

**CITY OF HOLYOKE, MASSACHUSETTS**

Annual Financial Statements

For the Year Ended June 30, 2018

## TABLE OF CONTENTS

	<u>PAGE</u>
<b>INDEPENDENT AUDITORS' REPORT</b>	1
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	5
<b>BASIC FINANCIAL STATEMENTS:</b>	
<b>Government-Wide Financial Statements:</b>	
Statement of Net Position	14
Statement of Activities	15
<b>Fund Financial Statements:</b>	
<b>Governmental Funds:</b>	
Balance Sheet	16
Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities in the Statement of Net Position	17
Statement of Revenues, Expenditures, and Changes in Fund Balances	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	20
<b>Proprietary Funds:</b>	
Statement of Net Position	21
Statement of Revenues, Expenses, and Changes in Fund Net Position	22
Statement of Cash Flows	23
<b>Fiduciary Funds:</b>	
Statement of Fiduciary Net Position	24
Statement of Changes in Fiduciary Net Position	25
<b>Notes to Financial Statements</b>	26
<b>REQUIRED SUPPLEMENTARY INFORMATION:</b>	
<b>Pension:</b>	
Schedule of Proportionate Share of the Net Pension Liability (GASB 68)	62
Schedule of Pension Contributions (GASB 68)	63
<b>OPEB:</b>	
Schedules of Changes in the Total OPEB Liability (GASB 75)	64

**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, 2018, 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, 2018, 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, 2018, 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, 2018, 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**

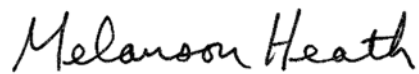
### *Required Supplementary Information*

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 62 to 64 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 also issued our report dated July 9, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the City's 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 City's internal control over financial reporting and compliance.

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

July 9, 2019

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Holyoke (the City), we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018.

### **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 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 outflows/inflows, 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).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include sewer activities.

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds.** Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** Proprietary 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 \$(214,121,588) (i.e., net position), a change of \$(3,147,629) in comparison to the restated prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$26,181,682, a change of \$5,444,480 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$15,303,259, a change of \$(965,106) 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.

NET POSITION

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 49,284,276	\$ 45,486,889	\$ 2,753,477	\$ 3,509,649	\$ 52,037,753	\$ 48,996,538
Capital assets	<u>89,556,979</u>	<u>93,217,468</u>	<u>23,358,510</u>	<u>24,763,218</u>	<u>112,915,489</u>	<u>117,980,686</u>
Total assets	138,841,255	138,704,357	26,111,987	28,272,867	164,953,242	166,977,224
Deferred outflows of resources	7,151,231	12,613,503	15,828	29,434	7,167,059	12,642,937
Current liabilities	19,515,613	18,654,123	2,490,340	666,971	22,005,953	19,321,094
Noncurrent liabilities	<u>322,869,290</u>	<u>237,398,267</u>	<u>17,475,967</u>	<u>19,673,001</u>	<u>340,345,257</u>	<u>257,071,268</u>
Total liabilities	342,384,903	256,052,390	19,966,307	20,339,972	362,351,210	276,392,362
Deferred inflows of resources	23,829,429	5,165,008	61,250	31,952	23,890,679	5,196,960
Net investment in capital assets	59,003,716	65,876,468	4,985,119	5,328,480	63,988,835	71,204,948
Restricted	7,211,863	1,697,181	-	-	7,211,863	1,697,181
Unrestricted	<u>(286,437,425)</u>	<u>(177,473,187)</u>	<u>1,115,139</u>	<u>2,601,897</u>	<u>(285,322,286)</u>	<u>(174,871,290)</u>
Total net position	<u>\$ (220,221,846)</u>	<u>\$ (109,899,538)</u>	<u>\$ 6,100,258</u>	<u>\$ 7,930,377</u>	<u>\$ (214,121,588)</u>	<u>\$ (101,969,161)</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$(214,121,588), a change of \$(3,147,629) in comparison to the restated prior year.

The largest portion of net position \$63,988,835 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 \$7,211,863 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 \$(286,437,425) (governmental) and a surplus of \$1,115,139 (business-type).

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
<b>Revenues:</b>						
<b>Program revenues:</b>						
Charges for services	\$ 5,662,924	\$ 5,190,245	\$ 7,246,236	\$ 7,651,535	\$ 12,909,160	\$ 12,841,780
Operating grants and contributions	115,105,895	115,532,531	-	1,045	115,105,895	115,533,576
Capital grants and contributions	1,289,706	1,069,036	-	-	1,289,706	1,069,036
<b>General revenues:</b>						
Property taxes	52,208,124	51,570,554	-	-	52,208,124	51,570,554
Excises	3,131,826	3,015,157	-	-	3,131,826	3,015,157
Penalties, interest and other taxes	2,920,004	2,801,098	-	-	2,920,004	2,801,098
Grants and contributions not restricted to specific programs	10,195,937	9,815,502	-	-	10,195,937	9,815,502
Investment income	915,443	1,061,081	1,728	2,878	917,171	1,063,959
Miscellaneous	328,256	28,397	-	-	328,256	28,397
<b>Total revenues</b>	<u>191,758,115</u>	<u>190,083,601</u>	<u>7,247,964</u>	<u>7,655,458</u>	<u>199,006,079</u>	<u>197,739,059</u>
<b>Expenses:</b>						
General government	8,389,752	9,152,629	-	-	8,389,752	9,152,629
Public safety	30,709,474	32,311,027	-	-	30,709,474	32,311,027
Education	118,876,938	123,797,326	-	-	118,876,938	123,797,326
Public works	9,132,467	10,408,915	-	-	9,132,467	10,408,915
Health and human services	2,556,694	2,715,642	-	-	2,556,694	2,715,642
Culture and recreation	3,234,710	3,159,994	-	-	3,234,710	3,159,994
Interest	1,277,801	1,182,334	-	-	1,277,801	1,182,334
Intergovernmental	18,227,623	17,972,554	-	-	18,227,623	17,972,554
Sewer operations	-	-	9,748,249	8,676,886	9,748,249	8,676,886
<b>Total expenses</b>	<u>192,405,459</u>	<u>200,700,421</u>	<u>9,748,249</u>	<u>8,676,886</u>	<u>202,153,708</u>	<u>209,377,307</u>
Change in net position before transfers	(647,344)	(10,616,820)	(2,500,285)	(1,021,428)	(3,147,629)	(11,638,248)
Transfers in (out)	(670,166)	(773,804)	670,166	773,804	-	-
Change in net position	(1,317,510)	(11,390,624)	(1,830,119)	(247,624)	(3,147,629)	(11,638,248)
Net position - beginning of year, as restated	(218,904,336)	(98,508,914)	7,930,377	8,178,001	(210,973,959)	(90,330,913)
<b>Net position - end of year</b>	<u>\$ (220,221,846)</u>	<u>\$ (109,899,538)</u>	<u>\$ 6,100,258</u>	<u>\$ 7,930,377</u>	<u>\$ (214,121,588)</u>	<u>\$ (101,969,161)</u>

Fiscal year 2017 amounts reported above were not restated as the City applied GASB 75 prospectively.

**Governmental activities.** Governmental activities for the year resulted in a change in net position of \$(1,317,510). Key elements of this change are as follows:

General fund operations, as discussed further in Section D	\$ 847,511
Non-major fund revenues and other financing sources in excess of expenditures	4,596,969
Depreciation expense in excess of principal debt service	(4,759,606)
Capital assets purchases from grant and general resources	3,849,117
Change in net pension liability, net of deferrals	2,561,349
Change in total OPEB liability, net of deferrals	(3,064,353)
Issuance of debt	(6,169,550)
Other timing differences	781,985
Internal service fund revenues in excess of expenditures	<u>39,068</u>
Total	<u>\$ (1,317,510)</u>

**Business-type activities.** Business-type activities for the year resulted in a change in net position of \$(1,830,119). This change resulted from expenditures in excess of revenues and transfers in.

