

CITY OF SPRINGFIELD, MASSACHUSETTS

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

FISCAL YEAR ENDED JUNE 30, 2005

CITY OF SPRINGFIELD, MASSACHUSETTS

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JUNE 30, 2005

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Independent Auditors' Report

To the Honorable Mayor and Finance Control Board
City of Springfield, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information, and the discretely presented component unit of the City of Springfield, Massachusetts, as of and for the fiscal year ended June 30, 2005 (except for the Springfield Contributory Retirement System which is as of and for the year ended December 31, 2004), 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, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit. The basic financial statements of the City as of June 30, 2004 were audited by other auditors whose report, which was qualified for not including the financial activities of the Springfield Redevelopment Authority and the Massachusetts Career Development Institute, Inc. (component units of the City), was dated December 4, 2004. The Springfield Water and Sewer Commission, a component unit of the City, was not included in the June 30, 2004 basic financial statements but the other auditors report was not qualified for that fact. We also audited the adjustments described in Note 17 that were applied to restate the fiscal year 2004 basic financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *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 opinion.

The financial statements referred to above include the primary government of the City of Springfield, Massachusetts, which consists of all funds, organizations, institutions, agencies, departments, and offices that comprise the City's legal entity along with the Springfield Contributory Retirement System blended component unit. The financial statements do not include financial data for the Springfield Water and Sewer Commission, the Springfield Redevelopment Authority and the Massachusetts Career Development Institute, Inc, three of the City's legally separate component units, which accounting principles generally accepted in the United States of America require to be reported as discretely presented component units.

In our opinion, except for the effects of the items 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, the aggregate remaining fund information, and the discretely presented component unit of the City of Springfield, Massachusetts, as of June 30, 2005 (except for the Springfield Contributory Retirement System which is as of and for the year ended December 31, 2004), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis, located on the following pages, and schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, located after the notes to the basic financial statements, are not a required part of the basic financial statements but is supplementary information required by accounting principals generally accepted in the United States of America. 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.

As discussed in Note 3 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 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 subject to the control of the Commonwealth's Secretary of Administration and Finance ("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. 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 not only have 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.

In accordance with Government Auditing Standards, we have also issued our report dated February 17, 2006, on our consideration of the City of Springfield, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

A handwritten signature in cursive script that reads "Bowers + Sullivan".

February 17, 2006

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Springfield, Massachusetts, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City of Springfield for the fiscal year ended June 30, 2005. This is the fourth year our financial statements have been prepared under the Government Accounting Standards Board Statement 34 – Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments. We encourage readers to consider the information presented in this report in conjunction with additional information that we have furnished in our letter of transmittal.

The Governmental Accounting Standards Board (GASB) is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with generally accepted accounting principles (GAAP). Users of these financial statements (such as investors and rating agencies) rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users (including citizens, the media, legislators and others) can assess the financial condition of one government compared to others.

Governments must adhere to GASB pronouncements in order to issue their financial statements in conformity with GAAP. The users of financial statements also rely on the independent auditor's opinion. If the City's financial statements have significant departures from GAAP the independent auditors' may issue a qualified opinion or a disclaimer (where no opinion is given). These types of opinions may have an adverse effect on the City's bond rating and our ability to borrow money at favorable interest rates. The financial statements of the primary government has received an unqualified auditor's opinion. However since the City's financial statements do not include, as discretely presented component units, the activities of the Springfield Water and Sewer Commission, the Springfield Redevelopment Authority and the Massachusetts Career Development Institute, Inc. the auditor's cannot issue an unqualified opinion on the entity-wide statements since they are not presented.

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. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements provide both long-term and short-term information about the City as a whole. The fund financial statements focus on the individual components of the City government, reporting the City's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the City's accountability. An additional part of the basic financial statements are the notes to the financial statements. The 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 finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all 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 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 that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, interest and state and county charges. The City has not presented any business-type activities.

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows 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 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.

The City's general fund is considered the only major fund. The remaining governmental funds are aggregated and shown as nonmajor governmental funds.

Proprietary funds. The City maintains one type of propriety funds.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. The City uses its internal service fund to account for health insurance activities.

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 statement because the resources of those funds are *not* available to support the City's own programs. The accounting used for fiduciary funds is much like that used for propriety funds.

Notes to the basic 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.

Finance Control Board

The City has been experiencing serious financial stress over the last several years and by the end of FY2004 faced a financial crisis. It was determined that the City needed the Commonwealth to provide short and long term financial resources in order to avoid a financial collapse. The additional funding provided the much needed time for the City to work with the Commonwealth to turn around the financial condition.

On July 9, 2004, the Massachusetts legislature enacted Chapter 169 of the Acts of 2004 entitled "An Act Relative To The Financial Stability of Springfield." Under Chapter 169, a Finance Control Board (FCB) was established and 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 subject to the control of the Commonwealth's Secretary of Administration and Finance ("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. For at least fiscal years 2005 and 2006, the City expects to be dependant upon loans from the trust fund to offset its anticipated budgetary deficits.

