

CITY OF HOLYOKE, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2015

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Additional Offices:

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

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Holyoke, Massachusetts, as of and for the year ended June 30, 2015, 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.

Auditor's 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, 2015, 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, 2015, 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, 2015, 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.

Emphasis of Matter

As discussed in Note 21 to the combined financial statements, in 2014, the Holyoke Contributory Retirement System adopted Governmental Accounting Standards Board Statement No. 67, Financial Reporting for Pension Plans. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have issued our report dated July 5, 2016 on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Melanson Heath

July 5, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Holyoke, we offer readers this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2015.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The statement of net position presents information on all assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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

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

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

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

Proprietary funds. Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for sewer operations.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. Specifically, internal service funds are used to account for the fuel depot operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer enterprise and internal service fund operations.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of liabilities exceeded assets by \$(82,912,208) (i.e., net position), a change of \$(2,474,222) in comparison to the (restated) prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$25,166,614, a change of \$3,604,061 in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$15,662,189, a change of \$(1,381,597) in comparison to the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$58,545,977, a change of \$464,880 in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years:

	<u>NET POSITION</u>					
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Current and other assets	\$ 38,716,546	\$ 42,955,732	\$ 4,249,281	\$ 3,328,296	\$ 42,965,827	\$ 46,284,028
Capital assets	98,853,019	99,141,900	27,591,762	29,086,546	126,444,781	128,228,446
Deferred outflows	2,891,789	-	7,953	-	2,899,742	-
Total assets and deferred outflows	140,461,354	142,097,632	31,848,996	32,414,842	172,310,350	174,512,474
Long-term liabilities outstanding	221,408,998	119,113,635	21,874,905	22,789,903	243,283,903	141,903,538
Other liabilities	10,825,719	18,390,069	272,929	297,776	11,098,648	18,687,845
Deferred inflows	840,007	-	-	-	840,007	-
Total liabilities and deferred inflows	233,074,724	137,503,704	22,147,834	23,087,679	255,222,558	160,591,383
Net position:						
Net investment in capital assets	66,976,075	65,297,627	5,973,185	6,296,643	72,949,260	71,594,270
Restricted	4,668,493	4,145,970	-	-	4,668,493	4,145,970
Unrestricted	(164,257,938)	(64,849,669)	3,727,977	3,030,520	(160,529,961)	(61,819,149)
Total net position	\$ (92,613,370)	\$ 4,593,928	\$ 9,701,162	\$ 9,327,163	\$ (82,912,208)	\$ 13,921,091

CHANGES IN NET POSITION

	<u>Governmental</u>		<u>Business-Type</u>		<u>Total</u>	
	<u>Activities</u>		<u>Activities</u>			
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenues:						
Program revenues:						
Charges for services	\$ 4,394,038	\$ 4,950,349	\$ 8,289,239	\$ 7,582,910	\$ 12,683,277	\$ 12,533,259
Operating grants and contributions	107,239,565	116,632,754	-	-	107,239,565	116,632,754
Capital grants and contributions	5,816,479	8,902,410	-	-	5,816,479	8,902,410
General revenues:						
Property taxes	50,268,954	51,096,961	-	-	50,268,954	51,096,961
Excises	2,678,488	2,286,738	-	-	2,678,488	2,286,738
Penalties, interest and other taxes	2,539,400	2,071,118	-	-	2,539,400	2,071,118
Grants and contributions not restricted	9,093,315	9,060,113	-	-	9,093,315	9,060,113
Investment income	485,228	1,024,276	6,033	3,002	491,261	1,027,278
Miscellaneous	400,085	976,816	-	-	400,085	976,816
Transfers, net	<u>(1,134,914)</u>	<u>(967,786)</u>	<u>1,134,914</u>	<u>967,786</u>	<u>-</u>	<u>-</u>
Total Revenues	181,780,638	196,033,749	9,430,186	8,553,698	191,210,824	204,587,447
Expenses:						
General government	6,316,063	7,072,990	-	-	6,316,063	7,072,990
Public safety	25,031,995	23,789,673	-	-	25,031,995	23,789,673
Education	93,918,002	109,458,947	-	-	93,918,002	109,458,947
Public works	8,436,398	7,714,990	-	-	8,436,398	7,714,990
Health and human services	2,286,109	2,257,086	-	-	2,286,109	2,257,086
Culture and recreation	2,759,176	3,356,104	-	-	2,759,176	3,356,104
Employee benefits	28,478,810	30,270,771	-	-	28,478,810	30,270,771
Interest	1,383,035	1,311,339	-	-	1,383,035	1,311,339
Intergovernmental	16,272,835	14,971,434	-	-	16,272,835	14,971,434
Sewer operations	-	-	<u>8,802,623</u>	<u>9,501,010</u>	<u>8,802,623</u>	<u>9,501,010</u>
Total expenses	<u>184,882,423</u>	<u>200,203,334</u>	<u>8,802,623</u>	<u>9,501,010</u>	<u>193,685,046</u>	<u>209,704,344</u>
Change in net position	(3,101,785)	(4,169,585)	627,563	(947,312)	(2,474,222)	(5,116,897)
Net position - beginning of year, as restated *	<u>(89,511,585)</u>	<u>8,763,513</u>	<u>9,073,599</u>	<u>10,274,475</u>	<u>(80,437,986)</u>	<u>19,037,988</u>
Net position - end of year	<u>\$ (92,613,370)</u>	<u>\$ 4,593,928</u>	<u>\$ 9,701,162</u>	<u>\$ 9,327,163</u>	<u>\$ (82,912,208)</u>	<u>\$ 13,921,091</u>

* July 1, 2014 net position was restated for GASB 68. Due to fiscal year 2015 being the first year of implementation of GASB 68, prior periods have not been restated in accordance with standards. Refer to Note 24.

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 \$(82,912,208), a change of \$(2,474,222) from the (restated) prior year.

The largest portion of net position \$72,949,260 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 re-

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

An additional portion of net position \$4,668,493 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 \$(164,257,938) (governmental) and a surplus of \$3,727,977 (business-type).

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(3,101,785). Key elements of this change are as follows:

General Fund Operating Results:	
Excess of tax collections compared to budget	\$ 165,887
State and local revenues over budget	621,313
Budgetary appropriations unspent by departments	2,057,384
Use of free cash (fund balance) as a funding source for nonrecurring expenses	(4,073,183)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current year	584,600
Reversal of GAAP accrual	(122,312)
Change in Stabilization fund	(30,686)
Non-major fund revenues, bond proceeds, and transfers in excess of expenditures and transfers out	4,401,058
Depreciation expense in excess of principal debt service	(4,317,557)
Capital assets purchases	6,874,470
Remove bond proceeds from revenue	(4,482,000)
Net OPEB obligation liability increase	(6,709,097)
Net pension liability decrease	2,078,093
Other timing differences	(159,527)
Internal service fund revenues in excess of expenditures	<u>9,772</u>
Total	<u>\$ (3,101,785)</u>

Business-type activities. Business-type activities for the year resulted in a change in net position of \$627,563. This change resulted primarily from excess funds transferred in from the general fund to subsidize operations.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources.

Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$25,166,614, a change of \$3,604,061 in comparison to the prior year. Key elements of this change are as follows:

General Fund Operating Results:	
Excess of tax collections compared to budget	\$ 165,887
State and local revenues over budget	621,313
Budgetary appropriations unspent by departments	2,057,384
Use of free cash (fund balance) as a funding source for nonrecurring expenses	(4,073,183)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current year	584,600
Reversal of GAAP accrual	(122,312)
Change in Stabilization fund	(30,686)
Non-major fund revenues, bond proceeds, and transfers in excess of expenditures and transfers out	<u>4,401,058</u>
Total	<u>\$ 3,604,061</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 \$15,662,189, while total fund balance was \$20,122,665. 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>2015</u>	<u>2014</u>	<u>Change</u>	<u>% of Total 2015 General Fund Expenditures</u>
Unassigned fund balance ¹	\$ 15,662,189	\$ 17,043,786	\$ (1,381,597)	11.1%
Total fund balance	20,122,665	20,919,662	(796,997)	14.3%

¹ Includes the City's stabilization fund

The total fund balance of the general fund changed by \$(796,997) during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:	
Excess of tax collections compared to budget	\$ 165,887
State and local revenues over budget	621,313
Budgetary appropriations unspent by departments	2,057,384
Use of free cash (fund balance) as a funding source for nonrecurring expenses	(4,073,183)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current year	584,600
Reversal of GAAP accrual	(122,312)
Change in Stabilization fund	<u>(30,686)</u>
Total	<u>\$ (796,997)</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds at the end of the year amounted to \$3,727,977, a change of \$697,457. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall change in appropriations of \$1,884,540. The primary reason for the increase was for various operating and capital expenditures. Of this increase, \$375,000 was transferred in from the stabilization fund and \$1,509,540 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 \$126,444,781 (net of accumulated depreciation), a change of \$(1,783,665) from the prior year. This investment in capital assets includes land, buildings and system improvements, machinery and equipment and infrastructure.

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

Depreciation expense - governmental activities	\$	(7,164)
Depreciation expense - business-type activities		(1,501)
Infrastructure		
Roadway and sidewalk improvements		1,670
Sewer improvements		6
Building and improvements		
Governmental		143
Departmental vehicle purchase		
Public safety		45
Departmental equipment purchases		
Governmental		150
School Department equipment		688
Construction in progress		
HCC access road		812
Parking garage renovation		312
Dean Tech science labs		84
Passenger rail platform		2,973

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

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$58,545,977, all of which was backed by the full faith and credit of the government.

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

REQUESTS FOR INFORMATION

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

Mr. Bellamy Schmidt, Acting 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, 2015

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and short-term investments	\$ 17,385,125	\$ 645,531	\$ 18,030,656
Investments	12,416,752	-	12,416,752
Receivables, net of allowance for uncollectibles:			
Property taxes	1,479,556	-	1,479,556
Excises	697,217	-	697,217
User fees	44,636	3,603,750	3,648,386
Departmental and other	123,669	-	123,669
Intergovernmental	5,123,288	-	5,123,288
Due from other funds	219,529	-	219,529
Other assets	1,200	-	1,200
Noncurrent:			
Property taxes, net of allowance	1,225,574	-	1,225,574
Land and construction in progress	22,238,045	350,000	22,588,045
Capital assets, net of accumulated depreciation	76,614,974	27,241,762	103,856,736
DEFERRED OUTFLOWS OF RESOURCES	2,891,789	7,953	2,899,742
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	140,461,354	31,848,996	172,310,350
LIABILITIES			
Current:			
Warrants payable	4,306,960	-	4,306,960
Accrued payroll	4,154,613	-	4,154,613
Accrued liabilities	744,011	272,929	1,016,940
Notes payable	1,483,000	-	1,483,000
Other current liabilities	137,135	-	137,135
Current portion of long-term liabilities:			
Bonds payable	2,972,400	1,040,544	4,012,944
Accrued compensated absences	839,013	-	839,013
Noncurrent:			
Bonds payable, net of current portion	33,955,000	20,578,033	54,533,033
Net OPEB obligation	82,012,264	-	82,012,264
Net pension liability	94,079,202	256,328	94,335,530
Accrued compensated absences, net of current portion	7,551,119	-	7,551,119
DEFERRED INFLOWS OF RESOURCES	840,007	-	840,007
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	233,074,724	22,147,834	255,222,558
NET POSITION			
Net investment in capital assets	66,976,075	5,973,185	72,949,260
Restricted for:			
Grants and other statutory restrictions	3,982,751	-	3,982,751
Permanent funds:			
Expendable	685,742	-	685,742
Unrestricted	<u>(164,257,938)</u>	<u>3,727,977</u>	<u>(160,529,961)</u>
TOTAL NET POSITION	\$ (92,613,370)	\$ 9,701,162	\$ (82,912,208)

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

CITY OF HOLYOKE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	Expenses	Program Revenues			Net(Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 6,316,063	\$ 813,171	\$ 2,157,077	\$ 292,599	\$ (3,053,216)	\$ -	\$ (3,053,216)
Public safety	25,031,995	1,036,760	2,296,043	15,941	(21,683,251)	-	(21,683,251)
Education	93,918,002	1,030,335	101,837,609	-	8,949,942	-	8,949,942
Public works	8,436,398	573,775	27,450	5,164,117	(2,671,056)	-	(2,671,056)
Health and human services	2,286,109	121,993	585,037	-	(1,579,079)	-	(1,579,079)
Culture and recreation	2,759,176	288,784	336,349	343,822	(1,790,221)	-	(1,790,221)
Employee benefits	28,478,810	529,220	-	-	(27,949,590)	-	(27,949,590)
Interest	1,383,035	-	-	-	(1,383,035)	-	(1,383,035)
Intergovernmental	16,272,835	-	-	-	(16,272,835)	-	(16,272,835)
Total Governmental Activities	184,882,423	4,394,038	107,239,565	5,816,479	(67,432,341)	-	(67,432,341)
Business-Type Activities:							
Sewer operations	8,802,623	8,289,239	-	-	-	(513,384)	(513,384)
Total Business-Type Activities	8,802,623	8,289,239	-	-	-	(513,384)	(513,384)
Total	\$ 193,685,046	\$ 12,683,277	\$ 107,239,565	\$ 5,816,479	(67,432,341)	(513,384)	(67,945,725)
General Revenues:							
Property taxes					50,268,954	-	50,268,954
Excises					2,678,488	-	2,678,488
Penalties, interest and other taxes					2,539,400	-	2,539,400
Grants and contributions not restricted to specific programs					9,093,315	-	9,093,315
Investment income					485,228	6,033	491,261
Miscellaneous					400,085	-	400,085
Transfers, net					(1,134,914)	1,134,914	-
Total general revenues and transfers					64,330,556	1,140,947	65,471,503
Change in Net Position					(3,101,785)	627,563	(2,474,222)
Net Position:							
Beginning of year, as restated					(89,511,585)	9,073,599	(80,437,986)
End of year					\$ (92,613,370)	\$ 9,701,162	\$ (82,912,208)

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

CITY OF HOLYOKE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
ASSETS			
Cash and short-term investments	\$ 16,105,064	\$ 1,280,061	\$ 17,385,125
Investments	11,820,698	596,054	12,416,752
Receivables:			
Property taxes	1,879,519	-	1,879,519
Excises	1,392,589	-	1,392,589
Departmental and other, net	123,669	-	123,669
Intergovernmental	-	5,123,288	5,123,288
Tax liens	4,110,519	-	4,110,519
Due from other funds	264,011	-	264,011
Other assets	1,200	-	1,200
TOTAL ASSETS	\$ 35,697,269	\$ 6,999,403	\$ 42,696,672
LIABILITIES			
Warrants payable	\$ 4,306,960	\$ -	\$ 4,306,960
Accrued payroll	3,682,206	472,407	4,154,613
Accrued liabilities	243,555	-	243,555
Notes payable	-	1,483,000	1,483,000
Other current liabilities	137,088	47	137,135
TOTAL LIABILITIES	8,369,809	1,955,454	10,325,263
DEFERRED INFLOWS OF RESOURCES	7,204,795	-	7,204,795
FUND BALANCES			
Restricted	-	7,221,197	7,221,197
Assigned	4,460,476	-	4,460,476
Unassigned	15,662,189	(2,177,248)	13,484,941
TOTAL FUND BALANCES	20,122,665	5,043,949	25,166,614
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 35,697,269	\$ 6,999,403	\$ 42,696,672