#### **D. FINANCIAL ANALYSIS OF 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 \$26,181,682, a change of \$5,444,480 in comparison to the prior year. Key elements of this change are as follows:

General fund operations, as discussed further below	\$ 847,511
Non-major fund revenues and other financing sources in excess of expenditures	<u>4,596,969</u>
Total	<u>\$ 5,444,480</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 \$15,303,259, while total fund balance was \$20,413,532. 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>2018</u>	<u>2017</u>	<u>Change</u>	<u>% of Total 2018 General Fund Expenditures</u>
Unassigned fund balance	\$ 15,303,259	\$ 16,268,365	\$ (965,106)	10.2%
Total fund balance	\$ 20,413,532	\$ 19,566,021	\$ 847,511	13.6%

The total fund balance of the general fund changed by \$847,511 during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:	
Shortfall of tax collections compared to budget	\$ (760,579)
State and local revenues over budget	698,743
Budgetary appropriations unspent by departments	5,491
Use of free cash as a funding source for nonrecurring expenses	(1,520,558)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current year	1,628,384
Reversal of GAAP accrual	(17,760)
Other sources/uses	250,707
Change in Stabilization fund	<u>563,083</u>
Total	<u>\$ 847,511</u>

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

	<u>06/30/18</u>	<u>06/30/17</u>	<u>Change</u>
General stabilization fund	\$12,421,167	\$11,858,084	\$563,083

**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 \$1,115,139, a change of \$(1,486,758) 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 \$164,000. 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 \$112,915,489 (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	\$ (7,509)
Depreciation expense - business-type activities	(1,405)
Building and improvements	
Governmental	353
Departmental vehicle purchases	
Public works	1,256
Departmental equipment purchases	
School Department equipment	668
Land improvements	
Governmental	573
Infrastructure	
Governmental	306
Construction in progress	
Public safety radios	578
Other	114

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

**Long-term debt.** At the end of the current fiscal year, total bonded debt outstanding was \$52,732,941, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the notes to the financial statements.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Ms. Tanya Wdowiak, 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, 2018

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 23,234,330	\$ 152,715	\$ 23,387,045
Investments	13,719,171	-	13,719,171
Receivables, net of allowance for uncollectibles:			
Property taxes	2,454,884	-	2,454,884
Excises	736,347	-	736,347
User fees	53,132	2,600,762	2,653,894
Departmental and other	410,369	-	410,369
Intergovernmental	6,344,746	-	6,344,746
Other assets	222,603	-	222,603
Noncurrent:			
Receivables:			
Loans	1,177,093	-	1,177,093
Property taxes, net of allowance	931,601	-	931,601
Capital assets:			
Land and construction in progress	16,588,385	350,000	16,938,385
Capital assets, net of accumulated depreciation	72,968,594	23,008,510	95,977,104
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to pension	<u>7,151,231</u>	<u>15,828</u>	<u>7,167,059</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>145,992,486</b>	<b>26,127,815</b>	<b>172,120,301</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	6,026,495	650	6,027,145
Accrued payroll and withholdings	6,924,670	-	6,924,670
Accrued liabilities	548,257	176,209	724,466
Internal balances	(1,431,350)	1,233,774	(197,576)
Notes payable	3,519,000	-	3,519,000
Other liabilities	113,252	-	113,252
Current portion of long-term liabilities:			
Bonds payable	3,044,550	1,079,707	4,124,257
Accrued compensated absences	770,739	-	770,739
Noncurrent:			
Bonds payable, net of current portion	31,315,000	17,293,684	48,608,684
Net pension liability	82,359,373	182,283	82,541,656
Total OPEB liability	202,258,263	-	202,258,263
Accrued compensated absences, net of current portion	6,936,654	-	6,936,654
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to pension	15,815,853	61,250	15,877,103
Related to OPEB	6,836,483	-	6,836,483
Other	<u>1,177,093</u>	<u>-</u>	<u>1,177,093</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>366,214,332</b>	<b>20,027,557</b>	<b>386,241,889</b>
<b>NET POSITION</b>			
Net investment in capital assets	59,003,716	4,985,119	63,988,835
Restricted for:			
Grants and other statutory restrictions	6,769,923	-	6,769,923
Permanent funds:			
Expendable	441,940	-	441,940
Unrestricted	<u>(286,437,425)</u>	<u>1,115,139</u>	<u>(285,322,286)</u>
<b>TOTAL NET POSITION</b>	<b>\$ (220,221,846)</b>	<b>\$ 6,100,258</b>	<b>\$ (214,121,588)</b>

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



CITY OF HOLYOKE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2018

	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
<b>Governmental Activities:</b>							
General government	\$ 8,389,752	\$ 1,347,827	\$ 2,971,466	\$ 2,856	\$ (4,067,603)	\$ -	\$ (4,067,603)
Public safety	30,709,474	1,120,726	2,099,888	-	(27,488,860)	-	(27,488,860)
Education	118,876,938	1,649,056	109,382,665	753,169	(7,092,048)	-	(7,092,048)
Public works	9,132,467	728,419	-	533,681	(7,870,367)	-	(7,870,367)
Health and human services	2,556,694	508,583	479,434	-	(1,568,677)	-	(1,568,677)
Culture and recreation	3,234,710	308,313	172,442	-	(2,753,955)	-	(2,753,955)
Interest	1,277,801	-	-	-	(1,277,801)	-	(1,277,801)
Intergovernmental	18,227,623	-	-	-	(18,227,623)	-	(18,227,623)
Total Governmental Activities	192,405,459	5,662,924	115,105,895	1,289,706	(70,346,934)	-	(70,346,934)
<b>Business-Type Activities:</b>							
Sewer services	9,748,249	7,246,236	-	-	-	(2,502,013)	(2,502,013)
Total Business-Type Activities	9,748,249	7,246,236	-	-	-	(2,502,013)	(2,502,013)
Total	\$ 202,153,708	\$ 12,909,160	\$ 115,105,895	\$ 1,289,706	(70,346,934)	(2,502,013)	(72,848,947)
<b>General Revenues and Transfers:</b>							
Property taxes					52,208,124	-	52,208,124
Excises					3,131,826	-	3,131,826
Penalties, interest and other taxes					2,920,004	-	2,920,004
Grants and contributions not restricted to specific programs					10,195,937	-	10,195,937
Investment income					915,443	1,728	917,171
Miscellaneous					328,256	-	328,256
Transfers, net					(670,166)	670,166	-
Total general revenues and transfers					69,029,424	671,894	69,701,318
Change in Net Position					(1,317,510)	(1,830,119)	(3,147,629)
<b>Net Position:</b>							
Beginning of year, as restated					(218,904,336)	7,930,377	(210,973,959)
End of year					\$ (220,221,846)	\$ 6,100,258	\$ (214,121,588)

