

CITY OF HOLYOKE, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2016

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Additional Offices:

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2016, and the related notes to the financial statements which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The City's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for (1) our adverse audit opinion on the aggregate discretely presented component units; (2) our adverse audit opinion on the business-type activities; (3) our qualified opinion on the aggregate remaining fund information; and (4) our unmodified opinion on the governmental activities, the General Fund and the Sewer Fund.

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units and Business-type Activities and Qualified Opinion on the Aggregate Remaining Fund Information

Management has not included Holyoke Gas and Electric Department Enterprise Fund and the City of Holyoke's legally separate component units, as described in Note 1, in the City's financial statements. Accounting principles generally accepted in the United States of America require Holyoke Gas and Electric Department Enterprise Fund to be presented as a major enterprise fund and financial information about Holyoke Gas and Electric Department Enterprise Fund to be part of the business-type activities, thus increasing that activity's assets, liabilities, revenues, and expenses, and changing its net position. The amount by which this departure would affect the assets, liabilities, net position, revenues, and expenses of the business-type activities and the omitted major fund is not reasonably determinable.

Accounting principles generally accepted in the United States of America also require the City of Holyoke's legally separate component units to be presented as either discretely presented component units or as blended components thus establishing the Discretely Presented Component Units in the basic financial statements and increasing the assets, liabilities, revenues, and expenditures, and fund balance of the Aggregate Remaining Fund Information. The amount by which this departure would affect the assets, liabilities, net position/fund balances, revenues, and expenses/expenditures of the Aggregate Discretely Presented Component Units and the Aggregate Remaining Fund Information is not reasonably determinable. The above noted major fund and component units have been separately audited by other independent auditors and the related financial statements are available from the City of Holyoke.

Adverse Opinion on Aggregate Discretely Presented Component Units and on the Business-type Activities

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units and Business-type Activities and Qualified Opinion on the Aggregate Remaining Fund Information paragraphs, the financial statements referred to previously do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the City of Holyoke, Massachusetts Aggregate Discretely Presented Component Units (which are omitted) and Business-type Activities, as of June 30, 2016, or the changes in financial position or cash flows thereof for the year then ended.

Qualified Opinion on the Aggregate Remaining Fund Information

In our opinion, except for the effects the matter described in the Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units and Business-type Activities and Qualified Opinion on the Aggregate Remaining Fund Information paragraphs, the financial statements referred to above present fairly, in all material respects, the financial position of the aggregate remaining fund information of the City of Holyoke, Massachusetts, as of June 30, 2016, and the changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Unmodified Opinions on Governmental Activities and Major Funds

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund, and the Sewer Fund of the City of Holyoke, Massachusetts, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, Schedule of OPEB Funding Progress, Schedule of Proportionate Share of Net Pension Liability, and Schedule of Pension Contributions 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 sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated August 17, 2017 on our consideration of the City's internal control over financial reporting and 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.

A handwritten signature in cursive script that reads "Melanson Heath".

August 17, 2017

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 for the fiscal year ended June 30, 2016.

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 position presents information on all assets, liabilities and deferred inflows/outflows of resources, with the difference between them reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position 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 operations.

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 liabilities and deferred inflows exceeded assets and deferred outflows for a deficit of \$(90,330,913) (i.e., net position), a change of \$(8,418,113) in comparison to the (restated) prior year, caused primarily by recording net pension and OPEB obligation liabilities.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$25,367,742, a change of \$201,128 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$16,856,077, a change of \$1,193,888 in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$54,533,033, a change of \$(4,012,944) 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>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015 (Restated)</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015 (Restated)</u>
Current and other assets	\$ 42,582,094	\$ 38,716,546	\$ 3,085,644	\$ 4,249,281	\$ 45,667,738	\$ 42,965,827
Capital assets	95,759,992	98,853,019	26,174,302	27,591,762	121,934,294	126,444,781
Deferred outflows	16,516,449	2,891,789	37,692	7,953	16,554,141	2,899,742
Total assets and deferred outflows	154,858,535	140,461,354	29,297,638	31,848,996	184,156,173	172,310,350
Long-term liabilities outstanding	234,981,202	220,409,590	20,820,041	21,874,905	255,801,243	242,284,495
Other liabilities	12,348,656	10,825,719	259,734	272,929	12,608,390	11,098,648
Deferred inflows	6,037,591	840,007	39,862	-	6,077,453	840,007
Total liabilities and deferred inflows	253,367,449	232,075,316	21,119,637	22,147,834	274,487,086	254,223,150
Net position:						
Net investment in capital assets	65,902,708	66,976,075	5,596,269	5,973,185	71,498,977	72,949,260
Restricted	4,650,666	4,668,493	-	-	4,650,666	4,668,493
Unrestricted	(169,062,288)	(163,258,530)	2,581,732	3,727,977	(166,480,556)	(159,530,553)
Total net position	\$ (98,508,914)	\$ (91,613,962)	\$ 8,178,001	\$ 9,701,162	\$ (90,330,913)	\$ (81,912,800)

CHANGES IN NET POSITION

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2016</u>	<u>2015</u> <u>(Restated)</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u> <u>(Restated)</u>
Revenues:						
Program revenues:						
Charges for services	\$ 4,350,147	\$ 4,394,038	\$ 7,426,215	\$ 8,289,239	\$ 11,776,362	\$ 12,683,277
Operating grants and contributions	110,444,469	107,239,565	-	-	110,444,469	107,239,565
Capital grants and contributions	3,653,787	5,816,479	-	-	3,653,787	5,816,479
General revenues:						
Property taxes	50,987,324	50,268,954	-	-	50,987,324	50,268,954
Excises	3,062,986	2,678,488	-	-	3,062,986	2,678,488
Penalties, interest and other taxes	2,678,389	2,539,400	-	-	2,678,389	2,539,400
Grants and contributions not restricted	9,412,598	9,093,315	-	-	9,412,598	9,093,315
Investment income	430,583	485,228	3,571	6,033	434,154	491,261
Miscellaneous	462,483	400,085	-	-	462,483	400,085
Transfers, net	-	(1,134,914)	-	1,134,914	-	-
Total Revenues	<u>185,482,766</u>	<u>181,780,638</u>	<u>7,429,786</u>	<u>9,430,186</u>	<u>192,912,552</u>	<u>191,210,824</u>
Expenses:						
General government	7,119,982	6,316,063	-	-	7,119,982	6,316,063
Public safety	23,771,151	25,031,995	-	-	23,771,151	25,031,995
Education	97,431,385	93,918,002	-	-	97,431,385	93,918,002
Public works	8,919,997	8,436,398	-	-	8,919,997	8,436,398
Health and human services	2,291,967	2,286,109	-	-	2,291,967	2,286,109
Culture and recreation	2,781,307	2,759,176	-	-	2,781,307	2,759,176
Employee benefits	31,882,682	28,478,810	-	-	31,882,682	28,478,810
Interest	1,258,900	1,383,035	-	-	1,258,900	1,383,035
Intergovernmental	16,920,347	16,272,835	-	-	16,920,347	16,272,835
Sewer operations	-	-	8,952,947	8,802,623	8,952,947	8,802,623
Total expenses	<u>192,377,718</u>	<u>184,882,423</u>	<u>8,952,947</u>	<u>8,802,623</u>	<u>201,330,665</u>	<u>193,685,046</u>
Change in net position	(6,894,952)	(3,101,785)	(1,523,161)	627,563	(8,418,113)	(2,474,222)
Net position - beginning of year, as restated	<u>(91,613,962)</u>	<u>(88,512,177)</u>	<u>9,701,162</u>	<u>9,073,599</u>	<u>(81,912,800)</u>	<u>(79,438,578)</u>
Net position - end of year	<u>\$ (98,508,914)</u>	<u>\$ (91,613,962)</u>	<u>\$ 8,178,001</u>	<u>\$ 9,701,162</u>	<u>\$ (90,330,913)</u>	<u>\$ (81,912,800)</u>

As noted earlier, net position 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 position was \$(90,330,913), a change of \$(8,418,113) from the (restated) prior year.

