

CITY OF HOLYOKE, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2017

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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, 2017, 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, 2017, 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, 2017, 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, 2017, 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 and the Pension and OPEB Schedules appearing on pages 59 to 61 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 1, 2018 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* in considering the City's internal control over financial reporting and compliance.

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

August 1, 2018

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, 2017.

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 comprise 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, with the difference 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).

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 fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise and internal service funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity established fees and charges designed to recover its costs, including capital costs such as depreciation and debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. Specifically, enterprise funds are used to account for sewer operations, which is considered a major fund.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal services funds are used to account for the 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.

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 \$(101,969,161) (i.e., net position), a change of \$(11,638,248) in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$20,737,202, a change of \$(4,630,540) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$16,268,365, a change of \$(587,712) 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:

STATEMENT OF NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Current and other assets	\$ 45,486,889	\$ 42,582,094	\$ 3,509,649	\$ 3,085,644	\$ 48,996,538	\$ 45,667,738
Capital assets	93,217,468	95,759,992	24,763,218	26,174,302	117,980,686	121,934,294
Total assets	138,704,357	138,342,086	28,272,867	29,259,946	166,977,224	167,602,032
Deferred outflows	12,613,503	16,516,449	29,434	37,692	12,642,937	16,554,141
Current liabilities	18,654,123	16,128,254	666,971	259,734	19,321,094	16,387,988
Non-current liabilities	237,398,267	231,201,604	19,673,001	20,820,041	257,071,268	252,021,645
Total liabilities	256,052,390	247,329,858	20,339,972	21,079,775	276,392,362	268,409,633
Deferred inflows	5,165,008	6,037,591	31,952	39,862	5,196,960	6,077,453
Net position:						
Net investment in capital assets	65,876,468	65,902,708	5,328,480	5,596,269	71,204,948	71,498,977
Restricted	1,697,181	4,650,666	-	-	1,697,181	4,650,666
Unrestricted	(177,473,187)	(169,062,288)	2,601,897	2,581,732	(174,871,290)	(166,480,556)
Total net position	\$ (109,899,538)	\$ (98,508,914)	\$ 7,930,377	\$ 8,178,001	\$ (101,969,161)	\$ (90,330,913)

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 \$(101,969,161), a change of \$(11,638,248) from the prior year.

The largest portion of net position \$71,204,948 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 \$1,697,181 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 \$(177,473,187) (governmental) and a surplus of \$2,601,897 (business-type).

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 5,190,245	\$ 4,350,147	\$ 7,651,535	\$ 7,426,215	\$ 12,841,780	\$ 11,776,362
Operating grants and contributions	115,532,531	110,444,469	1,045	-	115,533,576	110,444,469
Capital grants and contributions	1,069,036	3,653,787	-	-	1,069,036	3,653,787
General revenues:						
Property taxes	51,570,554	50,987,324	-	-	51,570,554	50,987,324
Excises	3,015,157	3,062,986	-	-	3,015,157	3,062,986
Penalties, interest and other taxes	2,801,098	2,678,389	-	-	2,801,098	2,678,389
Grants and contributions not restricted to specific programs	9,815,502	9,412,598	-	-	9,815,502	9,412,598
Investment income	1,061,081	430,583	2,878	3,571	1,063,959	434,154
Miscellaneous	28,397	462,483	-	-	28,397	462,483
Total revenues	190,083,601	185,482,766	7,655,458	7,429,786	197,739,059	192,912,552
Expenses:						
General government	9,152,629	8,045,198	-	-	9,152,629	8,045,198
Public safety	32,311,027	31,587,753	-	-	32,311,027	31,587,753
Education	123,797,326	118,725,229	-	-	123,797,326	118,725,229
Public works	10,408,915	9,889,657	-	-	10,408,915	9,889,657
Health and human services	2,715,642	2,686,875	-	-	2,715,642	2,686,875
Culture and recreation	3,159,994	3,263,759	-	-	3,159,994	3,263,759
Interest	1,182,334	1,258,900	-	-	1,182,334	1,258,900
Intergovernmental	17,972,554	16,920,347	-	-	17,972,554	16,920,347
Sewer	-	-	8,676,886	8,952,947	8,676,886	8,952,947
Total expenses	200,700,421	192,377,718	8,676,886	8,952,947	209,377,307	201,330,665
Change in net position before transfers	(10,616,820)	(6,894,952)	(1,021,428)	(1,523,161)	(11,638,248)	(8,418,113)
Transfers in (out)	(773,804)	-	773,804	-	-	-
Change in net position	(11,390,624)	(6,894,952)	(247,624)	(1,523,161)	(11,638,248)	(8,418,113)
Net position - beginning of year	(98,508,914)	(91,613,962)	8,178,001	9,701,162	(90,330,913)	(81,912,800)
Net position - end of year	<u>\$ (109,899,538)</u>	<u>\$ (98,508,914)</u>	<u>\$ 7,930,377</u>	<u>\$ 8,178,001</u>	<u>\$ (101,969,161)</u>	<u>\$ (90,330,913)</u>

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(11,390,624). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ (1,453,339)
Non-major fund expenditures and transfers out in excess of revenues and transfers in	(3,177,201)
Depreciation expense in excess of principal debt service	(4,209,068)
Capital assets purchases from grant and general resources	4,671,544
Net pension liability increase, net of deferrals	(904,539)
Net OPEB obligation increase	(8,071,703)
Other timing differences	1,736,528
Internal service fund revenues in excess of expenditures	<u>17,154</u>
Total	<u>\$ (11,390,624)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$(247,624). This change resulted from expenditures in excess of revenues and transfers in.