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

CITY OF HOLYOKE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 16,660,193	\$ 6,528,689	\$ 23,188,882
Investments	13,228,655	490,516	13,719,171
Receivables:			
Property taxes	3,007,224	25,001	3,032,225
Excises	1,483,447	-	1,483,447
Departmental and other, net	197,226	213,143	410,369
Intergovernmental	-	6,344,746	6,344,746
Loans	-	1,177,093	1,177,093
Tax liens	3,240,138	-	3,240,138
Due from other funds	1,808,258	-	1,808,258
Other assets	<u>222,603</u>	<u>-</u>	<u>222,603</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>39,847,744</u></b>	<b>\$ <u>14,779,188</u></b>	<b>\$ <u>54,626,932</u></b>
<b>LIABILITIES</b>			
Warrants payable	\$ 5,210,766	\$ 780,847	\$ 5,991,613
Accrued payroll and withholdings	6,536,147	388,523	6,924,670
Accrued liabilities	148,461	-	148,461
Due to other funds	-	376,908	376,908
Notes payable	-	3,519,000	3,519,000
Other liabilities	<u>113,205</u>	<u>47</u>	<u>113,252</u>
<b>TOTAL LIABILITIES</b>	<b>12,008,579</b>	<b>5,065,325</b>	<b>17,073,904</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable revenues	7,425,633	3,945,713	11,371,346
<b>FUND BALANCES</b>			
Restricted	-	8,081,612	8,081,612
Committed	-	470,511	470,511
Assigned	5,110,273	-	5,110,273
Unassigned	<u>15,303,259</u>	<u>(2,783,973)</u>	<u>12,519,286</u>
<b>TOTAL FUND BALANCES</b>	<b><u>20,413,532</u></b>	<b><u>5,768,150</u></b>	<b><u>26,181,682</u></b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>	<b>\$ <u>39,847,744</u></b>	<b>\$ <u>14,779,188</u></b>	<b>\$ <u>54,626,932</u></b>

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, 2018

<b>Total Governmental Fund Balances</b>	\$ 26,181,682
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.</li></ul>	89,556,979
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting (net of allowance for uncollectible accounts) and are not deferred until collection.</li></ul>	6,561,275
<ul style="list-style-type: none"><li>• 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.</li></ul>	63,698
<ul style="list-style-type: none"><li>• Long-term liabilities, including bonds payable, net pension liability, and total OPEB liability are not due and payable in the current period and, therefore are not reported in the governmental funds.</li></ul>	(334,878,087)
<ul style="list-style-type: none"><li>• Other</li></ul>	<u>(7,707,393)</u>
<b>Net Position of Governmental Activities</b>	<u>\$ (220,221,846)</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, 2018

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<b>Revenues:</b>			
Property taxes	\$ 51,206,456	\$ 472,813	\$ 51,679,269
Excises	3,165,138	-	3,165,138
Penalties, interest, and other taxes	2,920,004	-	2,920,004
Charges for services	1,357,526	2,867,304	4,224,830
Intergovernmental	91,268,267	28,561,427	119,829,694
Licenses and permits	611,840	-	611,840
Fines and forfeitures	344,884	-	344,884
Contributions and donations	-	414,755	414,755
Investment income	885,376	30,067	915,443
Miscellaneous	4,833	323,423	328,256
	<hr/>	<hr/>	<hr/>
Total Revenues	151,764,324	32,669,789	184,434,113
<b>Expenditures:</b>			
Current:			
General government	3,751,466	3,853,623	7,605,089
Public safety	21,158,208	2,509,852	23,668,060
Education	69,524,721	24,366,772	93,891,493
Public works	5,267,953	2,097,045	7,364,998
Health and human services	1,679,728	161,544	1,841,272
Culture and recreation	1,878,028	945,487	2,823,515
Employee benefits	24,094,763	980,461	25,075,224
Debt service	3,991,743	-	3,991,743
Intergovernmental	18,227,623	-	18,227,623
	<hr/>	<hr/>	<hr/>
Total Expenditures	149,574,233	34,914,784	184,489,017
Excess (deficiency) of revenues over expenditures	2,190,091	(2,244,995)	(54,904)
<b>Other Financing Sources (Uses):</b>			
Issuance of bonds	-	6,169,550	6,169,550
Transfers in	-	672,414	672,414
Transfers out	(1,342,580)	-	(1,342,580)
	<hr/>	<hr/>	<hr/>
Total Other Financing Sources (Uses)	(1,342,580)	6,841,964	5,499,384
Change in fund balance	847,511	4,596,969	5,444,480
Fund Balance, at Beginning of Year	19,566,021	1,171,181	20,737,202
	<hr/>	<hr/>	<hr/>
Fund Balance, at End of Year	\$ 20,413,532	\$ 5,768,150	\$ 26,181,682

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, 2018

<b>Net Change in Fund Balances - Total Governmental Funds</b>	\$	5,444,480																														
<ul style="list-style-type: none"> <li>• 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: 70%;">Capital outlay purchases</td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">3,849,117</td> </tr> <tr> <td>Depreciation</td> <td></td> <td style="text-align: right;">(7,509,606)</td> </tr> </table> </li> <li>• The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 70%;">Issuance of debt</td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">(6,169,550)</td> </tr> <tr> <td>Repayments of debt</td> <td></td> <td style="text-align: right;">2,750,000</td> </tr> </table> </li> <li>• Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures, and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue, net of allowance for uncollectibles. <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 70%;"></td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">1,197,086</td> </tr> </table> </li> <li>• Some expenses reported in the statement of activities 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: 70%;">Net pension liability and related deferred outflows and inflows of resources</td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">2,561,349</td> </tr> <tr> <td>Total OPEB liability and related deferred inflows of resources</td> <td></td> <td style="text-align: right;">(3,064,353)</td> </tr> <tr> <td>Other</td> <td></td> <td style="text-align: right;">(36,058)</td> </tr> </table> </li> <li>• 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: 70%;"></td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;">39,068</td> </tr> </table> </li> <li>• Other differences <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 70%;"></td> <td style="width: 10%;"></td> <td style="width: 20%; text-align: right;"><u>(379,043)</u></td> </tr> </table> </li> </ul>			Capital outlay purchases		3,849,117	Depreciation		(7,509,606)	Issuance of debt		(6,169,550)	Repayments of debt		2,750,000			1,197,086	Net pension liability and related deferred outflows and inflows of resources		2,561,349	Total OPEB liability and related deferred inflows of resources		(3,064,353)	Other		(36,058)			39,068			<u>(379,043)</u>
Capital outlay purchases		3,849,117																														
Depreciation		(7,509,606)																														
Issuance of debt		(6,169,550)																														
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Other		(36,058)																														
		39,068																														
		<u>(379,043)</u>																														
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b><u>(1,317,510)</u></b>																														

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, 2018

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
<b>Revenues:</b>				
Property taxes	\$ 51,967,035	\$ 51,967,035	\$ 51,967,035	\$ -
Excises	3,000,000	3,000,000	3,165,138	165,138
Penalties, interest and other taxes	2,898,000	2,898,000	2,920,004	22,004
Charges for services	1,343,000	1,343,000	1,357,526	14,526
Intergovernmental	84,370,554	84,370,554	84,887,484	516,930
Licenses and permits	691,000	691,000	611,840	(79,160)
Fines and forfeitures	325,000	325,000	344,884	19,884
Investment income	125,000	125,000	159,588	34,588
Miscellaneous	-	-	4,833	4,833
<b>Total Revenues</b>	<b>144,719,589</b>	<b>144,719,589</b>	<b>145,418,332</b>	<b>698,743</b>
<b>Expenditures and Transfers Out:</b>				
General government	3,855,269	3,965,822	3,827,105	138,717
Public safety	21,556,042	21,564,420	21,389,980	174,440
Education	64,126,400	64,334,633	64,334,633	-
Public works	5,403,848	5,412,656	5,347,427	65,229
Health and human services	1,758,066	1,758,066	1,681,154	76,912
Culture and recreation	2,006,713	1,999,797	1,917,955	81,842
Employee benefits	23,370,499	23,702,803	24,086,454	(383,651)
Debt service	3,975,062	4,021,062	3,991,743	29,319
Intergovernmental	18,577,796	18,034,436	18,227,623	(193,187)
Transfers out	1,195,745	1,195,745	1,179,875	15,870
<b>Total Expenditures and Transfers Out</b>	<b>145,825,440</b>	<b>145,989,440</b>	<b>145,983,949</b>	<b>5,491</b>
Excess (deficiency) of revenues over expenditures and transfers out	(1,105,851)	(1,269,851)	(565,617)	704,234
<b>Other Financing Sources/Uses:</b>				
Use of free cash:				
To reduce tax rate	1,356,558	1,356,558	-	(1,356,558)
For operating budget	-	164,000	-	(164,000)
Other source	352,000	352,000	-	(352,000)
Other use	(602,707)	(602,707)	-	602,707
<b>Total Other Financing Sources/Uses</b>	<b>1,105,851</b>	<b>1,269,851</b>	<b>-</b>	<b>(1,269,851)</b>
(Deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ (565,617)	\$ (565,617)