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 not only have 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

Financial Condition

The current focus on resolving the deteriorating financial condition is with the City's General Fund and Health Insurance Internal Service Fund. The Special Revenue Funds are self-supporting through charges for services, grants and contributions and therefore do not create deficits in their operations. The Capital Projects Fund is supported by grants and long-term bond issues but can create deficits due to the uncertainty of the final costs incurred during construction. At the end of FY2005 the FCB voted to transfer funds either from the General Fund or other Capital Projects Funds to eliminate all deficits.

In order for long-term stability to be obtained the City needed to solve its short-term term budget problems for FY2005 and FY2006. The original budget projections for FY2005 estimated there would be a \$37 million deficit that would be funded by loans from the state trust fund. During FY2005 the FCB initiated a series of cost cutting measures, revenue enhancement processes, established budgetary reserves and conservative revenue projections to minimize the structural deficit in the General Fund.

As a result of these measures the General Fund actually had a budgetary surplus of \$14 million where revenues exceeded expenditures and transfers out. The surplus increases to \$36 million when the state loan of \$21.8 million is included. The actual results far exceeded the initial expectations but the City believes the structural deficit still exists since some of the surplus was the one-time collection of past due amounts. In addition, part of the surplus was generated by a wage freeze implemented by the City in FY2004. The Teachers Union filed suit against the wage freeze and in December 2005 the courts ruled in favor of the Teachers Union. If the decision is upheld upon appeal, the City could have a significant liability for the teachers and other unions.

At June 30, 2005 the City has drawn down \$21 million from the trust fund to be used as a funding source to balance its budget for fiscal year 2005. In addition to the interest free loan discussed above, the FCB and the Secretary have authorized working capital advances from the trust fund during fiscal year 2005 to assist the City

with its cash flow requirements. At June 30, 2005 all of the advances have been repaid. In addition, administrative costs totaling approximately \$872,000 of the FCB have been funded by the Commonwealth and are due to be repaid along with the long-term loans from the trust.

Along with the positive results of the General Fund the Health Insurance Internal Service Fund experienced an \$8.5 million surplus and turned a (\$6.1) million deficit at the end of FY04 to a \$2.5 million surplus in FY05. This result included the increase of the incurred but not reported (IBNR) liability from \$6.1 million to \$8.2 million. The cost savings can be attributed to effective cost management of the new health care administrator and less employees. The fund also saw increased employer contributions to offset the prior year deficit.

Financial Analysis of the Government's Funds

As noted earlier, the City uses fund accounting 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 combined ending fund balances of approximately \$80 million, an increase of approximately \$91 million from the prior year. The increase is due to proceeds of bond issues of \$49 million in the nonmajor funds, \$22 million of state loans in the general fund and an operational general fund surplus of \$20 million.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved and undesignated fund balance of the general fund was approximately \$27 million, while total fund balance was approximately \$51 million. 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 and undesignated fund balance represents approximately 6% of total general fund expenditures, while total fund balance represents approximately 12% of that same amount.

As stated earlier the positive results of the General Fund in FY2005 was due to the FCB taking immediate steps to change how the City operated. The City now only budgets 95% of the expected property tax billings instead on the normal 100% to allow for the nonpayment of taxes. These steps along with the expenditure reductions resulted in the surplus.

General Fund Budgetary Highlights

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. Actual revenues were greater than budgeted amounts by \$26 million or a 6% surplus, while actual expenditures, including carryovers, were also less than budgeted amounts by \$10 million, or a 2.5% surplus. The City carried over \$20 million in appropriations to FY06 of which \$12 million relates to the wage freeze lawsuit reserve.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City of Springfield's governmental assets exceeded liabilities for governmental activities by approximately \$193 million. Key components of the City's activities are presented below.

Governmental Activities

	2005	2004 (As Restated)
Assets:		
Current assets.....	\$ 151,875,485	\$ 83,714,500
Noncurrent assets (excluding capital).....	135,409,430	148,795,780
Capital assets, non depreciable.....	29,961,755	85,281,590
Capital assets, net of accumulated depreciation.....	324,174,786	282,054,217
Total assets.....	641,421,456	599,846,087
Liabilities:		
Current liabilities (excluding debt).....	54,486,376	48,006,564
Noncurrent liabilities (excluding debt).....	35,214,465	40,648,760
Current debt.....	20,442,779	70,909,128
Noncurrent debt.....	337,322,532	281,341,621
Total liabilities.....	447,466,152	440,906,073
Net Assets:		
Capital assets net of related debt.....	152,135,812	185,696,878
Restricted.....	25,282,204	18,937,054
Unrestricted.....	16,537,288	(45,693,918)
Total net assets.....	\$ 193,955,304	\$ 158,940,014

Governmental net assets of \$152 million (78%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its 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 the net assets of \$25 million (13%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$17 million (9%) may be used to meet the government's ongoing obligations to citizens and creditors.

