

CITY OF SPRINGFIELD, MASSACHUSETTS

Financial Statements

For the Year Ended June 30, 2001

(With Independent Auditors' Report Thereon)

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INDEPENDENT AUDITORS' REPORT

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

We have audited the general purpose financial statements of the City of Springfield, Massachusetts as of June 30, 2001 (December 31, 2000 for the Contributory Retirement System) and for the year(s) then ended. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Under the terms of our engagement, we did not obtain sufficient evidential matter to support the City's Enterprise Fund fixed asset balance stated at \$ 211,148.

The City does not maintain a record of its general fixed assets and, accordingly, a statement of general fixed assets required by generally accepted accounting principles is not included in the financial statements.

The City has established a separate enterprise fund; however, the City accounts for the activities on a modified accrual basis, similar to governmental funds. As a result, certain assets, such as inventories of supplies, capital projects and fixed assets, cer-

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tain liabilities, such as capital leases and accrued expenses, and certain expenses, such as depreciation, have not been recorded as required by generally accepted accounting principles for enterprise funds. Also, the fixed assets that are reported are not supported by a fixed asset ledger, nor is annual depreciation recorded. The amount by which reported amounts differ from generally accepted accounting principles could not be determined.

The general purpose financial statements referred to above do not include financial activities of the Springfield Redevelopment Authority (a component unit of the City), which should be included in order to conform with generally accepted accounting principles.

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had we been able to examine sufficient evidential matter supporting fixed asset balances in the Enterprise Fund, and except for the effects of the items described in the fourth through sixth paragraphs, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the City of Springfield, Massachusetts as of June 30, 2001 (and December 31, 2000 for the Contributory Retirement System) and the results of its operations and cash flows of its proprietary fund types and similar trust funds for the year(s) then ended, in conformity with accounting principles generally accepted in the United States of America.

The supplementary pension information on page 33 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 5, 2001 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

- *Melanson, Heath & Company, P. C.*

Greenfield, Massachusetts
October 5, 2001

CITY OF SPRINGFIELD, MASSACHUSETTS

Combined Balance Sheet -
All Fund Types and Account Group

June 30, 2001

ASSETS	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types Trust and Agency	Account Group General Long-Term Debt	Totals (Memorandum Only)	Contributory Retirement System as of 12/31/00
	General	Special Revenue	Capital Project	Enterprise	Internal Service				
Cash and cash equivalents	\$ 17,070,258	\$ 14,182,439	\$ 5,388,392	\$ 123,911	\$ 457,128	\$ 12,835,101	\$ -	\$ 50,057,229	\$ 1,855,068
Investments	-	863,642	-	-	-	321,071	-	1,184,713	280,040,128
Receivables:									
Property taxes	16,170,026	-	-	-	-	-	-	16,170,026	-
Tax liens and foreclosures	22,015,149	-	-	-	-	-	-	22,015,149	-
Excises	10,207,340	-	-	-	-	-	-	10,207,340	-
Other receivables, net of allowance	308,541	-	-	-	-	-	-	308,541	871,356
Due from other governments	4,013,931	12,777,370	-	-	-	-	-	16,791,301	-
Other assets	-	112	-	-	-	-	-	112	1,744,283
Inventory	-	-	-	-	719,599	-	-	719,599	-
Property, plant and equipment	-	-	-	211,148	-	-	-	211,148	-
Amount to be provided for long-term obligations	-	-	-	-	-	-	116,721,919	116,721,919	-
Amount to be provided by Commonwealth	-	-	-	-	-	-	120,713,775	120,713,775	-
Amounts to be provided by other governments	-	-	-	-	-	-	5,880,081	5,880,081	-
Total Assets	\$ 69,785,245	\$ 27,823,563	\$ 5,388,392	\$ 335,059	\$ 1,176,727	\$ 13,156,172	\$ 243,315,775	\$ 360,980,933	\$ 284,510,835

LIABILITIES AND FUND EQUITY

Liabilities:									
Warrants payable	\$ 3,827,161	\$ 4,414,944	\$ 4,243,502	\$ 15,294	\$ 200,707	\$ 1,006,222	\$ -	\$ 13,707,830	\$ -
Accounts payable	225,660	97,273	1,948,982	-	-	-	-	2,271,915	1,581,801
Deferred revenues	47,661,687	-	-	-	-	-	-	47,661,687	-
Accrued payroll and withholdings	2,455,545	-	-	-	-	-	-	2,455,545	-
Notes payable	-	-	127,310,000	-	-	-	8,585,000	136,895,000	-
Due to other governments	-	-	-	-	-	10,352,265	1,350,334	11,702,599	-
Interest payable	2,515,966	-	-	-	-	-	-	2,515,966	-
Accrued claims payable	-	-	-	-	8,228,786	-	-	8,228,786	-
Accrued compensated absences	-	-	-	-	-	-	4,994,080	4,994,080	-
General obligation long-term debt	-	-	-	-	-	-	198,866,092	198,866,092	-
Guaranteed loans - water and sewer	-	-	-	-	-	-	5,880,081	5,880,081	-
Capital lease obligations	-	-	-	-	-	-	7,265,546	7,265,546	-
Court judgment payable	-	-	-	-	-	-	550,000	550,000	-
Landfill closure	-	-	-	-	-	-	7,257,463	7,257,463	-
Reserve for tax refund	851,980	-	-	-	-	-	8,567,179	9,419,159	-
Other liabilities	867,823	-	-	-	-	-	-	1,115,039	-
Total Liabilities	\$ 58,405,822	\$ 4,512,217	\$ 133,502,484	\$ 15,294	\$ 8,429,493	\$ 247,216	\$ 243,315,775	\$ 459,786,788	\$ 1,581,801
Fund Equity:									
Retained earnings	-	-	-	72,598	(7,252,766)	-	-	(7,180,168)	-
Contributed capital	-	-	-	211,148	-	-	-	211,148	-
Fund balances:									
Reserved for endowments	-	-	-	-	-	800,026	-	800,026	-
Reserved for encumbrances	4,071,190	-	-	36,019	-	-	-	4,107,209	-
Reserved for expenditures	3,000,000	-	-	-	-	-	-	3,000,000	-
Reserved for retirement	-	-	-	-	-	-	-	-	-
Unreserved undesignated	4,308,233	23,311,346	(128,114,092)	-	-	750,443	-	(99,744,070)	282,929,034
Total Fund Equity	\$ 11,379,423	\$ 23,311,346	\$ (128,114,092)	\$ 319,755	\$ (7,252,766)	\$ 1,550,469	\$ -	\$ (98,805,855)	\$ -
Total Liabilities and Fund Equity	\$ 69,785,245	\$ 27,823,563	\$ 5,388,392	\$ 335,059	\$ 1,176,727	\$ 13,156,172	\$ 243,315,775	\$ 360,980,933	\$ 284,510,835

