

CITY OF SPRINGFIELD, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2004

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INDEPENDENT AUDITORS' REPORT

Mayor and City Council
City of Springfield, Massachusetts

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 Springfield, Massachusetts, as of and for the year ended June 30, 2004, except for the Springfield Contributory Retirement System which is as of and for the year ended December 31, 2003, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Springfield's management. Our responsibility is to express an opinion 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 opinions.

The basic financial statements referred to above do not include financial activities of the Springfield Redevelopment Authority or the Massachusetts Career Development Institute, Inc. (component units of the City), which should be included in order to conform with generally accepted accounting principles. The audits of these entities are currently underway.

In our opinion, except for the effects of the item described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Springfield, as of June 30, 2004 except the Springfield

Additional Offices:

Nashua, NH • Greenfield, MA • Ellsworth, ME

Contributory Retirement System which is as of December 31, 2003, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on the following pages and supplementary pension information on pages 49 and 50 are not required parts of the basic financial statements but are 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 required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2004 on our consideration of the City of Springfield's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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.

As discussed in Note 25 to the accompanying financial statements, on July 9, 2004, the Massachusetts legislature enacted Chapter 169 of the Acts of 2004 entitled "An Act Relative To The Financial Stability In The City of Springfield." Under Chapter 169, there is an established finance control board ("FCB") vested with comprehensive authority over all of the City's finances, including appropriations, borrowings, transfers of funds, and municipal spending authorizations. Chapter 169 also established a \$ 52 million trust fund from which interest-free loans may be disbursed to the City from time to time on terms and conditions determined by the FCB. Chapter 169 provides that if the FCB concludes its powers are insufficient to restore fiscal stability to the City, the Commonwealth's Secretary of Administration and Finance may terminate the existence of the FCB and appoint a receiver for the City. Under Chapter 169, the receiver would have not only all of the powers of the FCB, but also the power to exercise any function or power of any municipal officer or employee, whether elected or otherwise, including certain powers relative to building and zoning. A receiver would also have the power to file a petition in the name of the City under Chapter 9 of the federal Bankruptcy Code. Upon appointment of a receiver, the office of Mayor would be abolished and other elected officials would serve solely in an advisory capacity.

Melanson, Heath + Company P. C.

Andover, Massachusetts
December 4, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Springfield, we offer readers this narrative overview and analysis of the financial activities of the City of Springfield for the fiscal year ended June 30, 2004.

A. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 18,667,449 (i.e., net assets), an increase of \$ 8,508,181 in comparison to the prior year.
- As of the close of the current fiscal year, governmental funds reported a combined ending fund balance deficit of \$ (10,133,631), an increase of \$ 2,672,252 in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 3,882,756, an increase of \$ 1,614,673 in comparison with the prior year.
- Total long-term debt (i.e., bonds payable) at the close of the current fiscal year was \$ 292,221,703, a decrease of \$ (16,634,576) in comparison to the prior year.

B. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City of Springfield's basic financial statements. The City of Springfield's basic financial statements comprise three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the 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 the City of Springfield's finances in a manner similar to a private-sector business.

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

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets 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 of the City of Springfield 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 of the City of Springfield include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Springfield include parking activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Springfield, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Springfield 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.

The City of Springfield adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The City of Springfield maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Springfield uses enterprise funds to account for its parking operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Springfield's various functions. The City of Springfield uses internal services funds to account for its self-insured employee health program and working capital funds. Because both of 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 government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the enterprise and internal service 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 of Springfield's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the 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 concerning the City of Springfield's progress in funding its obligation to provide pension benefits to its employees.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current fiscal year, presented in thousands.

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 83,053	\$ 77,411	\$ 486	\$ 283	\$ 83,539	\$ 77,694
Capital assets	<u>367,235</u>	<u>376,205</u>	<u>101</u>	<u>24</u>	<u>367,336</u>	<u>376,229</u>
Total assets	450,288	453,616	587	307	450,875	453,923
Long-term liabilities	313,219	364,380	-	-	313,219	364,380
Other liabilities	<u>118,972</u>	<u>79,371</u>	<u>17</u>	<u>13</u>	<u>118,989</u>	<u>79,384</u>
Total liabilities	432,191	443,751	17	13	432,208	443,764

(continued)

(continued)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Net assets:						
Invested in capital assets, net of related debt	35,527	23,999	101	24	35,628	24,023
Restricted	9,203	9,061	-	-	9,203	9,061
Unrestricted	(26,633)	(23,195)	469	270	(26,164)	(22,925)
Total net assets	\$ <u>18,097</u>	\$ <u>9,865</u>	\$ <u>570</u>	\$ <u>294</u>	\$ <u>18,667</u>	\$ <u>10,159</u>

CHANGES IN NET ASSETS
(in thousands)

	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 29,484	\$ 34,564	\$ 761	\$ 685	\$ 30,245	\$ 35,249
Operating grants and contributions	323,819	300,741	-	-	323,819	300,741
Capital grants and contributions	25,281	25,738	-	-	25,281	25,738
General revenues:						
Property taxes	123,589	112,906	-	-	123,589	112,906
Excises	8,680	7,580	-	-	8,680	7,580
Grants and contributions not restricted to specific programs	31,026	38,809	-	-	31,026	38,809
Other	<u>10,587</u>	<u>8,816</u>	<u>-</u>	<u>-</u>	<u>10,587</u>	<u>8,816</u>
Total revenues	552,466	529,154	761	685	553,227	529,839
Expenses:						
General government	49,310	55,774	-	-	49,310	55,774
Public safety	57,477	64,757	-	-	57,477	64,757
Education	301,128	283,089	-	-	301,128	283,089
Public works	22,092	30,762	-	-	22,092	30,762
Human services	5,012	4,896	-	-	5,012	4,896
Culture and recreation	10,789	13,991	-	-	10,789	13,991
Employee benefits	79,542	62,806	-	-	79,542	62,806
Interest on long-term debt	16,095	15,886	-	-	16,095	15,886
Intergovernmental	2,416	2,699	-	-	2,416	2,699
Miscellaneous	373	422	-	-	373	422
Parking operation	-	-	485	545	373	545
Total expenses	<u>544,234</u>	<u>535,082</u>	<u>485</u>	<u>545</u>	<u>544,719</u>	<u>535,627</u>
Increase in net assets	8,232	(5,928)	276	140	8,505	(5,788)
Net assets - beginning of year	<u>9,865</u>	<u>15,793</u>	<u>294</u>	<u>154</u>	<u>10,159</u>	<u>15,947</u>
Net assets - end of year	\$ <u>18,097</u>	\$ <u>9,865</u>	\$ <u>570</u>	\$ <u>294</u>	\$ <u>18,667</u>	\$ <u>10,159</u>

As noted earlier, net assets 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 assets were \$ 18,667,449, an increase of \$ 8,508,181 from the prior year.