	<u>2005</u>	<u>2004</u>
Program revenues:		
Charges for services.....	\$ 41,635,264	\$ 30,245,147
Operating grants and contributions.....	339,811,117	332,666,372
Capital grants and contributions.....	4,543,703	5,134,064
General Revenues:		
Real estate and personal property taxes.....	137,984,170	123,589,276
Motor vehicle and other excise taxes.....	9,465,439	8,680,469
Penalties and interest on taxes.....	3,892,106	10,061,195
Grants and contributions not restricted to specific programs.....	35,367,054	31,025,567
Unrestricted investment income.....	1,263,014	183,203
Other revenues.....	12,008,623	342,374
Total revenues.....	<u>585,970,490</u>	<u>541,927,667</u>
Expenses:		
General government.....	33,893,533	38,343,447
Public safety.....	81,568,471	81,629,022
Education.....	346,130,455	344,930,573
Public works.....	35,625,891	26,384,755
Health and welfare.....	5,599,409	5,721,722
Culture and recreation.....	14,854,349	13,351,573
Finance Control Board expenses.....	871,757	-
Interest.....	14,413,659	16,094,549
State and county charges.....	17,997,676	18,263,846
Total expenses.....	<u>550,955,200</u>	<u>544,719,487</u>
Change in net assets.....	\$ <u>35,015,290</u>	\$ <u>(2,791,820)</u>

Other financial notes related to governmental activities:

- Charges for services represent 7% of governmental activities resources. The City can exercise more control over this category of revenue than any other. Fees charged for services rendered that are set by the City are included in this category.
- Operating and capital grants and contributions accounted for 59% of the governmental activities resources. Most of these resources apply to education operations. These resources offset costs within the school department in addition to their General Fund operating budget.
- Property taxes are a significant revenue source for the City's governmental activities. They comprised 23% of current resources.
- Other taxes and other revenues comprised a total of 11% of the governmental activity's resources.
- Education is by far the largest governmental activity of the City. Approximately \$23 million in taxes and other revenue were needed to cover its Fiscal 2005 operating expenses. Approximately \$29 million of a pension contribution made by the state on-behalf of Springfield teachers have been recorded as an expense and grant revenue.
- Public safety and public works are the third and fourth largest activities of the City. Approximately \$68 million and \$19 million, respectively, of taxes and other revenue were needed to cover their Fiscal 2005 operating expenses.

Capital Asset and Debt Administration

The City has recently finished the construction/renovation of a number of their schools. The City has been approved to receive school construction assistance through the Massachusetts School Building Authority (MSBA). The MSBA provides resources for eligible construction costs and related debt interest and borrowing costs. During fiscal year 2005, approximately \$19.4 million of such assistance was received. Approximately \$200 million is expected to be received in future fiscal years. Of this amount, \$66 million represents reimbursement of long-term interest costs, and \$134 million represents reimbursement of approved construction costs. The MSBA has presented its initial results of the final allowable costs to the City for review. Based on the initial review the City is appealing some of the disallowed costs and the final results may increase the amounts due from the State significantly. The City will recognize any increase in the fiscal year the MSBA finalizes the cost reports.

Under the current financial position the City did not make significant capital expenses during FY2005. Capital assets net of accumulated depreciation was \$354 million at year end, depreciation was \$18 million and \$3.5 million in additions were recorded in FY2005. The City has delayed the reporting of its infrastructure assets allowable under GASB 34 and expects to complete the reporting by FY2007.

Outstanding long-term debt of the general government, as of June 30, 2005, totaled approximately \$348 million, unamortized premiums totaled \$4 million, guaranteed debt of \$4 is to be reimbursed by the Springfield Water and Sewer Commission, and \$1 million of bond anticipation notes were outstanding at June 30, 2005.

Subsequent to year end the City advance refunded \$100 million of general obligation bonds which resulted in a decrease in aggregate debt service payments of \$7.7 million and an economic gain of \$5.7 million.

Please refer to the notes to the financial statements for further discussion of the major capital and debt activity.

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 the Chief Financial Officer or the City Auditor at, 36 Court Street, Springfield, MA 01103.