See accompanying notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

Combined Statement of Revenues, Expenditures, and
Changes in Fund Equity
All Governmental Fund Types and Expendable Trust Funds

For the Year Ended June 30, 2001

	Governmental Fund Types			Eiduciary Fund Types Expendable Trust	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects		
Revenues:					
Property taxes	\$ 103,378,580	-	-	\$ -	\$ 103,378,580
Excise	6,789,291	-	-	-	6,789,291
Penalties, interest and other taxes	7,876,801	-	-	-	7,876,801
Charges for services	10,182,976	14,166,142	-	49,690	24,398,808
Intergovernmental	262,901,301	93,036,710	1,704,030	-	357,642,041
Licenses and permits	1,639,763	-	-	-	1,639,763
Fines and forfeitures	1,330,892	-	-	-	1,330,892
Interest earnings	1,043,169	76,440	-	11,944	1,131,553
Miscellaneous	500	-	51,442	-	51,942
Contributions	-	-	-	426,789	426,789
Total Revenues	<u>395,143,273</u>	<u>107,279,292</u>	<u>1,755,472</u>	<u>488,423</u>	<u>504,666,450</u>
Expenditures:					
Current:					
General government	17,624,486	35,027,020	5,214,875	33,087	57,899,468
Public safety	59,661,132	5,473,182	3,848,749	29,264	69,012,327
Education	212,240,857	-	46,220,190	-	310,270,825
Public works	16,347,071	13,355,297	2,450,086	38,000	32,190,454
Human services	2,558,785	2,484,815	-	-	5,043,600
Culture and recreation	11,559,550	1,336,898	4,861,168	551,122	18,308,738
Employee benefits	49,032,476	-	-	-	49,032,476
Miscellaneous	544,202	-	-	-	544,202
Debt service	30,452,690	-	-	-	30,452,690
Intergovernmental	2,542,942	-	-	-	2,542,942
Total Expenditures	<u>402,564,191</u>	<u>109,486,990</u>	<u>62,595,068</u>	<u>651,473</u>	<u>575,297,722</u>
Excess (deficiency) of revenues over expenditures	(7,420,918)	(2,207,698)	(60,839,596)	(163,050)	(70,631,262)
Other Financing Sources (Uses):					
Operating transfers in	(490,000)	112	490,000	-	490,112
Operating transfers out	(490,000)	-	(112)	-	(490,112)
Total Other Financing Sources (Uses)		<u>112</u>	<u>489,888</u>		
Excess (deficiency) of revenues and other sources over expenditures and other uses	(7,910,918)	(2,207,586)	(60,349,708)	(163,050)	(70,631,262)
Fund Equity, July 1, 2000, Restated	19,290,341	25,518,932	(67,764,384)	913,493	(22,041,618)
Fund Equity, June 30, 2001	<u>\$ 11,379,423</u>	<u>\$ 23,311,346</u>	<u>\$ (128,114,092)</u>	<u>\$ 750,443</u>	<u>\$ (92,672,890)</u>

See accompanying notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

Statement of Revenues and Other Sources,
and Expenditures and Other Uses
Budget and Actual - General Fund

For the Year Ended June 30, 2001

	Budget	Actual	Variance Favorable (Unfavorable)
Revenues and Other Sources:			
Taxes	\$ 103,476,644	\$ 103,476,644	\$ -
Excise	7,591,785	6,789,291	(802,494)
Penalties, interest and other taxes	8,416,427	7,876,801	(539,626)
Charges for services	8,482,663	10,339,590	1,856,927
Intergovernmental	242,053,108	242,387,423	334,315
Licenses and permits	1,703,787	1,639,763	(64,024)
Fines and forfeits	1,539,802	1,330,892	(208,910)
Interest earnings	1,235,065	1,043,169	(191,896)
Miscellaneous	-	500	500
Other sources	<u>2,500,000</u>	<u>2,500,000</u>	<u>-</u>
 Total Revenues and Other Sources	 376,999,281	 377,384,073	 384,792
Expenditures and Other Uses:			
General government	17,255,502	17,235,291	20,211
Public safety	59,558,671	59,394,425	164,246
Education	188,824,475	188,824,475	-
Public works	15,615,427	16,057,018	(441,591)
Human services	2,492,688	2,492,678	10
Culture and recreation	11,422,815	11,422,788	27
Debt service	29,380,346	29,321,713	58,633
Intergovernmental	2,825,577	3,035,552	(209,975)
Benefits	48,858,780	48,709,303	149,477
Miscellaneous	275,000	271,366	3,634
Transfers out	<u>490,000</u>	<u>490,000</u>	<u>-</u>
 Total Expenditures and Other Uses	 <u>376,999,281</u>	 <u>377,254,609</u>	 <u>(255,328)</u>
 Excess (deficiency) of revenues and other sources over expenditures and other uses	 <u>\$ -</u>	 <u>\$ 129,464</u>	 <u>\$ 129,464</u>

See accompanying notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

Combined Statement of Revenues, Expenses and Changes in
Retained Earnings/Fund Equity -
All Proprietary Fund Types and Similar Trust Funds