A large portion of net assets, \$ 35,628,719 reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets \$ 9,202,820 represents resources that are subject to external restrictions on how they may be used.

Governmental activities. Governmental activities for the year resulted in an increase in net assets of \$ 8,231,897. Key elements of this increase are as follows (in millions):

- General Fund revenues and other financing sources in excess of expenditures and other financing uses \$ 5.5
- Principal bond paydowns exceeding depreciation expense .7
- Decrease in ATB liability tax refunds .7
- Increase in allowance for doubtful accounts (1.7)
- Acquisition of capital assets from sources other than bonds payable 7.1
- Internal Service Fund expenditures in excess of revenues (4.1)

Business-Type Activities. Business-type activities for the year resulted in an increase in net assets of \$ 276,284 due to stronger than anticipated revenue.

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, unreserved 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 a combined ending fund balance deficit of \$(10,133,631), an increase of \$ 2,672,252 in comparison with the prior year. This deficit is attributable to the financing of capital projects with short-term debt. The deficit will be eliminated once per-

manent bonds are issued. Of this total amount, \$ (20,485,992) constitutes unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period \$ 9,620,120, or (2) to generate income to pay for permanent endowments \$ 732,241.

The general fund is the chief operating fund of the City of Springfield. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 3,882,756, while total fund balance was \$ 13,502,876. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents .9 percent of total general fund expenditures, while total fund balance represents 3.1 percent of that same amount.

The fund balance of the City of Springfield's general fund increased by \$ 5,519,988 during the current fiscal year. Key elements of this increase are as follows (in millions):

- Favorable budget results \$ 1.5
- Collection of old taxes 3.2
- Other .8

Proprietary funds. The City of Springfield's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 469,380. The total growth in net assets was \$ 276,284. The key factor in this change was stronger than expected revenues.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

The total original budget was amended during the year to cover additional costs of debt service and health insurance, which were funded by internal transfers.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City of Springfield's investment in capital assets for its governmental and business-type activities as of June 30, 2004 amounts to \$ 367,335,807 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment and park facilities. The total net decrease in the City of Springfield's investment in capital assets for the current fiscal year was approximately nine million dollars.

Major capital asset events during the current fiscal year included the following:

- School renovation/construction/equipment projects.
- City building improvements.

CITY OF SPRINGFIELD'S
CAPITAL ASSETS
(net of depreciation)
(in thousands)

	<u>Governmental</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
Land	\$ 25,824	\$ 25,824	\$ -	\$ -	\$ 25,824	\$ 25,824
Building and system improvements	221,552	226,991	-	-	221,552	226,991
Machinery and equipment	32,545	38,211	101	24	32,646	38,235
Land improvements	27,857	28,068	-	-	27,857	28,068
Construction in progress	<u>59,457</u>	<u>57,111</u>	<u>-</u>	<u>-</u>	<u>59,457</u>	<u>57,111</u>
Total assets	<u>\$ 367,235</u>	<u>\$ 376,205</u>	<u>\$ 101</u>	<u>\$ 24</u>	<u>\$ 367,336</u>	<u>\$ 376,229</u>

Additional information on the City of Springfield's capital assets can be found in the footnotes to the financial statements.

Long-term debt. At the end of the current fiscal year, the City of Springfield had total bonded debt outstanding of \$ 292,221,703, all of which was backed by the full faith and credit of the government.

CITY OF SPRINGFIELD'S
OUTSTANDING DEBT
General Obligation Bonds
(in thousands)

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
General obligation bonds	<u>\$ 292,222</u>	<u>\$ 308,857</u>

The City of Springfield's total debt decreased by \$(16,635) during the current fiscal year.

Additional information on the City of Springfield's long-term debt can be found in the footnotes to the financial statements.

G. ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's fixed costs in fiscal 2004 increased by over \$ 20 million including \$ 6 million in debt service, 4 million in retirement, \$ 8 million in health insurance,

and \$ 2 million in unemployment costs. The City funded the increases by severe reductions in Police \$ 7 million, Fire \$ 3.5 million and other City departments \$ 4 million. The trend continued into the fiscal 2005 budget without the ability to further cut departmental budgets, the unavailability of financial reserves and the deferral of costs from previous years leading to an inability to balance the 2005 budget.

On July 9, 2004, the Massachusetts legislature enacted Chapter 169 of the Acts of 2004 entitled "An Act Relative To The Financial Stability In The City of Springfield." Under Chapter 169, there is established a finance control board ("FCB") vested with comprehensive authority over all of the City's finances, including appropriations, borrowings, transfers of funds, and municipal spending authorizations. The FCB consists of five members, three of whom are appointed by the Commonwealth's Secretary of Administration and Finance (the "Secretary") and the other two of whom are the Mayor and the City Council President. The FCB acts by a majority vote of its members.

Chapter 169 also established a \$ 52 million trust fund subject to the control of the Secretary from which interest-free loans may be disbursed to the City from time to time on terms and conditions determined by the FCB and approved by the Secretary. In balancing the City's fiscal 2005 budget, \$ 37,079,046 has been committed to be drawn down.

Under Chapter 169, the City is required to repay any such loans on a schedule proposed by the FCB and approved by the Secretary with repayments to begin no later than fiscal 2008. The City is required to repay the full balance of any loans by June 30, 2013.

Chapter 169 provides that if the FCB concludes its powers are insufficient to restore fiscal stability to the City, it shall so notify the Secretary, citing reasons. Upon receipt of such notification, the Secretary may terminate the existence of the FCB and appoint a receiver for the City. Under Chapter 169, the receiver would have not only all of the powers of the FCB, but also the power to exercise any function or power of any municipal officer or employee, whether elected or otherwise, including certain powers relative to building and zoning. A receiver would also have the power to file a petition in the name of the City under Chapter 9 of the federal Bankruptcy Code. Upon appointment of a receiver, the office of Mayor would be abolished and other elected officials would serve solely in an advisory capacity.

Under Chapter 169, the FCB is required to submit quarterly reports to the Committee on Ways and Means of each of the Massachusetts Senate and House of Representatives. The reports shall account for all loan funds expended and itemize any stipends paid to members of the FCB. Chapter 169 set forth other provisions concerning tax titles and the award of no-bid contracts.