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, 2015

Total Governmental Fund Balances	\$ 25,166,614
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	98,853,019
<ul style="list-style-type: none">• Certain changes in the net pension liability, which are deferred to future reporting periods, are not reported in the governmental funds.	2,051,782
<ul style="list-style-type: none">• In the statement of activities, accounts receivable is accrued, net of an allowance for uncollectible accounts. In the governmental funds, all receivables are deferred.	3,224,515
<ul style="list-style-type: none">• Internal service funds are used by management to account for fuel depot activities. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.	154
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(500,456)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, accrued compensated absences, net OPEB obligation and net pension liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	<u>(221,408,998)</u>
Net Position of Governmental Activities	\$ <u>(92,613,370)</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, 2015

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 50,669,532	\$ -	\$ 50,669,532
Excises	2,616,502	-	2,616,502
Penalties, interest, and other taxes	2,539,400	-	2,539,400
Charges for services	1,103,138	2,052,865	3,156,003
Intergovernmental	82,365,051	32,092,616	114,457,667
Licenses and permits	583,913	-	583,913
Fines and forfeitures	466,734	-	466,734
Contributions and donations	-	336,760	336,760
Investment income	474,897	10,331	485,228
Miscellaneous	215,940	184,145	400,085
	<u>141,035,107</u>	<u>34,676,717</u>	<u>175,711,824</u>
Expenditures:			
Current:			
General government	3,779,967	2,519,859	6,299,826
Public safety	21,063,862	3,431,082	24,494,944
Education	62,803,852	21,306,635	84,110,487
Public works	5,928,643	5,601,077	11,529,720
Health and human services	1,672,292	233,356	1,905,648
Culture and recreation	1,853,031	856,161	2,709,192
Employee benefits	23,062,641	785,165	23,847,806
Debt service	4,284,391	-	4,284,391
Intergovernmental	16,272,835	-	16,272,835
	<u>140,721,514</u>	<u>34,733,335</u>	<u>175,454,849</u>
Excess (deficiency) of revenues over expenditures	313,593	(56,618)	256,975
Other Financing Sources (Uses):			
Bond proceeds	-	4,482,000	4,482,000
Proceeds of refunding bonds	979,350	-	979,350
Payments to refunding agent	(979,350)	-	(979,350)
Transfers in	406,128	308,288	714,416
Transfers out	(1,516,718)	(332,612)	(1,849,330)
	<u>(1,110,590)</u>	<u>4,457,676</u>	<u>3,347,086</u>
Total Other Financing Sources (Uses)	<u>(1,110,590)</u>	<u>4,457,676</u>	<u>3,347,086</u>
Change in fund balance	(796,997)	4,401,058	3,604,061
Fund Equity, at Beginning of Year	<u>20,919,662</u>	<u>642,891</u>	<u>21,562,553</u>
Fund Equity, at End of Year	<u>\$ 20,122,665</u>	<u>\$ 5,043,949</u>	<u>\$ 25,166,614</u>

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

CITY OF HOLYOKE, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

Net Changes in Fund Balances - Total Governmental Funds	\$ 3,604,061																
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table border="0" style="margin-left: 40px;"> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">6,874,470</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(7,163,351)</td> </tr> </table> • Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures, and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue and allowance for uncollectible accounts. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(344,232)</td> </tr> </table> • The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: <table border="0" style="margin-left: 40px;"> <tr> <td>Issuance of debt</td> <td style="text-align: right;">(4,482,000)</td> </tr> <tr> <td>Repayments of debt</td> <td style="text-align: right;">2,845,794</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">55,562</td> </tr> </table> • Some expenses reported in the statement of activities, such as accrued compensated absences, net OPEB obligation and net pension liability, do not require the use of current resources and therefore, are not reported as expenditures in the governmental funds. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">(4,501,861)</td> </tr> </table> • Internal service funds are used by management to account for fuel depot activities. The net activity of internal service funds is reported with governmental activities. <table border="0" style="margin-left: 40px;"> <tr> <td></td> <td style="text-align: right;">9,772</td> </tr> </table> 		Capital outlay purchases	6,874,470	Depreciation	(7,163,351)		(344,232)	Issuance of debt	(4,482,000)	Repayments of debt	2,845,794		55,562		(4,501,861)		9,772
Capital outlay purchases	6,874,470																
Depreciation	(7,163,351)																
	(344,232)																
Issuance of debt	(4,482,000)																
Repayments of debt	2,845,794																
	55,562																
	(4,501,861)																
	9,772																
Change in Net Position of Governmental Activities	\$ <u>(3,101,785)</u>																

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

CITY OF HOLYOKE, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Property taxes	\$ 50,503,645	\$ 50,503,645	\$ 50,503,645	\$ -
Excises	2,231,000	2,231,000	2,616,502	385,502
Penalties, interest and other taxes	2,362,500	2,362,500	2,539,400	176,900
Charges for services	1,138,270	1,138,270	1,103,138	(35,132)
Intergovernmental	83,089,190	83,089,190	82,365,051	(724,139)
Licenses and permits	410,116	410,116	583,913	173,797
Fines and forfeitures	375,000	375,000	466,734	91,734
Investment income	200,000	200,000	130,583	(69,417)
Miscellaneous	-	-	215,940	215,940
Transfers in	-	375,000	781,128	406,128
Other uses	2,563,643	4,073,183	4,073,183	-
Total Revenues and Other Sources	142,873,364	144,757,904	145,379,217	621,313
Expenditures and Other Uses:				
General government	3,577,423	3,707,569	3,690,868	16,701
Public safety	20,885,808	21,449,829	21,203,947	245,882
Education	63,552,334	63,552,334	63,467,394	84,940
Public works	5,109,656	6,028,632	5,859,759	168,873
Health and human services	1,518,329	1,692,971	1,671,224	21,747
Culture and recreation	1,931,875	1,890,629	1,839,155	51,474
Employee benefits	23,171,507	23,364,508	22,894,229	470,279
Debt service	4,306,605	4,306,605	4,284,391	22,214
Intergovernmental	17,009,077	17,009,077	16,272,835	736,242
Transfers out	1,810,750	1,755,750	1,516,718	239,032
Total Expenditures and Other Uses	142,873,364	144,757,904	142,700,520	2,057,384
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 2,678,697	\$ 2,678,697

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

CITY OF HOLYOKE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2015

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u> Internal Service <u>Funds</u>
	Sewer <u>Fund</u>	
ASSETS		
Current:		
Cash and short-term investments	\$ 645,531	\$ -
User fees, net of allowance for uncollectibles	<u>3,603,750</u>	<u>44,636</u>
Total current assets	4,249,281	44,636
Noncurrent:		
Land	350,000	-
Capital assets, net of accumulated depreciation	<u>27,241,762</u>	<u>-</u>
Total noncurrent assets	27,591,762	-
DEFERRED OUTFLOWS OF RESOURCES	<u>7,953</u>	<u>-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	31,848,996	44,636
LIABILITIES		
Current:		
Accrued liabilities	272,929	-
Due to other funds	-	44,482
Current portion of long-term liabilities:		
Bonds payable	<u>1,040,544</u>	<u>-</u>
Total current liabilities	1,313,473	44,482
Noncurrent:		
Bonds payable, net of current portion	20,578,033	-
Net pension liability	<u>256,328</u>	<u>-</u>
Total noncurrent liabilities	<u>20,834,361</u>	<u>-</u>
TOTAL LIABILITIES	22,147,834	44,482
NET POSITION		
Net investment in capital assets	5,973,185	-
Unrestricted	<u>3,727,977</u>	<u>154</u>
TOTAL NET POSITION	<u>\$ 9,701,162</u>	<u>\$ 154</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, 2015