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 \$20,737,202, a change of \$(4,630,540) in comparison to the prior year. Key elements of this change are as follows:

General fund operations, as discussed further below	\$ (1,453,339)
Non-major fund expenditures and transfers out in excess of revenues and transfers in	<u>(3,177,201)</u>
Total	<u>\$ (4,630,540)</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 \$16,268,365, while total fund balance was \$19,566,021. 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>2017</u>	<u>2016</u>	<u>Change</u>	<u>% of Total 2017 General Fund Expenditures</u>
Unassigned fund balance ¹	\$ 16,268,365	\$ 16,856,077	\$ (587,712)	10.3%
Total fund balance	\$ 19,566,021	\$ 21,019,360	\$ (1,453,339)	12.4%

¹ Includes the City's stabilization fund

The total fund balance of the general fund changed by \$(1,453,339) during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:	
Shortfall of tax collections compared to budget	\$ (8,635)
State and local revenues over budget	812,528
Budgetary appropriations over spent by departments	(116,161)
Use of free cash as a funding source for nonrecurring expenses	(2,324,496)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current year	(262,920)
Reversal of GAAP accrual	(347,604)
Other - budget variance	(150,225)
Change in Stabilization fund	<u>944,174</u>
Total	<u>\$ (1,453,339)</u>

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

	<u>06/30/17</u>	<u>06/30/16</u>	<u>Change</u>
General stabilization	\$11,858,084	\$10,913,910	\$944,174

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 \$2,601,897, a change of \$20,165 in comparison to the prior year.

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

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$1,308,302. This increase was for various operating expenditures, all of which 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 \$117,980,686 (net of accumulated depreciation). 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	\$ (7,214)
Depreciation expense - business-type activities	(1,411)
Building and improvements	
Governmental	1,011
Departmental vehicle purchase	
Public safety	234
Departmental equipment purchases	
School Department equipment	478
Land improvements	
Governmental	77
Construction in progress	
Passenger rail platform	60
Roberts Field improvements	1,511
Public safety radios	1,300

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 \$50,374,738, 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. Bellamy Schmidt, Interim 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, 2017

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 21,655,134	\$ 399,731	\$ 22,054,865
Investments	13,055,949	-	13,055,949
Receivables, net of allowance for uncollectibles:			
Property taxes	1,552,007	-	1,552,007
Excises	769,659	-	769,659
User fees	30,228	3,109,918	3,140,146
Departmental and other	114,763	-	114,763
Intergovernmental	6,093,460	-	6,093,460
Due from fiduciary funds	124,290	-	124,290
Other assets	1,200	-	1,200
Noncurrent:			
Receivables:			
Loans	1,070,483	-	1,070,483
Property taxes, net of allowance	1,019,716	-	1,019,716
Capital assets:			
Land and construction in progress	19,285,297	350,000	19,635,297
Capital assets, net of accumulated depreciation	73,932,171	24,413,218	98,345,389
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	<u>12,613,503</u>	<u>29,434</u>	<u>12,642,937</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	151,317,860	28,302,301	179,620,161
LIABILITIES			
Current:			
Warrants payable	5,555,785	475,785	6,031,570
Accrued payroll	5,285,305	-	5,285,305
Accrued liabilities	494,439	191,186	685,625
Notes payable	7,199,557	-	7,199,557
Other current liabilities	119,037	-	119,037
Current portion of long-term liabilities:			
Bonds payable	2,750,000	1,061,347	3,811,347
Accrued compensated absences	732,835	-	732,835
Noncurrent:			
Bonds payable, net of current portion	28,190,000	18,373,391	46,563,391
Net pension liability	102,104,322	238,263	102,342,585
Net OPEB obligation	97,025,595	-	97,025,595
Accrued compensated absences, net of current portion	6,595,515	-	6,595,515
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	4,094,525	31,952	4,126,477
Other	<u>1,070,483</u>	<u>-</u>	<u>1,070,483</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	261,217,398	20,371,924	281,589,322
NET POSITION			
Net investment in capital assets	65,876,468	5,328,480	71,204,948
Restricted for:			
Grants and other statutory restrictions	1,048,793	-	1,048,793
Permanent funds:			
Expendable	648,388	-	648,388
Unrestricted	<u>(177,473,187)</u>	<u>2,601,897</u>	<u>(174,871,290)</u>
TOTAL NET POSITION	\$ (109,899,538)	\$ 7,930,377	\$ (101,969,161)

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

CITY OF HOLYOKE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2017

	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	\$ 9,152,629	\$ 1,497,651	\$ 5,207,876	\$ 68,995	\$ (2,378,107)	\$ -	\$ (2,378,107)
Public safety	32,311,027	1,104,142	1,525,922	10,000	(29,670,963)	-	(29,670,963)
Education	123,797,326	1,377,358	107,888,445	28,974	(14,502,549)	-	(14,502,549)
Public works	10,408,915	659,716	-	961,067	(8,788,132)	-	(8,788,132)
Health and human services	2,715,642	253,256	729,335	-	(1,733,051)	-	(1,733,051)
Culture and recreation	3,159,994	298,122	180,953	-	(2,680,919)	-	(2,680,919)
Interest	1,182,334	-	-	-	(1,182,334)	-	(1,182,334)
Intergovernmental	17,972,554	-	-	-	(17,972,554)	-	(17,972,554)
Total Governmental Activities	200,700,421	5,190,245	115,532,531	1,069,036	(78,908,609)	-	(78,908,609)
Business-Type Activities:							
Sewer services	8,676,886	7,651,535	1,045	-	-	(1,024,306)	(1,024,306)
Total Business-Type Activities	8,676,886	7,651,535	1,045	-	-	(1,024,306)	(1,024,306)
Total	\$ 209,377,307	\$ 12,841,780	\$ 115,533,576	\$ 1,069,036	(78,908,609)	(1,024,306)	(79,932,915)
General Revenues and Transfers:							
Property taxes					51,570,554	-	51,570,554
Excises					3,015,157	-	3,015,157
Penalties, interest and other taxes					2,801,098	-	2,801,098
Grants and contributions not restricted to specific programs					9,815,502	-	9,815,502
Investment income					1,061,081	2,878	1,063,959
Miscellaneous					28,397	-	28,397
Transfers, net					(773,804)	773,804	-
Total general revenues and transfers					67,517,985	776,682	68,294,667
Change in Net Position					(11,390,624)	(247,624)	(11,638,248)
Net Position:							
Beginning of year					(98,508,914)	8,178,001	(90,330,913)
End of year					\$ (109,899,538)	\$ 7,930,377	\$ (101,969,161)