Basic Financial Statements

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STATEMENT OF NET ASSETS

JUNE 30, 2005

	<u>Governmental Activities</u>	
ASSETS		
CURRENT:		
Cash and cash equivalents.....	\$	89,418,141
Investments.....		32,045,120
Receivables, net of allowance for uncollectibles:		
Real estate and personal property taxes.....		5,513,679
Tax liens.....		5,323,696
Motor vehicle excise taxes.....		2,795,868
Departmental and other.....		564,903
Special assessments.....		169,644
Intergovernmental.....		14,982,589
Loans.....		375,000
Inventory.....		305,284
Due from Springfield Water and Sewer Commission.....		381,561
NONCURRENT:		
Receivables, net of allowance for uncollectibles:		
Intergovernmental.....		122,237,236
Loans.....		9,227,761
Due from Springfield Water and Sewer Commission.....		3,944,433
Capital assets, non depreciable.....		29,961,755
Capital assets, net of accumulated depreciation.....		324,174,786
TOTAL ASSETS.....		<u>641,421,456</u>
LIABILITIES		
CURRENT:		
Warrants payable.....		15,859,226
Accrued liabilities.....		123,441
Accrued payroll.....		4,194,094
Health claims payable.....		8,244,205
Tax refunds payable.....		12,292,686
Accrued interest.....		3,814,016
Other liabilities.....		614,208
Capital lease obligations.....		838,000
Landfill closure.....		175,000
Compensated absences.....		5,966,000
Workers' compensation.....		2,365,500
Bonds and notes payable.....		20,442,779
NONCURRENT:		
Capital lease obligations.....		1,500,936
Compensated absences.....		13,618,650
Workers' compensation.....		5,514,900
Landfill closure.....		6,579,979
Court judgments.....		8,000,000
Bonds and notes payable.....		337,322,532
TOTAL LIABILITIES.....		<u>447,466,152</u>
NET ASSETS		
Invested in capital assets, net of related debt.....		152,135,812
Restricted for:		
Chapter 656 Reserve.....		4,341,962
Loans.....		9,602,761
Permanent funds.....		899,467
Other purposes.....		10,438,014
Unrestricted.....		16,537,288
TOTAL NET ASSETS.....	\$	<u><u>193,955,304</u></u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 33,893,533	\$ 3,993,541	\$ 13,755,474	\$ 300,000	\$ (15,844,518)
Public safety.....	81,568,471	8,483,586	4,790,016	-	(68,294,869)
Education.....	346,130,455	7,585,941	315,232,053	-	(23,312,461)
Public works.....	35,625,891	11,990,657	-	4,243,703	(19,391,531)
Health and welfare.....	5,599,409	44,192	3,709,194	-	(1,846,023)
Culture and recreation.....	14,854,349	1,962,138	2,324,380	-	(10,567,831)
Finance Control Board.....	871,757	-	-	-	(871,757)
Interest.....	14,413,659	7,575,209	-	-	(6,838,450)
State and county charges.....	17,997,676	-	-	-	(17,997,676)
Total Primary Government.....	\$ 550,955,200	\$ 41,635,264	\$ 339,811,117	\$ 4,543,703	\$ (164,965,116)

See notes to basic financial statements.

STATEMENT OF ACTIVITIES (Continued)

FISCAL YEAR ENDED JUNE 30, 2005

	<u>Primary Government</u>	
	Governmental	
	<u>Activities</u>	
Changes in net assets:		
Net (expense) revenue from previous page.....	\$	<u>(164,965,116)</u>
<i>General revenues:</i>		
Real estate and personal property taxes, net of tax refunds payable.....		132,057,410
Tax liens.....		5,926,760
Motor vehicle and other excise taxes.....		8,770,981
Hotel/motel tax.....		694,458
Penalties and interest on taxes.....		3,892,106
Payments in lieu of taxes.....		6,785,417
Grants and contributions not restricted to specific programs.....		35,367,054
Unrestricted investment income.....		1,263,014
Miscellaneous.....		<u>5,223,206</u>
Total general revenues.....		<u>199,980,406</u>
Change in net assets.....		35,015,290
<i>Net Assets:</i>		
Beginning of year (as restated).....		<u>158,940,014</u>
End of year.....	\$	<u><u>193,955,304</u></u>

See notes to basic financial statements.

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2005

ASSETS	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Cash and cash equivalents.....	\$ 34,603,376	\$ 43,805,826	\$ 78,409,202
Investments.....	31,715,023	330,097	32,045,120
Receivables, net of uncollectibles:			
Real estate and personal property taxes.....	5,513,679	-	5,513,679
Tax liens	5,323,696	-	5,323,696
Motor vehicle excise taxes.....	2,795,868	-	2,795,868
Departmental and other.....	-	564,903	564,903
Special assessments.....	169,644	-	169,644
Intergovernmental.....	133,892,825	3,327,000	137,219,825
Loans.....	-	9,602,761	9,602,761
TOTAL ASSETS.....	\$ 214,014,111	\$ 57,630,587	\$ 271,644,698
LIABILITIES AND FUND BALANCES			
LIABILITIES:			
Warrants payable.....	\$ 2,127,338	\$ 13,588,639	\$ 15,715,977
Accrued liabilities.....	123,441	-	123,441
Accrued payroll.....	3,172,550	1,021,544	4,194,094
Tax refunds payable.....	12,292,686	-	12,292,686
Other liabilities.....	614,208	-	614,208
Deferred revenues.....	144,732,841	13,254,664	157,987,505
Notes payable.....	-	1,097,000	1,097,000
TOTAL LIABILITIES.....	163,063,064	28,961,847	192,024,911
FUND BALANCES:			
Reserved for:			
Encumbrances and continuing appropriations.....	20,047,085	-	20,047,085
Chapter 656 Reserve.....	4,341,962	-	4,341,962
Unreserved:			
Undesignated, reported in:			
General fund.....	26,562,000	-	26,562,000
Special revenue funds.....	-	12,805,678	12,805,678
Capital projects funds.....	-	14,963,595	14,963,595
Permanent funds.....	-	899,467	899,467
TOTAL FUND BALANCES.....	50,951,047	28,668,740	79,619,787
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 214,014,111	\$ 57,630,587	\$ 271,644,698