The largest portion of net position \$71,498,977 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 position \$4,650,666 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position are a deficit of \$(169,062,288) (governmental) and a surplus of \$2,581,732 (business-type).

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(6,894,952). Key elements of this change are as follows:

General Fund Operating Results:	
Excess of tax collections compared to budget	\$ 8,962
State and local revenues over budget	1,378,228
Budgetary appropriations unspent by departments	1,976,274
Use of free cash (fund balance) as a funding source	(2,038,910)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current year	(297,193)
Reversal of GAAP accrual	97,234
Change in Stabilization fund	(227,900)
Non-major fund expenditures and transfers out in excess of revenues and transfers in	(695,567)
Depreciation expense in excess of principal debt service	(4,272,539)
Capital asset purchases	4,151,912
Change in net OPEB obligation liability	(7,941,036)
Change in net pension liability, net of deferrals	(653,385)
Other timing differences	1,611,646
Internal service fund revenues in excess of expenditures	<u>7,322</u>
Total	<u>\$ (6,894,952)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$(1,523,161). This change resulted from expenditures in excess of revenues.

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 \$25,367,742, a change of \$201,128 in comparison to the prior year. Key elements of this change are as follows:

General Fund Operating Results:	
Excess of tax collections compared to budget	\$ 8,962
State and local revenues over budget	1,378,228
Budgetary appropriations unspent by departments	1,976,274
Use of free cash (fund balance) as a funding source	(2,038,910)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current year	(297,193)
Reversal of GAAP accrual	97,234
Change in Stabilization fund	(227,900)
Non-major fund expenditures and transfers out in excess of revenues and transfers in	<u>(695,567)</u>
Total	<u>\$ 201,128</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 \$16,856,077, while total fund balance was \$21,019,360. 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:

<u>General Fund</u>	<u>2016</u>	<u>2015</u>	<u>Change</u>	<u>% of Total 2016 General Fund Expenditures</u>
Unassigned fund balance ¹	\$ 16,856,077	\$ 15,662,189	\$ 1,193,888	11.9%
Total fund balance	\$ 21,019,360	\$ 20,122,665	\$ 896,695	14.8%

¹ Includes the City's stabilization fund

The total fund balance of the general fund changed by \$896,695 during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:	
Excess of tax collections compared to budget	\$ 8,962
State and local revenues over budget	1,378,228
Budgetary appropriations unspent by departments	1,976,274
Use of free cash (fund balance) as a funding source	(2,038,910)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current year	(297,193)
Reversal of GAAP accrual	97,234
Change in Stabilization fund	<u>(227,900)</u>
Total	<u>\$ 896,695</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 position of the enterprise funds at the end of the year amounted to \$2,581,732, a change of \$(1,146,245). 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 \$509,887. This increase was for various operating expenditures. All of this increase was funded from surplus (free cash).

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$121,934,294 (net of accumulated depreciation), a change of \$(4,510,487) from the prior year. This investment in capital assets includes land, buildings and system improvements, machinery and equipment and infrastructure.

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

Depreciation expense - governmental activities	\$	(7,245)
Depreciation expense - business-type activities		(1,418)
Infrastructure		
Roadway and sidewalk improvements		1,244
Building and improvements		
Governmental		562
Departmental vehicle purchase		
Public safety		206
Departmental equipment purchases		
Governmental		37
School Department equipment		1,089
Land improvements		
Governmental		119
Construction in progress		
HCC access road		22
Passenger rail platform		873

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$54,533,033, 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 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. Joshua Pueschel, City Auditor
City of Holyoke
20 Korean Veterans Plaza
City Hall Annex
Holyoke, MA 01040

CITY OF HOLYOKE, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 20,662,936	\$ 303,354	\$ 20,966,290
Investments	12,287,256	-	12,287,256
Receivables, net of allowance for uncollectibles:			
Property taxes	1,542,451	-	1,542,451
Excises	828,136	-	828,136
User fees	29,527	2,782,290	2,811,817
Departmental and other	110,326	-	110,326
Intergovernmental	4,628,456	-	4,628,456
Due from fiduciary funds	200,081	-	200,081
Other assets	1,200	-	1,200
Noncurrent:			
Receivables:			
Loans	1,166,663	-	1,166,663
Property taxes, net of allowance	1,125,062	-	1,125,062
Capital assets:			
Land and construction in progress	20,640,027	350,000	20,990,027
Other capital assets, net of accumulated depreciation	75,119,965	25,824,302	100,944,267
DEFERRED OUTFLOWS OF RESOURCES	<u>16,516,449</u>	<u>37,692</u>	<u>16,554,141</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	154,858,535	29,297,638	184,156,173
LIABILITIES			
Current:			
Warrants payable	5,793,050	-	5,793,050
Accrued payroll	4,095,777	-	4,095,777
Accrued liabilities	469,916	259,734	729,650
Notes payable	1,853,000	-	1,853,000
Other current liabilities	136,913	-	136,913
Current portion of long-term liabilities:			
Bonds payable	3,005,000	1,083,295	4,088,295
Accrued compensated absences	774,598	-	774,598
Noncurrent:			
Bonds payable, net of current portion	30,950,000	19,494,738	50,444,738
Accrued compensated absences, net of current portion	6,971,386	-	6,971,386
Net OPEB obligation	88,953,892	-	88,953,892
Net pension liability	104,326,326	242,008	104,568,334
DEFERRED INFLOWS OF RESOURCES	<u>6,037,591</u>	<u>39,862</u>	<u>6,077,453</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	253,367,449	21,119,637	274,487,086
NET POSITION			
Net investment in capital assets	65,902,708	5,596,269	71,498,977
Restricted for:			
Grants and other statutory restrictions	3,894,695	-	3,894,695
Permanent funds:			
Expendable	755,971	-	755,971
Unrestricted	<u>(169,062,288)</u>	<u>2,581,732</u>	<u>(166,480,556)</u>
TOTAL NET POSITION	<u>\$ (98,508,914)</u>	<u>\$ 8,178,001</u>	<u>\$ (90,330,913)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 7,119,982	\$ 837,735	\$ 3,553,140	\$ 128,148	\$ (2,600,959)	\$ -	\$ (2,600,959)
Public safety	23,771,151	904,356	1,685,489	22,121	(21,159,185)	-	(21,159,185)
Education	97,431,385	1,027,789	104,387,448	-	7,983,852	-	7,983,852
Public works	8,919,997	510,828	-	3,498,496	(4,910,673)	-	(4,910,673)
Health and human services	2,291,967	207,061	572,129	-	(1,512,777)	-	(1,512,777)
Culture and recreation	2,781,307	338,037	246,263	5,022	(2,191,985)	-	(2,191,985)
Employee benefits	31,882,682	524,341	-	-	(31,358,341)	-	(31,358,341)
Interest	1,258,900	-	-	-	(1,258,900)	-	(1,258,900)
Intergovernmental	16,920,347	-	-	-	(16,920,347)	-	(16,920,347)
Total Governmental Activities	192,377,718	4,350,147	110,444,469	3,653,787	(73,929,315)	-	(73,929,315)
Business-Type Activities:							
Sewer operations	8,952,947	7,426,215	-	-	-	(1,526,732)	(1,526,732)
Total Business-Type Activities	8,952,947	7,426,215	-	-	-	(1,526,732)	(1,526,732)
Total	\$ 201,330,665	\$ 11,776,362	\$ 110,444,469	\$ 3,653,787	(73,929,315)	(1,526,732)	(75,456,047)
General Revenues:							
Property taxes					50,987,324	-	50,987,324
Excises					3,062,986	-	3,062,986
Penalties, interest and other taxes					2,678,389	-	2,678,389
Grants and contributions not restricted to specific programs					9,412,598	-	9,412,598
Investment income					430,583	3,571	434,154
Miscellaneous					462,483	-	462,483
Total general revenues					67,034,363	3,571	67,037,934
Change in Net Position					(6,894,952)	(1,523,161)	(8,418,113)
Net Position:							
Beginning of year, as restated					(91,613,962)	9,701,162	(81,912,800)
End of year					\$ (98,508,914)	\$ 8,178,001	\$ (90,330,913)