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

CITY OF HOLYOKE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2017

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ 13,948,735	\$ 7,706,399	\$ 21,655,134
Investments	12,433,835	622,114	13,055,949
Receivables:			
Property taxes	2,016,637	-	2,016,637
Excises	1,512,325	-	1,512,325
Departmental and other, net	114,763	-	114,763
Intergovernmental	-	6,093,460	6,093,460
Loans	-	1,070,483	1,070,483
Tax liens	3,467,959	-	3,467,959
Due from other funds	393,283	-	393,283
Other assets	1,200	-	1,200
TOTAL ASSETS	<u>\$ 33,888,737</u>	<u>\$ 15,492,456</u>	<u>\$ 49,381,193</u>
LIABILITIES			
Warrants payable	\$ 2,066,136	\$ 3,489,649	\$ 5,555,785
Accrued payroll	5,125,700	159,605	5,285,305
Accrued liabilities	130,701	-	130,701
Due to other funds	-	263,395	263,395
Notes payable	-	7,199,557	7,199,557
Other liabilities	118,990	47	119,037
TOTAL LIABILITIES	7,441,527	11,112,253	18,553,780
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues	6,881,189	3,209,022	10,090,211
FUND BALANCES			
Restricted	-	8,297,447	8,297,447
Assigned	3,297,656	-	3,297,656
Unassigned	16,268,365	(7,126,266)	9,142,099
TOTAL FUND BALANCES	<u>19,566,021</u>	<u>1,171,181</u>	<u>20,737,202</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 33,888,737</u>	<u>\$ 15,492,456</u>	<u>\$ 49,381,193</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, 2017

Total Governmental Fund Balances	\$ 20,737,202
<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.	93,217,468
<ul style="list-style-type: none">• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectibles) and are not deferred until collection.	5,364,189
<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.	24,630
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, net pension liability, net of deferrals, net OPEB obligation and compensated absences are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(229,243,027)</u>
Net Position of Governmental Activities	<u>\$ (109,899,538)</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, 2017

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 51,672,832	\$ -	\$ 51,672,832
Excises	3,073,634	-	3,073,634
Penalties, interest, and other taxes	2,801,098	-	2,801,098
Charges for services	1,450,849	2,489,299	3,940,148
Intergovernmental	96,485,880	27,991,272	124,477,152
Licenses and permits	808,824	-	808,824
Fines and forfeitures	298,532	-	298,532
Contributions and donations	-	513,743	513,743
Investment income (loss)	1,077,341	(16,260)	1,061,081
Miscellaneous	2,450	15,947	18,397
	<u>157,671,440</u>	<u>30,994,001</u>	<u>188,665,441</u>
Expenditures:			
Current:			
General government	3,728,956	4,536,073	8,265,029
Public safety	22,098,205	3,072,920	25,171,125
Education	76,804,745	22,498,775	99,303,520
Public works	5,541,848	1,301,078	6,842,926
Health and human services	1,692,166	208,157	1,900,323
Culture and recreation	1,848,963	1,921,992	3,770,955
Employee benefits	24,174,070	889,458	25,063,528
Debt service	4,232,217	-	4,232,217
Intergovernmental	17,972,554	-	17,972,554
	<u>158,093,724</u>	<u>34,428,453</u>	<u>192,522,177</u>
(Deficiency) of revenues over expenditures	(422,284)	(3,434,452)	(3,856,736)
Other Financing Sources (Uses):			
Proceeds of refunding bonds	759,938	-	759,938
Payments to refunding agent	(759,938)	-	(759,938)
Transfers in	62,951	323,902	386,853
Transfers out	(1,094,006)	(66,651)	(1,160,657)
	<u>(1,031,055)</u>	<u>257,251</u>	<u>(773,804)</u>
Change in fund balance	(1,453,339)	(3,177,201)	(4,630,540)
Fund Balance, at Beginning of Year	<u>21,019,360</u>	<u>4,348,382</u>	<u>25,367,742</u>
Fund Balance, at End of Year	<u>\$ 19,566,021</u>	<u>\$ 1,171,181</u>	<u>\$ 20,737,202</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, 2017

Net Change in Fund Balances - Total Governmental Funds	\$ (4,630,540)																		
<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 style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Capital outlay purchases</td> <td style="text-align: right;">4,671,544</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(7,214,068)</td> </tr> </table> • 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 and changes in other long-term liabilities consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Issuance of debt</td> <td style="text-align: right;">(735,000)</td> </tr> <tr> <td>Refunding of debt</td> <td style="text-align: right;">745,000</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">3,005,000</td> </tr> </table> • Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures, and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (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. <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">1,264,011</td> </tr> </table> • Some expenses reported in the statement of activities, such as net pension liability, net of deferrals, net OPEB obligation, and accrued compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">(8,558,608)</td> </tr> </table> • Internal service funds are used by management to account for fuel depot activities. The net activity of internal service funds is reported with governmental activities. <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">17,154</td> </tr> </table> • Other differences <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right; border-top: 1px solid black;">44,883</td> </tr> </table> 		Capital outlay purchases	4,671,544	Depreciation	(7,214,068)	Issuance of debt	(735,000)	Refunding of debt	745,000	Repayments of debt	3,005,000		1,264,011		(8,558,608)		17,154		44,883
Capital outlay purchases	4,671,544																		
Depreciation	(7,214,068)																		
Issuance of debt	(735,000)																		
Refunding of debt	745,000																		
Repayments of debt	3,005,000																		
	1,264,011																		
	(8,558,608)																		
	17,154																		
	44,883																		
Change in Net Position of Governmental Activities	\$ <u>(11,390,624)</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, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Transfers In:				
Property taxes	\$ 51,681,467	\$ 51,681,467	\$ 51,681,467	\$ -
Excises	2,760,000	2,760,000	3,073,634	313,634
Penalties, interest and other taxes	2,520,000	2,520,000	2,801,098	281,098
Charges for services	1,084,000	1,084,000	1,450,849	366,849
Intergovernmental	84,480,582	84,480,582	84,162,605	(317,977)
Licenses and permits	657,000	657,000	808,824	151,824
Fines and forfeitures	320,000	320,000	298,532	(21,468)
Investment income	125,000	125,000	133,167	8,167
Miscellaneous	35,000	35,000	2,450	(32,550)
Transfers in	-	-	62,951	62,951
Total Revenues and Transfers In	143,663,049	143,663,049	144,475,577	812,528
Expenditures and Transfers Out:				
General government	3,838,138	3,804,515	3,724,542	79,973
Public safety	21,550,588	22,062,029	21,949,283	112,746
Education	63,933,044	64,493,046	64,493,038	8
Public works	5,349,883	5,553,747	5,496,969	56,778
Health and human services	1,741,344	1,701,822	1,677,079	24,743
Culture and recreation	1,928,828	1,895,616	1,826,400	69,216
Employee benefits	22,933,585	23,261,407	23,787,843	(526,436)
Debt service	4,198,393	4,173,393	4,232,217	(58,824)
Intergovernmental	18,115,636	18,115,636	17,972,554	143,082
Transfers out	1,089,804	1,076,559	1,094,006	(17,447)
Total Expenditures and Transfers Out	144,679,243	146,137,770	146,253,931	(116,161)
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(1,016,194)	(2,474,721)	(1,778,354)	696,367
Other Financing Sources/Uses:				
Use of free cash:				
To reduce tax rate	1,016,194	1,016,194	-	(1,016,194)
For operating budget	-	1,308,302	-	(1,308,302)
Total Other Financing Sources/Uses	1,016,194	2,324,496	-	(2,324,496)
(Deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ (150,225) *	\$ (1,778,354)	\$ (1,628,129)