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

CITY OF HOLYOKE, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF NET POSITION  
 JUNE 30, 2018

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u>
	Sewer <u>Fund</u>	Internal Service <u>Funds</u>
<b>ASSETS</b>		
Current:		
Cash and short-term investments	\$ 152,715	\$ 45,448
User fees, net of allowance for uncollectibles	<u>2,600,762</u>	<u>53,132</u>
Total current assets	2,753,477	98,580
Noncurrent:		
Land	350,000	-
Capital assets, net of accumulated depreciation	<u>23,008,510</u>	<u>-</u>
Total noncurrent assets	<u>23,358,510</u>	<u>-</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Related to pension	<u>15,828</u>	<u>-</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	26,127,815	98,580
<b>LIABILITIES</b>		
Current:		
Warrants payable	650	34,882
Accrued liabilities	176,209	-
Due to other funds	1,233,774	-
Current portion of long-term liabilities:		
Bonds payable	<u>1,079,707</u>	<u>-</u>
Total current liabilities	2,490,340	34,882
Noncurrent:		
Bonds payable, net of current portion	17,293,684	-
Net pension liability	<u>182,283</u>	<u>-</u>
Total noncurrent liabilities	<u>17,475,967</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Related to pension	<u>61,250</u>	<u>-</u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	20,027,557	34,882
<b>NET POSITION</b>		
Net investment in capital assets	4,985,119	-
Unrestricted	<u>1,115,139</u>	<u>63,698</u>
<b>TOTAL NET POSITION</b>	<u>\$ 6,100,258</u>	<u>\$ 63,698</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, 2018

	Business-Type Activities <u>Enterprise Fund</u>	Governmental <u>Activities</u> Internal Service <u>Fund</u>
	Sewer <u>Fund</u>	
<b>Operating Revenues:</b>		
Charges for services	\$ 7,244,536	\$ 514,493
Other	<u>1,700</u>	<u>-</u>
Total Operating Revenues	7,246,236	514,493
<b>Operating Expenses:</b>		
Salaries and benefits	121,116	-
Other operating expenses	7,749,497	475,425
Depreciation	<u>1,404,708</u>	<u>-</u>
Total Operating Expenses	<u>9,275,321</u>	<u>475,425</u>
Operating Income (Loss)	(2,029,085)	39,068
<b>Nonoperating Revenues (Expenses):</b>		
Investment income	1,728	-
Interest expense	<u>(472,928)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(471,200)</u>	<u>-</u>
Income (Loss) Before Transfers	(2,500,285)	39,068
<b>Transfers:</b>		
Transfers in	<u>670,166</u>	<u>-</u>
Change in Net Position	(1,830,119)	39,068
Net Position, at Beginning of Year	<u>7,930,377</u>	<u>24,630</u>
Net Position, at End of Year	<u>\$ 6,100,258</u>	<u>\$ 63,698</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, 2018

	Business-Type Activities <u>Enterprise Fund</u>	Governmental Activities <u>Internal Service Fund</u>
	Sewer <u>Fund</u>	
<b><u>Cash Flows From Operating Activities:</u></b>		
Receipts from customers and users	\$ 7,755,392	\$ -
Receipts from interfund service provided	-	491,589
Payments to vendors and employees	<u>(7,140,027)</u>	<u>(446,141)</u>
Net Cash Provided By Operating Activities	615,365	45,448
<b><u>Cash Flows From Noncapital Financing Activities:</u></b>		
Transfer in	<u>670,166</u>	<u>-</u>
Net Cash Provided By Noncapital Financing Activities	670,166	-
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>		
Principal payments on bonds and notes	(1,061,347)	-
Interest expense	<u>(472,928)</u>	<u>-</u>
Net Cash (Used For) Capital and Related Financing Activities	(1,534,275)	-
<b><u>Cash Flows From Investing Activities:</u></b>		
Investment income	<u>1,728</u>	<u>-</u>
Net Cash Provided by Investing Activities	<u>1,728</u>	<u>-</u>
Net Change in Cash and Short-Term Investments	(247,016)	45,448
Cash and Short-Term Investments, Beginning of Year	<u>399,731</u>	<u>-</u>
Cash and Short-Term Investments, End of Year	<u>\$ 152,715</u>	<u>\$ 45,448</u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided By Operating Activities:</u></b>		
Operating income (loss)	\$ (2,029,085)	\$ 39,068
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	1,404,708	-
Changes in assets, liabilities, and deferred outflows/inflows:		
User fees	509,156	(22,904)
Deferred outflows - related to pension	13,606	-
Due to other funds	1,233,774	-
Warrants payable	(475,135)	34,882
Accrued liabilities	(14,977)	-
Other liabilities	-	(5,598)
Net pension liability	(55,980)	-
Deferred inflows - related to pension	<u>29,298</u>	<u>-</u>
Net Cash Provided By Operating Activities	<u>\$ 615,365</u>	<u>\$ 45,448</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, 2018

	Pension Trust Fund (as of <u>December 31, 2017</u> )	Private Purpose Trust <u>Funds</u>	Agency <u>Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 5,059,670	\$ 26,861	\$ 515,351
Investments in:			-
Alternative investments	40,544,770	-	-
Domestic equity	109,686,871	-	-
Domestic fixed income	31,187,419	-	-
International equity	78,290,214	-	-
Mutual funds	-	180,067	-
Real estate equity	26,275,911	-	-
Accounts receivable	<u>9,097,946</u>	<u>-</u>	<u>54,652</u>
Total Assets	300,142,801	206,928	570,003
<b>LIABILITIES</b>			
Warrants payable	-	-	14,413
Accounts payable	203,158	-	-
Due to other funds	-	-	197,576
Other liabilities	<u>-</u>	<u>-</u>	<u>358,014</u>
Total Liabilities	<u>203,158</u>	<u>-</u>	<u>570,003</u>
<b>NET POSITION</b>			
Restricted for pension	299,939,643	-	-
Restricted for other purposes	<u>-</u>	<u>206,928</u>	<u>-</u>
Total Net Position	<u>\$ 299,939,643</u>	<u>\$ 206,928</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, 2018

	Pension Trust Fund (For the Year Ended December 31, 2017)	Private Purpose Trust Funds
<b>Additions:</b>		
Contributions:		
Employers	\$ 17,288,112	\$ -
Plan members	5,399,565	-
Other systems and Commonwealth of Massachusetts	808,851	-
Other	<u>14,950</u>	<u>-</u>
Total contributions	23,511,478	-
Investment Income:		
Interest income	-	10,853
Appreciation in fair value of investments	43,684,825	-
Less: management fees	<u>(1,822,448)</u>	<u>-</u>
Net investment income	<u>41,862,377</u>	<u>10,853</u>
Total additions	65,373,855	10,853
<b>Deductions:</b>		
Scholarships awarded	-	3,350
Benefit payments to plan members, beneficiaries and other systems	25,971,905	-
Refunds to plan members	444,483	-
Transfers to other systems	724,024	-
Administrative expenses	<u>451,354</u>	<u>-</u>
Total deductions	<u>27,591,766</u>	<u>3,350</u>
Net increase	37,782,089	7,503
<b>Net Position restricted for pensions and other purposes:</b>		
Beginning of year	<u>262,157,554</u>	<u>199,425</u>
End of year	<u>\$ 299,939,643</u>	<u>\$ 206,928</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 indicated 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 2018, 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, certain expenditures such as debt service, claims and judgments, compensated absences, OPEB, and pension are recorded only when payment is due.