The accompanying notes are an integral part of these financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2016

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ 17,451,168	\$ 3,211,768	\$ 20,662,936
Investments	11,648,824	638,432	12,287,256
Receivables:			
Property taxes	1,936,192	-	1,936,192
Excises	1,548,776	-	1,548,776
Departmental and other, net	110,326	-	110,326
Intergovernmental	-	4,628,456	4,628,456
Loans	-	1,166,663	1,166,663
Tax liens	3,753,976	-	3,753,976
Due from other funds	1,593,244	-	1,593,244
Other assets	1,200	-	1,200
TOTAL ASSETS	<u>\$ 38,043,706</u>	<u>\$ 9,645,319</u>	<u>\$ 47,689,025</u>
LIABILITIES			
Warrants payable	\$ 5,793,050	\$ -	\$ 5,793,050
Accrued payroll	3,902,027	193,750	4,095,777
Accrued liabilities	61,295	-	61,295
Due to other funds	-	1,371,112	1,371,112
Notes payable	-	1,853,000	1,853,000
Other current liabilities	136,866	47	136,913
TOTAL LIABILITIES	9,893,238	3,417,909	13,311,147
DEFERRED INFLOWS OF RESOURCES	7,131,108	1,879,028	9,010,136
FUND BALANCES			
Restricted	-	7,477,774	7,477,774
Assigned	4,163,283	-	4,163,283
Unassigned	16,856,077	(3,129,392)	13,726,685
TOTAL FUND BALANCES	<u>21,019,360</u>	<u>4,348,382</u>	<u>25,367,742</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 38,043,706</u>	<u>\$ 9,645,319</u>	<u>\$ 47,689,025</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

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

JUNE 30, 2016

Total Governmental Fund Balances	\$ 25,367,742
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	95,759,992
<ul style="list-style-type: none">• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.	11,645,521
<ul style="list-style-type: none">• In the statement of activities, accounts receivable is accrued, net of an allowance for uncollectible accounts. In the governmental funds, all receivables are deferred.	4,100,178
<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 position.	7,476
<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.	(408,621)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, accrued compensated absences, net OPEB obligation and net pension liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(234,981,202)</u>
Net Position of Governmental Activities	\$ <u>(98,508,914)</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HOLYOKE, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 50,933,832	\$ -	\$ 50,933,832
Excises	2,932,067	-	2,932,067
Penalties, interest, and other taxes	2,678,389	-	2,678,389
Charges for services	1,155,603	1,983,122	3,138,725
Intergovernmental	83,630,830	28,921,926	112,552,756
Licenses and permits	756,654	-	756,654
Fines and forfeitures	340,411	-	340,411
Contributions and donations	-	358,337	358,337
Investment income	413,370	17,213	430,583
Miscellaneous	314,849	147,634	462,483
	<u>143,156,005</u>	<u>31,428,232</u>	<u>174,584,237</u>
Total Revenues			
Expenditures:			
Current:			
General government	3,760,646	3,529,802	7,290,448
Public safety	21,482,766	1,786,190	23,268,956
Education	64,423,336	21,289,089	85,712,425
Public works	5,118,167	4,135,210	9,253,377
Health and human services	1,674,629	254,467	1,929,096
Culture and recreation	1,817,062	580,002	2,397,064
Employee benefits	22,519,804	768,457	23,288,261
Debt service	4,323,135	-	4,323,135
Intergovernmental	16,920,347	-	16,920,347
	<u>142,039,892</u>	<u>32,343,217</u>	<u>174,383,109</u>
Total Expenditures			
Excess (deficiency) of revenues over expenditures	1,116,113	(914,985)	201,128
Other Financing Sources (Uses):			
Transfers in	89,647	309,066	398,713
Transfers out	(309,065)	(89,648)	(398,713)
	<u>(219,418)</u>	<u>219,418</u>	<u>-</u>
Total Other Financing Sources (Uses)			
Change in fund balance	896,695	(695,567)	201,128
Fund Equity, at Beginning of Year	<u>20,122,665</u>	<u>5,043,949</u>	<u>25,166,614</u>
Fund Equity, at End of Year	<u>\$ 21,019,360</u>	<u>\$ 4,348,382</u>	<u>\$ 25,367,742</u>

The accompanying notes are an integral part of these 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, 2016

Net Changes in Fund Balances - Total Governmental Funds	\$ 201,128				
<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> <tr> <td style="padding-left: 20px;">Capital outlay purchases</td> <td style="text-align: right;">4,151,912</td> </tr> <tr> <td style="padding-left: 20px;">Depreciation</td> <td style="text-align: right;">(7,244,939)</td> </tr> </table> 	Capital outlay purchases	4,151,912	Depreciation	(7,244,939)	
Capital outlay purchases	4,151,912				
Depreciation	(7,244,939)				
<ul style="list-style-type: none"> Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures, and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue and allowance for uncollectible accounts. 	875,664				
<ul style="list-style-type: none"> The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table> <tr> <td style="padding-left: 20px;">Repayments of debt</td> <td style="text-align: right;">2,972,400</td> </tr> </table> 	Repayments of debt	2,972,400			
Repayments of debt	2,972,400				
<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. 	91,835				
<ul style="list-style-type: none"> Some expenses reported in the statement of activities, such as accrued compensated absences, net OPEB obligation and net pension liability, do not require the use of current resources and therefore, are not reported as expenditures in the governmental funds. 	(7,950,274)				
<ul style="list-style-type: none"> 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. 	7,322				
Change in Net Position of Governmental Activities	\$ <u>(6,894,952)</u>				

The accompanying notes are an integral part of these 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, 2016