The unemployment rate for the City of Springfield is currently 6.98 percent, which is a decrease from a rate of 7.9 percent a year ago. This compares to the

state's unemployment rate of 4.3 percent and the national unemployment rate of 5.4 percent.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City of Springfield'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:

Chief Financial Officer
City Auditor
City of Springfield
36 Court Street
Springfield, MA 01103

CITY OF SPRINGFIELD, MASSACHUSETTS

STATEMENT OF NET ASSETS

June 30, 2004

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and cash equivalents	\$ 54,187,139	\$ 486,060	\$ 54,673,199
Investments	182,802	-	182,802
Receivables, net of allowance for uncollectibles:			
Property taxes	996,383	-	996,383
Motor vehicle excise	3,231,440	-	3,231,440
Departmental and other	442,058	-	442,058
Intergovernmental	13,826,118	-	13,826,118
Other assets	656,972	-	656,972
Noncurrent:			
Receivables, net of allowance for uncollectibles	9,530,823	-	9,530,823
Capital assets, net of accumulated depreciation	<u>367,234,434</u>	<u>101,373</u>	<u>367,335,807</u>
TOTAL ASSETS	450,288,169	587,433	450,875,602
LIABILITIES			
Current:			
Warrants payable	12,537,299	-	12,537,299
Accounts payable	412,773	10,860	423,633
Accrued payroll and withholdings	2,857,115	5,819	2,862,934
Accrued liabilities	19,534,557	-	19,534,557
Anticipation notes payable	51,913,000	-	51,913,000
Due to other governments	208,811	-	208,811
Current portion of long-term liabilities:			
Bonds payable	17,166,128	-	17,166,128
Compensated absences	91,434	-	91,434
Notes payable	1,830,000	-	1,830,000
Tax refunds payable	5,418,584	-	5,418,584
Other liabilities	2,546,505	-	2,546,505
Noncurrent:			
Bonds payable	275,055,575	-	275,055,575
Compensated absences	21,400,660	-	21,400,660
Notes payable	1,830,000	-	1,830,000
Tax refunds payable	4,382,807	-	4,382,807
Unamortized bond premium	4,456,046	-	4,456,046
Other	<u>10,550,180</u>	<u>-</u>	<u>10,550,180</u>
TOTAL LIABILITIES	<u>432,191,474</u>	<u>16,679</u>	<u>432,208,153</u>
NET ASSETS			
Invested in capital assets, net of related debt	35,527,345	101,374	35,628,719
Restricted for:			
Federal & State Grants	8,470,578	-	8,470,578
Permanent funds	732,242	-	732,242
Unrestricted (Deficit)	<u>(26,633,470)</u>	<u>469,380</u>	<u>(26,164,090)</u>
TOTAL NET ASSETS	<u>\$ 18,096,695</u>	<u>\$ 570,754</u>	<u>\$ 18,667,449</u>

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2004

ASSETS	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Cash and cash equivalents	\$ 30,052,014	\$ 24,007,864	\$ 54,059,878
Investments	-	182,802	182,802
Receivables, net of allowance for uncollectibles:			
Property taxes	15,158,890	-	15,158,890
Motor vehicle excise	12,443,986	-	12,443,986
Departmental and other	224,283	217,775	442,058
Intergovernmental	269,585	14,037,278	14,306,863
Tax liens and foreclosures	<u>26,547,514</u>	<u>-</u>	<u>26,547,514</u>
TOTAL ASSETS	\$ <u>84,696,272</u>	\$ <u>38,445,719</u>	\$ <u>123,141,991</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Warrants payable	\$ 2,366,863	\$ 9,845,220	\$ 12,212,083
Accounts payable	412,773	-	412,773
Accrued payroll and withholdings	2,855,232	1,883	2,857,115
Deferred revenues	53,042,094	-	53,042,094
Due to other governments	-	208,886	208,886
Notes payable	-	51,913,000	51,913,000
Accrued liabilities	<u>12,516,434</u>	<u>113,237</u>	<u>12,629,671</u>
TOTAL LIABILITIES	71,193,396	62,082,226	133,275,622
Fund Balances:			
Reserved for:			
Encumbrances	9,620,120	-	9,620,120
Permanent fund	-	732,241	732,241
Unreserved:			
Undesignated, reported in:			
General fund	3,882,756	-	3,882,756
Special revenue funds	-	11,287,416	11,287,416
Capital projects funds	<u>-</u>	<u>(35,656,164)</u>	<u>(35,656,164)</u>
TOTAL FUND BALANCES	<u>13,502,876</u>	<u>(23,636,507)</u>	<u>(10,133,631)</u>
TOTAL LIABILITIES AND FUND BALANCES	\$ <u>84,696,272</u>	\$ <u>38,445,719</u>	\$ <u>123,141,991</u>

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2004

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:			
Property taxes	\$ 123,381,108	\$ -	\$ 123,381,108
Excises	8,966,277	-	8,966,277
Penalties, interest and other taxes	10,061,195	-	10,061,195
Charges for services	9,046,697	17,114,003	26,160,700
Intergovernmental	287,666,420	89,691,575	377,357,995
Licenses and permits	1,836,229	-	1,836,229
Fines and forfeitures	1,422,400	-	1,422,400
Interest earnings	180,921	2,282	183,203
Miscellaneous	67,633	2,845,131	2,912,764
Total Revenues	<u>442,628,880</u>	<u>109,652,991</u>	<u>552,281,871</u>
Expenditures:			
Current:			
General government	16,192,162	32,595,048	48,787,210
Public safety	48,772,518	6,829,339	55,601,857
Education	231,332,065	62,412,815	293,744,880
Public works	16,606,510	5,626,695	22,233,205
Health and human services	1,977,674	3,081,920	5,059,594
Culture and recreation	9,373,008	2,135,293	11,508,301
Employee benefits	75,597,564	-	75,597,564
Miscellaneous	191,342	-	191,342
Debt service	34,469,481	-	34,469,481
Intergovernmental	2,416,185	-	2,416,185
Total Expenditures	<u>436,928,509</u>	<u>112,681,110</u>	<u>549,609,619</u>
Excess (deficiency) of revenues over expenditures	5,700,371	(3,028,119)	2,672,252
Other Financing Sources (Uses):			
Transfers in	2,997,750	3,178,133	6,175,883
Transfers out	(3,178,133)	(2,997,750)	(6,175,883)
Total Other Financing Sources (Uses)	<u>(180,383)</u>	<u>180,383</u>	<u>-</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	5,519,988	(2,847,736)	2,672,252
Fund Equity, July 1, 2003 as restated	<u>7,982,888</u>	<u>(20,788,771)</u>	<u>(12,805,883)</u>
Fund Equity, June 30, 2004	<u>\$ 13,502,876</u>	<u>\$ (23,636,507)</u>	<u>\$ (10,133,631)</u>

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

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

JUNE 30, 2004

Total governmental fund balances	\$ (10,133,631)
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	367,234,434
<ul style="list-style-type: none">• Internal services funds are used by management to account for health insurance and working capital activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	(5,637,761)
<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.	(4,764,618)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(340,771,335)
<ul style="list-style-type: none">• In the statement of net activities, accounts receivable is accrued, net of an allowance for uncollectibles accounts. In governmental funds, all receivables are deferred, except for property tax received within 60 days after year-end.	7,475,320
<ul style="list-style-type: none">• To recognize a receivable for guaranteed debt included in long-term liabilities which will be paid by the Springfield Water and Sewer Commission.	<u>4,694,286</u>
Net assets of governmental activities	\$ <u>18,096,695</u>

See notes to financial statements.