For the Year Ended June 30, 2001

	Proprietary Fund Types		Fiduciary	Totals
	Enterprise	Internal Service	Fund Type Nonexpendable Trust	(Memorandum Only)
Operating Revenues:				
Charges for services	\$ 522,486	\$ 47,378,153	\$ -	\$ 47,900,639
Total Operating Revenues	522,486	47,378,153	-	47,900,639
Operating Expenses:				
Personnel	256,644	-	-	256,644
Operating	177,259	-	-	177,259
Materials and supplies	50,814	2,011,869	-	2,062,683
Claims	-	48,598,620	-	48,598,620
Other	1,912	-	-	1,912
Total Operating Expenses	486,629	50,610,489	-	51,097,118
Operating Income (Loss)	35,857	(3,232,336)	-	(3,196,479)
Nonoperating Revenue (Expenses):				
Gain/(loss) on investments	-	-	(59,169)	(59,169)
Investment income	-	-	14,274	14,274
Total Nonoperating Revenues (Expenses)	-	-	(44,895)	(44,895)
Net Income (Loss)	35,857	(3,232,336)	(44,895)	(3,241,374)
Retained Earnings, beginning of year	283,908	(4,020,430)	844,921	(2,891,601)
Retained Earnings, end of year	\$ 319,765	\$ (7,252,766)	\$ 800,026	\$ (6,132,975)

See accompanying notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

Statement of Changes in Plan Net Assets
Pension Trust Fund

Year Ended December 31, 2000

Additions:

Contributions:

Employers	\$ 19,413,702
Plan members	10,706,008
Reimbursements from Federal grants	787,310
Reimbursements from Commonwealth of Massachusetts	2,908,426
Reimbursements from other systems	<u>118,625</u>
Total contributions	33,934,071

Investment Income:

Interest and dividends	11,309,849
Realized gain/(loss) on sale of investments	(3,105,560)
Net appreciation/(depreciation) in fair value of investments	(5,844,346)
Less: management fees	<u>(1,072,624)</u>
Net investment income	<u>1,287,319</u>

Total additions 35,221,390

Deductions:

Benefit payments to plan members and beneficiaries	34,485,180
Reimbursements to other systems	832,033
Refunds and transfers of plan member accounts to other system	1,386,461
Administrative expenses	<u>589,763</u>
Total deductions	<u>37,293,437</u>

Net increase (decrease) (2,072,047)

Net assets held in trust for pension benefits:

Beginning of year	<u>285,001,081</u>
End of year	<u>\$ 282,929,034</u>

See accompanying notes to general purpose financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

Combined Statement of Cash Flows
All Proprietary Fund Types and Similar Trust Funds

For the Year Ended June 30, 2001

	<u>Proprietary Fund Types</u>		Fiduciary Fund Type Nonexpendable Trust	Totals (Memorandum Only)
	<u>Enterprise</u>	<u>Internal Service</u>		
Cash Flows From Operating Activities:				
Operating income (loss)	\$ 35,857	\$ (3,232,336)	\$ -	\$ (3,196,479)
Adjustments to reconcile operating income to net cash:				
Provided for operating activities:				
(Increase) decrease in current assets:				
Inventory	-	(66,546)	-	(66,546)
Increase (decrease) in current liabilities:				
Warrants and accounts payable	(8,366)	73,746	-	65,380
Accrued claims payable	-	2,417,229	-	2,417,229
Net Cash Provided by (Used for) Operating Activities	<u>(8,366)</u>	<u>2,424,429</u>	<u>-</u>	<u>2,416,063</u>
Cash Flows for Investing Activities:				
Net investment income	-	-	(44,895)	(44,895)
Sale of investments	-	-	59,169	59,169
Net Cash Provided by (Used for) Investing Activities	<u>-</u>	<u>-</u>	<u>59,169</u>	<u>59,169</u>
Net increase (decrease) in cash	-	-	-	-
Cash and Cash Equivalents, July 1, 2000	<u>96,420</u>	<u>1,265,035</u>	<u>505,681</u>	<u>1,867,136</u>
Cash and Cash Equivalents, June 30, 2001	<u>\$ 96,420</u>	<u>\$ 1,265,035</u>	<u>\$ 505,681</u>	<u>\$ 1,867,136</u>
Reconciliation of trust and agency fund cash:				
Nonexpendable			\$ 519,955	
Expendable			789,461	
Agency			<u>11,525,685</u>	
Total			<u>\$ 12,835,101</u>	

See accompanying notes to financial statements.

City of Springfield, Massachusetts
Notes to General Purpose Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The government is a municipal corporation governed by an elected City Council. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable, except as described in the following paragraph.

In fiscal year 2001, it was determined the Springfield Redevelopment Authority met the required GASB-14 criteria of a component unit; however, their financial activities are not included in the City's financial statements.

B. Basis of Presentation - Fund Accounting

For reporting purposes, the financial activities of the City are accounted for through the use of several funds and account groups. Each fund is a separate accounting entity with self-balancing accounts. The following types of funds and account groups are used by the City:

Governmental Fund Types

Governmental funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in fiduciary and proprietary funds) are accounted for through governmental funds. The measurement focus is based upon determination of changes in financial position, rather than upon net income determination. The following are the City's governmental fund types:

General Fund - To account for all financial activities of the City, except those required to be accounted for in another fund. Most revenues and expenditures of a general governmental nature are accounted for in this fund.

Special Revenue Funds - To account for the proceeds of specific revenue sources (other than expendable trusts or for major capital projects) that are legally restricted to expenditures for special purposes.

Capital Project Funds - Transactions related to resources obtained and used for the acquisition, construction, or improvement of major capital facilities are accounted for in capital project funds. Such resources are derived principally from proceeds of general obligation bond issues and from Federal and State grants.

Proprietary Fund Types

Proprietary funds are used to account for the City's ongoing organizations and activities which are similar to those often found in the private sector. The measurement focus is upon determination of net income. The following are the City's proprietary fund types:

Enterprise Funds - To account for operations which are supported primarily by user charges. The City's only enterprise fund is the Parking Fund.

Internal Service Funds - To account for goods or services provided by one City department or agency to other City departments or agencies. The Internal Service Fund is used to report the City's Working Capital Fund and Self Insurance Fund.

Fiduciary Fund Types

Fiduciary funds are used to account for assets held by the City in a trustee capacity. The City maintains the following fiduciary fund types:

Expendable Trust Funds - These funds are accounted for in essentially the same manner as governmental funds.

Nonexpendable Trust Funds - These funds are used to account for assets held by the City in a trustee capacity. The principal balance cannot be spent; however, investment earnings may be spent for intended purposes.

Pension Trust Fund - This fund is used to account for the accumulation of assets used to fund current and future pension benefits.

Agency Funds - These funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Account Groups

Account groups are used to establish accounting control and accountability for the City's general long-term obligations. The following account group is maintained by the City.

General Long-Term Debt Account Group - This account group is used to account for all long-term obligations of the City.