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS**

JUNE 30, 2005

Total governmental fund balances.....		\$ 79,619,787
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		354,136,541
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		157,987,505
Internal service funds are used by management to account for health insurance and parts inventory.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....		2,926,769
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(3,814,016)
The City's component unit is responsible for the payment of certain bonds and the City has recorded an amount due from them equal to the outstanding bonds.....		4,325,994
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds and notes payable.....	(356,668,311)	
Capital lease obligations.....	(2,338,936)	
Landfill closure liability.....	(6,754,979)	
Workers compensation liability.....	(7,880,400)	
Court judgement liability.....	(8,000,000)	
Compensated absences.....	(19,584,650)	
Net effect of reporting long-term liabilities.....		(401,227,276)
Net assets of governmental activities.....		\$ 193,955,304

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FISCAL YEAR ENDED JUNE 30, 2005

	General	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Real estate and personal property taxes, net of tax refunds.....	\$ 122,261,374	\$ -	\$ 122,261,374
Tax liens.....	5,926,760	-	5,926,760
Motor vehicle and other excise taxes.....	9,206,553	-	9,206,553
Hotel/motel tax.....	694,458	-	694,458
Charges for services.....	566,753	14,647,451	15,214,204
Penalties and interest on taxes.....	3,892,106	-	3,892,106
Payments in lieu of taxes.....	6,785,417	-	6,785,417
Licenses and permits.....	3,067,713	-	3,067,713
Fines and forfeitures.....	1,672,981	-	1,672,981
Intergovernmental.....	303,343,558	90,721,737	394,065,295
Departmental and other.....	15,470,115	3,689,088	19,159,203
Contributions.....	-	2,267,323	2,267,323
Investment income.....	1,173,429	73,341	1,246,770
TOTAL REVENUES.....	474,184,456	111,398,940	585,583,396
EXPENDITURES:			
Current:			
General government.....	17,880,283	17,724,380	35,604,663
Public safety.....	49,766,762	7,594,048	57,360,810
Education.....	221,575,681	71,246,857	292,822,538
Public works.....	17,372,031	12,481,680	29,853,711
Health and welfare.....	1,890,115	3,203,644	5,093,759
Culture and recreation.....	8,513,065	2,043,592	10,556,657
Finance Control Board Expenses.....	871,757	-	871,757
Pension benefits.....	22,446,447	-	22,446,447
Employee fringe benefits.....	470,127	-	470,127
Employee health benefits.....	56,898,020	-	56,898,020
Claims and judgments.....	413,721	-	413,721
State, county and district assessments.....	17,997,676	-	17,997,676
Debt service:			
Principal.....	19,324,296	-	19,324,296
Interest.....	15,598,461	-	15,598,461
TOTAL EXPENDITURES.....	451,018,442	114,294,201	565,312,643
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES.....	23,166,014	(2,895,261)	20,270,753
OTHER FINANCING SOURCES (USES):			
Issuance of bonds and notes.....	-	49,236,000	49,236,000
State loan issuance.....	21,871,757	-	21,871,757
Transfers in.....	-	16,529,942	16,529,942
Transfers out.....	(6,697,806)	(9,832,136)	(16,529,942)
TOTAL OTHER FINANCING SOURCES (USES).....	15,173,951	55,933,806	71,107,757
NET CHANGE IN FUND BALANCES.....	38,339,965	53,038,545	91,378,510
FUND BALANCES AT BEGINNING OF YEAR (as restated).....	12,611,082	(24,369,805)	(11,758,723)
FUND BALANCES AT END OF YEAR.....	\$ 50,951,047	\$ 28,668,740	\$ 79,619,787

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2005

Net change in fund balances - total governmental funds..... \$ 91,378,510

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.

Capital outlay.....	3,438,602	
Depreciation expense.....	<u>(18,581,651)</u>	
Net effect of reporting capital assets.....		(15,143,049)

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.....