* The final revenue and expenditure budgets adopted and reported by the City did not balance.

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

CITY OF HOLYOKE, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF NET POSITION
 JUNE 30, 2017

	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	\$ 399,731	\$ -
User fees, net of allowance for uncollectibles	<u>3,109,918</u>	<u>30,228</u>
Total current assets	3,509,649	30,228
Noncurrent:		
Land	350,000	-
Capital assets, net of accumulated depreciation	<u>24,413,218</u>	<u>-</u>
Total noncurrent assets	<u>24,763,218</u>	<u>-</u>
DEFERRED OUTFLOWS OF RESOURCES		
Related to pensions	<u>29,434</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	28,302,301	30,228
LIABILITIES		
Current:		
Warrants payable	475,785	-
Accrued liabilities	191,186	-
Due to other funds	-	5,598
Current portion of long-term liabilities:		
Bonds payable	<u>1,061,347</u>	<u>-</u>
Total current liabilities	1,728,318	5,598
Noncurrent:		
Bonds payable, net of current portion	18,373,391	-
Net pension liability	<u>238,263</u>	<u>-</u>
Total noncurrent liabilities	<u>18,611,654</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES		
Related to pensions	<u>31,952</u>	<u>-</u>
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	20,371,924	5,598
NET POSITION		
Net investment in capital assets	5,328,480	-
Unrestricted	<u>2,601,897</u>	<u>24,630</u>
TOTAL NET POSITION	\$ <u>7,930,377</u>	\$ <u>24,630</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, 2017

	<u>Business-Type Activities</u> <u>Enterprise Fund</u>	<u>Governmental</u> <u>Activities</u>
	Sewer <u>Fund</u>	Internal Service <u>Fund</u>
Operating Revenues:		
Charges for services	\$ 7,643,555	\$ 448,013
Other	<u>7,980</u>	<u>-</u>
Total Operating Revenues	7,651,535	448,013
Operating Expenses:		
Salaries and benefits	129,196	-
Other operating expenses	6,670,887	430,859
Depreciation	<u>1,411,084</u>	<u>-</u>
Total Operating Expenses	<u>8,211,167</u>	<u>430,859</u>
Operating Income (Loss)	(559,632)	17,154
Nonoperating Revenues (Expenses):		
Intergovernmental revenue	1,045	-
Investment income	2,878	-
Interest expense	<u>(465,719)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(461,796)</u>	<u>-</u>
Income (Loss) Before Transfers	(1,021,428)	17,154
Transfers:		
Transfers in	<u>773,804</u>	<u>-</u>
Change in Net Position	(247,624)	17,154
Net Position, at Beginning of Year	<u>8,178,001</u>	<u>7,476</u>
Net Position, at End of Year	<u>\$ 7,930,377</u>	<u>\$ 24,630</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, 2017

	Business-Type Activities <u>Enterprise Fund</u>	Governmental <u>Activities</u> Internal Service <u>Fund</u>
	Sewer <u>Fund</u>	
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 7,323,907	\$ -
Receipts from interfund service provided	-	447,312
Payments to vendors and employees	<u>(6,396,243)</u>	<u>(447,312)</u>
Net Cash Provided By Operating Activities	927,664	-
<u>Cash Flows From Noncapital Financing Activities:</u>		
Transfer in	773,804	-
Intergovernmental receipt	<u>1,045</u>	<u>-</u>
Net Cash Provided By Noncapital Financing Activities	774,849	-
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Principal payments on bonds and notes	(1,143,295)	-
Interest expense	<u>(465,719)</u>	<u>-</u>
Net Cash (Used For) Capital and Related Financing Activities	(1,609,014)	-
<u>Cash Flows From Investing Activities:</u>		
Investment income	<u>2,878</u>	<u>-</u>
Net Cash Provided by Investing Activities	<u>2,878</u>	<u>-</u>
Net Change in Cash and Short-Term Investments	96,377	-
Cash and Short-Term Investments, Beginning of Year	<u>303,354</u>	<u>-</u>
Cash and Short-Term Investments, End of Year	<u>\$ 399,731</u>	<u>\$ -</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:</u>		
Operating income (loss)	\$ (559,632)	\$ 17,154
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,411,084	-
Changes in assets, liabilities, and deferred outflows/inflows:		
User fees	(327,628)	(701)
Deferred outflows - related to pensions	8,258	-
Due to other funds	-	(16,453)
Warrants payable	475,785	-
Accrued liabilities	(68,548)	-
Net pension liability	(3,745)	-
Deferred inflows - related to pensions	<u>(7,910)</u>	<u>-</u>
Net Cash Provided By Operating Activities	<u>\$ 927,664</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, 2017

	Private Purpose Trust <u>Funds</u>	Pension Trust Fund (as of <u>December 31, 2016</u>)	Agency <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ 199,425	\$ 5,794,597	\$ 552,780
Investments	-	247,491,467	-
Accounts receivable	-	9,054,378	-
	<u>199,425</u>	<u>262,340,442</u>	<u>552,780</u>
Total Assets			
LIABILITIES			
Accounts payable	-	182,888	-
Payroll withholdings	-	-	382,653
Due to other funds	-	-	124,290
Other liabilities	-	-	45,837
	<u>-</u>	<u>182,888</u>	<u>552,780</u>
Total Liabilities			
NET POSITION			
Total net position restricted for pensions and other purposes	<u>\$ 199,425</u>	<u>\$ 262,157,554</u>	<u>\$ -</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, 2017