CITY OF SPRINGFIELD, 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, 2004

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 2,672,252																						
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="margin-left: 40px; width: 80%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Capital outlay purchases</td> <td style="text-align: right;">8,852,658</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(17,823,317)</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. <table style="margin-left: 40px; width: 80%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Deferred revenue</td> <td style="text-align: right;">428,896</td> </tr> <tr> <td>Bond premium amortization</td> <td style="text-align: right;">262,120</td> </tr> <tr> <td>Allowance for uncollectibles</td> <td style="text-align: right;">(5,050,546)</td> </tr> </table> • The issuance of long-term debt (e.g., bonds and leases) 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 assets: <table style="margin-left: 40px; width: 80%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Repayments of debt</td> <td style="text-align: right;">18,150,670</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 style="margin-left: 40px; width: 80%; border-collapse: collapse;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">25,356</td> </tr> </table> • Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds. <table style="margin-left: 40px; width: 80%; border-collapse: collapse;"> <tr> <td style="width: 80%;">Compensated absences payable, net</td> <td style="text-align: right;">91,343</td> </tr> <tr> <td>Landfill closure</td> <td style="text-align: right;">203,571</td> </tr> <tr> <td>Estimated refunds of property tax revenue (based on cases pending at the Appellate Tax Board.</td> <td style="text-align: right;">4,544,010</td> </tr> </table> • Internal service funds are used by management to account for health insurance and workers' compensation activities. The net activity of internal service funds is reported with Governmental Activities. <table style="margin-left: 40px; width: 80%; border-collapse: collapse;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">(4,125,116)</td> </tr> </table> 		Capital outlay purchases	8,852,658	Depreciation	(17,823,317)	Deferred revenue	428,896	Bond premium amortization	262,120	Allowance for uncollectibles	(5,050,546)	Repayments of debt	18,150,670		25,356	Compensated absences payable, net	91,343	Landfill closure	203,571	Estimated refunds of property tax revenue (based on cases pending at the Appellate Tax Board.	4,544,010		(4,125,116)
Capital outlay purchases	8,852,658																						
Depreciation	(17,823,317)																						
Deferred revenue	428,896																						
Bond premium amortization	262,120																						
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Repayments of debt	18,150,670																						
	25,356																						
Compensated absences payable, net	91,343																						
Landfill closure	203,571																						
Estimated refunds of property tax revenue (based on cases pending at the Appellate Tax Board.	4,544,010																						
	(4,125,116)																						
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$ <u>8,231,897</u>																						

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

GENERAL FUND

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

FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget		
Revenues and Other Sources:				
Taxes	\$ 120,184,013	\$ 120,184,013	\$ 120,184,013	\$ -
Excise	7,452,124	7,452,124	8,966,277	1,514,153
Penalties, interest and other taxes	7,590,930	7,590,930	9,216,616	1,625,686
Charges for services	7,666,784	7,666,784	7,737,795	71,011
Intergovernmental	262,493,363	262,493,363	262,455,551	(37,812)
Licenses and permits	1,803,961	1,803,961	1,836,229	32,268
Fines and forfeits	1,480,731	1,480,731	1,422,400	(58,331)
Interest earnings	200,000	200,000	180,921	(19,079)
Miscellaneous	2,323,541	2,323,541	2,221,114	(102,427)
Transfers in	2,608,943	2,608,943	2,997,750	388,807
Total Revenues and Other Sources	413,804,390	413,804,390	417,218,666	3,414,276
Expenditures and Other Uses:				
General government	16,301,989	16,752,151	16,147,239	604,912
Public safety	50,486,902	48,559,902	48,486,593	73,309
Education	205,883,393	205,883,393	207,049,262	(1,165,869)
Public works	16,858,732	16,858,732	16,802,208	56,524
Health & human services	2,221,843	2,141,843	1,972,938	168,905
Culture and recreation	9,214,722	9,347,535	9,283,105	64,430
Employee benefits	75,739,758	76,209,863	75,577,326	632,537
Debt service	33,313,851	34,290,584	34,586,979	(296,395)
Judgments & claims	200,000	200,000	191,341	8,659
Intergovernmental	2,486,933	2,464,120	2,416,185	47,935
Transfers out	1,058,133	1,058,133	3,178,133	(2,120,000)
Other uses	38,134	38,134	38,134	-
Total Expenditures and Other Uses	413,804,390	413,804,390	415,729,443	(1,925,053)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 1,489,223	\$ 1,489,223

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2004

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u> Internal Service <u>Funds</u>
	Parking <u>Fund</u>	
<u>ASSETS</u>		
Current:		
Cash and cash equivalents	\$ 486,060	\$ 127,261
Inventory	<u>-</u>	<u>656,971</u>
Total current assets	486,060	784,232
Noncurrent:		
Property, plant and equipment, net of accumulated depreciation	<u>101,373</u>	<u>-</u>
Total noncurrent assets	<u>101,373</u>	<u>-</u>
TOTAL ASSETS	587,433	784,232
<u>LIABILITIES</u>		
Current:		
Warrants payable	-	325,216
Accounts payable	10,860	-
Accrued liabilities	<u>5,819</u>	<u>6,096,777</u>
Total current liabilities	<u>16,679</u>	<u>6,421,993</u>
TOTAL LIABILITIES	16,679	6,421,993
<u>NET ASSETS</u>		
Invested in capital assets, net of related debt	101,374	-
Unrestricted (deficit)	<u>469,380</u>	<u>(5,637,761)</u>
TOTAL NET ASSETS	<u>\$ 570,754</u>	<u>\$ (5,637,761)</u>

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2004

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u> Internal Service <u>Funds</u>
	Parking <u>Fund</u>	
Operating Revenues:		
Charges for services	\$ 761,315	\$ 52,376,431
Employee contributions	<u>-</u>	<u>16,534,910</u>
Total Operating Revenues	761,315	68,911,340
Operating Expenses:		
Salaries and wages	253,313	-
Operating expenses	100,535	-
Materials and supplies	74,335	2,130,185
Claims paid	-	70,906,272
Depreciation	8,416	-
Other	<u>48,432</u>	<u>-</u>
Total Operating Expenses	<u>485,031</u>	<u>73,036,457</u>
Operating Income (Loss)	276,284	(4,125,116)
Net Assets at Beginning of Year	<u>294,470</u>	<u>(1,512,645)</u>
Net Assets at End of Year	<u>\$ 570,754</u>	<u>\$ (5,637,761)</u>