	Business-Type Activities <u>Enterprise Fund</u>	Governmental <u>Activities</u>
	Sewer <u>Fund</u>	Internal Service <u>Fund</u>
Operating Revenues:		
Charges for services	\$ 8,281,365	\$ 621,738
Other	<u>7,874</u>	<u>-</u>
Total Operating Revenues	8,289,239	621,738
Operating Expenses:		
Salaries and wages	132,027	-
Operating expenses	6,520,275	611,966
Depreciation	<u>1,501,333</u>	<u>-</u>
Total Operating Expenses	<u>8,153,635</u>	<u>611,966</u>
Operating Income (Loss)	135,604	9,772
Nonoperating Revenues (Expenses):		
Investment income	6,033	-
Interest expense	<u>(648,988)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses), Net	<u>(642,955)</u>	<u>-</u>
Income (loss) before transfers	(507,351)	9,772
Transfers:		
Transfer in	1,208,425	-
Transfer out	<u>(73,511)</u>	<u>-</u>
Change in Net Position	627,563	9,772
Net Position at Beginning of Year, as restated	<u>9,073,599</u>	<u>(9,618)</u>
Net Position at End of Year	<u>\$ 9,701,162</u>	<u>\$ 154</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, 2015

	Business-Type Activities <u>Enterprise Fund</u>	Governmental <u>Activities</u> Internal Service <u>Fund</u>
	Sewer <u>Fund</u>	
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 7,829,600	\$ -
Receipts from interfund service provided	-	632,813
Payments to vendors and employees	<u>(6,682,338)</u>	<u>(637,037)</u>
Net Cash Provided By (Used For) Operating Activities	1,147,262	(4,224)
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Acquisition of capital assets	(6,549)	-
Principal payments on bonds and notes	(1,171,326)	-
Interest expense	<u>(648,988)</u>	<u>-</u>
Net Cash (Used For) Capital and Related Financing Activities	(1,826,863)	-
<u>Cash Flows From Non-Capital Financing Activities:</u>		
Transfers, net	<u>1,134,914</u>	<u>-</u>
Net Cash Provided by Non-Capital Financing Activities	1,134,914	-
<u>Cash Flows From Investing Activities:</u>		
Investment income	<u>6,033</u>	<u>-</u>
Net Cash Provided by Investing Activities	6,033	-
Net Change in Cash and Short-Term Investments	461,346	(4,224)
Cash and Short-Term Investments, Beginning of Year	<u>184,185</u>	<u>4,224</u>
Cash and Short-Term Investments, End of Year	<u>\$ 645,531</u>	<u>\$ -</u>
<u>Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:</u>		
Operating income (loss)	\$ 135,604	\$ 9,772
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	1,501,333	-
Changes in assets and liabilities:		
User fees	(459,639)	11,075
Warrants and accounts payable	-	(69,553)
Due to other funds	-	44,482
Accrued liabilities	(24,847)	-
Net pension liability, net of deferrals	<u>(5,189)</u>	<u>-</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 1,147,262</u>	<u>\$ (4,224)</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, 2015

	<u>Agency Funds</u>	<u>Private Purpose Trust Funds</u>	<u>Pension Trust Fund December 31, 2014</u>
<u>ASSETS</u>			
Cash and short-term investments	\$ 793,512	\$ 159,500	\$ 2,908,681
Investments	79,536	-	230,585,579
Accounts receivable	<u>201,100</u>	<u>-</u>	<u>9,802,891</u>
Total Assets	1,074,148	159,500	243,297,151
<u>LIABILITIES</u>			
Accounts payable	-	-	184,130
Payroll withholdings	188,897	-	-
Due to other funds	219,529	-	-
Other liabilities	<u>665,722</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>1,074,148</u>	<u>-</u>	<u>184,130</u>
<u>NET POSITION</u>			
Total net position held in trust for pension benefits and other purposes	\$ <u><u>-</u></u>	\$ <u><u>159,500</u></u>	\$ <u><u>243,113,021</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, 2015

	Private Purpose <u>Trust Funds</u>	Pension Trust Fund (For the Year Ended December 31, 2014)
Additions:		
Contributions:		
Employers	\$ -	\$ 17,121,406
Other systems and Commonwealth of Massachusetts	-	467,876
Plan members	-	5,360,300
Total contributions	-	22,949,582
Investment Income:		
Interest and dividends	3,249	1,779,098
Realized loss on sale of investments	-	1,598,226
Increase in fair value of investments	-	11,325,269
Less: Management fees	-	(1,883,780)
Net investment income	3,249	12,818,813
Total additions	3,249	35,768,395
Deductions:		
Scholarships	2,821	-
Benefit payments to plan members and beneficiaries	-	23,213,160
Refunds to plan members and other systems	-	1,974,480
Administrative expenses	-	489,542
Total deductions	2,821	25,677,182
Net increase	428	10,091,213
Net Position:		
Beginning of year, as restated	159,072	233,021,808
End of year	\$ <u>159,500</u>	\$ <u>243,113,021</u>

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

CITY OF HOLYOKE, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the City of Holyoke (the City) conform to generally accepted accounting principles (GAAP) as applicable to governmental units except as described in Note 2. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected City Council. These financial statements include only the primary government of the City of Holyoke. They do not include the component units for which the government is considered to be financially accountable. In fiscal year 2015, it was determined that the City of Holyoke Board of Water Commissioners, Holyoke Library Commission, HPL Realty Corp., and the City of Holyoke Gas and Electric Company enterprise fund met the required GASB 39 criteria of component units.

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

B. Government-wide and Fund Financial Statements

Government-wide Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or

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

Fund Financial Statements

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

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

Government-wide Financial Statements

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

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

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the

government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental fund:

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

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

The government reports the following major proprietary fund:

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

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

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

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

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

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are in-

vested to the extent available, and interest earnings are recognized in the general fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

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

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System and trust funds consist primarily of bonds, federal securities and pooled funds. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override is voted. The actual fiscal year 2015 tax levy reflected an excess capacity of \$6,632.

G. Interfund Receivables and Payables

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due from/to other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

H. Capital Assets

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

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

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

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

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

I. Compensated Absences

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

J. Long-Term Obligations

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

K. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

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

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

- 1) Nonspendable funds are either unspendable in the current form (i.e., inventory or prepaid items) or can never be spent (i.e., perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., the City Council).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

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

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions

imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

L. Use of Estimates

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

2. Departures from Generally Accepted Accounting Principles

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

3. Stewardship, Compliance, and Accountability

A. Budgetary Information

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

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

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

budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

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

B. Budgetary Basis

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

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/expenditures (GAAP basis)	\$ 141,035,107	\$ 140,721,514
Other financing sources/uses (GAAP basis)	<u>1,385,478</u>	<u>2,496,068</u>
Subtotal (GAAP basis)	142,420,585	143,217,582
Removed the effect of adding the City's Stabilization fund per GASB 54	30,686	-
Adjust tax revenue to accrual basis	(165,887)	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(3,875,876)
Add end of year appropriation carryforwards to expenditures	-	4,460,476
Reverse effect of debt refunding	(979,350)	(979,350)
Recognize use of fund balance as funding source	4,073,183	-
Reverse GAAP accrual	<u>-</u>	<u>(122,312)</u>
Budgetary basis	<u>\$ 145,379,217</u>	<u>\$ 142,700,520</u>

D. Deficit Fund Equity

The following funds had deficits as of June 30, 2015:

Special Revenue Funds:		
911 support grant	\$	(133,832)
Economic development initiative		(124,921)
Essex emergency demolition		(1,267,882)
State of emergency deficit spending		(222,931)
Capital Project Funds:		
Dean science lab renovation		(222,682)
Geriatric Authority land purchase		(205,000)
Total governmental funds	\$	<u>(2,177,248)</u>
Agency Fund:		
Police outside detail	\$	(18,429)

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

4. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the City's and Contributory Retirement System's (the System) deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the City's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." Massachusetts General Law Chapter 32, Section 23, limits the System's deposits "in a bank or trust company to an amount not exceeding ten percent of the capital and surplus of such bank or trust company." The City and System do not have a deposit policy for custodial credit risk.

As of June 30, 2015, \$61,701 of the City's bank balance of \$20,170,986 was exposed to custodial credit risk as uninsured and/or uncollateralized.

As of December 31, 2014, none of the System's bank balance of \$3,165,880 was exposed to custodial credit risk as uninsured and/or uncollateralized.

5. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the City's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below is the actual rating as of year-end for each investment of the City. (All federal agency securities have an implied credit rating of Aaa.):

<u>Investment Type</u>	<u>Fair Value</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year-End</u>			
			<u>Aaa</u>	<u>Aa 1/2/3</u>	<u>A 1/2/3</u>	<u>Baa 1/2</u>
Certificates of deposit	\$ 105,168	\$ 105,168	\$ -	\$ -	\$ -	\$ -
Corporate bonds	905,877	-	-	55,805	799,452	50,620
Equity investments	140,594	140,594	-	-	-	-
Federal securities	897,309	-	897,309	-	-	-
Municipal bonds	767,204	-	-	703,121	64,083	-
Mutual funds	9,680,136	9,680,136	-	-	-	-
Total investments	\$ 12,496,288	\$ 9,925,898	\$ 897,309	\$ 758,926	\$ 863,535	\$ 50,620

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

Presented below the composition of the System's investments as of December 31, 2014, none of which are subject to credit risk disclosure:

<u>Investment Type</u>	<u>Fair Value</u>
Pooled funds	\$ 210,287,528
PRIT *	2,158,090
Mutual funds	18,139,961
Total	\$ 230,585,579

**Fair value is the same as the value of the pool share. The Pension Reserves Investment Trust was created under Massachusetts General Law, Chapter 32, Section 22, in December 1983. The Pension Reserves Investment Trust is operated under contract with a private*

investment advisor, approved by the Pension Reserves Investment Management Board. The Pension Reserves Investment Management Board shall choose an investment advisor by requesting proposals from advisors and reviewing such proposals based on criteria adopted under Massachusetts General Law, Chapter 30B.

B. Custodial Credit Risk

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

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

C. Concentration of Credit Risk

The City places no limit on the amount the City may invest in any one issuer. The City did not have any investments in any one issuer (other than U.S. Treasury securities and mutual funds) that represent 5% or more of total investments.

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

D. Interest Rate Risk

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

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

Investment Type	Fair Value	Exempt from Disclosure	Investment Maturities (in Years)			
			Less Than 1	1-5	6-10	More Than 10
Certificates of deposit	\$ 105,168	\$ -	\$ 50,133	\$ 55,035	\$ -	\$ -
Corporate bonds	905,877	-	304,546	601,331	-	-
Equity investments	140,594	140,594	-	-	-	-
Federal securities	897,309	-	41,421	855,888	-	-
Municipal bonds	767,204	-	5,000	-	762,204	-
Mutual funds	9,680,136	9,680,136	-	-	-	-
Total investments	<u>\$ 12,496,288</u>	<u>\$ 9,820,730</u>	<u>\$ 401,100</u>	<u>\$ 1,512,254</u>	<u>\$ 762,204</u>	<u>\$ -</u>

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

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. The City and System do not have policies for foreign currency risk.

6. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The City has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2015 consist of the following (in thousands):

Real Estate		
2015	\$ 1,336	
2014	86	
2013 and prior	<u>178</u>	1,600
Personal Property		
2015	48	
2014 and prior	<u>231</u>	<u>279</u>
Total	\$ <u>1,879</u>	

7. Allowance for Doubtful Accounts

The parking ticket receivable balance reported in the accompanying governmental funds balance sheet is presented net of allowances for uncollectible of \$667,876. In addition, the receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>	<u>Business-Type</u>
Property taxes	\$ 399	\$ -
Excises	695	-
Tax liens	2,885	-
User charges	-	1,242

8. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2015.

9. Interfund Fund Receivables/Payables

Although self-balancing funds are maintained, most transactions flow through the general fund. In order to obtain accountability for each fund, interfund receivable and payable accounts must be utilized. The following is an analysis of the June 30, 2015 balances in interfund receivable and payable accounts:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund	\$ 264,011	\$ -
Internal Service Fund	-	44,482
Agency Funds	-	219,529
Total	<u>\$ 264,011</u>	<u>\$ 264,011</u>

10. Capital Assets

Capital asset activity for the year ended June 30, 2015 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Convert CIP</u>	<u>Ending Balance</u>
Governmental Activities:					
Capital assets, being depreciated:					
Buildings and improvements	\$ 141,250	\$ 228	\$ -	\$ 6,566	\$ 148,044
Machinery, equipment, and furnishings	25,593	881	-	-	26,474
Land improvements	6,918	-	-	-	6,918
Infrastructure	<u>17,703</u>	<u>1,671</u>	<u>-</u>	<u>-</u>	<u>19,374</u>
Total capital assets, being depreciated	191,464	2,780	-	6,566	200,810
Less accumulated depreciation for:					
Buildings and improvements	(79,482)	(4,384)	-	-	(83,866)
Machinery, equipment, and furnishings	(22,451)	(1,170)	-	-	(23,621)
Land improvements	(3,285)	(234)	-	-	(3,519)
Infrastructure	<u>(11,813)</u>	<u>(1,376)</u>	<u>-</u>	<u>-</u>	<u>(13,189)</u>
Total accumulated depreciation	<u>(117,031)</u>	<u>(7,164)</u>	<u>-</u>	<u>-</u>	<u>(124,195)</u>
Total capital assets, being depreciated, net	74,433	(4,384)	-	6,566	76,615
Capital assets, not being depreciated:					
Land	16,474	-	-	-	16,474
Construction in progress (CIP)	<u>8,235</u>	<u>4,095</u>	<u>-</u>	<u>(6,566)</u>	<u>5,764</u>
Total capital assets, not being depreciated	<u>24,709</u>	<u>4,095</u>	<u>-</u>	<u>(6,566)</u>	<u>22,238</u>
Governmental activities capital assets, net	<u>\$ 99,142</u>	<u>\$ (289)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 98,853</u>

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Convert CIP</u>	<u>Ending Balance</u>
Business-Type Activities:					
Capital assets, being depreciated:					
Buildings and improvements	\$ 40,000	\$ -	\$ -	\$ -	\$ 40,000
Machinery, equipment, and furnishings	1,262	-	-	-	1,262
Infrastructure	54,144	7	-	-	54,151
Total capital assets, being depreciated	95,406	7	-	-	95,413
Less accumulated depreciation for:					
Buildings and improvements	(35,295)	(290)	-	-	(35,585)
Machinery, equipment, and furnishings	(1,235)	(3)	-	-	(1,238)
Infrastructure	(30,140)	(1,208)	-	-	(31,348)
Total accumulated depreciation	(66,670)	(1,501)	-	-	(68,171)
Total capital assets, being depreciated, net	28,736	(1,494)	-	-	27,242
Capital assets, not being depreciated:					
Land	350	-	-	-	350
Total capital assets, not being depreciated	350	-	-	-	350
Business-type activities capital assets, net	<u>\$ 29,086</u>	<u>\$ (1,494)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,592</u>

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

Governmental Activities:	
General government	\$ 15
Public safety	1,152
Education	3,131
Public works	2,076
Human services	399
Culture and recreation	391
Total depreciation expense - governmental activities	<u>\$ 7,164</u>
Business-Type Activities:	
Sewer	<u>\$ 1,501</u>
Total depreciation expense - business-type activities	<u>\$ 1,501</u>

11. Deferred Outflows of Resources

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

The following is a summary of deferred outflow of resources balances as of June 30, 2015:

	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Net difference between projected and actual pension investment earnings	\$ 2,891,789	\$ 7,879
Changes in proportion and differences between pension contributions and proportionate share of contributions	-	74
	<u>\$ 2,891,789</u>	<u>\$ 7,953</u>

12. Warrants Payable

Warrants payable represent 2015 expenditures paid by July 15, 2015.