	Private Purpose <u>Trust Funds</u>	Pension Trust Fund (For the Year Ended December 31, 2016)
Additions:		
Contributions:		
Employers	\$ -	\$ 17,293,030
Plan members	-	5,248,293
Other systems and Commonwealth of Massachusetts	-	983,372
Other	<u>40,170</u>	<u>26,258</u>
Total contributions	40,170	23,550,953
Investment Income:		
Interest and dividends	(1,175)	-
Appreciation in fair value of investments	-	20,226,973
Less: management fees	<u>-</u>	<u>(2,081,326)</u>
Net investment income (loss)	<u>(1,175)</u>	<u>18,145,647</u>
Total additions	38,995	41,696,600
Deductions:		
Scholarships awarded	3,200	-
Benefit payments to plan members, beneficiaries and other systems	-	25,017,648
Refunds to plan members	-	617,229
Transfers to other systems	-	710,259
Administrative expenses	<u>-</u>	<u>481,622</u>
Total deductions	<u>3,200</u>	<u>26,826,758</u>
Net increase	35,795	14,869,842
Net Position restricted for pensions and other purposes:		
Beginning of year	<u>163,630</u>	<u>247,287,712</u>
End of year	<u>\$ 199,425</u>	<u>\$ 262,157,554</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 2017, 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 14 (as amended) criteria of component units.

Blended Component Unit: The Holyoke Contributory Retirement System (the 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 are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific

function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

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

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

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 fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The City reports the following fiduciary funds:

- 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.
- 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.

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 fair 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 2017 tax levy reflected an excess capacity of \$37,734.

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 \$10,000 and an estimated useful life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition 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.

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.

Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds.

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 fund 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)	\$ 157,671,440	\$ 158,093,724
Other financing sources/uses (GAAP basis)	<u>822,889</u>	<u>1,853,944</u>
Subtotal (GAAP basis)	158,494,329	159,947,668
Remove the effect of adding the City's Stabilization fund per GASB 54	(944,174)	-
Adjust tax revenue to accrual basis	8,635	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(4,163,283)
Add end of year appropriation carryforwards to expenditures	-	3,900,363
Reverse the effect of debt refunding	(759,938)	(759,938)
Reverse the effect of non-budgeted State contributions for teachers retirement	(12,323,275)	(12,323,275)
Reverse GAAP accrual	<u>-</u>	<u>(347,604)</u>
Budgetary basis	<u>\$ 144,475,577</u>	<u>\$ 146,253,931</u>

D. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

Employee benefits	\$(526,436)
Debt service	\$ (58,824)
Transfers out	\$ (17,447)

In addition, in fiscal year 2017, the City over-expended its overall budget by \$(116,161).

E. Deficit Fund Equity

Certain individual funds had deficits as of June 30, 2017:

Special Revenue Funds:	
Economic development initiative	\$ (124,921)
Essex emergency demolition	(1,494,325)
Highway & Bridges Chapter 90	(202,043)
Morgan-White boilers	(875,178)
Park improvement	(1,748,570)
Police radios	(1,300,676)
Safe/Success youth initiative	(132,790)
State of emergency deficit spending	(222,931)
Capital Project Funds:	
Dean science lab renovation	(222,682)
Geriatric Authority land purchase	(205,000)
Parking garage	(538,754)
Platform expansion	<u>(58,396)</u>
Total	\$ <u>(7,126,266)</u>

It is anticipated that 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 the System's 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, 2017, \$36,871 of the City's bank balance of \$23,828,137 was exposed to custodial credit risk as uninsured and/or uncollateralized.

As of December 31, 2016, none of the System's bank balance of \$6,021,400 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>Amount</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year-End</u>			
			<u>AAA</u>	<u>AA 1/2</u>	<u>A 1/2/3</u>	<u>BAA 1/2</u>
Corporate bonds	\$ 266,436	\$ -	\$ -	\$ 51,327	\$ 155,344	\$ 59,765
Federal securities	247,415	-	247,415	-	-	-
Municipal bonds	853,491	-	-	793,415	60,076	-
Mutual funds	<u>11,688,607</u>	<u>11,688,607</u>	-	-	-	-
Total investments	<u>\$ 13,055,949</u>	<u>\$ 11,688,607</u>	<u>\$ 247,415</u>	<u>\$ 844,742</u>	<u>\$ 215,420</u>	<u>\$ 59,765</u>

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

All of the System's investments are reported at fair value and are comprised of pooled investment funds which are exempt from credit risk disclosure.

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. The City manages this custodial credit risk with SIPC and excess SIPC.

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. treasuries and government agency 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 investment policy limits the amount the System may invest in any one to 5%. The System did not have an investment in one issuer greater than 5% of total investments.

D. Interest Rate Risk

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

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

<u>Investment Type</u>	<u>Amount</u>	<u>Exempt from Disclosure</u>	<u>Investment Maturities (in Years)</u>		
			<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>
Corporate bonds	\$ 266,436	\$ -	\$ 203,605	\$ 62,831	\$ -
Federal securities	247,415	-	55,007	192,408	-
Municipal bonds	853,491	-	-	596,832	256,659
Mutual funds	<u>11,688,607</u>	<u>11,688,607</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 13,055,949</u>	<u>\$ 11,688,607</u>	<u>\$ 258,612</u>	<u>\$ 852,071</u>	<u>\$ 256,659</u>

Due to the nature of the Retirement System's investments, they are not 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 2 investments.