C. Basis of Accounting

The basis of accounting used for each fund is as follows:

Modified Accrual Basis (Governmental, Expendable Trust and Agency Funds)

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental and expendable trust funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is applied in all governmental, expendable trust and agency fund types. Accordingly, revenues are recorded when susceptible to accrual, that is, both measurable and available to finance expenditures of the current period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property tax revenue available if received within 60 days after the close of the fiscal year. All other amounts not received during that period are deferred and recognized in future accounting periods.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of these revenues: (1) revenues recognized based upon the expenditures recorded, and (2) revenues recognized at the time of receipt or earlier, if the susceptible to accrual criteria is met.

Other revenues (except investment earnings) are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are measurable and available.

Expenditures, except for interest on long-term debt which is recorded when due, landfill closure and postclosure costs, unfunded tax refunds, and vacation, sick and pension costs because these amounts are not expected to be relieved within the current accounting period, are recorded when the related fund liability is incurred.

Accrual Basis (Proprietary, Nonexpendable and Pension Trust Funds)

All proprietary, nonexpendable and pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and liabilities associated with the operation of these funds are included on the balance sheet. Fund equity (i.e., net total assets) is segregated into contributed capital and retained earnings components. Proprietary fund type operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in net total assets.

The accrual basis of accounting is used by proprietary (except as discussed in Note 2), nonexpendable and pension trust funds. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. The City has elected to apply to the proprietary funds accounting principles applicable to the private sector issued through November 30, 1989, unless those principles conflict with or contradict pronouncements of the Governmental Accounting Standards Board.

D. Cash and Cash Equivalents

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue funds 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. The City maintains a cash and investment pool 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 cash equivalents". The interest earnings attributable to each fund type is included under earnings on investments.

For purpose of the statement of cash flows, the proprietary funds and non-expendable trust funds consider investments with original maturities of three months or less to be cash equivalents.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investment available to the City. 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 less than one year from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments for the Contributory Retirement System and Trust Funds consist of marketable securities, bonds and short-term money market investments and are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue the City can derive 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 or debt exemption is voted. The actual fiscal year 2001 tax levy reflected an excess capacity of \$ 3,401.

G. Inventories

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund-type inventories are recorded as expenditures when purchased rather than when consumed. No significant inventory balances were on hand in governmental funds.

H. Long-Term Obligations

The government reports long-term debt of governmental funds at face value in the general long-term debt account group. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the general long-term debt account group.

I. Accrued Employee Benefits

City employees are granted vacation and sick leave in varying amounts. Upon retirement, termination, or death, certain employees are compensated for unused sick and vacation leave which is (subject to certain limitations) at their then current rates of pay. The cost of this unused sick and vacation leave, which is expected to be paid from future financial resources, is accounted for as a liability of the general long-term debt account group.

J. Fund Equity

Reservations of fund balance represent amounts that are not appropriable or are legally segregated for a specific purpose. Reservations of retained earnings are limited to outside third-party restrictions. The proprietary fund's contributed capital represents the value of its fixed assets at the time the enterprise funds were established.

K. Encumbrance Accounting and Reporting

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities.

L. Memorandum Only - Total Columns

Total columns on the general purpose financial statements are captioned as "memorandum only" because they do not represent consolidated financial information and are presented only to facilitate financial analysis. The columns do not present information that reflects financial position, results of operations, or cash flows in accordance with generally accepted accounting principles. Interfund eliminations have not been made in the aggregation of this data.

2. Departures from Generally Accepted Accounting Principles

The significant departures of the City's financial statements from generally accepted accounting principles are as follows:

- General fixed asset acquisitions (non-enterprise) are not capitalized in a general fixed asset group of accounts.
- The City has established a separate enterprise fund; however, the City accounts for activities on a modified accrual basis similar to governmental funds. As a result, certain assets, such as inventories of supplies, capital projects and fixed assets, certain liabilities, such as capital leases and accrued expenses, and certain expenses, such as depreciation, have not been recorded as required by generally accepted accounting principles for enterprise funds. The amount by which the actual value for these accounts varies from amounts recorded cannot be determined at this time.
- Fixed assets recorded in the City's Enterprise Funds are not supported by a fixed asset ledger nor is annual depreciation recorded. The amount by which reported amounts differ from generally accepted accounting principles could not be determined.
- Activity related to the Springfield Redevelopment Authority, a component unit, should be included to conform to 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 the annual 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 appropriation appearing on page 5 of the financial statements represents the final amended budget of the City and was authorized as follows:

2001 annual appropriations	\$ 370,482,484
2001 supplemental appropriations	3,691,220
Statutory County and State assessments	<u>2,825,577</u>
Total Appropriation	\$ <u>376,999,281</u>

C. Budget/GAAP Reconciliation

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with 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)	\$ 395,143,273	\$ 402,564,191
Other financing sources/uses (GAAP basis)	-	490,000
Adjust tax revenue to accrual basis	254,678	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(8,881,484)
Add end of year appropriation carryforwards to expenditures	-	4,071,190
Adjust for GAAP accrual entries budgeted in a previous or subse- quent year	-	(968,020)
Adjust State and County charges for prior year over/under assessments	-	492,610
To reverse effect of non-budgeted State contributions for teachers retirement	(20,513,878)	(20,513,878)
Recognize budgeted, non-cash sources/uses of funds	<u>2,500,000</u>	<u>-</u>
Budgetary basis	<u>\$ 377,384,073</u>	<u>\$ 377,254,609</u>

D. Excess of Expenditures Over Appropriations

The City had expenditures exceeding appropriations as follows:

Snow and Ice	\$ 442,742
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E. Deficit Fund Equity

The following funds had deficits as of June 30, 2001:

Special Revenue Funds:	
MCDI	\$ 25,566
Payroll Refunds	35,201
Tech Challenge	38,930
Forest Park Zoo	58,427
HCETC	97,839
Internal Service Funds:	
Self Insurance Fund	8,169,442
Expendable Trust Funds:	
Winterset Drive	69,432

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

The Capital Projects fund reflects a deficit which is the result of the City financing projects in advance of permanent borrowing. This deficit will be eliminated when bonds are issued for these projects.