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Actual Amounts	
Revenues and Transfers In:				
Property taxes	\$ 50,924,870	\$ 50,924,870	\$ 50,924,870	\$ -
Excises	2,552,000	2,552,000	2,932,067	380,067
Penalties, interest and other taxes	2,503,150	2,503,150	2,678,389	175,239
Charges for services	998,400	998,400	1,155,603	157,203
Intergovernmental	83,506,842	83,506,842	83,630,830	123,988
Licenses and permits	576,100	576,100	756,654	180,554
Fines and forfeitures	425,000	425,000	340,411	(84,589)
Investment income	100,000	100,000	191,270	91,270
Miscellaneous	50,000	50,000	314,849	264,849
Transfers in	450,000	450,000	539,647	89,647
Total Revenues and Transfers In	142,086,362	142,086,362	143,464,590	1,378,228
Expenditures and Transfers Out:				
General government	3,754,811	3,818,530	3,677,659	140,871
Public safety	20,769,631	21,562,975	21,449,016	113,959
Education	64,130,544	64,130,544	64,113,665	16,879
Public works	5,378,086	5,322,741	5,211,247	111,494
Health and human services	1,752,365	1,749,604	1,683,002	66,602
Culture and recreation	1,896,024	1,885,954	1,814,430	71,524
Employee benefits	22,555,109	22,655,015	22,647,432	7,583
Debt service	4,855,581	4,493,610	4,323,135	170,475
Intergovernmental	17,408,425	17,408,425	16,920,347	488,078
Transfers out	1,114,809	1,097,874	309,065	788,809
Total Expenditures and Transfers Out	143,615,385	144,125,272	142,148,998	1,976,274
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(1,529,023)	(2,038,910)	1,315,592	3,354,502
Other Financing Sources/Uses:				
Use of free cash:				
To reduce tax rate	1,529,023	1,529,023	-	(1,529,023)
For operating budget	-	509,887	-	(509,887)
Total Other Financing Sources/Uses	1,529,023	2,038,910	-	(2,038,910)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,315,592	\$ 1,315,592

The accompanying notes are an integral part of these financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2016

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Sewer <u>Fund</u>	Internal Service <u>Funds</u>
ASSETS		
Current:		
Cash and short-term investments	\$ 303,354	\$ -
User fees, net of allowance for uncollectibles	<u>2,782,290</u>	<u>29,527</u>
Total current assets	3,085,644	29,527
Noncurrent:		
Land	350,000	-
Capital assets, net of accumulated depreciation	<u>25,824,302</u>	<u>-</u>
Total noncurrent assets	26,174,302	-
DEFERRED OUTFLOWS OF RESOURCES	<u>37,692</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	29,297,638	29,527
LIABILITIES		
Current:		
Accrued liabilities	259,734	-
Due to other funds	-	22,051
Current portion of long-term liabilities:		
Bonds payable	<u>1,083,295</u>	<u>-</u>
Total current liabilities	1,343,029	22,051
Noncurrent:		
Bonds payable, net of current portion	19,494,738	-
Net pension liability	<u>242,008</u>	<u>-</u>
Total noncurrent liabilities	19,736,746	-
DEFERRED INFLOWS OF RESOURCES	<u>39,862</u>	<u>-</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	21,119,637	22,051
NET POSITION		
Net investment in capital assets	5,596,269	-
Unrestricted	<u>2,581,732</u>	<u>7,476</u>
TOTAL NET POSITION	<u>\$ 8,178,001</u>	<u>\$ 7,476</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HOLYOKE, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities <u>Enterprise Fund</u>	Governmental <u>Activities</u>
	Sewer <u>Fund</u>	Internal Service <u>Fund</u>
Operating Revenues:		
Charges for services	\$ 7,407,621	\$ 408,853
Other	<u>18,594</u>	<u>-</u>
Total Operating Revenues	7,426,215	408,853
Operating Expenses:		
Salaries and wages	120,085	-
Operating expenses	6,800,362	401,531
Depreciation	<u>1,417,460</u>	<u>-</u>
Total Operating Expenses	<u>8,337,907</u>	<u>401,531</u>
Operating Income (Loss)	(911,692)	7,322
Nonoperating Revenues (Expenses):		
Investment income	3,571	-
Interest expense	<u>(615,040)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(611,469)</u>	<u>-</u>
Change in Net Position	(1,523,161)	7,322
Net Position at Beginning of Year	<u>9,701,162</u>	<u>154</u>
Net Position at End of Year	<u>\$ 8,178,001</u>	<u>\$ 7,476</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HOLYOKE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2016

	Business-Type Activities <u>Enterprise Fund</u>	Governmental Activities <u>Internal Service Fund</u>
	Sewer <u>Fund</u>	
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 8,247,675	\$ -
Receipts from interfund service provided	-	423,962
Payments to vendors and employees	<u>(6,937,839)</u>	<u>(423,962)</u>
Net Cash Provided By Operating Activities	1,309,836	-
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Principal payments on bonds and notes	(1,040,544)	-
Interest expense	<u>(615,040)</u>	<u>-</u>
Net Cash (Used For) Capital and Related Financing Activities	(1,655,584)	-
<u>Cash Flows From Investing Activities:</u>		
Investment income	<u>3,571</u>	<u>-</u>
Net Cash Provided by Investing Activities	<u>3,571</u>	<u>-</u>
Net Change in Cash and Short-Term Investments	(342,177)	-
Cash and Short-Term Investments, Beginning of Year	<u>645,531</u>	<u>-</u>
Cash and Short-Term Investments, End of Year	<u>\$ 303,354</u>	<u>\$ -</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>		
Operating income (loss)	\$ (911,692)	\$ 7,322
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	1,417,460	-
Changes in assets and liabilities:		
User fees	821,460	15,109
Due to other funds	-	(22,431)
Accrued liabilities	(13,195)	-
Net pension liability, net of deferrals	<u>(4,197)</u>	<u>-</u>
Net Cash Provided By Operating Activities	<u>\$ 1,309,836</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HOLYOKE, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF FIDUCIARY NET POSITION
 JUNE 30, 2016

	<u>Agency Funds</u>	<u>Private Purpose Trust Funds</u>	<u>Pension Trust Fund (as of December 31, 2015)</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 815,031	\$ 163,630	\$ 14,034,503
Investments	83,606	-	225,734,823
Accounts receivable	<u>113,612</u>	<u>-</u>	<u>7,712,248</u>
Total Assets	1,012,249	163,630	247,481,574
<u>LIABILITIES</u>			
Accounts payable	-	-	193,862
Payroll withholdings	722,034	-	-
Due to other funds	200,081	-	-
Other liabilities	<u>90,134</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>1,012,249</u>	<u>-</u>	<u>193,862</u>
<u>NET POSITION</u>			
Total net position held in trust for pension benefits and other purposes	\$ <u>-</u>	\$ <u>163,630</u>	\$ <u>247,287,712</u>

The accompanying notes are an integral part of these financial statements.