The City 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 City 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 *pension trust fund* accounts for the activities of the Employees Contributory Retirement System, which accumulates resources for pension benefit payments to qualified employees.
- The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the pension trust

fund or permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

- 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 municipal bonds, mutual funds 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 2018 tax levy reflected an excess capacity of \$15,523.

*G. Interfund Receivables and Payables*

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as “due from/to other funds” (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)	\$ 151,764,324	\$ 149,574,233
Other financing sources/uses (GAAP basis)	-	1,342,580
Subtotal (GAAP basis)	151,764,324	150,916,813
Remove the effect of adding the City's Stabilization fund per GASB 54	(725,788)	(162,705)
Adjust tax revenue to accrual basis	760,579	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(3,900,363)
Add end of year appropriation carryforwards to expenditures	-	5,528,747
Reverse the effect of non-budgeted State contributions for teachers retirement	(6,380,783)	(6,380,783)
Reverse GAAP accrual	-	(17,760)
Budgetary basis	<u>\$ 145,418,332</u>	<u>\$ 145,983,949</u>

D. Excess of Expenditures Over Appropriations

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

Employee benefits	\$(383,651)
Intergovernmental	\$(193,187)

In addition, the City overspent the total sewer department budget by \$(730,596).

**E. Deficit Fund Equity**

Certain individual funds reflected deficit balances as of June 30, 2018:

Special Revenue Funds:	
Highway & Bridges Chapter 90	\$ (213,302)
MLSC-Life science equipment	(152,960)
Schools accelerated repair	(111,415)
Tennis courts	(247,839)
Title I	(201,362)
Capital Project Funds:	
DPW fleet	(1,270,007)
Geriatric Authority land purchase	(205,000)
Platform expansion	(58,395)
School feasibility study	(246,829)
Expendable Trust Funds:	
Dental health trust	<u>(76,864)</u>
Total	<u>\$ (2,783,973)</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, 2018, \$13,466 of the City's bank balance of \$26,498,057 was exposed to custodial credit risk as uninsured and/or uncollateralized.

As of December 31, 2017, none of the System's bank balance of \$5,326,905 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.

<u>Investment Type</u>	<u>Amount</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year-End</u>		
			<u>AA1</u>	<u>AA2</u>	<u>A3</u>
Municipal bonds	\$ 728,177	\$ -	\$ 431,326	\$ 239,215	\$ 57,636
Mutual funds	<u>13,171,061</u>	<u>13,171,061</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 13,899,238</u>	<u>\$ 13,171,061</u>	<u>\$ 431,326</u>	<u>\$ 239,215</u>	<u>\$ 57,636</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. In addition, the System manages

custodial credit risk through diversification and the “prudent person” principles outlines in PERAC guidelines.

**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 issuer 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 value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its 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 value losses arising from increasing interest rates.

Information about the sensitivity of the 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>
Municipal bonds	\$ 728,177	\$ -	\$ 151,401	\$ 476,439	\$ 100,337
Mutual funds	<u>13,171,061</u>	<u>13,171,061</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total investments	<u>\$ 13,899,238</u>	<u>\$ 13,171,061</u>	<u>\$ 151,401</u>	<u>\$ 476,439</u>	<u>\$ 100,337</u>

Due to the nature of the Retirement System’s investments, they are not subject to interest rate risk disclosure.

**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.

The City has the following fair value measurements as of June 30, 2018:

<u>Description</u>	<u>Value</u>	<u>Fair Value Measurements Using:</u>		
		<u>Quoted prices in active markets for identical assets (Level 1)</u>	<u>Significant observable inputs (Level 2)</u>	<u>Significant observable inputs (Level 3)</u>
Investments by fair value level:				
Debt securities				
Municipal bonds	\$ 728,177	\$ -	\$ 728,177	\$ -
Equity Securities				
Mutual funds	<u>13,171,061</u>	13,171,061	-	-
Total	<u>\$ 13,899,238</u>			

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). The System has the following investments as of December 31, 2017:

<u>Description</u>	<u>Value</u>
Investments measured at the net asset value (NAV):	
External investment pool	<u>\$ 285,985,185</u>

<u>Description</u>	<u>Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency (If currently eligible)</u>	<u>Redemption Notice Period</u>
Alternative investments	\$ 40,544,770	\$ -	Quarterly	30 days
Domestic equity	109,686,871	-	Quarterly	30 days
Domestic fixed income	31,187,419	-	Quarterly	30 days
International equity	78,290,214	-	Quarterly	30 days
Real estate equity	<u>26,275,911</u>	-	Quarterly	30 days
Total	<u>\$ 285,985,185</u>			

## 6. Property Taxes and Excises Receivables

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.

Property taxes and excises receivables at June 30, 2018 consist of the following:

	Gross Amount <u>(fund basis)</u>	Allowance for Doubtful <u>Accounts</u>	Net Amount <u>(accrual basis)</u>
Real estate taxes	\$ 2,704,964	\$ (371,313)	\$ 2,333,651
Personal property taxes	302,260	(206,028)	96,232
Community preservation act	25,001	-	25,001
Tax liens	<u>3,240,138</u>	<u>(2,308,537)</u>	<u>931,601</u>
Total property taxes	<u>\$ 6,272,363</u>	<u>\$ (2,885,878)</u>	3,386,485
Less current portion:			<u>(2,454,884)</u>
Noncurrent taxes receivable			<u>\$ 931,601</u>
 Motor vehicle excise	 <u>\$ 1,483,447</u>	 <u>\$ (747,100)</u>	 <u>\$ 736,347</u>

## 7. User Fee Receivables

Receivables for user charges and betterments at June 30, 2018 consist of the following:



	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
<u>Receivables:</u>			
Internal service fund	\$ 53,132	\$ -	\$ 53,132
Sewer fund	<u>3,934,526</u>	<u>(1,333,764)</u>	<u>2,600,762</u>
Total	<u>\$ 3,987,658</u>	<u>\$ (1,333,764)</u>	<u>\$ 2,653,894</u>

## 8. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2018.

## 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, 2018 balances in interfund receivable and payable accounts:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General fund	\$ 1,808,258	\$ -
Nonmajor funds:		
Capital project funds	-	376,908
Proprietary funds:		
Sewer	-	1,233,774
Fiduciary funds:		
Agency funds	<u>-</u>	<u>197,576</u>
Total	<u>\$ 1,808,258</u>	<u>\$ 1,808,258</u>