4. Cash and Cash Equivalents

The carrying amount of the City's and Retirement System's deposits with financial institutions at June 30, 2001 and December 31, 2000 was \$ 50,057,229 and \$ 1,855,068, respectively. The bank balances, which do not include reconciling items such as deposits in transit and outstanding checks, are categorized as follows:

	<u>City Deposits June 30, 2001</u>	<u>Retirement System Deposits December 31, 2000</u>
Amount insured by the FDIC and DIFM, or collateralized with securities held by the City in its name	\$ 770,748	\$ 100,000
Amount collateralized with securities held by the pledging financial institution's trust department in the City's name	12,171,020	3,152,088
Uncollateralized	30,013,323	77,686
State investment pool	<u>10,033,439</u>	<u>-</u>
Total Bank Balance	\$ <u>52,988,530</u>	\$ <u>3,329,774</u>

5. Investments

The City's investments are categorized into the following three categories of credit risk:

- (1) Insured or registered, or securities held by the City or its agent in the City's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the City's name.

At year end, the government's investment balances were as follows (in thousands):

	Category			Market Value
	1	2	3	
Short-term investments	\$ -	\$ -	\$ 341	\$ 341
Corporate stock	-	-	276	276
Bonds	4	-	-	4
Equities	-	-	564	<u>564</u>
Total				\$ <u>1,185</u>

For the purposes of valuation, the Nonexpendable Trust fund investments are categorized as available for sale and are recorded at market value.

At December 31, 2000, the City's Retirement System's investment balances were as follows (in thousands):

	Category			Market Value
	1	2	3	
Short-term investments	\$ -	\$ -	\$ 14,028	\$ 14,028
Fixed income	-	-	115,319	115,319
Equities	-	-	150,693	<u>150,693</u>
Total				\$ <u>280,040</u>

6. Taxes Receivable

Real and personal property taxes are based on assessed values as of the previous January 1 and are normally due on a quarterly basis. By law, all taxable property must be assessed at 100% of fair cash value. Taxes due and unpaid after the due dates are subject to interest and penalties. The City has an ultimate right to foreclose on property for unpaid taxes.

The following is a summary of the property tax calendar used for the 2001 tax levies:

June 30, 2000:

First quarterly real estate tax bills are mailed to taxpayers. This bill is approximately equal to one quarter of the prior year's tax levy.

August 1, 2000:

First quarter preliminary tax bills are due. All bills paid after this date are charged interest at the rate of 14% from the due date.

September 29, 2000:

The second quarter real estate tax bills are mailed to taxpayers. This bill is approximately equal to one quarter of the prior year's tax levy.

November 1, 2000:

The second quarter preliminary tax bills are due. All bills paid after this date are charged interest at the rate of 14% from the due date.

December 29, 2000:

The third quarter real estate and personal property tax bills are mailed to taxpayers. This bill is approximately equal to one half of the current tax levy less preliminary payments.

February 1, 2001:

The third quarter tax bills are due. All bills paid after this date are charged interest at the rate of 14% from the due date.

March 31, 2001:

The fourth quarter real estate and personal property tax bills are mailed to taxpayers. This is for the remainder of the tax levy.

May 1, 2001:

The fourth quarter tax bills are due. All bills paid after this date are charged interest at the rate of 14% from the due date.

Fourteen days after the due date for the fourth quarter 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.

Taxes receivable at June 30, 2001 consist of the following (in thousands):

Real Estate		
2001	\$ 7,778	
2000	4,524	
1999	(76)	
Prior	<u>1,048</u>	
		13,274
Personal Property		
2001	167	
2000	81	
1999	130	
Prior	<u>2,518</u>	
		<u>2,896</u>
Total		\$ <u>16,170</u>

7. Other Receivables

The other receivable balance in the general fund is shown net of a reserve for uncollectible accounts for the Veterans Department of \$ 293,900.

8. Due From Other Governments

The due from other governments balance in the General Fund represents Medicaid reimbursement which was received in fiscal year 2002. The due from other governments balance in the other funds represents various grant awards reimbursement requests expected to be received in fiscal year 2002.

9. Amount to be Provided by Commonwealth

The balance in this account represents the portion of bonds payable expected to be reimbursed through the Commonwealth's School Building Assistance Bureau (SBAB). SBAB reimburses the City for 75 to 90 percent of certain qualifying bond issues. These reimbursements are subject to annual appropriations by the State legislature.

10. Amounts to be Provided by Other Governments

The balance in this account represents the portion of bonds payable issued through the City and reimbursed by the Springfield Water and Sewer Commission.

11. Warrants and Accounts Payable

Warrants payable represent 2001 expenditures paid by July 15, 2001 as permitted by law. Accounts payable represent additional 2001 expenditures paid after July 15, 2001.

12. Deferred Revenue

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2001 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections. The City's statutory "allowance for abatements and exemptions" (overlay) account, with a balance of \$ 17,834,097 has been reclassified to deferred revenue for reporting purposes.

13. Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2001:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2001</u>
Bond anticipation	3.50%	1/12/01	8/30/01	\$ 59,010,000
Bond anticipation	4.88%	11/03/00	11/03/01	35,000,000
Bond anticipation	3.88%	2/23/01	2/22/02	<u>33,300,000</u>
Total				\$ <u>127,310,000</u>

The City had an additional \$ 8,585,000 in notes payable which was classified as long-term debt at June 30, 2001. See Footnotes 14 and 27.

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. Payment is not limited to a particular revenue source. However, as previously noted, the City's ability to raise property taxes is restricted by the enactment of legislation known as "Proposition 2 1/2". General obligation bonds currently outstanding are as follows:

<u>Bonds Payable:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate (s)%</u>	<u>Amount Outstanding as of June 30, 2001</u>
<u>Inside Debt Limit:</u>			
Multi-purpose of 1991	5/01/02	7.75 - 7.80	\$ 290,000
Refunding bonds of 1992	9/01/03	3.40 - 6.25	1,405,000
Multi-purpose of 1997	9/01/15	4.25 - 5.65	13,860,000
Multi-purpose of 1993	1/15/16	4.75 - 6.00	8,017,000
School construction	11/15/18	3.50 - 5.25	1,825,000
Multi-purpose of 2000	10/01/19	4.50 - 6.25	<u>7,155,000</u>
Total Inside Debt Limit:			32,552,000
<u>Outside Debt Limit:</u>			
Refunding bonds of 1993	9/01/04	2.75 - 5.05	1,995,000
RMJ School	9/01/04	3.40 - 6.25	4,015,000
EPA asbestos removal	7/28/05	-	464,092 **
Refunding bonds of 1996	8/01/11	4.35 - 6.375	23,270,000
Mass Mutual/Milton Bradley school	8/01/14	4.35 - 6.375	12,765,000
Multi-purpose of 1997	9/01/15	4.25 - 5.65	28,630,000
School construction	11/15/18	3.50 - 5.25	54,275,000
School construction	10/01/19	4.50 - 6.25	32,250,000
Multi-purpose of 2000	10/01/19	4.50 - 6.25	<u>8,650,000</u>
Total Outside Debt Limit:			<u>166,314,092</u>
Total Bonds Payable			<u>\$ 198,866,092</u>
<u>Notes Payable:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate (s)%</u>	<u>Amount Outstanding as of June 30, 2001</u>
Hospital deficit bond anticipation note	6/22/02	3.25	\$ <u>8,585,000*</u>
Total Notes Payable			<u>\$ 8,585,000</u>

- * The City's hospital deficit bond anticipation note will be repaid over a ten year period beginning in fiscal year 1997 by issuing one year notes for lesser amounts each year.
- ** In 1986, the U.S. Environmental Protection Agency sponsored a no interest rate loan program to enable the City to remove asbestos from public buildings. The loan amount was revised in 1993 at the project's completion. The revised 1993 loan amount was \$ 1,785,709. The balance at June 2001 was \$ 464,092, which the City will repay in annual installments of \$ 99,206 until fiscal year 2006.

B. Guaranteed Loans - Water and Sewer Commission

The City has issued debt through general obligation bonds and the Massachusetts Water Pollution Abatement Trust (MWPAT) on behalf of the Springfield Water and Sewer Commission, a separate reporting entity. While this debt is an obligation of the City, it is to be reimbursed by the Commission. Outstanding debt related to the Water and Sewer Commission at June 30, 2001 is as follows:

	<u>Serial Maturities Through</u>	<u>Interest Rate (s)%</u>	<u>Amount Outstanding as of June 30, 2001</u>
General obligation (refunding) bonds	5/01/02	7.75 - 7.80	\$ 10,000
General obligation bond	9/01/03	3.40 - 6.25	285,000
MWPAT	2/01/15	1.00 - 2.75	2,988,254
MWPAT	2/01/15	1.00 - 2.75	1,193,827
General obligation bond	1/15/16	4.75 - 6.00	<u>1,403,000</u>
Total Guaranteed Loans			<u>\$ 5,880,081</u>

C. Future Debt Service

The annual principal and interest payments to retire all general obligation long-term debt outstanding (excluding notes payable) as of June 30, 2001 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2002	\$ 12,225,206	\$ 10,172,955	\$ 22,398,161
2003	12,463,206	9,589,558	22,052,764
2004	12,442,206	8,962,294	21,404,500
2005	12,307,206	8,295,367	20,602,573
2006	11,645,268	7,643,959	19,289,227
Thereafter	<u>137,783,000</u>	<u>47,302,716</u>	<u>185,085,716</u>
Total	<u>\$ 198,866,092</u>	<u>\$ 91,966,849</u>	<u>\$ 290,832,941</u>

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2001 are as follows:

<u>Purpose</u>	<u>Amount</u>
Departmental equipment	\$ 4,545
Remodel public buildings	970
City Hall remodeling	4,000
Remodel public buildings	2,000
Departmental equipment	1,500
Remodel public building	1,060,000
Sewer construction	40,000
Composting facility	400,000
Landfill closeout	5,000,000
Aerial mapping	445,000
Improvements to wastewater treatment plant	410,000
Five Mile Pond Park renovations	500,000
Aeration basin upgrade	4,749,909
Repair school roofs	835,000
Construction of facility and trailway	250,000
Develop and design computer software	242,000
Remodel public buildings	3,996,000
Baseball stadium design and construction	2,000,000
Forest Park aquatic garden restoration	800,000
Departmental equipment	240,000
Departmental equipment	627,000
Acquire land - Boston Road/Parker Street	2,000,000
Remodel public buildings	2,000,000
Street construction	909,360
Sidewalk construction	500,000
Remodel public buildings	2,000,000
Remodel/reconstruct Commerce High	4,500,000
Remodel/reconstruct New Chestnut Middle School	15,000,000
Replace radio tower - Police Dept.	150,000
Infiltration/inflow pilot rehab.	400,000
Aeration basin upgrade	1,406,585
Dept. equipment - library and museums	300,000
West Columbus urban renewal Amend. #3	700,000
Hospital deficit bond	8,585,000
Relocation - York St. pump station	7,000,000
Emergency repairs various City schools	1,000,000
Improvements to Franconia and Veterans Golf	2,120,000
Emergency repairs - various City schools	2,000,000
Acquisition/demolition - condemned City property	2,306,143
Harris Elementary School - architectural design and construction management	1,300,000
VanSickle School - remodeling and reconstruction	4,000,000
Qual Zone Academy	6,406,000
Boland Learning Center - architectural design	1,700,000
Library and museum remodeling	4,000,000
Qual Zone Academy	1,409,000
Fire and safety complex	4,500,000
VanSickle School - remodeling	48,300,000

(continued)

(continued)	<u>Purpose</u>	<u>Amount</u>
	Boland Learning Center - land acquisition	1,000,000
	Harris Elementary School - remodeling	15,100,000
	Boland Learning Center - remodeling	23,285,000
	City parks improvement	2,000,000
	City parks improvement	4,210,000
	Cyr Arena	635,000
	Balliet School - design	1,300,000
	Municipal group repairs	7,300,000
	Forest Park Middle School - design	2,200,000
	Balliet School - remodeling	19,972,919
	Forest Park Middle School - remodeling	27,566,600
	Public building repair	500,000
	Public building repair	2,100,000
	Repair schools	2,900,000
	Fire/safety complex	2,000,000
	Renovate R. Johnson school	<u>1,200,000</u>
	Total	<u>\$ 259,369,531</u>

E. Legal Debt Margin

The City is subject to the General Laws of the Commonwealth of Massachusetts which limits the amount of bonded debt the City may have outstanding to 2 1/2 percent of the valuation of taxable property as last equalized by the Commonwealth's Department of Revenue. The following is a computation of the legal debt margin as of June 30, 2001 (in thousands of dollars):