CITY OF HOLYOKE, MASSACHUSETTS
 FIDUCIARY FUNDS
 STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2016

	<u>Private Purpose Trust Funds</u>	<u>Pension Trust Fund (For the Year Ended December 31, 2015)</u>
Additions:		
Contributions:		
Employers	\$ -	\$ 17,122,641
Plan members	-	5,388,788
Other systems and Commonwealth of Massachusetts	-	1,302,815
Other	-	28,346
	<hr/>	<hr/>
Total contributions	-	23,842,590
Investment Income:		
Interest and dividends	6,930	-
Appreciation in fair value of investments	-	9,453,550
Less: management fees	-	(3,198,098)
	<hr/>	<hr/>
Net investment income	6,930	6,255,452
	<hr/>	<hr/>
Total additions	6,930	30,098,042
Deductions:		
Scholarships	2,800	-
Benefit payments to plan members and beneficiaries	-	24,601,404
Refunds to plan members and other systems	-	605,190
Transfers to other systems	-	277,293
Administrative expenses	-	439,464
	<hr/>	<hr/>
Total deductions	2,800	25,923,351
	<hr/>	<hr/>
Net increase	4,130	4,174,691
Net Position:		
Beginning of year	<u>159,500</u>	<u>243,113,021</u>
End of year	<u>\$ 163,630</u>	<u>\$ 247,287,712</u>

The accompanying notes are an integral part of these 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 except as described in Note 2. 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 2016, it was determined that the City of Holyoke Board of Water Commissioners, 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.

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, Room 207, 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 position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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 fund:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

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

The government reports the following major proprietary fund:

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

The City's *fuel depot* operation is reported as an internal service fund in the accompanying financial statements.

The *agency funds* account for fiduciary assets held by the City in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

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.

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

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 primarily of bonds, federal securities and pooled funds. 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 2016 tax levy reflected an excess capacity of \$8,411.

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).

H. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets 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.

Capital assets are 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 City'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 position.

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 position”.

Fund Balance - Generally, fund balance represents the difference between the current assets/deferred outflows and current liabilities/deferred inflows. 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 Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, 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 position is 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. The remaining net position is 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. **Departures from Generally Accepted Accounting Principles**

As noted in Footnote 1A. Reporting Entity, the financial statements do not include component units for which the City is financially accountable in accordance with Generally Accepted Accounting Principles.

3. **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)	\$ 143,156,005	\$ 142,039,892
Other financing sources/uses (GAAP basis)	<u>89,647</u>	<u>309,065</u>
Subtotal (GAAP basis)	143,245,652	142,348,957
Removed the effect of adding the City's Stabilization fund per GASB 54	227,900	-
Adjust tax revenue to accrual basis	(8,962)	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(4,460,476)
Add end of year appropriation carryforwards to expenditures	-	4,163,283
Reverse GAAP accrual	<u>-</u>	<u>97,234</u>
Budgetary basis	<u>\$ 143,464,590</u>	<u>\$ 142,148,998</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2016:

Special Revenue Funds:	
911 support grant	\$ (133,832)
Economic development initiative	(124,921)
Essex emergency demolition	(1,268,303)
Hydroelectric upgrade	(250,000)
Park improvement	(162,969)
State of emergency deficit spending	(222,931)
Capital Project Funds:	
Dean science lab renovation	(222,682)
Geriatric Authority land purchase	(205,000)
Parking garage	<u>(538,754)</u>
Total governmental funds	\$ <u><u>(3,129,392)</u></u>
Agency Fund:	
Police outside detail	\$ (97,136)

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

4. 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, 2016, none of the City's bank balance of \$21,066,652 was exposed to custodial credit risk as uninsured and/or uncollateralized.

As of December 31, 2015, none of the System's bank balance of \$12,819,503 was exposed to custodial credit risk as uninsured and/or uncollateralized.

5. 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>Balance</u> <u>06/30/16</u>	<u>Exempt</u> <u>From</u> <u>Disclosure</u>	<u>Rating as of Year-End</u>			
			<u>Aaa</u>	<u>Aa 1/2/3</u>	<u>A 1/2/3</u>	<u>Baa 1/2</u>
Certificates of deposit	\$ 115,842	\$ 115,842	\$ -	\$ -	\$ -	\$ -
Corporate bonds	615,727	-	-	54,051	403,075	158,601
Equity investments	148,151	148,151	-	-	-	-
Federal securities	866,107	-	866,107	-	-	-
Municipal bonds	924,603	-	-	861,759	62,844	-
Mutual funds	9,700,432	9,700,432	-	-	-	-
Total investments	\$ 12,370,862	\$ 9,964,425	\$ 866,107	\$ 915,810	\$ 465,919	\$ 158,601

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 composition of the System's investments as of December 31, 2015, none of which are subject to credit risk disclosure:

<u>Investment Type</u>	<u>Fair</u> <u>Value</u>
Pooled funds	\$ 223,616,872
PRIT *	2,117,951
Total	\$ 225,734,823

**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. The City did not have any investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments.

Massachusetts General Law Chapter 32, Section 23 limits the amount the System may invest in any one issuer or security type, with the exception of the PRIT Fund. The System's policy to limit the amount the System may invest in any one issuer is that Domestic equity and Domestic fixed income may not exceed 5%.

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:

Investment Type	Balance 06/30/16	Exempt from Disclosure	Investment Maturities (in Years)		
			Less Than 1	1-5	6-10
Certificates of deposit	\$ 115,842	\$ -	\$ 20,046	\$ 95,796	\$ -
Corporate bonds	615,727	-	85,682	530,045	-
Equity investments	148,151	148,151	-	-	-
Federal securities	866,107	-	440,865	425,242	-
Municipal bonds	924,603	-	-	265,332	659,271
Mutual funds	9,700,432	9,700,432	-	-	-
Total investments	\$ <u>12,370,862</u>	\$ <u>9,848,583</u>	\$ <u>546,593</u>	\$ <u>1,316,415</u>	\$ <u>659,271</u>

None of the Retirement System's investments are subject to market interest rate fluctuations.

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.

F. Fair Value

The City categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

All of the City's debt and equity securities are considered Level 1 investments.

None of the System's investments are subject to fair value measurements.

6. 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.

The day 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, 2016 consist of the following (in thousands):

Real Estate		
2016	\$ 1,294	
2015	141	
2014 and prior	<u>237</u>	1,672
Personal Property		
2016	17	
2015 and prior	<u>247</u>	<u>264</u>
Total	\$ <u>1,936</u>	

7. Allowance for Doubtful Accounts

The parking ticket receivable balance reported in the accompanying governmental funds balance sheet is presented net of allowances for uncollectible of \$616,872. In addition, 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	\$ 394	\$ -
Excises	721	-
Tax liens	2,629	-
User charges	-	1,234

8. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2016.

9. Loan Receivables

The loan receivable balance represents loans issued to individuals who participate in the Resident Neighborhood Improvement Program administered through Old Holyoke Development Corporation. The loans were issued through the City's Community Development Block Grant program.