13. Notes Payable

The City had the following note outstanding at June 30, 2015:

<u>Governmental Activities</u>	<u>Interest Rate(s) %</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2015</u>
Bond anticipation note	0.87%	06/30/15	06/30/16	\$ <u>1,483,000</u>

The following summarizes activity in notes payable during fiscal year 2015:

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation	\$ 6,729,386	\$ 1,483,000	\$ (6,729,386)	\$ 1,483,000
Grant anticipation	1,058,000	-	(1,058,000)	-
Total	<u>\$ 7,787,386</u>	<u>\$ 1,483,000</u>	<u>\$ (7,787,386)</u>	<u>\$ 1,483,000</u>

14. Long-Term Debt

A. General Obligation Bonds

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

	Serial Maturities Through	Interest Rate(s) %	Amount Outstanding as of June 30, 2015
<u>Governmental Activities:</u>			
Recreational Facility (refund)	09/01/15	2.0 - 3.0	\$ 34,000
Police Station (refund)	06/15/16	2.5 - 5.00	239,900
School Roof Remodeling (refund)	06/15/16	2.5 - 5.00	210,500
Recreational Facility (refund)	09/01/16	2.0 - 3.0	271,000
City Hall Remodeling (refund)	09/01/17	2.0 - 2.5	460,000
Building Demolition (refund)	09/01/18	3.9	479,400
Central Fuel Facility (refund)	09/01/18	3.9	182,200
Fire Station (refund)	09/01/19	3.9	1,948,400
Wistariahurst Museum	06/30/21	2.0 - 4.0	250,000
Wistariahurst Museum	06/30/21	2.0 - 4.0	115,000
Community Field	06/30/21	2.0 - 4.0	105,000
Jones Ferry River Access	06/30/25	2.0 - 4.0	470,000
School Lots/Fields/Lights	06/30/25	2.0 - 4.0	440,000
High School Remodeling	07/15/27	4.45	755,000
School Roofs	07/15/27	4.45	110,000
School Lots/Field/Lights	07/15/27	4.45	230,000
Building Demolition	07/15/27	4.45	135,000
Fire Truck	09/01/28	2.0 - 3.8	1,500,000
High School Remodeling	06/30/29	2.0 - 4.2	1,290,000
School	03/01/32	2.0 - 4.0	4,885,000
Geriatric Authority Land	03/01/32	2.0 - 4.0	795,000
Community Field Park	03/01/32	2.0 - 4.0	1,675,000
Senior Center	03/01/32	2.0 - 4.0	2,110,000
Library	03/01/32	2.0 - 4.0	4,675,000
Senior Center	09/01/33	2.0 - 5.0	5,590,000
Garage	09/01/33	2.0 - 5.0	4,990,000
High School Science Labs	09/01/34	2.0 - 3.8	1,155,000
Parking Garage	09/01/34	2.0 - 3.8	1,827,000
Total Governmental Activities Debt			\$ <u>36,927,400</u>
<u>Business-Type Activities:</u>			
Sewer CSO Planning refunding	09/01/16	2.0 - 3.0	\$ 60,000
Sewer CSO Projects	07/15/27	4.45	1,840,000
Sewer Plant Improvements	07/15/27	4.45	3,900,000
MWPAT	01/15/33	2.00	818,393
Sewer and Flood Control	09/01/33	2.0 - 5.0	690,000
MWPAT	07/15/36	2.00	14,310,184
Total Business-Type Activities Debt			\$ <u>21,618,577</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding as of June 30, 2015 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 2,972,400	\$ 1,337,832	\$ 4,310,232
2017	3,005,000	1,168,392	4,173,392
2018	2,750,000	1,056,142	3,806,142
2019	2,515,000	960,800	3,475,800
2020	2,400,000	880,386	3,280,386
2021 - 2025	9,750,000	3,343,132	13,093,132
2026 - 2030	8,640,000	1,708,259	10,348,259
2031 - 2035	4,895,000	364,784	5,259,784
Total	\$ <u>36,927,400</u>	\$ <u>10,819,727</u>	\$ <u>47,747,127</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 1,040,544	\$ 630,456	\$ 1,671,000
2017	1,083,295	593,735	1,677,030
2018	1,061,347	555,299	1,616,646
2019	1,059,707	517,504	1,577,211
2020	1,073,383	481,415	1,554,798
2021 - 2025	5,558,611	1,877,316	7,435,927
2026 - 2030	5,067,285	998,500	6,065,785
2031 - 2035	4,047,609	433,584	4,481,193
Thereafter	1,626,796	38,372	1,665,168
Total	\$ <u>21,618,577</u>	\$ <u>6,126,181</u>	\$ <u>27,744,758</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2015, the following changes occurred in long-term liabilities (in thousands):

	Total Balance July 1, 2014 (Restated)	Additions	Reductions	Total Balance June 30, 2015	Less Current Portion	Long-Term Portion June 30, 2015
<u>Governmental Activities</u>						
Bonds payable	\$ 35,291	\$ 4,482	\$ (2,846)	\$ 36,927	\$ (2,972)	\$ 33,955
Other:						
Net OPEB obligation	75,303	6,709	-	82,012	-	82,012
Net pension liability	94,105	-	(26)	94,079	-	94,079
Accrued compensated absences	8,519	-	(129)	8,390	(839)	7,551
Totals	\$ <u>213,218</u>	\$ <u>11,191</u>	\$ <u>(3,001)</u>	\$ <u>221,408</u>	\$ <u>(3,811)</u>	\$ <u>217,597</u>
<u>Business-Type Activities</u>						
Bonds payable	\$ 22,790	\$ -	\$ (1,171)	\$ 21,619	\$ (1,041)	\$ 20,578
Other:						
Net pension liability	253	3	-	256	-	256
Totals	\$ <u>23,043</u>	\$ <u>3</u>	\$ <u>(1,171)</u>	\$ <u>21,875</u>	\$ <u>(1,041)</u>	\$ <u>20,834</u>

D. Current Refunding

On September 18, 2014 the City (and Water Department) issued general obligation and refunding bonds totaling \$8,337,000 (interest rate ranging from 2% - 3.75%), of which, \$3,855,000 was used to refund \$3,845,000 of term bonds (\$2,883,806 related to the Water Department and \$961,194 related to the City) with an interest rate of 5%. The term bonds mature on November 1, 2014 and were redeemed on that date. The refunding bonds were issued at 103% and, after paying issuance costs of \$47,723, the net proceeds were \$3,917,628 (\$2,938,278 related to the Water Department and \$979,350 related to the City). The net proceeds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to redeem the term bonds (and a redemption premium) on their call date of November 1, 2014. The refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the City's financial statements.

As a result of the refunding, the City (and Water Department) reduced its total debt service cash flow requirements by \$151,037 which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$149,198.

15. Deferred Inflows of Resources

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

On the fund basis financial statements the deferred inflow of resources balance as of June 30, 2015 consists of unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The balance of the general fund deferred inflows account is equal to the total of all June 30, 2015 receivable balances, less property tax collected within 60 days of year-end.

The balance of \$840,007 reported under governmental activities on the government wide financial statements represents the changes in proportion and differences between pension contributions and proportionate share of contributions.

16. Interfund Transfers

The City's routine transfers include transfers made to move (1) unrestricted revenues or balances that have been collected or accumulated in the general fund to other funds based on budgetary authorization, and (2) revenues from

a fund that by statute or budgetary authority must collect them to funds that are required by statute or budgetary authority to expend them.

The City reports interfund transfers between many of its funds. The sum of all transfers presented in the table agrees with the sum of interfund transfers presented in the governmental fund financial statements. The following is an analysis of interfund transfers made in fiscal year 2015:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 406,128	\$ 1,516,718
Nonmajor Funds:		
Special revenue funds	12,101	326,484
Capital project funds	-	6,128
Expendable trust fund	<u>296,187</u>	<u>-</u>
Subtotal Nonmajor funds	308,288	332,612
<u>Business-Type Funds:</u>		
Sewer fund	<u>1,208,425</u>	<u>73,511</u>
Grand Total	<u>\$ 1,922,841</u>	<u>\$ 1,922,841</u>

17. **Restricted Net Position**

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

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

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 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, 2015:

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 2015.

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

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the City's highest level of decision-making authority (City Council). The City does not have any fund balances that meet this criteria in 2015.

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

Unassigned - Represents amounts that are available to be spent in future periods, stabilization funds set aside by City Council vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54) and deficit fund balances.