Equalized valuation - January 1, 2000		\$ <u>4,257,309</u>
Debt limit - 2 1/2% of equalized valuation		\$ 106,433
Total debt outstanding	204,746	
Less debt exempt from limit	<u>(170,496)</u>	(34,250)
Bonds authorized and unissued	259,370	
Less outside limit	<u>(208,216)</u>	(51,154)
Legal Debt Margin		\$ <u>21,029</u>

F. Changes in General Long-Term Liabilities

During the year ended June 30, 2001, the following changes occurred in liabilities reported in the general long-term debt account group (in thousands of dollars):

	Balance July 1, 2000	Additions	Reductions	Balance June 30, 2001
Notes payable	\$ 10,090	\$ -	\$ (1,505)	\$ 8,585
Due to other governments	1,466	-	(116)	1,350
Accrued employee benefits	5,171	-	(177)	4,994
General obligation debt	211,581	-	(12,715)	198,866
Guaranteed loans	6,266	-	(386)	5,880
Capital leases	7,565	-	(299)	7,266
Court judgment	1,050	-	(500)	550
Landfill closure cost	8,687	274	(1,703)	7,258
Reserve for tax refund	<u>7,771</u>	<u>796</u>	<u>-</u>	<u>8,567</u>
Totals	<u>\$ 259,647</u>	<u>\$ 1,070</u>	<u>\$ (17,401)</u>	<u>\$ 243,316</u>

15. Capital Lease Obligations

The City is the lessee of certain equipment under capital leases expiring in various years through 2008. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2001:

2002	\$ 2,539,585
2003	1,950,032
2004	1,419,019
2005	1,399,744
2006	442,824
Thereafter	<u>500,330</u>
Total minimum lease payments	8,251,534
Less amount representing interest	(<u>985,988</u>)
Present Value of Minimum Lease Payments	<u>\$ 7,265,546</u>

16. Court Judgments Payable

In June 1999, the City reached a settlement in a land taking dispute which stipulates payment over several years. The year-end balance of \$ 550,000 will be paid in 2002.

17. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and post-closure care costs as a liability in the general long-term debt account group in each period based on landfill capacity used as of

each balance sheet date. In 1993, the City authorized borrowing \$ 5,000,000 to fund the expected costs of closure. Monitoring costs are expected to be funded from general fund operating budgets.

The \$ 7,257,463 reported as landfill closure and post-closure care liability at June 30, 2001 represents the total estimated cost of \$ 9,144,000 reduced to the estimated capacity of the landfill, less expenses incurred to date. The City estimates the landfill is 98% of capacity at June 30, 2001. The City will recognize the remaining estimated cost of closure and post-closure care of \$ 182,880 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2001. The City expects to close the landfill in 2002 - 2003. The actual life of the landfill may be longer due to increased recycling efforts or if another use for the landfill material (ash) can be found. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

18. Reserve for Tax Refunds

The balance in the general fund represents abatements granted in fiscal year 2001 which are expected to be refunded in fiscal year 2002.

The balance in the general long-term debt group consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

19. Other Liabilities

This balance consists primarily of unclaimed items (tailings).

20. Reserves of Fund Equity

The City has established "reserves" of fund equity to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The City reported the following types of reserves at June 30, 2001:

Reserved for Endowments - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Expenditures - Represents the amount of overlay surplus appropriated to be used for expenditures in the subsequent year budget.

21. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal Accounting System (UMAS). The following paragraphs summarize the major differences.

Special legislation known as Chapter 656, required the City to establish a "stabilization fund" within its general fund. The balance in the stabilization fund has exceeded the amount required by Chapter 656.

Massachusetts General Laws include provisions to allow municipalities to raise overexpended State and County assessments and certain appropriations, such as snow and ice, in the subsequent year's tax rate.

Massachusetts General Laws place restrictions on the use of unexpended bond proceeds. As a result, hospital deficit note proceeds which have not been appropriated at June 30, 2001 are separated through a reserved fund balance.

The financial statements also reflect accruals for tax refunds and short-term interest expenditures due as of June 30, 2001. Massachusetts General Laws do not recognize these accruals.

The following summarizes the specific differences between GAAP basis and statutory basis of reporting the general fund undesignated fund balance:

GAAP basis balance	\$ 4,308,233
Stabilization fund	(5,021,685)
State and County over/under assessments	189,744
Appropriate deficit	441,591
Unexpended bond proceeds	(541,045)
Tax refund due	851,980
Accrued interest payable	<u>2,515,966</u>
Statutory (UMAS) Balance	\$ <u>2,744,784</u>

22. Beginning Fund Balance Restatement

The beginning (July 1, 2000) fund balance in the Special Revenue Funds has been restated (increased) by \$ 787,202 to recognize grant cash held by an outside party and omitted from the fiscal year 2000 financial statements.

23. Subsequent Events

Subsequent Budget Authorization

The financial statements for the City as of June 30, 2001 do not reflect the fiscal 2002 annual budget authorized in June 2001. The amount authorized in June 2001 (general fund) totaled \$ 398,242,166.

Subsequent Temporary Debt

Subsequent to June 30, 2001, the City has incurred the following additional temporary debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Revenue anticipation note	\$ 20,000,000	3.50%	9/14/01	1/11/02

Subsequent Permanent Debt

In August 2001, the City issued \$ 61,316,000 of permanent bonds which carry an interest rate ranging from 3.5% to 5.5% and mature in 2018.

24. Commitments and Contingencies

Outstanding Lawsuits - There are several pending lawsuits 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.

25. Post-Retirement Health Care and Life Insurance Benefits

The City's employee contracts provide for health care and life insurance benefits to retirees, their dependent, or their survivors. These benefits are provided through the City's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 2001 was not available.

26. Contributory Retirement System

A. Summary of Significant Accounting Policies

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

Method Used to Value Investments - Investments are reported in accordance with State (PERAC) guidelines (equity investments at market value and debt investments at amortized cost). Short-term investments are reported at cost, which approximates fair value.

B. Plan Description and Contribution Information

Substantially all employees of the City (except teachers and administrators under contract employed by the School Department) are members of the Springfield Contributory Retirement System (SCRS), a cost sharing, multiple employer PERS. Eligible employees must participate in the SCRS. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the SCRS Retirement Board. Chapter 32 also establishes contribution percentages and benefits paid. The SCRS Retirement Board does not have the authority to amend benefit provisions.