10. 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, 2016 balances in interfund receivable and payable accounts:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 1,593,244	\$ -
Nonmajor funds:		
Capital project funds	-	1,371,112
Proprietary funds:		
Internal service fund	-	22,051
Fiduciary funds:		
Agency funds	<u>-</u>	<u>200,081</u>
Total	<u>\$ 1,593,244</u>	<u>\$ 1,593,244</u>

11. Capital Assets

Capital asset activity for the year ended June 30, 2016 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Convert CIP</u>	<u>Ending Balance</u>
Governmental Activities:					
Capital assets, being depreciated:					
Buildings and improvements	\$ 148,044	\$ 562	\$ -	\$ -	\$ 148,606
Machinery, equipment, and furnishings	26,474	1,332	-	-	27,806
Land improvements	6,918	119	-	2,493	9,530
Infrastructure	19,374	1,244	-	-	20,618
Total capital assets, being depreciated	200,810	3,257	-	2,493	206,560
Less accumulated depreciation for:					
Buildings and improvements	(83,866)	(4,381)	-	-	(88,247)
Machinery, equipment, and furnishings	(23,621)	(1,116)	-	-	(24,737)
Land improvements	(3,519)	(370)	-	-	(3,889)
Infrastructure	(13,189)	(1,378)	-	-	(14,567)
Total accumulated depreciation	(124,195)	(7,245)	-	-	(131,440)
Total capital assets, being depreciated, net	76,615	(3,988)	-	2,493	75,120
Capital assets, not being depreciated:					
Land	16,474	-	-	-	16,474
Construction in progress (CIP)	5,764	895	-	(2,493)	4,166
Total capital assets, not being depreciated	22,238	895	-	(2,493)	20,640
Governmental activities capital assets, net	<u>\$ 98,853</u>	<u>\$ (3,093)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 95,760</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Convert CIP</u>	<u>Ending Balance</u>
Business-Type Activities:					
Capital assets, being depreciated:					
Buildings and improvements	\$ 40,000	\$ -	\$ -	\$ -	\$ 40,000
Machinery, equipment, and furnishings	1,262	-	-	-	1,262
Infrastructure	54,151	-	-	-	54,151
Total capital assets, being depreciated	95,413	-	-	-	95,413
Less accumulated depreciation for:					
Buildings and improvements	(35,585)	(213)	-	-	(35,798)
Machinery, equipment, and furnishings	(1,238)	(4)	-	-	(1,242)
Infrastructure	(31,348)	(1,201)	-	-	(32,549)
Total accumulated depreciation	(68,171)	(1,418)	-	-	(69,589)
Total capital assets, being depreciated, net	27,242	(1,418)	-	-	25,824
Capital assets, not being depreciated:					
Land	350	-	-	-	350
Total capital assets, not being depreciated	350	-	-	-	350
Business-type activities capital assets, net	<u>\$ 27,592</u>	<u>\$ (1,418)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 26,174</u>

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

Governmental Activities:	
General government	\$ 10
Public safety	1,035
Education	3,184
Public works	2,218
Human services	399
Culture and recreation	<u>399</u>
Total depreciation expense - governmental activities	<u>\$ 7,245</u>
Business-Type Activities:	
Sewer	<u>\$ 1,418</u>
Total depreciation expense - business-type activities	<u>\$ 1,418</u>

12. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net assets by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets.

The following is a summary of deferred outflow of resources balances as of June 30, 2016:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
<u>Pension related:</u>		
Net difference between projected and actual earnings on pension plan investments	\$ 9,239	\$ 21
Changes of assumptions	6,984	16
Changes in proportion and differences between contributions and proportionate share of contributions	<u>293</u>	<u>-</u>
Total	<u>\$ 16,516</u>	<u>\$ 37</u>

13. Warrants Payable

Warrants payable represent 2016 expenditures paid by July 15, 2016.

14. Notes Payable

The City had the following note outstanding at June 30, 2016:

	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2016</u>
<u>Governmental Activities</u>				
Bond anticipation-HS science lab	1.08%	06/30/16	06/30/17	\$ 223,000
Bond anticipation-Essex house demo	1.08%	06/30/16	06/30/17	1,260,000
Bond anticipation-School projects	1.08%	06/30/16	06/30/17	100,000
Bond anticipation-Recreation	1.08%	06/30/16	06/30/17	<u>270,000</u>
Total bond anticipation note				<u>\$ 1,853,000</u>

The following summarizes activity in notes payable during fiscal year 2016:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ <u>1,483,000</u>	\$ <u>1,853,000</u>	\$ <u>(1,483,000)</u>	\$ <u>1,853,000</u>

15. 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, 2016
<u>Governmental Activities:</u>			
Recreational Facility (refund)	09/01/16	2.0 - 3.0	\$ 135,000
City Hall Remodeling (refund)	09/01/17	2.0 - 2.5	300,000
Building Demolition (refund)	09/01/18	3.9	339,900
Central Fuel Facility (refund)	09/01/18	3.9	135,500
Fire Station (refund)	09/01/19	3.9	1,544,600
Wistariahurst Museum	03/01/21	2.0 - 4.0	205,000
Wistariahurst Museum	03/01/21	2.0 - 4.0	95,000
Community Field	03/01/21	2.0 - 4.0	85,000
Jones Ferry River Access	03/01/25	2.0 - 4.0	420,000
School Lots/Fields/Lights	03/01/25	2.0 - 4.0	390,000
High School Remodeling	07/15/27	4.45	695,000
School Roofs	07/15/27	4.45	100,000
School Lots/Field/Lights	07/15/27	4.45	115,000
Building Demolition	07/15/27	4.45	120,000
Fire Truck	09/01/28	2.0 - 3.8	1,455,000
High School Remodeling	03/01/29	2.0 - 4.2	1,195,000
School	03/01/32	2.0 - 4.0	4,595,000
Geriatric Authority Land	03/01/32	2.0 - 4.0	745,000
Community Field Park	03/01/32	2.0 - 4.0	1,530,000
Senior Center	03/01/32	2.0 - 4.0	1,980,000
Library	03/01/32	2.0 - 4.0	4,400,000
Senior Center	09/01/33	2.0 - 5.0	5,580,000
Garage	09/01/33	2.0 - 5.0	4,980,000
High School Science Labs	09/01/34	2.0 - 3.8	1,085,000
Parking Garage	09/01/34	2.0 - 3.8	1,730,000
			<u>\$ 33,955,000</u>
<u>Business-Type Activities:</u>			
Sewer CSO Planning refunding	09/01/16	2.0 - 3.0	\$ 30,000
Sewer CSO Projects	07/15/27	4.45	1,675,000
Sewer Plant Improvements	07/15/27	4.45	3,600,000
MWPAT	01/15/33	2.00	780,756
Sewer and Flood Control	09/01/33	2.0 - 5.0	685,000
MWPAT	07/15/36	2.00	13,807,277
			<u>\$ 20,578,033</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2016 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 3,005,000	\$ 1,168,392	\$ 4,173,392
2018	2,750,000	1,056,142	3,806,142
2019	2,515,000	960,800	3,475,800
2020	2,400,000	880,386	3,280,386
2021	2,005,000	809,753	2,814,753
2022 - 2026	9,615,000	2,994,397	12,609,397
2027 - 2031	8,310,000	1,416,448	9,726,448
2032 - 2036	3,355,000	195,577	3,550,577
Total	\$ <u>33,955,000</u>	\$ <u>9,481,895</u>	\$ <u>43,436,895</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 1,083,295	\$ 593,735	\$ 1,677,030
2018	1,061,347	555,299	1,616,646
2019	1,059,707	517,504	1,577,211
2020	1,073,383	481,415	1,554,798
2021	1,082,381	446,650	1,529,031
2022 - 2026	5,633,716	1,697,345	7,331,061
2027 - 2031	4,711,681	858,181	5,569,862
2032 - 2036	4,049,588	335,947	4,385,535
Thereafter	822,935	9,649	832,584
Total	\$ <u>20,578,033</u>	\$ <u>5,495,725</u>	\$ <u>26,073,758</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2016, the following changes occurred in long-term liabilities (in thousands):

	Total Balance July 1, 2015 (Restated)	Additions	Reductions	Total Balance June 30, 2016	Less Current Portion	Long-Term Portion June 30, 2016
<u>Governmental Activities</u>						
Bonds payable	\$ 36,927	\$ -	\$ (2,972)	\$ 33,955	\$ (3,005)	\$ 30,950
Accrued compensated absences	8,390	-	(644)	7,746	(774)	6,972
Net OPEB obligation	81,013	7,941	-	88,954	-	88,954
Net pension liability	94,079	10,247	-	104,326	-	104,326
Totals	\$ <u>220,409</u>	\$ <u>18,188</u>	\$ <u>(3,616)</u>	\$ <u>234,981</u>	\$ <u>(3,779)</u>	\$ <u>231,202</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 21,619	\$ -	\$ (1,041)	\$ 20,578	\$ (1,083)	\$ 19,495
Net pension liability	256	-	(14)	242	-	242
Totals	\$ <u>21,875</u>	\$ <u>-</u>	\$ <u>(1,055)</u>	\$ <u>20,820</u>	\$ <u>(1,083)</u>	\$ <u>19,737</u>

16. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net assets by the City that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities.