## 11. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Convert CIP</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 153,843	\$ 353	\$ -	\$ 154,196
Machinery, equipment, and furnishings	28,518	1,924	1,879	32,321
Land improvements	9,607	573	1,510	11,690
Infrastructure	<u>20,618</u>	<u>306</u>	<u>-</u>	<u>20,924</u>
Total capital assets, being depreciated	212,586	3,156	3,389	219,131
Less accumulated depreciation for:				
Buildings and improvements	(92,894)	(4,661)	-	(97,555)
Machinery, equipment, and furnishings	(25,700)	(1,183)	-	(26,883)
Land improvements	(4,263)	(583)	-	(4,846)
Infrastructure	<u>(15,797)</u>	<u>(1,082)</u>	<u>-</u>	<u>(16,879)</u>
Total accumulated depreciation	<u>(138,654)</u>	<u>(7,509)</u>	<u>-</u>	<u>(146,163)</u>
Total capital assets, being depreciated, net	73,932	(4,353)	3,389	72,968
Capital assets, not being depreciated:				
Land	16,474	-	-	16,474
Construction in progress (CIP)	<u>2,811</u>	<u>692</u>	<u>(3,389)</u>	<u>114</u>
Total capital assets, not being depreciated	<u>19,285</u>	<u>692</u>	<u>(3,389)</u>	<u>16,588</u>
Governmental activities capital assets, net	<u>\$ 93,217</u>	<u>\$ (3,661)</u>	<u>\$ -</u>	<u>\$ 89,556</u>
	<u>Beginning Balance</u>	<u>Increases</u>	<u>Convert CIP</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets, being depreciated:				
Buildings and improvements	\$ 40,000	\$ -	\$ -	\$ 40,000
Machinery, equipment, and furnishings	1,262	-	-	1,262
Infrastructure	<u>54,151</u>	<u>-</u>	<u>-</u>	<u>54,151</u>
Total capital assets, being depreciated	95,413	-	-	95,413
Less accumulated depreciation for:				
Buildings and improvements	(36,010)	(212)	-	(36,222)
Machinery, equipment, and furnishings	(1,246)	(4)	-	(1,250)
Infrastructure	<u>(33,744)</u>	<u>(1,189)</u>	<u>-</u>	<u>(34,933)</u>
Total accumulated depreciation	<u>(71,000)</u>	<u>(1,405)</u>	<u>-</u>	<u>(72,405)</u>
Total capital assets, being depreciated, net	24,413	(1,405)	-	23,008
Capital assets, not being depreciated:				
Land	<u>350</u>	<u>-</u>	<u>-</u>	<u>350</u>
Total capital assets, not being depreciated	<u>350</u>	<u>-</u>	<u>-</u>	<u>350</u>
Business-type activities capital assets, net	<u>\$ 24,763</u>	<u>\$ (1,405)</u>	<u>\$ -</u>	<u>\$ 23,358</u>

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

Governmental Activities:	
General government	\$ 13
Public safety	1,058
Education	3,250
Public works	2,187
Human services	399
Culture and recreation	<u>602</u>
Total depreciation expense - governmental activities	<u>\$ 7,509</u>
Business-Type Activities:	
Sewer	<u>\$ 1,405</u>
Total depreciation expense - business-type activities	<u>\$ 1,405</u>

## 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 pension in accordance with GASB Statement No. 68 is more formally discussed in the corresponding pension note.

## 13. Warrants Payable

Warrants payable represent 2018 expenditures paid by July 15, 2018.

## 14. Notes Payable

The City had the following notes outstanding at June 30, 2018:

<u>Purpose</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2018</u>
Bond anticipation - Poullot pool renovation	2.00%	09/29/17	09/28/18	\$ 300,000
Bond anticipation - School projects	2.00%	09/29/17	09/28/18	669,000
Bond anticipation - DPW fleet vehicles	3.00%	06/28/18	09/28/18	1,250,000
Bond anticipation - Tennis court reconstruction	3.00%	06/28/18	09/28/18	1,000,000
Bond anticipation - School projects	3.00%	06/28/18	09/28/18	<u>300,000</u>
Total				<u>\$ 3,519,000</u>

The following summarizes activity in notes payable during fiscal year 2018:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 7,199,557	\$ 3,519,000	\$ (7,199,557)	\$ 3,519,000
Revenue anticipation	-	10,000,000	(10,000,000)	-
Total	<u>\$ 7,199,557</u>	<u>\$ 13,519,000</u>	<u>\$ (17,199,557)</u>	<u>\$ 3,519,000</u>

## 15. Long-Term Debt

### A. General Obligation Bonds

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

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s) %</u>	<u>Amount Outstanding as of June 30, 2018</u>
Building Demolition (refund)	09/01/18	3.9	\$ 67,800
Central Fuel Facility (refund)	09/01/18	3.9	44,300
Fire Station (refund)	09/01/19	3.9	757,900
Wistariahurst Museum	03/01/21	2.0 - 4.0	120,000
Wistariahurst Museum	03/01/21	2.0 - 4.0	55,000
Community Field	03/01/21	2.0 - 4.0	45,000
Jones Ferry River Access	03/01/25	2.0 - 4.0	320,000
School Lots/Fields/Lights	03/01/25	2.0 - 4.0	290,000
Building Demolition	09/01/26	3.0	88,800
Public Safety Radio	09/01/26	2.0 - 5.0	1,714,250
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	1,225,000
High School Remodeling	03/01/29	2.0 - 4.2	1,005,000
Outdoor Recreational Facilities I	09/01/30	2.0 - 5.0	251,000
Outdoor Recreational Facilities	09/01/31	3.0 - 3.25	1,755,000
Outdoor Recreational Facilities II	09/01/31	2.0 - 5.0	140,050
School	03/01/32	2.0 - 4.0	4,015,000
Geriatric Authority Land	03/01/32	2.0 - 4.0	645,000
Community Field Park	03/01/32	2.0 - 4.0	1,240,000
Senior Center	03/01/32	2.0 - 4.0	1,720,000
Library	03/01/32	2.0 - 4.0	3,850,000
High School Science Lab Renovation	09/01/32	2.0 - 5.0	200,500
Additional Parking Facilities	09/01/32	2.0 - 5.0	537,550
Building Demolition	09/01/32	2.0 - 5.0	1,311,200
Morgan & E.N. White Elementary Schools	09/01/32	2.0 - 5.0	260,000
Senior Center	09/01/33	2.0 - 5.0	4,950,000
Garage	09/01/33	2.0 - 5.0	4,610,000
High School Science Labs	09/01/34	2.0 - 3.8	955,000
Parking Garage	09/01/34	2.0 - 3.8	1,540,000
Total Governmental Activities			<u>\$ 34,359,550</u>

<u>Business-Type Activities:</u>			
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	2.0	703,010
Sewer and Flood Control	09/01/33	2.0 - 5.0	605,000
MWPAT	07/15/36	2.0	<u>12,765,381</u>
Total Business-Type Activities			<u>\$ 18,373,391</u>

**B. Future Debt Service**

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2018 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 3,044,550	\$ 1,137,399	\$ 4,181,949
2020	2,915,000	1,046,565	3,961,565
2021	2,515,000	965,452	3,480,452
2022	2,440,000	883,028	3,323,028
2023	2,445,000	797,525	3,242,525
2024 - 2028	11,550,000	2,710,972	14,260,972
2029 - 2033	8,470,000	937,944	9,407,944
Thereafter	<u>980,000</u>	<u>25,539</u>	<u>1,005,539</u>
Total	<u>\$ 34,359,550</u>	<u>\$ 8,504,424</u>	<u>\$ 42,863,974</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,111,376	338,750	1,450,126
2024 - 2028	5,684,287	1,242,439	6,926,726
2029 - 2033	4,011,495	629,703	4,641,198
Thereafter	<u>3,214,053</u>	<u>152,026</u>	<u>3,366,079</u>
Total	<u>\$ 18,373,391</u>	<u>\$ 4,014,340</u>	<u>\$ 22,387,731</u>

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

During the year ended June 30, 2018, the following changes occurred in long-term liabilities (in thousands):