Membership of each plan consisted of the following at January 1, 2000, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	2,721
Terminated plan members entitled to but not yet receiving benefits	364
Active plan members	<u>3,994</u>
Total	<u>7,079</u>
Number of participating employers	3

Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The percentage is determined by the participant's date of entry into the system. All employees hired after January 1, 1979 contribute an additional 2% on all gross regular earnings over the rate of \$ 30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

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

C. Teachers

As required by State statutes, teachers of the City are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The City is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participants date of entry into the system and gross earnings, up to \$ 30,000, as follows:

Before January 1, 1975	5%
January 1, 1975 - December 31, 1983	7%
January 1, 1984 - June 30, 1996	8%
Beginning July 1, 1996	9%

Effective January 1, 1990, all participants hired after January 1, 1979, must pay an additional 2% of salary in excess of \$ 30,000. The City's current year covered payroll for teachers was not available.

In fiscal year 2001, the Commonwealth of Massachusetts contributed \$ 20,513,878 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues reported on page 4.

D. Related Party Transactions

At June 30, 2001, the City owed \$ 1,350,334 to the retirement system for prior years' assessments. This amount is reflected as a receivable in the retirement system and a liability in the City's General Long-Term Debt Account Group.

27. Special Legislation and Appropriations

Hospital Deficit Bonds

In 1996, the Commonwealth passed special legislation (Chapter 112) which allowed the City to issue up to \$ 30,000,000 in "Hospital Deficit" bonds. The act provides, among other things, that the bond proceeds be used to defray costs, expenses and liabilities of the Municipal Hospital or to fund deficits resulting directly or indirectly from hospital operations. In fiscal year 1996, the City issued \$ 15,000,000 in hospital deficit bonds and issued an additional \$ 6,350,000 in fiscal year 1997. At June 30, 2001, the notes payable balance outstanding was \$ 8,585,000. The Massachusetts Department of Revenue has required the City to repay the bonds over ten years.

Water and Sewer Commission

In March 1996, the City Council and Mayor approved acceptance of MGL Ch. 40 N, the "Model Water and Sewer Reorganization Act." Acceptance of this legislation established a separate body politic known as the Water and Sewer Commission of Springfield (the Commission).

In June 1996, the Commission authorized payment of \$ 7,315,933 to the City of Springfield as reimbursement for costs incurred by the City's general fund to construct and install various water and sewer infrastructure. In return for this payment, the Commission was given all rights, title and interest in this infrastructure. The transfer of funds was reflected in the City's 1996 financial statements. The City used the transfer in fiscal year 1997 to fund the teachers' deferral and Chapter 656 budgetary deficits.

While the Commission was established as a separate entity effective April 1, 1997 the financial activities were not fully separated from the City's records until fiscal year 1998.

28. Self Insurance

The City self insures against claims for most employee health coverage. Annual estimated requirements for claims are provided in the City's annual operating budget.

The City's insurance plans are retrospectively rated policies. In other words, the City contributes a level monthly premium which is adjusted quarterly for actual claims paid.

The City contracts with an insurance carrier for excess liability coverage and an insurance consultant for claims processing. Under the terms of its insurance coverage, the City is liable up to \$ 150,000 per incident. The claims liability represents an estimate of claims incurred but unpaid at year end, based on past historical costs and claims paid subsequent to year end.

Changes in the aggregate liability for claims for the year ended June 30, 2001 are as follows:

Claims liability, July 1, 2000	\$ 5,811,557
Claims incurred/recognized in fiscal year 2001	48,598,620
Claims paid in fiscal year 2001	<u>(46,181,391)</u>
Claims liability, June 30, 2001	\$ <u>8,228,786</u>

29. Risk Management

The government 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.

30. GASB No. 34

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement). Certain of the significant changes in the Statement include the following:

- For the first time the financial statements will include:
 - A Management Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all of the City's activities, including reporting infrastructure assets (roads, bridges, etc.).
- A change in the fund financial statements to focus on the major funds.

The general provisions of GASB No. 34 must be implemented by the City of Springfield no later than the fiscal year ending June 30, 2002; the retroactive reporting of infrastructures must be implemented no later than the year ending June 30, 2006.

CITY OF SPRINGFIELD, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Funding Progress and Employer Contributions

The following schedules are presented in accordance with the Governmental Accounting Standards Board Statement 25.

Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a)/c]
1/1/00	\$ 292,172	\$ 515,716	\$ 223,544	56.7%	\$ 126,095	177.3%
1/1/99	\$ 266,826	\$ 490,551	\$ 223,725	54.5%	\$ 110,832	201.9%
1/1/98	\$ 237,262	\$ 439,441	\$ 202,179	54.0%	\$ 104,251	193.9%
1/1/94	\$ 164,561	\$ 298,111	\$ 133,550	55.2%	\$ 89,978	148.4%
1/1/93	\$ 151,322	\$ 289,821	\$ 138,499	52.2%	\$ 81,489	170.0%
1/1/92	\$ 142,305	\$ 282,780	\$ 140,475	50.3%	\$ 81,980	171.4%
1/1/90	\$ 114,439	\$ 260,553	\$ 146,114	43.9%	\$ 75,169	194.4%
1/1/86	\$ 71,187	\$ 279,412	\$ 208,225	25.5%	\$ 73,304	284.1%

Information is only provided for those years in which an actuarial valuation or actuarial update was performed. Information prior to 1986 is not available.

Schedule of Employer Contributions (City share only):

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1992	\$ 14,715,334	100%
1993	14,904,419	98%
1994	14,137,735	95%
1995	14,999,384	95%
1996	15,721,914	94%
1997	16,726,379	100%
1998	15,065,133	100%
1999	16,288,949	100%
2000	16,420,408	100%
2001	16,864,748	100%

The required information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation date	January 1, 2000
Actuarial cost method	Entry age, normal cost
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return	8.5% per annum
Projected salary increases	5.5% per annum
Cost of living adjustments	3% of the lesser of the pension amount and \$ 12,000/ year
Salary cap	The \$ 30,000 salary cap no longer applies for purposes of benefit determination.

See Independent Auditors' Report.