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2004

	Business-Type Activities <u>Enterprise Funds</u>	Governmental <u>Activities</u> Internal Service <u>Funds</u>
	Parking <u>Fund</u>	
<u>Cash Flows From Operating Activities:</u>		
Receipts from customers and users	\$ 761,315	\$ -
Receipts from interfund service provided	-	68,911,340
Payments to vendors	(253,641)	(68,925,601)
Payments to employees	<u>(219,644)</u>	<u>-</u>
Net Cash Provided By (Used For) Operating Activities	288,030	(14,261)
<u>Cash Flows From Capital and Related Financing Activities:</u>		
Acquisition and construction of capital assets	<u>(85,346)</u>	<u>-</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>(85,346)</u>	<u>-</u>
Net Change in Cash and Short-Term Investments	202,684	(14,261)
Cash and Short-Term Investments, Beginning of Year	<u>283,376</u>	<u>141,522</u>
Cash and Short-Term Investments, End of Year	<u>\$ 486,060</u>	<u>\$ 127,261</u>
<u>Reconciliation of Operating Income to Net Cash</u>		
<u>Provided by (Used For) Operating Activities:</u>		
Operating income (loss)	\$ 276,284	\$ (4,125,116)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	8,416	-
Changes in assets and liabilities:		
Inventory	-	17,471
Warrants payable	3,658	150,615
Accrued liabilities	<u>(328)</u>	<u>3,942,769</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 288,030</u>	<u>\$ (14,261)</u>

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

DECEMBER 31, 2003

	<u>Pension Trust Fund</u>
<u>ASSETS</u>	
Cash and short term investments	\$ 97,956
Investments	258,208,887
Accounts receivable	266,753
Other assets	<u>1,780,875</u>
Total Assets	260,354,471
 <u>LIABILITIES AND NET ASSETS</u>	
Accounts payable	71,369
Deferred revenue	5,945,784
Other liabilities	<u>12,073,958</u>
Total Liabilities	<u>18,091,111</u>
 <u>NET ASSETS</u>	
Total net assets held in trust for pension benefits	\$ <u><u>242,263,360</u></u>

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2003

	<u>Pension Trust Fund</u>
Additions:	
Contributions:	
Employers	\$ 21,841,366
Other systems and Commonwealth of Massachusetts	1,318,056
Plan members	<u>10,400,572</u>
Total contributions	33,559,994
Investment Gain:	
Increase in fair value of investments	46,928,820
Less: management fees	<u>(1,194,379)</u>
Net investment gain	<u>45,734,441</u>
Total additions	79,294,435
Deductions:	
Benefit payments to plan members, beneficiaries, and other systems	45,289,946
Refunds to plan members	2,545,761
Administrative expenses	<u>1,296,376</u>
Total deductions	<u>49,132,083</u>
Allowance for abatements and exemptions	
Net increase	30,162,352
Net assets:	
Beginning of year	<u>212,101,008</u>
End of year	<u>\$ 242,263,360</u>

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

Notes to 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 Mayor and 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.

Blended Component Units - Blended component units are entities that are legally separate, but are so related that they are, in substance, the same as the primary government, providing services entirely or almost entirely for the benefit of the primary government. The following component unit is blended within the primary government:

In the Fiduciary Funds: The Springfield Contributory Retirement System, which 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 70 Tapley Street, Springfield, MA 01104.

In fiscal year 2004 it was determined the Springfield Redevelopment Authority and the Massachusetts Career Development Institute, Inc. met the required GASB-14 criteria of a component unit; however, the financial activities are not included in the City's financial statements.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) 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. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

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

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

Government-Wide Financial Statements

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

- 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 non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following nonmajor proprietary fund:

- The Parking enterprise fund.

The self-insured employee health program 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.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

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

For purpose of the statement of cash flows, the proprietary 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 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 Permanent Funds consist of marketable securities, bonds and short-term money market investments. Investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits 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 or debt exemption is voted. The actual fiscal year 2004 tax levy reflected an excess capacity of \$ 8,092.

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. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 10,000 and an estimated useful life in excess of 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.

Property, plant and equipment of the primary government, as well as the component units, is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	20
Vehicles	5 - 10
Office equipment	5 - 10
Computer equipment	5 - 10

I. Compensated Absences

It is the government'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.

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 assets.

K. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

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

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

Activity related to the Springfield Redevelopment Authority and the Massachusetts Career Development Institute, Inc. component units of the City, 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 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 Fund. 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 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), as reported in the accompanying financial statements	\$ 442,628,880	\$ 436,928,509
Other financing sources/uses (GAAP basis), as reported in the accompanying financial statements	<u>2,997,750</u>	<u>3,178,133</u>
Subtotal (GAAP Basis)	445,626,630	440,106,642

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<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
To adjust property tax revenue to the budgetary basis	(3,197,095)	-
To reverse expenditures of prior year appropriation carryforwards	-	(5,942,238)
To record current year appropria- tion carryforwards	-	7,011,177
To reverse effects of non-budgeted state contributions to teachers' retirement	(25,210,869)	(25,210,869)
Other timing items	<u>-</u>	<u>(235,269)</u>
Budgetary basis, as reported in the accompanying financial statements	\$ <u>417,218,666</u>	\$ <u>415,729,443</u>

D. Excess of Expenditures Over Appropriations

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

Education	\$ (1,165,869)
Debt Service	(296,395)
Transfers to Capital Project Funds	(2,120,000)

E. Deficit Fund Equity

The following funds had deficits as of June 30, 2004:

Nonmajor Governmental Funds:	
School	\$(104,600)
MCDI	\$(498,449)
Emergency Shelter	\$(83,627)
Tapley Street improvements	\$(2,000,000)
Forest Park	\$(58,427)

Nonmajor Governmental Funds:	
Miscellaneous Special Revenue Funds	\$(155,878)
Dr. Seuss Trailway	\$(250,000)
Radio Tower	\$(56,000)
Library and Museum equipment	\$(300,000)

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Library and Museum renovations	\$(32,512)
Central Library	\$(2,882,288)
School upgrades	\$(938,848)
Balliet School	\$(420,209)
Forest Park School	\$(1,174,390)
Roof repairs school	\$(825,395)
Remodel public buildings	\$(608,862)
Remodel public buildings	\$(1,244,641)
Baseball Stadium	\$(71,975)
Civic Center esplanade	\$(400,000)
Civic Center renovations	\$(2,746,000)
Repair public buildings	\$(1,942,968)
Remodel - Disability	\$(1,999,243)
Repair school buildings	\$(947,805)
Emergency repairs school	\$(1,892,580)
Fire and Public Safety	\$(1,023,792)
Municipal Group	\$(4,776,675)
Tapley Phase II	\$(1,927,058)
Fire improvements	\$(929,899)
School repairs	\$(2,872,456)
Public building repairs	\$(496,931)
R. Johnson School improvements	\$(986,222)
Tech High School	\$(2,043,172)
Park renovations - Golf	\$(4,177,034)
City park renovations	\$(2,635,000)
Camp Wilber/Urban Renewal	\$(907,000)
Department equipment bond	\$(179,449)
Closing landfill	\$(4,713,767)
Boston Road/Parker Street	\$(162,047)
West Columbus	\$(475,355)
Bondis Island	\$(263,161)
Court Square	\$(1,773,335)
West Columbus Urban	\$(683,420)