6,868,356

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. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Proceeds from state loan issuance.....	(21,871,757)	
Proceeds from bonds and notes.....	(49,236,000)	
Capital lease principal payments.....	1,539,791	
Amortization of bond premiums.....	408,118	
Debt service principal payments.....	<u>19,324,296</u>	
Net effect of reporting long-term debt.....		(49,835,552)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Net change in compensated absences accrual.....	1,907,350	
Net change in workers compensation accrual.....	817,522	
Net change in accrued interest on long-term debt.....	950,602	
Net change in landfill accrual.....	(2,492,979)	
Court judgements.....	<u>(8,000,000)</u>	
Net effect of recording long-term liabilities.....		(6,817,505)

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.....		<u>8,564,530</u>
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Change in net assets of governmental activities.....		<u>\$ 35,015,290</u>
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See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2005

		Governmental Activities - Internal Service Funds
ASSETS		
CURRENT:		
Cash and cash equivalents.....	\$	11,008,939
Inventory.....		305,284
		11,314,223
 LIABILITIES		
CURRENT:		
Warrants payable.....		143,249
Health claims payable.....		8,244,205
		8,387,454
 NET ASSETS		
Unrestricted.....		2,926,769
TOTAL NET ASSETS.....	\$	2,926,769

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2005

		Governmental Activities - Internal Service Funds
<u>OPERATING REVENUES:</u>		
Employee contributions	\$	22,593,767
Employer contributions		62,734,281
		<u>85,328,048</u>
<u>OPERATING EXPENSES:</u>		
Employee benefits		<u>76,779,762</u>
		<u>8,548,286</u>
<u>NONOPERATING REVENUES (EXPENSES):</u>		
Investment income.....		<u>16,244</u>
		8,564,530
		<u>(5,637,761)</u>
		<u>2,926,769</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2005

	<u>Governmental Activities - Internal Service Funds</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>	
Receipts from customers and users.....	\$ 22,593,767
Receipts from interfund services provided.....	62,734,281
Payments for interfund services used.....	<u>(74,462,614)</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>10,865,434</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>	
Investment income.....	<u>16,244</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	10,881,678
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>127,261</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 11,008,939</u>
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>	
Operating income.....	\$ <u>8,548,286</u>
Adjustments to reconcile operating income to net cash from operating activities:	
Changes in assets and liabilities:	
Inventory.....	351,687
Warrants payable.....	(181,967)
Health claims payable.....	<u>2,147,428</u>
Total adjustments.....	<u>2,317,148</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 10,865,434</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2005

	Pension Trust Fund (as of December 31, 2004)	Agency Funds
ASSETS		
CURRENT:		
Cash and cash equivalents.....	\$ 936,392	\$ 419,347
Investments.....	264,683,395	-
Interest and dividends receivable.....	757,747	-
Receivables, net of allowance for uncollectibles:		
Departmental and other.....	4,018,986	-
TOTAL ASSETS.....	270,396,520	419,347
LIABILITIES		
Warrants payable.....	7,213,331	419,347
NET ASSETS		
Held in trust for pension plan participants.....	\$ 263,183,189	\$ -

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2005

		Pension Trust Fund (year ended December 31, 2004)
<u>ADDITIONS:</u>		
Contributions:		
Employer.....	\$	24,187,436
Plan members.....		9,993,422
Total contributions.....		<u>34,180,858</u>
Net investment income:		
Net change in fair value of investments.....		17,369,314
Interest.....		5,279,387
Dividends.....		2,010,803
Total investment income.....		<u>24,659,504</u>
Less: investment expense.....		<u>(1,161,596)</u>
Net investment income.....		<u>23,497,908</u>
Intergovernmental.....		<u>761,480</u>
Transfers from other systems.....		<u>630,209</u>
TOTAL ADDITIONS.....		<u>59,070,455</u>
<u>DEDUCTIONS:</u>		
Administration.....		526,635
Transfers to other systems.....		2,270,087
Retirement benefits and refunds.....		49,135,043
TOTAL DEDUCTIONS.....		<u>51,931,765</u>
CHANGE IN NET ASSETS.....		7,138,690
NET ASSETS AT BEGINNING OF YEAR, AS RESTATED.....		<u>256,044,499</u>
NET ASSETS AT END OF YEAR.....	\$	<u><u>263,183,189</u></u>

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the City of Springfield, Massachusetts (the City) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP), except as indicated in Note 2. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant City accounting policies are described herein.

A. Reporting Entity

The City is a municipal corporation that is governed by an elected Mayor and City Council.

For financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The City has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the City (the primary government) and its component units, except as described below and in Note 2.

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

In the Fiduciary Funds:

- (1) The Springfield Contributory Retirement System (the System) was established to provide retirement benefits to City employees and their beneficiaries. The System is governed by a five-member board comprised of the City Auditor (ex-officio), two members elected by the System's membership, one member appointed by the System's four other Board members, and one member appointed by the City's Mayor. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

Management has determined that the Springfield Water and Sewer Commission, the Springfield Redevelopment Authority and the Massachusetts Career Development Institute, Inc. meet the GASB criteria that consider these organizations as component units of the City. The audited financial statements for these entities are not available for inclusion in these financial statements as discretely presented component units which is a departure from GAAP.

Availability of Financial Information for Component Units

The System did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 70 Tapley Street, Springfield, MA 01104.

B. Government-Wide and Fund Financial Statements***Government-Wide Financial Statements***

The government-wide financial statements (i.e., statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units.

Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds 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. Nonmajor funds are aggregated and displayed in a single column.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Internal service funds and fiduciary funds are reported by fund type.