Following is a breakdown of the City's fund balances at June 30, 2015:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
<u>Restricted</u>			
Bonded projects	\$ -	\$ 803,138	\$ 803,138
Special revenue funds	-	5,732,317	5,732,317
Expendable permanent funds	-	685,742	685,742
Total Restricted	-	7,221,197	7,221,197
<u>Assigned</u>			
Encumbrances	4,460,476	-	4,460,476
Total Assigned	4,460,476	-	4,460,476
<u>Unassigned</u>			
General fund	4,520,379	-	4,520,379
Stabilization fund	11,141,810	-	11,141,810
Deficit fund balances	-	(2,177,248)	(2,177,248)
Total Unassigned	15,662,189	(2,177,248)	13,484,941
Total Fund Balance	\$ 20,122,665	\$ 5,043,949	\$ 25,166,614

19. Commitments and Contingencies

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

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Debt Responsibility - In fiscal year 2012, the City issued General Obligation State Qualified Refunding Bonds which included refunding of the 2001 Holyoke Gas & Electric revenue bonds that were previously issued by Holyoke Gas & Electric. If Holyoke Gas & Electric should default on their payments, the City would be responsible for repayment. At June 30, 2015 the outstanding principal balance was \$28,230,000.

Combined Sewer Overflow - CSO discharge locations along the Connecticut River bordering Holyoke have been identified. The estimated total cost to abate these issues is \$3.2 million, of which \$2 million will be funded by long-term bonds authorized by the City Council and \$1.2 million by various grants provided by the Environmental Protection Agency (EPA). Work on these projects is ongoing.

State Oversight Board - In April 2015, due to the chronic underperformance of the City's schools, the City of Holyoke's School Department was placed in receivership and is currently being managed by a State appointed control board.

20. Post-Employment Healthcare and Life Insurance Benefits

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions*, requires governments to account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of activities when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the statement of net position over time.

A. Plan Description

In addition to providing the pension benefits described below, the City provides post-employment healthcare and life insurance benefits for retired employees through the City's plan. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2013, the actuarial valuation date, approximately 1,583 retirees and 1,102 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

B. Benefits Provided

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

C. Funding Policy

Retirees contribute 50% of the cost of the health plan, as determined by the City. The City contributes the remainder of the health plan costs on a pay-as-you-go basis.

D. Annual OPEB Costs and Net OPEB Obligation

The City's fiscal 2015 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2015, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of June 30, 2013:

Annual Required Contribution (ARC)	\$	13,684,068
Interest on net OPEB obligation		3,012,127
Adjustment to ARC		(2,742,706)
Annual OPEB cost		13,953,489
Contributions made		(7,244,392)
Increase in net OPEB obligation		6,709,097
Net OPEB obligation - beginning of year		75,303,167
Net OPEB obligation - end of year	\$	<u>82,012,264</u>

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

<u>Fiscal Year Ended</u>	<u>Annual OPEB Costs</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2015	\$ 13,953,489	51.92%	\$ 82,012,264
2014	\$ 13,373,101	50.61%	\$ 75,303,167
2013	\$ 19,104,901	47.52%	\$ 68,698,290
2012	\$ 18,247,255	45.27%	\$ 58,671,312
2011	\$ 20,103,398	42.94%	\$ 48,685,396
2010	\$ 18,695,275	39.60%	\$ 37,214,551

The City's net OPEB obligation as of June 30, 2015 is recorded as a long-term liability in the statement of net position.

E. Funded Status and Funding Progress

The funded status of the plan as of June 30, 2013, the date of the most recent actuarial valuation was as follows:

Actuarial accrued liability (AAL)	\$ 212,596,190
Actuarial value of plan assets	-
	<hr/>
Unfunded actuarial accrued liability (UAAL)	\$ 212,596,190
	<hr/>
Funded ratio (actuarial value of plan assets/AAL)	0%
	<hr/>
Covered payroll (active plan members)	N/A
	<hr/>
UAAL as a percentage of covered payroll	N/A
	<hr/>

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

F. Actuarial Methods and Assumptions

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

In the June 30, 2013 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the City has not advanced funded its obligation. The actuarial assumptions included a 4% investment rate of return and an initial annual healthcare cost trend rate of 8%, which decreases to a 5% long-term rate for all healthcare benefits after eight years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 3.5%.

21. 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

The System is a member of the Massachusetts Contributory Retirement Systems (MA System) and is governed by Chapter 32 of the Massachusetts General Laws. Because of the significance of its operational and financial relationship with the City, the System is included as a pension trust fund in the City's basic financial systems.

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 Gen-

eral Laws establishes the authority of the System, contribution percentages and benefits paid.

The System is governed by a five-member board which includes two elected members, one member appointed by the Mayor, one ex-officio member and one member appointed by the other four members. The System Retirement Board does not have the authority to amend benefit provisions.

Membership of each plan consisted of the following at January 1, 2014 (the latest actuarial valuation):

Retirees and beneficiaries receiving benefits	927
Inactive participants entitled to a return of their employee contributions	138
Inactive participants with a vested right to a deferred or immediate benefit	22
Active plan members	<u>1,250</u>
Total	<u><u>2,337</u></u>
Number of participating employers	6

B. Benefits Provided

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 for those first becoming members of the MA System on or after that date. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification. Members become vested after 10 years of creditable service. A retirement allowance may be received upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant (1) has a record of 10 years of creditable service, (2) was on the City payroll on January 1, 1978, (3) voluntarily left City employment on or after that date, and (4) left accumulated annuity deductions in the fund. 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 50 for groups 1 and 2, respectively. 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.

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.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive zero, fifty, or one hundred percent of the regular interest which has accrued upon those deductions. However, effective July 1, 2010, members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3% and do not forfeit any interest previously earned on contributions.

C. 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 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%

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, 2015 was \$12,081,870, which was slightly more than its annual required contribution.

D. Summary of Significant Accounting Policies

The accounting policies of the System as reflected in the accompanying financial statements for the year ended December 31, 2014 conform to generally accepted accounting principles for public employee retirement

systems (PERS). The more significant accounting policies of the System are summarized below:

Basis of Accounting - Contributory retirement system financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized as revenue in the period in which the members provide services to the employer. Employer contributions are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

Investments

Investment Policy

Investments are reported at fair value in accordance with PERAC requirements. System assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

Rate of Return

For the year ended December 31, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 5.93%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Liability

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

E. Net Pension Liability of Participating Employers

The components of the net pension liability of the participating employers at December 31, 2014 were as follows (in thousands):

Net Pension Liability of Employers

Total pension liability	\$ 377,115
Plan fiduciary net position	<u>(243,113)</u>
Employers' net pension liability	<u>\$ 134,002</u>
Plan fiduciary net position as a percentage of total pension liability	64.47%

Actuarial Assumptions

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

Valuation Date	1/1/2014
Actuarial cost method	Entry Age
Actuarial assumptions:	
Investment rate of return	7.75%
Projected salary increases	4.25 - 4.75%
Inflation rate	4.00%
Post-retirement cost-of-living adjustment	3% on first \$12,000

Actuarial valuation of the ongoing Systems involves estimates of the reported amounts and assumptions about probability of occurrence of events far into the future. Examples include assumptions about future employment mortality and future salary increases. Amounts determined regarding the net pension liability are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The actuarial assumptions used in the January 1, 2014 valuation were based on the results of the most recent actuarial experience study, which was for the period January 1, 2012 through December 31, 2013.

Mortality rates were based on mortality tables as follows:

Pre-retirement rates reflect the RP-2000 Employee Mortality table projected generationally using Scale AA from 2010.

Healthy retiree rates reflect the RP-2000 Healthy Annuitant table projected generationally using Scale AA from 2010.

For disabled retirees, this table is set forward 3 years for males.