All of the System’s investments are in pooled funds, which are not measured at fair value, but instead measured at net asset value (NAV):

<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
Alternative investments	\$ 43,246,339	\$ -	Quarterly	30 days
Domestic equity	93,335,266	-	Quarterly	30 days
Domestic fixed income	24,995,016	-	Quarterly	30 days
International equity	51,022,076	-	Quarterly	30 days
Real estate equity	<u>34,892,770</u>	-	Quarterly	30 days
Total	<u>\$ 247,491,467</u>			

6. Taxes and Excises 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 final tax bill is due, 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.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles

annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Taxes and excises receivable at June 30, 2017 consist of the following, net of an estimated allowance for doubtful accounts in the government-wide financial statements:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Real estate taxes	\$ 1,745,579	\$ (232,293)	\$ 1,513,286
Personal property taxes	271,058	(232,337)	38,721
Tax liens	<u>3,467,959</u>	<u>(2,448,243)</u>	<u>1,019,716</u>
Total property taxes	5,484,596	(2,912,873)	2,571,723
Motor vehicle excise	<u>1,512,325</u>	<u>(742,666)</u>	<u>769,659</u>
Grand Total	<u>\$ 6,996,921</u>	<u>\$ (3,655,539)</u>	<u>\$ 3,341,382</u>

7. User Fee Receivables

Receivables for user charges and betterments at June 30, 2017 consist of the following:

<u>Receivables:</u>	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
Internal service fund	\$ 30,228	\$ -	\$ 30,228
Sewer fund	<u>4,433,891</u>	<u>(1,323,973)</u>	<u>3,109,918</u>
Total	<u>\$ 4,464,119</u>	<u>\$ (1,323,973)</u>	<u>\$ 3,140,146</u>

8. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2017.

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, 2017 balances in interfund receivable and payable accounts:

	Due From Other Funds	Due To Other Funds
General fund	\$ 393,283	\$ -
Nonmajor funds:		
Capital project funds	-	263,395
Proprietary funds:		
Internal service fund	-	5,598
Fiduciary funds:		
Agency funds	-	124,290
Total	<u>\$ 393,283</u>	<u>\$ 393,283</u>

11. Capital Assets

Capital asset activity for the year ended June 30, 2017 was as follows (in thousands):

	Beginning Balance	Increases	Decreases	Convert CIP	Ending Balance
Governmental Activities:					
Capital assets, being depreciated:					
Buildings and improvements	\$ 148,606	\$ 1,011	\$ -	\$ 4,226	\$ 153,843
Machinery, equipment, and furnishings	27,806	712	-	-	28,518
Land improvements	9,530	77	-	-	9,607
Infrastructure	20,618	-	-	-	20,618
Total capital assets, being depreciated	206,560	1,800	-	4,226	212,586
Less accumulated depreciation for:					
Buildings and improvements	(88,247)	(4,647)	-	-	(92,894)
Machinery, equipment, and furnishings	(24,737)	(963)	-	-	(25,700)
Land improvements	(3,889)	(374)	-	-	(4,263)
Infrastructure	(14,567)	(1,230)	-	-	(15,797)
Total accumulated depreciation	(131,440)	(7,214)	-	-	(138,654)
Total capital assets, being depreciated, net	75,120	(5,414)	-	4,226	73,932
Capital assets, not being depreciated:					
Land	16,474	-	-	-	16,474
Construction in progress (CIP)	4,166	2,871	-	(4,226)	2,811
Total capital assets, not being depreciated	20,640	2,871	-	(4,226)	19,285
Governmental activities capital assets, net	<u>\$ 95,760</u>	<u>\$ (2,543)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 93,217</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	(35,798)	(212)	-	-	(36,010)
Machinery, equipment, and furnishings	(1,242)	(4)	-	-	(1,246)
Infrastructure	(32,549)	(1,195)	-	-	(33,744)
Total accumulated depreciation	(69,589)	(1,411)	-	-	(71,000)
Total capital assets, being depreciated, net	25,824	(1,411)	-	-	24,413
Capital assets, not being depreciated:					
Land	350	-	-	-	350
Total capital assets, not being depreciated	350	-	-	-	350
Business-type activities capital assets, net	\$ 26,174	\$ (1,411)	\$ -	\$ -	\$ 24,763

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

Governmental Activities:	
General government	\$ 14
Public safety	936
Education	3,194
Public works	2,277
Human services	399
Culture and recreation	394
Total depreciation expense - governmental activities	\$ 7,214
Business-Type Activities:	
Sewer	\$ 1,411
Total depreciation expense - business-type activities	\$ 1,411

12. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the City that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions in accordance with GASB Statement No. 68 *Accounting and Financial Reporting for Pensions* are more formally discussed in Note 19.

13. Warrants Payable

Warrants payable represent 2017 expenditures paid by July 15, 2017.

14. Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2017:

<u>Purpose</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2017</u>
<u>Governmental Activities</u>				
Bond anticipation - Recreation	1.40%	06/30/17	09/29/17	\$ 2,175,000
Bond anticipation - Essex house demo	1.00%	06/30/17	09/29/17	1,450,000
Bond anticipation - School projects	1.00%	06/30/17	09/29/17	1,167,000
Bond anticipation - Parking facility	1.00%	06/30/17	09/29/17	573,000
Bond anticipation - Public safety radio network	1.00%	06/30/17	09/29/17	1,834,557
Total bond anticipation notes				<u>\$ 7,199,557</u>