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. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal 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.

The statement of activities demonstrates the degree to which the direct expenses of a particular 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 the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.
- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements.

Fund Financial Statements

Governmental fund financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60 days after fiscal year-end. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The non-major governmental funds consist of other special revenue, capital projects and permanent funds that are aggregated and presented in the *non-major governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise and Trust Funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following proprietary fund is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to the self-insured employee health program.

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the governmental programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *agency fund* is used to account for assets held in a purely custodial capacity.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. Investments are carried at fair value.

E. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide financial statements and the proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to accounts receivable reported in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate, Personal Property Taxes and Tax Liens

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 August 1st, November 1st, February 1st and May 1st 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 of the levy.

Real estate tax liens are processed on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

Motor Vehicle Excise

Motor vehicle excise taxes are assessed annually for each vehicle registered in the City and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

Intergovernmental

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, receivables are recorded as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, receivables are recorded when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Other

Departmental, special assessment and loan receivables are recorded as receivables in the fiscal year the revenue is earned. The allowance of uncollectibles is estimated based on historical trends and specific account analysis.

F. Inventories***Government-Wide and Fund Financial Statements***

Inventories of the governmental funds are recorded as expenditures at the time of purchase. Such inventories are not material in total to the basic financial statements, and therefore are not reported.

Inventories of the proprietary funds are stated at the lower of cost or market. Cost for materials and supplies inventories are determined by the first-in/first-out (FIFO) method.

G. Restricted Assets

Certain assets of the permanent fund are classified as restricted since their use is prohibited by trust agreements.

H. Capital Assets***Government-Wide and Proprietary Fund Financial Statements***

Capital assets, including land, construction in process, buildings and improvements, and vehicles and equipment, are reported in the applicable governmental or business-type activity column of the government-wide financial statements, and in the proprietary fund financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets.

All purchases and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction with expected useful lives of greater than one year.

As allowed by GASB Statement #34, the City has elected to delay the retroactive reporting of all major general governmental infrastructure assets that were acquired prior to the implementation of GASB Statement #34. Consequently, infrastructure assets that were acquired, or significantly reconstructed or improved prior to fiscal year 2002 are not included in these financial statements. The City expects to be in full compliance by June 30, 2007.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land.....	N/A
Construction in process.....	N/A
Buildings.....	40
Building improvements.....	20
Vehicles.....	5-10
Office equipment.....	5-10
Computer equipment.....	5-10

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

I. Interfund Receivables and Payables

During the course of its operations, transactions occur between and within individual funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net assets as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between and within funds are *not* eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

J. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

Transfers between and within governmental funds and internal service funds are eliminated from the governmental activities in the statement of net assets. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

Transfers between and within funds are *not* eliminated from the individual fund statements and are reported as transfers in and transfers out.

K. Deferred Revenue

Deferred revenue at the governmental fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

L. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

Net assets are reported as restricted when amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been "restricted for" the following:

"MGL Chapter 656; An Act relative to reorganization of the financial management structure of the City of Springfield" requires the City to raise an amount equal to 1% of the prior year's gross amounts to be raised. The City may reduce this amount by any funds remaining in the reserve from the prior year.

"Loans" represents the City's Community Development outstanding loans receivable balances.

"Permanent funds" represents amounts held in trust for which the expenditures are restricted by various trust agreements.

"Other specific purposes" represents restrictions placed on assets from outside parties.

Fund Financial Statements (Fund Balances)

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent tentative management plans that are subject to change.

Fund balances have been "reserved for" the following:

“Encumbrances and continuing appropriations” represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

“MGL Chapter 656; An Act relative to reorganization of the financial management structure of the City of Springfield” requires the City to raise an amount equal to 1% of the prior year’s gross amounts to be raised. The City may reduce this amount by any funds remaining in the reserve from the prior year.

M. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

N. Investment Income

Excluding the permanent funds, investment income derived from major and non-major governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL).

O. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities.

P. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis. The cost of providing health insurance is recognized by recording the employer’s 75% share of insurance premiums in the general fund in the fiscal year paid. For the fiscal year ended June 30, 2005, the City’s share of this expense/expenditure totaled approximately \$20,230,000 for all eligible participants.

Q. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure 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.

R. Total Column

Fund Financial Statements

The total column on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 – DEPARTURES FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

In fiscal year 2005 it was determined that the Springfield Water and Sewer Commission, the Springfield Redevelopment Authority and the Massachusetts Career Development Institute, Inc. met the required GASB 39 criteria of component units of the City; however because audited financial statements for these entities are not available for inclusion as of the date of this report, these entities have not been included with the City's basic financial statements. These entities should be included in order to conform to generally accepted accounting principles.