On the fund basis financial statements the deferred inflow of resources balance as of June 30, 2016 consists of unavailable 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 inflows account is equal to the total of all June 30, 2016 receivable balances, less property tax collected within 60 days of year-end. The balance in the nonmajor governmental funds is equal to the Community Development Block Grant intergovernmental and loan receivable balances at June 30, 2016.

The balance reported on the government wide financial statements represents the following (amounts reported in thousands):

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Unavailable revenues	\$ 1,167	\$ -
<u>Pension related:</u>		
Differences between expected and actual experience	4,199	10
Changes in proportion and differences between contributions and proportionate share of contributions	<u>672</u>	<u>30</u>
Total	<u>\$ 6,038</u>	<u>\$ 40</u>

17. Interfund Transfers

The City's routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

The City reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2016:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 89,647	\$ 309,065
Nonmajor Funds:		
Special revenue funds	-	47
Capital project funds	-	89,601
Expendable trust fund	<u>309,066</u>	<u>-</u>
Subtotal Nonmajor funds	<u>309,066</u>	<u>89,648</u>
Grand Total	<u>\$ 398,713</u>	<u>\$ 398,713</u>

18. **Restricted Net Position**

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

Permanent fund restricted net position is 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.

19. **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, 2016:

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. The City does not have any fund balances that meet this criteria in 2016.

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

capital projects 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 (City Council). The City does not have any fund balances that meet this criteria in 2016.

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, general stabilization fund and deficit funds.

Following is a breakdown of the City's fund balances at June 30, 2016:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted			
Bonded projects	\$ -	\$ 664,152	\$ 664,152
Special revenue funds	-	6,057,651	6,057,651
Expendable permanent funds	-	755,971	755,971
Total Restricted	<u>-</u>	<u>7,477,774</u>	<u>7,477,774</u>
Assigned			
Encumbrances	<u>4,163,283</u>	<u>-</u>	<u>4,163,283</u>
Total Assigned	4,163,283	-	4,163,283
Unassigned			
General fund	5,942,167	-	5,942,167
Stabilization fund*	10,913,910	-	10,913,910
Deficit fund balances	<u>-</u>	<u>(3,129,392)</u>	<u>(3,129,392)</u>
Total Unassigned	<u>16,856,077</u>	<u>(3,129,392)</u>	<u>13,726,685</u>
Total Fund Balance	<u>\$ 21,019,360</u>	<u>\$ 4,348,382</u>	<u>\$ 25,367,742</u>

* Massachusetts General Law Ch. 40 §5B allows for the establishment of stabilization funds for one or more different purposes. The creation of a fund requires two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund, along with any additions to or appropriations from the fund, requires a two-thirds vote of the legislative body.

20. Subsequent Events

Debt – On March 2, 2017 the City issued General Obligation State Qualified Refunding Bonds of \$5,035,000. The bond carries an interest rate of 3.0% and is payable over the next ten years.

21. Commitments and Contingencies

Outstanding Legal Issues - On an ongoing basis, there are typically pending legal issues in which the City is involved. The City's management is of the opinion that the potential future settlement of these issues 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, 2016 the outstanding principal balance was \$27,420,000.

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.

22. Post-Employment Healthcare and Life Insurance Benefits

GASB Statement No. 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 position over time.

A. Plan Description

In addition to providing the pension benefits described below, 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, 2015, the actuarial valuation date, approximately 1,355 retirees and 975 active employees of the City meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

The City provides medical, prescription drug, dental 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 27-50% 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 2016 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, 2016, 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, 2015:

Annual Required Contribution (ARC)	\$ 14,494,413
Interest on net OPEB obligation	3,240,515
Adjustment to ARC	<u>(2,950,665)</u>
Annual OPEB cost	14,784,263
Contributions made	<u>(6,843,227)</u>
Increase in net OPEB obligation	7,941,036
Net OPEB obligation - beginning of year	<u>81,012,856</u>
Net OPEB obligation - end of year	<u>\$ 88,953,892</u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Costs</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 14,784,263	46.29%	\$ 88,953,892
2015	\$ 13,953,489	51.92%	\$ 81,012,856
2014	\$ 13,373,101	50.61%	\$ 75,303,167
2013	\$ 19,104,901	47.52%	\$ 68,698,290
2012	\$ 18,247,255	45.27%	\$ 58,671,312

The City's net OPEB obligation as of June 30, 2016 is recorded as a long-term liability in the statement of net position.

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2015, the date of the most recent actuarial valuation was as follows (in thousands):

Actuarial accrued liability (AAL)	\$ 222,929
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 222,929</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>N/A</u>
UAAL as a percentage of covered payroll	<u>N/A</u>

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, 2015 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 7.625% investment rate of return and an initial annual healthcare cost trend rate of 10%, 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 4%.

23. Holyoke Contributory Retirement System

The City follows the provisions of GASB Statement No. 67 *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

A. Plan Description

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) and the Holyoke Gas and Electric Company, Holyoke Water Works, and the Holyoke Housing Authority are members of the Holyoke Contributory Retirement System (the System), a cost sharing, multiple employer public employee retirement system (PERS). Eligible employees must participate in the System. 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 System, contribution percentages and benefits paid. The System's Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at 20 Korean Veterans Plaza, Room 207, Holyoke, MA 01040.

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 10 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

A retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town/City employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated

total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participants Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation 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%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The City's contribution to the System for the year ended June 30, 2016 was \$12,192,658, which was slightly more than its annual required contribution.

B. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the City reported a liability of approximately \$104 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2016, the City's proportion was 70.48 percent.

For the year ended June 30, 2016, the City recognized pension expense of approximately \$13 million. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources (in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 9,260	\$ -
Changes of assumptions	7,000	-
Differences between expected and actual experience	-	4,209
Changes in proportion and differences between contributions and proportionate share of contributions	<u>293</u>	<u>702</u>
Total	<u>\$ 16,553</u>	<u>\$ 4,911</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows (in thousands):

Year ended June 30:	
2017	\$ (2,896)
2018	(2,896)
2019	(2,896)
2020	(2,896)
2021	<u>(58)</u>
Total	<u>\$ (11,642)</u>

D. Actuarial Assumptions

A summary of the actuarial assumptions as of the latest actuarial valuation is shown below:

Valuation Date	1/1/2016
Actuarial cost method	Entry Age Normal
Actuarial assumptions:	
Investment rate of return	7.625%
Projected salary increases	4.25 – 4.75%
Inflation rate	3.50%
Post-retirement cost-of-living adjustment	3% on first \$12,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the January 1, 2016 valuation were based on the results of the most recent actuarial experience study, which was for the period January 1, 2014 through December 31, 2015.