The following summarizes activity in notes payable during fiscal year 2017:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ <u>1,853,000</u>	\$ <u>7,772,557</u>	\$ <u>(2,426,000)</u>	\$ <u>7,199,557</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, 2017
<u>Governmental Activities:</u>			
City Hall Remodeling (refund)	09/01/17	2.0 - 2.5	\$ 150,000
Building Demolition (refund)	09/01/18	3.9	202,600
Central Fuel Facility (refund)	09/01/18	3.9	89,500
Fire Station (refund)	09/01/19	3.9	1,147,900
Wistariahurst Museum	03/01/21	2.0 - 4.0	160,000
Wistariahurst Museum	03/01/21	2.0 - 4.0	75,000
Community Field	03/01/21	2.0 - 4.0	65,000
Jones Ferry River Access	03/01/25	2.0 - 4.0	370,000
School Lots/Fields/Lights	03/01/25	2.0 - 4.0	340,000
Building Demolition	09/01/26	3.0	88,800
High School Remodeling (refund)	07/15/27	4.45	60,000
School Roofs (refund)	07/15/27	4.45	10,000
Building Demolition (refund)	07/15/27	4.45	15,000
High School Remodeling	09/01/27	3.0	370,000
School Roofs	09/01/27	3.0	197,200
School Lots/Field/Lights	09/01/27	3.0	79,000
Fire Truck	09/01/28	2.0 - 3.8	1,340,000
High School Remodeling	03/01/29	2.0 - 4.2	1,100,000
School	03/01/32	2.0 - 4.0	4,305,000
Geriatric Authority Land	03/01/32	2.0 - 4.0	695,000
Community Field Park	03/01/32	2.0 - 4.0	1,385,000
Senior Center	03/01/32	2.0 - 4.0	1,850,000
Library	03/01/32	2.0 - 4.0	4,125,000
Senior Center	09/01/33	2.0 - 5.0	5,265,000
Garage	09/01/33	2.0 - 5.0	4,800,000
High School Science Labs	09/01/34	2.0 - 3.8	1,020,000
Parking Garage	09/01/34	2.0 - 3.8	1,635,000
Total Governmental Activities Debt			<u>\$ 30,940,000</u>
<u>Business-Type Activities:</u>			
Sewer CSO Projects (refund)	07/15/27	4.45	\$ 155,000
Sewer Plant Improvements (refund)	07/15/27	4.45	300,000
Sewer CSO Projects	09/01/27	3.0	1,341,900
Sewer Plant Improvements	09/01/27	3.0	2,958,100
MWPAT	01/15/33	2.00	742,301
Sewer and Flood Control	09/01/33	2.0 - 5.0	645,000
MWPAT	07/15/36	2.00	13,292,437
Total Business-Type Activities Debt			<u>\$ 19,434,738</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2017 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 2,750,000	\$ 1,045,060	\$ 3,795,060
2019	2,515,000	950,579	3,465,579
2020	2,400,000	871,465	3,271,465
2021	2,005,000	801,852	2,806,852
2022	1,935,000	730,828	2,665,828
2023 - 2027	9,445,000	2,637,614	12,082,614
2028 - 2032	8,090,000	1,129,859	9,219,859
2033 - 2035	1,800,000	81,959	1,881,959
Total	\$ <u>30,940,000</u>	\$ <u>8,249,216</u>	\$ <u>39,189,216</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,061,347	\$ 490,338	\$ 1,551,685
2019	1,079,707	457,001	1,536,708
2020	1,083,383	427,612	1,510,995
2021	1,087,381	398,200	1,485,581
2022	1,101,709	368,609	1,470,318
2023 - 2027	5,645,594	1,392,672	7,038,266
2028 - 2032	4,323,069	731,436	5,054,505
2033 - 2037	4,052,548	238,810	4,291,358
Total	\$ <u>19,434,738</u>	\$ <u>4,504,678</u>	\$ <u>23,939,416</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities (in thousands):

	Total Balance July 1, 2016	Additions	Reductions	Total Balance June 30, 2017	Less Current Portion	Long-Term Portion June 30, 2017
<u>Governmental Activities</u>						
Bonds payable	\$ 33,955	\$ 735	\$ (3,750)	\$ 30,940	\$ (2,750)	\$ 28,190
Net pension liability	104,326	-	(2,222)	102,104	-	102,104
Net OPEB obligation	88,954	8,072	-	97,026	-	97,026
Accrued compensated absences	7,746	-	(418)	7,328	(733)	6,595
Totals	\$ <u>234,981</u>	\$ <u>8,807</u>	\$ <u>(6,390)</u>	\$ <u>237,398</u>	\$ <u>(3,483)</u>	\$ <u>233,915</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 20,578	\$ 4,300	\$ (5,443)	\$ 19,435	\$ (1,061)	\$ 18,374
Net pension liability	242	-	(4)	238	-	238
Totals	\$ <u>20,820</u>	\$ <u>4,300</u>	\$ <u>(5,447)</u>	\$ <u>19,673</u>	\$ <u>(1,061)</u>	\$ <u>18,612</u>

D. Advance Refunding

On March 2, 2017 the City issued general obligation refunding bonds in the amount of \$5,035,000 with an interest rate of 3%, to advance refund \$5,105,000 of general obligation 2007 bonds with an interest rate ranging from 4.25% to 6%. The general obligation 2007 bonds mature on July 15, 2027 and are redeemable July 15, 2017. The refunding bonds were issued at 106% and, after paying issuance costs of \$108,070, the net proceeds were \$5,207,359 of which \$759,938 related to governmental bonds and \$4,447,421 related to the Sewer Enterprise fund. The net proceeds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the general obligation 2007 bonds are called on July 15, 2017. The advance refunding met the requirements of an in-substance debt defeasance and the general obligation 2007 bonds were removed from the City's financial statements.

As a result of the advance refunding, the City reduced its total debt service cash flow requirements by \$531,603 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$488,276.

Defeased debt still outstanding at June 30, 2017 is \$5,105,000.

16. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the City that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. The City reports two items as deferred inflows of resources, one of which is attributable to changes in the net pension liability, and the other which arises from the *current financial resources measurement focus* and the *modified accrual basis of accounting* in governmental funds. Deferred inflows of resources related to pension will be recognized in pension expense in future years and is more fully described in Note 19. Unavailable revenues are reported in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

17. Interfund Transfers

The City reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The following is an analysis of major interfund transfers:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 62,951	\$ 1,094,006
Nonmajor Funds:		
Special revenue funds	38,175	66,651
Expendable trust fund	<u>285,727</u>	<u>-</u>
Subtotal Nonmajor funds	323,902	66,651
<u>Business-Type Funds:</u>		
Sewer fund	<u>773,804</u>	<u>-</u>
Grand Total	<u>\$ 1,160,657</u>	<u>\$ 1,160,657</u>

18. **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 has 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, 2017:

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 2017.

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 2017.

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 and an appropriation deficit to be covered in the subsequent year budget.

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, 2017:

	General <u>Fund</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Restricted			
Bonded projects	\$ -	\$ 498,832	\$ 498,832
Special revenue funds	-	7,150,227	7,150,227
Expendable permanent funds	-	648,388	648,388
Total Restricted	-	8,297,447	8,297,447
Assigned			
Encumbrances	3,900,363	-	3,900,363
Appropriation deficit	(602,707)	-	(602,707)
Total Assigned	3,297,656	-	3,297,656
Unassigned			
General fund	4,410,281	-	4,410,281
General stabilization fund	11,858,084	-	11,858,084
Deficit fund balances	-	(7,126,266)	(7,126,266)
Total Unassigned	16,268,365	(7,126,266)	9,142,099
Total Fund Balance	\$ 19,566,021	\$ 1,171,181	\$ 20,737,202

19. 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 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 100 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.

