is provided:

| | Fund Equity 06/30/11 (as previously reported) | <u>Reclassification</u> | Fund Equity 06/30/11 (as reclassified) |
|------------------------|--|-------------------------|--|
| Senior Center Project | \$ - | \$ (1,454,078) | \$ (1,454,078) |
| Library Project | - | 1,117,031 | 1,117,031 |
| Nonmajor governmental | 9,313,985 | (1,468,393) | 7,845,592 |
| High School Renovation | <u>(1,805,440)</u> | <u>1,805,440</u> | <u>-</u> |
| Total | <u>\$ 7,508,545</u> | <u>\$ -</u> | <u>\$ 7,508,545</u> |

23. Implementation of New GASB Standards

- The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the City's basic financial statements by recognizing as a liability and expense, the City's applicable portion of the City of Holyoke's actuarially accrued liability.

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

Employees' Retirement System

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) - Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL as a Percentage of Covered Payroll [(b-a)/c] |
|--------------------------|-------------------------------|---|---------------------------|--------------------|---------------------|---|
| 1/1/03 | \$147,834 | \$218,196 | \$70,362 | 67.8% | \$45,374 | 155.0% |
| 1/1/05 | \$154,650 | \$248,325 | \$93,675 | 62.3% | \$47,515 | 197.2% |
| 1/1/07 | \$175,326 | \$265,688 | \$90,362 | 65.9% | \$49,763 | 181.6% |
| 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% |
| 1/1/12 | \$171,323 | \$336,471 | \$165,148 | 50.9% | \$56,135 | 294.2% |

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 Percentage 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 |
| 06/30/11 | \$ - | \$ 286,925 | \$ 286,925 | 0.0% | N/A | N/A |

See Independent Auditors' Report.