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

4. Cash and Cash Equivalents

The carrying amount of the City and Retirement System's deposits with financial institutions at June 30, 2004 and December 31, 2003 were \$ 54,673,199 and \$ 97,956, 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, 2004</u>	<u>Retirement System Deposits December 31, 2003</u>
Amount insured by the FDIC and DIF, or collateralized with securities held by the City in its name	\$ 337,672	\$ 100,000
Amount collateralized with securities held by the pledging financial institution's trust department in the City's name	32,216,445	1,282,914
Uncollateralized	30,295,475	200,773
State investment pool	<u>43,720</u>	<u>-</u>
Total Bank Balance	\$ <u>62,893,312</u>	\$ <u>1,583,687</u>

5. Investments

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 counter-party's trust department or agent in the City's name.
- (3) Uninsured and unregistered, with securities held by the counter-party, 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):

	<u>Category</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Corporate equity	\$ -	\$ -	\$ 179	\$ 179
Corporate bonds	<u>4</u>	<u>-</u>	<u>-</u>	<u>4</u>
Total	\$ <u>4</u>	\$ <u>-</u>	\$ <u>179</u>	\$ <u>183</u>

At December 31, 2003, the City's Retirement System's investment balances were as follows (in thousands):

	<u>Category</u>			<u>Total</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Short-term income	\$ -	\$ -	\$ 18,832	\$ 18,832
Fixed income	-	-	64,987	64,987
Investments	<u>-</u>	<u>-</u>	<u>174,390</u>	<u>174,390</u>
Total	\$ <u>-</u>	\$ <u>-</u>	\$ <u>258,209</u>	\$ <u>258,209</u>

6. Taxes Receivable

Real estate and personal property taxes are levied and based on values assessed on January 1st 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, 2004 consist of the following (in thousands):

Real Estate		
2004	\$ 8,941	
2003	1,412	
2002	(82)	
2001	28	
2000	72	
Prior	<u>1,050</u>	
		11,421
Personal Property		
2004	386	
2003	407	
2002	176	
2001	178	
2000	79	
Prior	<u>2,511</u>	
		3,737
Tax Liens, Deferred Taxes and other		<u>26,548</u>
Total		\$ <u>41,706</u>

7. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts (in thousands):

	<u>Governmental</u>
Property taxes	\$ 36,354
Excises	<u>9,213</u>
Total	\$ <u>45,567</u>

8. Intergovernmental Receivables

This balance represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2004.

9. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 281,246	\$ 2,599	\$ -	\$ 283,845
Machinery, equipment, and furnishings	65,394	3,017	-	68,411
Land improvements	<u>32,723</u>	<u>891</u>	<u>-</u>	<u>33,614</u>
Total capital assets, being depreciated	379,363	6,507	-	385,870
Less accumulated depreciation for:				
Buildings and improvements	(54,255)	(8,038)	-	(62,293)
Machinery, equipment, and furnishings	(27,183)	(8,683)	-	(35,866)
Land Improvements	<u>(4,655)</u>	<u>(1,102)</u>	<u>-</u>	<u>(5,757)</u>
Total accumulated depreciation	<u>(86,093)</u>	<u>(17,823)</u>	<u>-</u>	<u>(103,916)</u>
Total capital assets, being depreciated, net	293,270	(11,316)	-	281,954
Capital assets, not being depreciated:				
Land	25,824	-	-	25,824
Construction in progress	<u>57,111</u>	<u>2,346</u>	<u>-</u>	<u>59,457</u>
Total capital assets, not being depreciated	<u>82,935</u>	<u>2,346</u>	<u>-</u>	<u>85,281</u>
Governmental activities capital assets, net	\$ <u>376,205</u>	\$ (<u>8,970</u>)	\$ <u>-</u>	\$ <u>367,235</u>

Note: The City has not yet capitalized infrastructure assets for governmental activities.

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Machinery, equipment, and furnishings	\$ <u>197</u>	\$ <u>85</u>	\$ <u>-</u>	\$ <u>282</u>
Total capital assets, being depreciated	197	85	-	282
Less accumulated depreciation for:				
Machinery, equipment, and furnishings	(173)	(8)	-	(181)
Business-type activities, net	\$ <u>24</u>	\$ <u>77</u>	\$ <u>-</u>	\$ <u>101</u>

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

Governmental Activities:	
General government	\$ 660
Public safety	2,144
Education	12,145
Public works	993
Culture and recreation	1,870
Other	<u>11</u>
Total depreciation expense - governmental activities	\$ <u>17,823</u>
Business-Type Activities:	
Parking	\$ <u>8</u>
Total depreciation expense - business-type activities	\$ <u>8</u>

10. Warrants and Accounts Payable

Warrants payable represent 2004 expenditures paid by July 15, 2004 as permitted by law. Accounts payable represent additional 2004 expenditures paid after July 15, 2004.

11. Deferred Revenue

Governmental funds report *deferred 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 revenues account is equal to the total of all June 30, 2004 receivable balances, except real and personal property taxes that are accrued for subsequent 60-day collections.

12. Tax Refunds Payable

This balance consists of an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

13. Anticipation Notes Payable

The City had the following anticipation notes outstanding at June 30, 2004:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2004</u>
Bond anticipation	2.5%	7/08/03	7/08/04	\$ 21,997,000
Bond anticipation	3.0%	6/18/04	9/24/04	<u>29,916,000</u>
Total				\$ <u>51,913,000</u>

The City had an additional \$ 3,660,000 in notes payable, which was classified as long-term debt at June 30, 2004. See Footnote 14.