If a participant was a member prior to April 1, 2012, 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 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 a retirement allowance upon 10 years creditable service and reaching 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, 2017 was \$12,134,836, which was equal to 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, 2017, the City reported a liability of approximately \$102 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016 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, 2017, the City's proportion was 70.19 percent.

For the year ended June 30, 2017, 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):

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ -	\$ 3,345
Changes of assumptions	5,565	-
Net difference between projected and actual earnings on pension plan investments	7,078	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	781
Total	<u>\$ 12,643</u>	<u>\$ 4,126</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:	
2018	\$ (2,111)
2019	(2,111)
2020	(2,111)
2021	(2,279)
2022	<u>95</u>
Total	<u>\$ (8,517)</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.

Pre-retirement rates for mortality were based on RP-2000 Employees table projected generationally with Scale BB2D and a base year of 2009 and post-retirement rates for mortality were based on RP-2000 Healthy Annuitant table projected generationally with Scale BB2D and a base year of 2009. For disabled retirees, the rates reflect the RP-2000 Healthy Annuitant table projected generationally with Scale BB and a base year of 2015.

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.

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>
Domestic equity	34.00%	6.44%
International developed markets equity	16.00%	7.40%
International emerging markets equity	6.00%	9.42%
Core fixed income	16.00%	2.02%
High-yield fixed income	0.00%	4.43%
Real estate	13.00%	5.00%
Commodities	1.00%	4.43%
Hedge Funds, GTAA, & Risk parity	1.00%	3.75%
Private equity	13.00%	10.47%
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):

<u>Fiscal Year Ended</u>	1% Decrease <u>(6.625%)</u>	Current Discount Rate <u>(7.625%)</u>	1% Increase <u>(8.625%)</u>
June 30, 2017	\$133,864	\$102,342	\$75,284

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.

20. 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>Membership 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, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. 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 on the first \$13,000 per year.

- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Experience study is dated July 21, 2014 and encompasses the period January 1, 2006 to December 31, 2011.
- Mortality rates were as follows:
 - Pre-retirement – reflects RP-2014 Employee 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, 2016 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%	1.6%
Private equity	10.0%	8.7%
Real estate	10.0%	4.6%
Value added fixed income	10.0%	4.8%
Hedge funds	9.0%	4.0%
Portfolio completion strategies	4.0%	3.6%
Timber/natural resources	4.0%	5.4%
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 <u>Ended</u>	1% Decrease <u>to 6.5%</u>	Current Discount <u>Rate 7.5%</u>	1% Increase <u>to 8.5%</u>
June 30, 2016	\$27,464,000	\$22,357,928	\$18,022,000

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 2016 (the most recent measurement period), the Commonwealth's proportionate share of the MTRS' collective net pension liability and pension expense that is associated with the City was \$120,808,657 and \$12,323,275, respectively, based on a proportionate share of 0.54%. As required by GASB 68, the City has recognized its portion of the collective pension expense as both a revenue and expenditure in the general fund.

21. Other Post-Employment Benefits – OPEB (GASB 45)

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, 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 2017 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, 2017, 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)	\$ 15,124,993
Interest on net OPEB obligation	3,558,106
Adjustment to ARC	<u>(3,239,850)</u>
Annual OPEB cost	15,443,249
Contributions made	<u>(7,371,546)</u>
Increase in net OPEB obligation	8,071,703
Net OPEB obligation - beginning of year	<u>88,953,892</u>
Net OPEB obligation - end of year	<u><u>\$ 97,025,595</u></u>

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

Fiscal Year <u>Ended</u>	Annual OPEB <u>Costs</u>	Percentage of OPEB Cost <u>Contributed</u>	Net OPEB <u>Obligation</u>
2017	\$ 15,443,249	47.73%	\$ 97,025,595
2016	\$ 14,784,263	46.29%	\$ 88,953,892
2015	\$ 13,953,489	51.92%	\$ 81,012,856

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

22. 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, 2017 the outstanding principal balance was \$25,795,000.

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.

23. Subsequent Events

Debt

Subsequent to June 30, 2017, the City has incurred the following additional debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
General obligation bonds, Series A	\$1,755,000	3.0 - 3.25%	09/19/17	09/01/31
General obligation bonds, Series B	\$7,415,000	2.0 - 5.0%	09/19/17	09/01/32
Bond anticipation note	\$969,000	2.00%	09/29/17	09/28/18
Revenue anticipation note	\$10,000,000	1.50%	02/23/18	06/15/18

24. Implementation of New GASB Standard

The Government Accounting Standards Board (GASB) has issued Statement No. 75, *Accounting and Financial Reporting for Post-Employment 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 employees 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 a material 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 PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (GASB 68)

JUNE 30, 2017

(Unaudited)

(Amounts expressed in thousands)

Holyoke Contributory Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</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, 2017	December 31, 2016	70.19%	\$102,342	\$40,169	254.78%	64.26%
June 30, 2016	December 31, 2015	70.64%	\$104,568	\$38,390	272.38%	62.55%
June 30, 2015	December 31, 2014	70.87%	\$94,335	\$39,079	241.40%	64.47%

Massachusetts Teachers' Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</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, 2017	June 30, 2016	0.54%	-	\$120,809	\$120,809	\$35,542	-	52.73%
June 30, 2016	June 30, 2015	0.59%	-	\$121,903	\$121,903	\$37,399	-	55.38%
June 30, 2015	June 30, 2014	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 (GASB 68)

JUNE 30, 2017

(Unaudited)

(Amounts expressed in thousands)

Holyoke Contributory Retirement System

<u>Fiscal Year</u>	<u>Contractually Required Contribution</u>	Contributions in Relation to the <u>Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2017	\$12,135	(\$12,135)	-	\$40,169	30.21%
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.

CITY OF HOLYOKE, MASSACHUSETTS
 SCHEDULE OF OPEB FUNDING PROGRESS (GASB 45)

JUNE 30, 2017

(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.