Mortality rates were based on mortality tables as follows:

Pre-retirement rates reflect the RP-2000 Employee Mortality table projected generationally using Scale BB2D from 2009.

Healthy retiree rates reflect the RP-2000 Healthy Annuitant table projected generationally using Scale BB2D from 2009.

Disabled retiree rates reflect the RP-2000 Healthy Annuitant table projected generationally using Scale BB2D from 2015.

During the fiscal year there were changes in actuarial assumptions. Investment rate of return was reduced from 7.75% in 2013 to 7.625% in 2015. While the mortality tables did not change, the Scale was changed from AA to BB2D, along with other modifications in how the tables were used, to better reflect a general improvement in mortality. Total changes in assumptions had the effect of increasing the total pension liability by \$12 million.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected

future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Cash	5.19%	1.11%
Domestic equity	31.26%	6.49%
International developed markets equity	14.74%	7.16%
International emerging markets equity	4.82%	9.46%
Core fixed income	12.05%	1.68%
High-yield fixed income	2.08%	4.76%
Real estate	10.88%	4.37%
Commodities	0.97%	4.13%
Hedge fund, GTAA, Risk parity	0.89%	3.60%
Private equity	<u>17.12%</u>	11.04%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.625%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.625%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.625%) or 1 percentage-point higher (8.625%) than the current rate (in thousands):

Fiscal Year Ended	1% Decrease (6.625%)	Current Discount Rate (7.625%)	1% Increase (8.625%)
June 30, 2016	\$135,515	\$104,568	\$77,998

G. Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s fiduciary net position is available in the separately issued System financial report.

24. Massachusetts Teachers’ Retirement System (MTRS)

A. Plan Description

The Massachusetts Teachers’ Retirement System (MTRS) is a public employee retirement system (PERS) that administers a cost-sharing multi-employer defined benefit plan, as defined in Governmental Accounting Standards Board (GASB) Statement No. 67, *Financial Reporting for Pension Plans*. MTRS is managed by the Commonwealth on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for all contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives, and Quincy College. The MTRS is part of the Commonwealth’s reporting entity and does not issue a stand-alone audited financial report.

Management of MTRS is vested in the Massachusetts Teachers’ Retirement Board (MTRB), which consists of seven members — two elected by the MTRS members, one who is chosen by the six other MTRB members, the State Treasurer (or their designee), the State Auditor (or their designee), a member appointed by the Governor, and the Commissioner of Education (or their designee), who serves ex-officio as the Chairman of the MTRB.

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member’s highest three-year average annual rate of regular compensation. For

employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Costs of administering the plan are funded out of plan assets.

C. Contributions

Member contributions for MTRS vary depending on the most recent date of membership:

<u>Hire Date</u>	<u>% of Compensation</u>
Prior to 1975	5% of regular compensation
1975 - 1983	7% of regular compensation
1984 to 6/30/1996	8% of regular compensation
7/1/1996 to present	9% of regular compensation
7/1/2001 to present	11% of regular compensation (for teachers hired after 7/1/01 and those accepting provisions of Chapter 114 of the Acts of 2000)
1979 to present	An additional 2% of regular compensation in excess of \$30,000

D. Actuarial Assumptions

The total pension liability for the June 30, 2015 measurement date was determined by an actuarial valuation as of January 1, 2015 rolled forward to June 30, 2015. This valuation used the following assumptions:

- (a) 7.5% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.
- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.

- Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Post-retirement – reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct)
 - Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	40.0%	6.9%
Core fixed income	13.0%	2.4%
Private equity	10.0%	8.5%
Real estate	10.0%	6.5%
Value added fixed income	10.0%	5.8%
Hedge funds	9.0%	5.8%
Portfolio completion strategies	4.0%	5.5%
Timber/natural resources	4.0%	6.6%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was

projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity Analysis

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single discount rate that is one-percentage-point lower or one-percentage-point higher than the current discount rate (in thousands):

Fiscal Year Ended	1% Decrease to 6.5%	Current Discount Rate 7.5%	1% Increase to 8.5%
June 30, 2015	\$25,449,000	\$20,489,643	\$16,221,000

G. Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarial determined employer contributions on behalf of the member employers. Therefore, these employers are considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* (GASB 68) and the Commonwealth is a nonemployer contributing entity in MTRS. Since the employers do not contribute directly to MTRS, there is no net pension liability to recognize for each employer.

H. City Proportions

In fiscal year 2015 (the most recent measurement period), the City's proportionate share of the MTRS' collective net pension liability and pension expense was \$121,902,730 and \$9,887,396, respectively, based on a proportionate share of 0.59%. As required by GASB 68, the City has recognized its portion of the collective pension expense as both a revenue and expense in the government-wide statement of activities.

25. 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.

26. Beginning Net Position Restatement

The beginning net position of the City has been restated as follows:

	Governmental <u>Activities</u>
Net position 06/30/15, as previously reported	\$ (92,613,370)
Remove Water fund portion of net OPEB obligation	<u>999,408</u>
Net position 06/30/15, as restated	<u>\$ (91,613,962)</u>

27. Implementation of New GASB Standard

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, replacing requirements of Statements No. 45 and 57, effective for the City beginning with its year ending June 30, 2018. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. In addition, this Statement details the recognition and disclosure requirements for employers with payables to defined benefit OPEB plans that are administered through trusts that meet the specific criteria and for employers whose employees are provided with defined contribution OPEB. Management's current assessment is that this pronouncement will have an impact by increasing net OPEB liability, and as a result, decreasing the unrestricted net position on the government-wide financial statements.

CITY OF HOLYOKE, MASSACHUSETTS
 SCHEDULE OF OPEB FUNDING PROGRESS
 REQUIRED SUPPLEMENTARY INFORMATION

(Unaudited)

(Amounts expressed in thousands)

Other Post-Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
06/30/15	\$ -	\$ 222,929	\$ 222,929	0.0%	N/A	N/A
06/30/13	\$ -	\$ 212,596	\$ 212,596	0.0%	N/A	N/A
06/30/11	\$ -	\$ 259,848	\$ 259,848	0.0%	N/A	N/A
06/30/09	\$ -	\$ 354,739	\$ 354,739	0.0%	N/A	N/A
06/30/07	\$ -	\$ 331,159	\$ 331,159	0.0%	N/A	N/A

See Independent Auditors' Report.

CITY OF HOLYOKE, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2016

(Unaudited)

(Amounts expressed in thousands)

Holyoke Contributory Retirement System

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	70.48%	\$104,568	\$38,390	272.38%	62.55%
June 30, 2015	70.40%	\$94,335	\$39,079	241.40%	64.47%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the City</u>	<u>Total Net Pension Liability Associated with the City</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2016	0.59%	-	\$121,903	\$121,903	\$37,399	-	55.38%
June 30, 2015	0.67%	-	\$105,865	\$105,865	\$40,834	-	61.64%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

CITY OF HOLYOKE, MASSACHUSETTS
SCHEDULE OF PENSION CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016
(Unaudited)
(Amounts expressed in thousands)

Holyoke Contributory Retirement System

<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2016	\$12,064	(\$12,193)	(\$129)	\$38,390	31.76%
June 30, 2015	\$12,051	(\$12,082)	(\$31)	\$39,079	30.92%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.