The following summarizes activity in notes payable during fiscal year 2004 (in thousands):

	<u>Balance Beginning of Year</u>	<u>New Issues</u>	<u>Maturities</u>	<u>Balance End of Year</u>
Bond anticipation notes	\$ 54,033	\$ 51,913	\$ 54,033	\$ 51,913
Revenue anticipation notes	<u>-</u>	<u>30,000</u>	<u>30,000</u>	<u>-</u>
Total	\$ <u>54,033</u>	\$ <u>81,913</u>	\$ <u>84,033</u>	\$ <u>51,913</u>

14. Long-Term Liabilities

A. General Obligation Bonds and Notes

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds currently outstanding are as follows:

<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2004</u>
<u>Inside Debt Limit:</u>			
Refunding bonds of 2003	1/15/13	2.00 - 5.25	\$ 2,582,892
Multi-purpose of 1997	9/01/15	4.25 - 5.65	10,295,000
Multi-purpose of 1998	11/15/18	3.50 - 5.25	1,615,000
Multi-purpose of 2000	10/01/19	4.50 - 6.25	6,415,000
Multi-purpose of 2002	8/01/21	3.50 - 5.50	<u>16,111,000</u>
Total Inside Debt Limit:			37,018,892
<u>Outside Debt Limit:</u>			
Refunding bonds of 1993	9/01/04	2.75 - 5.05	455,000
RMJ School	9/01/04	3.40 - 6.25	1,090,000
EPA asbestos removal	7/28/05	-	166,474
Refunding bonds of 1996	8/01/11	4.35 - 6.375	15,780,000

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<u>Governmental Activities:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate(s)%</u>	<u>Amount Outstanding as of June 30, 2004</u>
<u>Outside Debt Limit:</u>			
Refunding bonds of 2003	1/15/13	2.00 - 5.25	3,532,337
Mass Mutual/Milton Bradley school	8/01/14	4.35 - 6.375	10,820,000
Multi-purpose of 1997	9/01/15	4.25 - 5.65	24,555,000
Qualified zone academy bonds	7/25/16	1.28	6,505,000
Multi-purpose of 1998	11/15/18	3.50 - 5.25	48,035,000
School construction	10/01/19	4.50 - 6.25	28,935,000
Multi-purpose of 2000	10/01/19	4.50 - 6.25	7,760,000
Multi-purpose of 2002	8/01/21	3.50 - 5.50	41,449,000
Multi-purpose of 2003	1/15/23	2.00 - 5.25	<u>66,120,000</u>
Total Outside Debt Limit:			<u>255,202,811</u>
Total Bonds Payable			292,221,703
<u>Notes Payable:</u>			
Hospital deficit note	9/29/04	3.0	<u>3,660,000</u>
Total Bonds and Notes Payable			<u>\$ 295,881,703</u>

B. Future Debt Service

The annual principal payments to retire all general obligation bonds payable outstanding as of June 30, 2004 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 17,166,128	\$ 14,436,035	\$ 31,602,163
2006	16,713,402	13,579,965	30,293,367
2007	16,386,825	12,738,689	29,125,514
2008	16,574,717	11,993,500	28,568,217
2009	16,222,101	11,243,163	27,465,264
2010 - 2014	88,213,530	43,619,614	131,833,144
2015 - 2019	84,625,000	20,398,580	105,023,580
Thereafter	<u>36,320,000</u>	<u>3,646,857</u>	<u>39,966,857</u>
Total	<u>\$ 292,221,703</u>	<u>\$ 131,656,403</u>	<u>\$ 423,878,106</u>

C. 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, 2004 is included in other long-term liabilities on the government-wide financial statements. The balance is reported with other long term liabilities and consists of the following:

	Serial Maturities <u>Through</u>	Interest Rate (s)%	Amount Outstanding as of <u>June 30, 2004</u>
MWPAT (aeration)	2/01/15	1.00 - 2.75	\$ 2,521,882
MWPAT (inflow/infiltration)	2/01/15	1.00 - 2.75	1,007,509
2003 Refunding	1/15/16	4.75 - 6.00	<u>1,164,771</u>
Total Guaranteed Loans			\$ <u>4,694,164</u>

D. Hospital Deficit Notes Payable

In 1996, the Commonwealth passed special legislation (Chapter 112), which allowed the City to issue up to \$ 30,000,000 in "Hospital Deficit" notes. The act provides, among other things, that the note 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 notes and issued an additional \$ 6,350,000 in fiscal year 1997. At June 30, 2004, the notes payable balance outstanding was \$ 3,660,000. The legislation has required the City to repay the notes over ten years.

E. Capital Lease Obligations

The City is the lessee of certain equipment under capital leases expiring in various years through 2009. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2004:

2005	\$ 1,713,709
2006	924,296
2007	634,684
2008	526,154
2009	<u>494,545</u>
Total minimum lease payments	4,293,388
Less amount representing interest	(<u>414,662</u>)
Present Value of Minimum Lease Payments	\$ <u>3,878,727</u>

F. 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 postclosure 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 postclosure 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. In fiscal year 2002, the City authorized an additional \$ 5.8 million. Monitoring costs are expected to be funded from general fund operating budgets.

The \$ 4,262,446 reported as landfill closure and postclosure care liability at June 30, 2004 represents the total estimated cost of \$ 9,144,000 reduced to the estimated capacity of the landfill, less expenses incurred to date of \$ 4,790,094. The City estimates the landfill is 99% of capacity at June 30, 2004. The City will recognize the remaining estimated cost of closure and postclosure care of \$ 91,440 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2004. The City expects to close the landfill in 2005. 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.

G. Changes in General Long-Term Liabilities

During the year ended June 30, 2004, the following changes occurred in long-term liabilities (in thousands):

	Total Balance 7/1/03	Additions	Reductions	Total Balance 6/30/04	Less Current Portion	Equals Long-Term Portion 6/30/04
<u>Governmental Activities</u>						
Bonds payable	\$ 308,856	\$ -	\$ (16,634)	\$ 292,222	\$ (17,166)	\$ 275,056
Compensated absences	21,584	-	(92)	21,492	(91)	21,401
Notes payable	5,375	-	(1,715)	3,660	(1,830)	1,830
Tax refunds (see note 12)	10,388	-	(587)	9,801	(5,418)	4,383
Other:						
Guaranteed loans	5,051	-	(357)	4,694	(368)	4,326
Capital leases	3,680	199	-	3,879	(1,714)	2,165
Landfill closure costs	4,466	-	(204)	4,262	(204)	4,058
Unamortized premium	4,980	-	(262)	4,718	(262)	4,456
Totals	\$ <u>364,380</u>	\$ <u>199</u>	\$ <u>(19,851)</u>	\$ <u>344,728</u>	\$ <u>(27,053)</u>	\$ <u>317,675</u>

H. Bond Authorizations

Long-term debt authorizations, which have not been issued or rescinded as of June 30, 2004, 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	1,500
Departmental equipment	2,000
Remodel public building	1,060,000
Sewer construction	40,000
Composting facility	400,000
Landfill closeout	5,000,000
Improvements to wastewater treatment plant	410,000
Aeration basin upgrade	4,749,909
Repair school roofs	835,000
Construction of facility and trail way	250,000
Remodel public buildings	3,996,000
Baseball stadium design and construction	2,000,000
Departmental equipment	240,000
Acquire land - Boston Road/Parker Street	200,000
Remodel public buildings	2,000,000
Remodel public buildings	2,000,000
Remodel/reconstruct Commerce High	113,000
Remodel/reconstruct New Chestnut Middle School	377,000
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	3,660,000
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	143
Van Sickle School - remodeling and reconstruction	323,360
Library and museum remodeling	385,000
Qual. Zone Academy	801,000
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

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<u>Purpose</u>	<u>Amount</u>
Public building repair	2,100,000
Repair schools	2,900,000
Fire/safety complex	2,000,000
Renovate R. Johnson school	1,200,000
Repairs Springfield library and museums	2,990,000
Acquisition/demolition/relocation - Camp Wilder	912,000
Acquisition/demolition/site preparation - Court Square	4,700,000
Final closure and cap landfill	5,800,000
West Columbus Avenue	1,620,000
Demolition former Technical High School	2,200,000
Charter school	<u>1,630,000</u>
Total	\$ <u>137,666,531</u>

15. Restricted Net Assets

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

Permanent fund restricted net assets are 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.