	Total Balance July 1, 2017 (as restated)	Additions	Reductions	Total Balance June 30, 2018	Less Current Portion	Long-Term Portion June 30, 2018
<u>Governmental Activities</u>						
Bonds payable	\$ 30,940	\$ 6,170	\$ (2,750)	\$ 34,360	\$ (3,045)	\$ 31,315
Net pension liability	102,104	-	(19,745)	82,359	-	82,359
Total OPEB liability	206,030	-	(3,772)	202,258	-	202,258
Accrued compensated absences	7,328	380	-	7,708	(771)	6,937
Totals	<u>\$ 346,402</u>	<u>\$ 6,550</u>	<u>\$ (26,267)</u>	<u>\$ 326,685</u>	<u>\$ (3,816)</u>	<u>\$ 322,869</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 19,435	\$ -	\$ (1,061)	\$ 18,374	\$ (1,080)	\$ 17,294
Net pension liability	238	-	(56)	182	-	182
Totals	<u>\$ 19,673</u>	<u>\$ -</u>	<u>\$ (1,117)</u>	<u>\$ 18,556</u>	<u>\$ (1,080)</u>	<u>\$ 17,476</u>

## 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. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and are more fully described in the corresponding pension and OPEB notes. In the government-wide basis financial statements, the other deferred inflows balance represents unearned revenue related to the deferred payment loans made to residents through the City's Federal Community Development Block Grant program. *Unavailable revenues* are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

## 17. 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	\$ -	\$ 1,342,580
Nonmajor Funds:		
Special revenue funds	388,098	-
Capital project funds	184	-
Trust funds	284,132	-
Subtotal Nonmajor Funds	<u>672,414</u>	<u>-</u>
Subtotal Governmental Funds	672,414	1,342,580
 <u>Business-Type Funds:</u>		
Sewer fund	<u>670,166</u>	<u>-</u>
Subtotal Business-Type Funds	<u>670,166</u>	<u>-</u>
Grand Total	<u>\$ 1,342,580</u>	<u>\$ 1,342,580</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, 2018:

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 2018.

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). This fund balance classification includes the community preservation fund.

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, 2018:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted			
Bonded projects	\$ -	\$ 336,518	\$ 336,518
Special revenue funds	-	7,226,290	7,226,290
Expendable permanent funds	-	518,804	518,804
Total Restricted	-	8,081,612	8,081,612
Committed			
Community preservation fund	-	470,511	470,511
Total Committed	-	470,511	470,511
Assigned			
Encumbrances	5,528,747	-	5,528,747
Appropriation deficit	(418,474)	-	(418,474)
Total Assigned	5,110,273	-	5,110,273
Unassigned			
General fund	2,882,092	-	2,882,092
General stabilization fund *	12,421,167	-	12,421,167
Deficit fund balances	-	(2,783,973)	(2,783,973)
Total Unassigned	15,303,259	(2,783,973)	12,519,286
Total Fund Balance	\$ 20,413,532	\$ 5,768,150	\$ 26,181,682

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



## 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, 2018 was \$12,048,662, which was slightly higher than its annual required contribution.

#### B. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pension, 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 Pension

At June 30, 2018, the City reported a liability of approximately \$83 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. 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, 2018, the City's proportion was 69.61 percent.

For the year ended June 30, 2018, the City recognized pension expense of approximately \$9.5 million. In addition, the City reported deferred outflows of resources and deferred (inflows) of resources related to pension from the following sources (in thousands):

	<u>Deferred Outflows of Resources</u>	<u>Deferred (Inflows) of Resources</u>
Differences between expected and actual experience	\$ -	\$ (6,881)
Changes of assumptions	7,167	-
Net difference between projected and actual earnings on pension plan investments	-	(7,785)
Changes in proportion and differences between contributions and proportionate share of contributions	<u>-</u>	<u>(1,211)</u>
Total	<u>\$ 7,167</u>	<u>\$ (15,877)</u>

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

Year ended June 30:

2019	\$ (579)
2020	(1,295)
2021	(2,871)
2022	(3,563)
2023	<u>(402)</u>
Total	<u>\$ (8,710)</u>

#### D. Actuarial Assumptions

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

Valuation Date	1/1/2018
Actuarial cost method	Entry Age Normal Cost
Actuarial assumptions:	
Investment rate of return	7.5%
Projected salary increases	4 – 4.5%
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-2014 Blue Collar Employee and Healthy Annuitant Mortality table projected generationally with Scale MP-2017. For disabled retirees, the table is set forward one year.

#### Changes of assumptions

Investment rate of return was reduced from 7.625% to 7.5%.

The mortality assumption for pre-retirement and post-retirement participants were updated from the RP-2000 Employee and Health Annuitant Mortality Tables projected generationally from 2009 with Scale BB2D to the RP-2014 Blue Collar Employee and Healthy Annuitant Mortality Tables projected generationally with Scale MP-2017.

The long-term salary increase assumption was lowered by 0.25% to 4% for Group 1 participants, 4.25% for Group 2 participants and 4.5% for Group 4 participants.

These changes in assumptions had the effect of increasing the System's total pension liability by approximately \$5.2 million.

The actuarial assumptions used in the January 1, 2018 valuation were based on the results of the most recent actuarial experience study, which was for the period January 1, 2016 through December 31, 2017.

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	31.00%	6.15%
International developed markets equity	20.00%	7.11%
International emerging markets equity	8.00%	9.41%
Core fixed income	12.00%	1.68%
Real estate	10.00%	4.90%
Hedge Funds, GTAA, & Risk parity	6.00%	3.94%
Private equity	13.00%	10.28%
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 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 7.5%, 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 one percentage-point lower or one percentage-point higher than the current rate (in thousands):

1% Decrease	Current Discount Rate	1% Increase
<u>(6.5%)</u>	<u>(7.5%)</u>	<u>(8.5%)</u>
\$115,049	\$82,542	\$55,109

*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) establish 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, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. 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 White Collar Employee table projected generationally with Scale MP-2016 (gender distinct).
  - Post-retirement – reflects RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (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, 2017 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%	5.0%
Portfolio completion strategies	13.0%	3.6%
Core fixed income	12.0%	1.1%
Private equity	11.0%	6.6%
Real estate	10.0%	3.6%
Value added fixed income	10.0%	3.8%
Timber/natural resources	4.0%	3.2%
Hedge funds	0.0%	3.6%
Total	<u>100.0%</u>	

*E. Discount Rate*

The discount rate used to measure the total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth’s contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*F. Sensitivity Analysis*

The following illustrates the sensitivity of the collective net pension liability to changes in the discount rate. In particular, the table presents the MTRS collective net pension liability assuming it was calculated using a single

discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate (in thousands):

1% Decrease to <u>6.5%</u>	Current Discount Rate <u>7.5%</u>	1% Increase to <u>8.5%</u>
\$28,424,300	\$22,885,391	\$18,193,400

**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 2017 (the most recent measurement period), the City's proportionate share of the MTRS' collective net pension liability was approximately \$118 million based on a proportionate share of 0.52%. As required by GASB 68, the City has recognized its portion of the Commonwealth's contribution of approximately \$6 million as both a revenue and expenditure in general fund, and its portion of the collective pension expense of approximately \$12 million as both a revenue and expense in the governmental activities.

**21. Other Post-Employment Benefits (GASB 75)**

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

All the following OPEB disclosures are based on a measurement date of June 30, 2018.

A. General Information about the OPEB Plan

Plan Description

The City provides post-employment healthcare benefits for retired employees through the City's plan. The City provides health insurance coverage to non-teachers through Cigna and teachers through the Massachusetts Group Insurance Commission (GIC). The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. The OPEB plan is not administered through a trust that meets the criteria in paragraph 4 of GASB 75, and as a result, no assets have been accumulated to pay related benefits.