Target Allocations

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	33.0%	6.6%
International developed markets equity	22.9%	7.1%
Core fixed income	8.5%	2.2%
High-yield fixed income	3.6%	4.7%
Real estate	9.6%	4.4%
Commodities	1.9%	4.4%
Short-term government money market	1.7%	1.8%
Hedge fund, GTAA, Risk parity	3.7%	3.9%
Private equity	15.1%	11.7%
Total	<u>100.0%</u>	

Discount Rate: The discount rate used to measure the total pension liability was 7.75%. 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.

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 7.75%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.75%) or 1 percentage-point higher (8.75%) than the current rate (in thousands):

<u>Fiscal Year Ended</u>	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
June 30, 2015	\$123,003	\$94,335	\$69,553

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

At June 30, 2015, the City reported a liability of approximately \$94.3 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. 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, 2015, the City's proportion was 70.40 percent.

For the year ended June 30, 2015, the City recognized pension expense of approximately \$10.1 million. In addition, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 2,899,668	\$ -
Changes in proportion and differences between contributions and proportionate share of contributions	<u>74</u>	<u>840,007</u>
Total	<u>\$ 2,899,742</u>	<u>\$ 840,007</u>

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

Year ended June 30:	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
2016	\$ 724,932	\$ 168,001
2017	724,932	168,001
2018	724,932	168,001
2019	724,932	168,002
2020	<u>14</u>	<u>168,002</u>
Total	<u>\$ 2,899,742</u>	<u>\$ 840,007</u>

22. **Massachusetts Teachers' Retirement System (MTRS)**

A. Plan Description

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

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

B. Benefits Provided

MTRS provides retirement, disability, survivor, and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit and contribution requirements for all contributory PERS. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of

the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

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

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

C. Contributions

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

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

D. Actuarial Assumptions

The total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. The total pension liability for the June 30, 2013 measurement date was determined by an actuarial valuation as of January 1, 2014, rolled back to June 30, 2013. This valuation used the following assumptions:

- (a) 8.0% investment rate of return, (b) 3.5% interest rate credited to the annuity savings fund and (c) 3.0% cost of living increase per year.

- Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
- Mortality rates were as follows:
 - Pre-retirement - reflects RP-2000 Employees table adjusted for “white-collar” employment projected 22 years with Scale AA (gender distinct)
 - Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct)
 - Disability – reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males.

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, 2014 and 2013 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>	
		<u>2014</u>	<u>2013</u>
Global equity	43.0%	7.2%	7.70%
Core fixed income	13.0%	2.5%	2.00%
Hedge funds	10.0%	5.5%	4.75%
Private equity	10.0%	8.8%	9.00%
Real estate	10.0%	6.3%	6.00%
Value added fixed income	10.0%	6.3%	6.30%
Timber/natural resources	4.0%	5.0%	5.00%
Total	<u>100.0%</u>		

E. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. 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 (amounts in thousands):

Fiscal Year Ended	1% Decrease to 7%	Current Discount Rate 8%	1% Increase to 9%
June 30, 2013	\$21,426,000	\$17,234,000	\$13,672,000
June 30, 2014	\$20,247,000	\$15,896,000	\$12,200,000

G. Special Funding Situation

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

H. City Proportions

In fiscal year 2014 (the most recent measurement period), the City's proportionate share of the MTRS' collective net pension liability and pension expense was \$105,864,752 and \$7,354,932 respectively, based on a proportionate share of 0.665969%.

23. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

24. Beginning Net Position Restatement

The beginning net position of the City and Contributory Retirement System have been restated as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Net position 06/30/14, as previously reported	\$ 4,593,928	\$ 9,327,163
Record net pension liability in accordance with GASB 68	<u>(94,105,513)</u>	<u>(253,564)</u>
Net position 06/30/14, as restated	<u><u>\$ (89,511,585)</u></u>	<u><u>\$ 9,073,599</u></u>
	<u>Pension Trust Fund</u>	
Net position 12/31/13, as previously reported	\$ 224,720,081	
To correct market value adjustment	61,701	
To correct adjustment to annualize revenue	<u>8,240,026</u>	
Net position 12/31/13, as restated	<u><u>\$ 233,021,808</u></u>	

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

(Unaudited)
 (Amounts Expressed in Thousands)

Other Post-Employment Benefits

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

See Independent Auditors' Report.

CITY OF HOLYOKE, MASSACHUSETTS
 SCHEDULE OF PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 REQUIRED SUPPLEMENTARY INFORMATION
 JUNE 30, 2015
 (Unaudited)
 (Amounts Expressed in Thousands)

<u>Holyoke Contributory Retirement System:</u>	<u>2015</u>
Proportion of the net pension liability for the most recent measurement date	70.40%
Proportionate share of the net pension liability for the most recent measurement date	\$ 94,335
Covered-employee payroll for the most recent measurement date	\$ 39,079
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	241.39%
Plan fiduciary net position as a percentage of the total pension liability	64.47%
<u>Massachusetts Teachers' Retirement System:</u>	
Proportion of the net pension liability for the most recent measurement date	0.67%
The City's proportionate share of the net pension liability for the most recent measurement date	\$ -
Commonwealth of Massachusetts' total proportionate share of the net pension liability that is associated with the City	<u>105,865</u>
Total net pension liability associated with the City	<u>\$ 105,865</u>
Covered-employee payroll for the most recent measurement date	\$ 40,834
Proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	259.26%
Plan fiduciary net position as a percentage of the total pension liability	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 CONTRIBUTIONS
 REQUIRED SUPPLEMENTARY INFORMATION
 JUNE 30, 2015
 (Unaudited)
 (Amounts Expressed in Thousands)

<u>Holyoke Contributory Retirement System:</u>	<u>2015</u>
Contractually required contribution for the current fiscal year	\$ 12,051
Contributions in relation to the contractually required contribution	<u>(12,082)</u>
Contribution deficiency (excess)	<u>\$ (31)</u>
Covered-employee payroll for the current fiscal year	\$ 40,481
Contributions as a percentage of covered-employee payroll	29.85%

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
CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Changes in the Net Pension Liability

(Unaudited)

(Amounts Expressed in Thousands)

	<u>2015</u>
Total pension liability	
Service cost	\$ 8,078
Interest on unfunded liability - time value of \$	28,009
Benefit payments, including refunds of member contributions	<u>(24,598)</u>
Net change in total pension liability	11,489
Total pension liability - beginning	<u>365,626</u>
Total pension liability - ending (a)	<u>\$ 377,115</u>
Plan fiduciary net position *	
Contributions - employer	\$ 17,152
Contributions - member	5,201
Net investment income	12,805
Benefit payments, including refunds of member contributions	(24,598)
Administrative expense	<u>(469)</u>
Net change in plan fiduciary net position	10,091
Plan fiduciary net position - beginning	<u>233,022</u>
Plan fiduciary net position - ending (b)	<u>\$ 243,113</u>
Net pension liability (asset) - ending (a-b)	<u>\$ 134,002</u>

* Reflects certain rounding and immaterial classification differences from page 24.

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.

CITY OF HOLYOKE, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

Schedules of Net Pension Liability, Contributions, and Investment Returns

(Unaudited)

(Amounts Expressed in Thousands)

Schedule of Net Pension Liability

	<u>2015</u>
Total pension liability	\$ 377,115
Plan fiduciary net position	<u>(243,113)</u>
Net pension liability (asset)	<u>\$ 134,002</u>
Plan fiduciary net position as a percentage of the total pension liability	64.47%
Covered employee payroll	\$ 57,503
Participating employer net pension liability (asset) as a percentage of covered employee payroll	233.03%

Schedule of Contributions

	<u>2015</u>
Actuarially determined contribution	\$ 17,121
Contributions in relation to the actuarially determined contribution	<u>(17,152)</u>
Contribution deficiency (excess)	<u>\$ (31)</u>
Covered employee payroll	\$ 57,503
Contributions as a percentage of covered employee payroll	29.83%

Schedule of Investment Returns

Year Ended December 31

	<u>2014</u>
Annual money weighted rate of return, net of investment expense	5.93%

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

See Independent Auditors' Report.