16. Reserves of Fund Equity

“Reserves” of fund equity are established 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 following types of reserves are reported at June 30, 2004:

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

Reserved for Permanent Funds - 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.

17. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the fund-basis 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 over-expended 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, 2004, 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, 2004. 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	\$ 3,882,756
Stabilization fund	(4,341,962)
State and County over/under assessments	329,476
Accrued interest payable	574,078
Appropriations deficits	3,582,264
Tax refunds payable	<u>3,957,648</u>
Statutory (UMAS) Balance	\$ <u>7,984,260</u>

18. 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.

19. Post-Retirement Health Care and Life Insurance Benefits

The City has accepted Chapter 32B of Massachusetts General Laws to provide for health care and life insurance benefits to retirees, their dependents, 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, 2004 was not available.

20. Contributory Retirement System

A. 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 defined benefit 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. As required by Massachusetts General Laws, the System issues a separate report to the Commonwealth's Public Employee Retirement Administration Commission.

Membership of each plan consisted of the following at December 31, 2003, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	2,675
Terminated plan members entitled to but not yet receiving benefits	793
Active plan members	<u>4,103</u>
Total	<u>7,571</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).

B. 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 PERAC requirements.

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 participant's 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 2004, the Commonwealth of Massachusetts contributed \$ 25,210,869 to the MTRS on behalf of the City. This is included in the education expenditures and intergovernmental revenues in the general fund.

21. Self Insurance

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

Health Insurance

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, 2004 are as follows:

	<u>Health Coverage</u>
Claims liability, July 1, 2003	\$ 2,154,008
Claims incurred/recognized in fiscal year 2004	70,906,272
Claims paid in fiscal year 2004	<u>(66,963,503)</u>
Claims liability, June 30, 2004	\$ <u>6,096,777</u>

22. 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.

23. Net Asset Restatement

The beginning (July 1, 2003) net assets of the City have been restated as follows:

	<u>Governmental Activities</u>
As previously reported	\$ 4,813,674
Add receivable established for reimbursement from Springfield Water and Sewer Commission	<u>5,051,124</u>
As restated	<u>\$ 9,864,798</u>

24. Beginning Fund Balance Reclassifications

The City's major governmental funds for fiscal year 2004, as defined by GASB statement 34, have changed from the previous fiscal year. Accordingly, the following reconciliation is provided:

	<u>As Previously Reported</u>	<u>Reclassifications</u>	<u>As Restated</u>
Public building	\$ (24,157,820)	\$ 24,157,820	\$ -
Non-major governmental funds	3,369,049	(24,157,820)	(20,788,771)

25. Subsequent Event

The City's fixed costs in fiscal 2004 increased by over \$ 20 million including \$ 6 million in debt service, 4 million in retirement, \$ 8 million in health insurance, and \$ 2 million in unemployment costs. The City funded the increases by severe reductions in Police \$ 7 million, Fire \$ 3.5 million and other City departments \$ 4 million. The trend continued into the fiscal 2005 budget without the ability to further cut departmental budgets, the unavailability of financial reserves and the deferral of costs from previous years leading to an inability to balance the 2005 budget.

On July 9, 2004, the Massachusetts legislature enacted Chapter 169 of the Acts of 2004 entitled "An Act Relative To The Financial Stability In The City of Springfield." Under Chapter 169, there is established a finance control board ("FCB") vested with comprehensive authority over all of the City's finances, including appropriations, borrowings, transfers of funds, and municipal spending authorizations. The FCB consists of five members, three of

whom are appointed by the Commonwealth's Secretary of Administration and Finance (the "Secretary") and the other two of whom are the Mayor and the City Council President. The FCB acts by a majority vote of its members.

Chapter 169 also established a \$ 52 million trust fund subject to the control of the Secretary from which interest-free loans may be disbursed to the City from time to time on terms and conditions determined by the FCB and approved by the Secretary. In balancing the City's fiscal 2005 budget, \$ 37,079,046 has been committed to be drawn down.

Under Chapter 169, the City is required to repay any such loans on a schedule proposed by the FCB and approved by the Secretary with repayments to begin no later than fiscal 2008. The City is required to repay the full balance of any loans by June 30, 2013.

Chapter 169 provides that if the FCB concludes its powers are insufficient to restore fiscal stability to the City, it shall so notify the Secretary, citing reasons. Upon receipt of such notification, the Secretary may terminate the existence of the FCB and appoint a receiver for the City. Under Chapter 169, the receiver would have not only all of the powers of the FCB, but also the power to exercise any function or power of any municipal officer or employee, whether elected or otherwise, including certain powers relative to building and zoning. A receiver would also have the power to file a petition in the name of the City under Chapter 9 of the federal Bankruptcy Code. Upon appointment of a receiver, the office of Mayor would be abolished and other elected officials would serve solely in an advisory capacity.

Under Chapter 169, the FCB is required to submit quarterly reports to the Committee on Ways and Means of each of the Massachusetts Senate and House of Representatives. The reports shall account for all loan funds expended and itemize any stipends paid to members of the FCB. Chapter 169 set forth other provisions concerning tax titles and the award of no-bid contracts.

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 (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfounded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a)/c]
1/1/03	\$ 266,402	\$ 573,138	\$ 306,736	46.5%	\$113,848	269.4%
1/1/02	\$ 268,001	\$ 570,958	\$ 302,957	46.9%	\$137,353	220.6%
1/1/01	\$ 291,264	\$ 539,502	\$ 248,238	54.0%	\$ 131,363	189.0%
1/1/00	\$ 292,172	\$ 515,716	\$ 223,544	56.7%	\$ 126,095	177.3%
1/1/99	\$ 266,826	\$ 490,551	\$ 223,725	54.4%	\$ 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%
2002	17,890,147	100%
2003	18,842,305	100%
2004	22,255,144	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, 2003
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.