Benefits Provided

The City provides medical and prescription drug insurance to retirees and their covered dependents. All active employees who retire from the City and meet the eligibility criteria will receive these benefits.

Plan Membership

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	1,465
Active employees	<u>866</u>
Total	<u>2,331</u>

B. Actuarial Assumptions and Other Inputs

The total OPEB liability was determined by an actuarial valuation as of June 30, 2017, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	not explicitly stated
Salary increases	Group 1 and teachers – 4.0% Group 4 – 4.5%
Discount rate	3.87%
Healthcare cost trend rates	7.0% for 2018, decreasing to an ultimate rate of 4.5% after eight years
Retirees' share of benefit-related costs	50%

Mortality rates were based on:

- Non-teachers
  - Pre-retirement – reflects RP-2014 Blue Collar Employee table projected generationally with Scale MP-2017 (gender distinct).
  - Post-retirement – reflects RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2017 (gender distinct).
  - Disability – assumed to be in accordance with the RP-2014 Blue Collar Healthy Annuitant table projected generationally with Scale MP-2017 set forward 1 year.
- Teachers
  - Pre-retirement – reflects RP-2014 White Collar Employee table projected generationally with Scale MP-2016 (gender distinct).
  - Post-retirement/disability – reflects RP-2014 White Collar Healthy Annuitant table projected generationally with Scale MP-2016 (gender distinct).

*C. Discount Rate*

The discount rate used to measure the total OPEB liability was 3.87% and was based on the Bond Buyer 20-Bond General Obligation Index at June 30, 2018.

*D. Total OPEB Liability*

The Government's total OPEB liability of approximately \$202 million was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2017.

*E. Changes in the Total OPEB Liability*

The following presents the changes in the total OPEB liability (in thousands):

	Total OPEB <u>Liability</u>
Balances, beginning of year	\$ 206,030
Changes for the year:	
Service cost	6,556
Interest	7,493
Contributions - employer	(6,605)
Changes of benefit terms	(2,670)
Changes in assumptions	<u>(8,546)</u>
Net Changes	<u>(3,772)</u>
Balances, end of year	<u>\$ 202,258</u>

Changes of benefit terms reflect the change in health insurance carrier from Health New England to Cigna on July 1, 2017.

Changes of assumptions and other inputs reflect a change in the discount rate from 3.58% in 2017 to 3.87% in 2018.

*F. Sensitivity of the Total OPEB Liability to Changes in the Discount Rate*

The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate (amounts in thousands):

1% Decrease	Current Discount Rate	1% Increase
<u>(2.87%)</u>	<u>(3.87%)</u>	<u>(4.87%)</u>
\$227,113	\$202,258	\$170,580

*G. Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates*

The following presents the total OPEB liability, as well as what the total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates (amounts in thousands):

1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
<u>(6.0%)</u>	<u>(7.0%)</u>	<u>(8.0%)</u>
\$163,719	\$202,258	\$236,016

H. OPEB Expense and Deferred Outflows of Resources and Deferred (Inflows) of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized an OPEB expense of approximately \$9.7 million. At June 30, 2018, the City reported deferred (inflows) of resources related to OPEB of approximately \$6.9 million for changes of assumptions.

The deferred inflows of resources related to OPEB will be recognized in OPEB expense at approximately \$1.7 million per year for 4 years.

**22. Subsequent Events**

Debt

Subsequent to June 30, 2018, 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 B	\$2,420,000	3.0 - 5.0%	09/27/18	09/01/32
Bond anticipation note	\$679,725	2.50%	09/28/18	09/27/19

**23. 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, 2018 the outstanding principal balance was \$24,525,000.

Combined Sewer Overflow - CSO discharge locations along the Connecticut River bordering Holyoke have been identified. A portion of this work has been completed over the past 20 years, but significant additional work will be required in the future. The City will be beginning construction of the next phase of this work in 2019 known as the Jackson Street Area Sewer Separation Project. The estimated total cost of this project is approximately \$8.9 million. Work will take about 18 months to complete. The City is in the process of updating its Long-Term Control Plan (LTCP) as required by EPA and this plan is expected to result in a number of future projects to be completed over the next 20+ years. The total cost of these projects has not yet been determined, but it is expected at least \$50 million to \$100 million of work will be required over this period to address EPA requirements.

**24. Beginning Net Position Restatement**

The beginning (July 1, 2017) net position of the City has been restated as follows:

Government-Wide Financial Statements	Governmental <u>Activities</u>
As previously reported	\$ (109,899,538)
Record total OPEB liability in accordance with GASB 75	<u>(109,004,798)</u>
As restated	<u>\$ (218,904,336)</u>

CITY OF HOLYOKE, MASSACHUSETTS  
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (GASB 68)

REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

(Unaudited)

(Amounts expressed in thousands)

**Holyoke Contributory Retirement System**

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2018	December 31, 2017	69.61%	\$82,542	\$38,681	213.39%	71.67%
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**

Fiscal Year	Measurement Date	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Commonwealth of Massachusetts' Total Proportionate Share of the Net Pension Liability Associated with the City	Total Net Pension Liability Associated with the City	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position Percentage of the Total Pension Liability
June 30, 2018	June 30, 2017	0.52%	\$0	\$118,191	\$118,191	\$35,069	\$0	54.25%
June 30, 2017	June 30, 2016	0.54%	\$0	\$120,809	\$120,809	\$35,542	\$0	52.73%
June 30, 2016	June 30, 2015	0.59%	\$0	\$121,903	\$121,903	\$37,399	\$0	55.38%
June 30, 2015	June 30, 2014	0.67%	\$0	\$105,865	\$105,865	\$40,834	\$0	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)  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2018  
(Unaudited)  
(Amounts expressed in thousands)

**Holyoke Contributory Retirement System**

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	December 31, 2017	\$12,034	(\$12,049)	(\$15)	\$38,681	31.15%
June 30, 2017	December 31, 2016	\$12,135	(\$12,135)	\$0	\$40,169	30.21%
June 30, 2016	December 31, 2015	\$12,064	(\$12,193)	(\$129)	\$38,390	31.76%
June 30, 2015	December 31, 2014	\$12,051	(\$12,082)	(\$31)	\$39,079	30.92%

**Massachusetts Teachers' Retirement System**

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution Provided by Commonwealth</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	June 30, 2017	\$6,381	(\$6,381)	\$0	\$35,069	18.20%
June 30, 2017	June 30, 2016	\$6,077	(\$6,077)	\$0	\$35,542	17.10%
June 30, 2016	June 30, 2015	\$6,080	(\$6,080)	\$0	\$37,399	16.26%
June 30, 2015	June 30, 2014	\$6,243	(\$6,243)	\$0	\$40,834	15.29%

*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  
OTHER POST-EMPLOYMENT BENEFITS (OPEB)  
SCHEDULES OF CHANGES IN THE TOTAL OPEB LIABILITY (GASB 75)  
REQUIRED SUPPLEMENTARY INFORMATION  
(Unaudited)  
(Amounts expressed in thousands)

	<u>2018</u>
<b>Changes in Total OPEB liability</b>	
Service cost	\$ 6,556
Interest on unfunded liability - time value of money	7,493
Changes of benefit terms	(2,670)
Changes of assumptions	(8,546)
Benefit payments, including refunds of member contributions	<u>(6,605)</u>
Net change in total OPEB liability	(3,772)
Total OPEB liability - beginning	<u>206,030</u>
<b>Total OPEB liability - ending (a)</b>	<b><u>\$ 202,258</u></b>

*Schedule is intended to show information for 10 years. Additional years will be displayed as they become available.*

See notes to the City's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.