NOTE 3 – FINANCE CONTROL BOARD

On July 9, 2004, the Massachusetts legislature enacted Chapter 169 of the Acts of 2004 entitled "An Act Relative To The Financial Stability 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 subject to the control of the Commonwealth's Secretary of Administration and Finance ("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. For at least fiscal years 2005 and 2006, the City expects to be dependant upon loans from the trust fund to offset its budgetary deficits. At June 30, 2005 the City has drawn down \$21 million from the trust fund to be used as a funding source to balance its budget for fiscal year 2005. In addition to the interest free loan discussed above, the FCB and the Secretary have authorized working capital advances from the trust fund during fiscal year 2005 to assist the City with its cash flow requirements. At June 30, 2005 all of the advances have been repaid. In addition, administrative costs totaling approximately \$872,000 of the FCB have been funded by the Commonwealth and are due to be repaid along with the long-term loans from the trust.

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 not only have 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.

NOTE 4 – CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the combined balance sheet as "Cash and cash equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (the Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$21,992,563 and the bank balance totaled \$24,215,585. Of the bank balance, \$200,000 was covered by Federal Depository Insurance and \$24,015,585 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2004, the carrying amount of deposits for the Retirement System totaled \$936,392 which was covered by Federal Depository Insurance.

Investments

As of June 30, 2005, the City had the following investments and maturities:

Investment Type	Fair Value	Maturity		Rating
		Under 1 Year		
<u>Debt Securities</u>				
Corporate Bonds.....	\$ 31,715,023	\$	31,715,023	AAA
Repurchase Agreements.....	46,354,731		46,354,731	AAA
Municipal Bonds.....	199,387		199,387	AAA
Total Debt Securities.....	78,269,141	\$	<u>78,269,141</u>	
<u>Other Investments</u>				
Equity Securities.....	130,710			
Money Market Mutual Funds....	21,448,429			
MMDT.....	41,765			
Total Investments.....	\$ <u>99,890,045</u>			

As of December 31, 2004, the Retirement System had the following investments and maturities:

Investment Type	Fair Value	Maturity		Rating
			Under 1 Year	
<u>Debt Securities</u>				
U.S. Government Securities.....\$	2,333,426	\$	2,333,426	(1)
Corporate Bonds.....	73,876,129		73,876,129	(1)
Commercial Paper.....	3,444,860		3,444,860	(1)
Total Debt Securities.....	<u>79,654,415</u>	\$	<u>79,654,415</u>	
<u>Other Investments</u>				
Equity Securities.....	<u>185,028,980</u>			
Total Investments.....	<u>\$ 264,683,395</u>			

(1) Subsequent to year end substantially all of the investments of the Retirement Plan were transferred to the Commonwealth's Pension Reserves Investment Trust (PRIT) Fund, and therefore the investment maturities are all considered to be less than one year and the related GASB 40 ratings and other disclosure requirements for the Retirement System have been omitted.

Custodial Credit Risk – Investments

For investments, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party. The City has custodial credit risk exposure equal to \$78,269,141 in debt securities and \$130,710 in equity securities because the related securities are uninsured, unregistered and held by the counterparty. The City does not have an investment policy for custodial credit risk.

Of the Retirement System's total investments of \$264,683,395 there was custodial credit risk exposure of \$2,333,426 in U.S. government securities, \$73,876,129 in corporate bonds, \$3,444,860 in commercial paper and \$185,028,980 in equity securities because the related securities are uninsured, unregistered and held by the counterparty.

Investment Rate Risk

The City does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

The City has not adopted a formal policy related to Credit Risk.

Concentration Credit Risk

The City places no limit on the amount it may invest in any one issuer.

NOTE 5 – RECEIVABLES

At June 30, 2005, receivables for the individual major governmental funds and non-major, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 11,018,999	\$ (5,505,320)	\$ 5,513,679
Tax liens.....	18,998,683	(13,674,987)	5,323,696
Motor vehicle and other excise taxes.....	12,054,424	(9,258,556)	2,795,868
Departmental and other	564,903	-	564,903
Special assessments.....	169,644	-	169,644
Intergovernmental.....	137,219,825	-	137,219,825
Loans.....	31,191,761	(21,589,000)	9,602,761
Total.....	<u>\$ 211,218,239</u>	<u>\$ (50,027,863)</u>	<u>\$ 161,190,376</u>

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. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 2,550,808	\$ -	\$ 2,550,808
Tax Liens.....	5,323,696	-	5,323,696
Motor vehicle excise.....	2,795,868	-	2,795,868
Departmental and other.....	-	564,903	564,903
Special assessments.....	169,644	-	169,644
Intergovernmental.....	133,892,825	3,087,000	136,979,825
Loans.....	-	9,602,761	9,602,761
Total.....	<u>\$ 144,732,841</u>	<u>\$ 13,254,664</u>	<u>\$ 157,987,505</u>

NOTE 6 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 25,824,320	\$ -	\$ -	\$ 25,824,320
Construction in progress.....	59,457,270	1,943,783	(57,263,618)	4,137,435
Total capital assets not being depreciated.....	<u>85,281,590</u>	<u>1,943,783</u>	<u>(57,263,618)</u>	<u>29,961,755</u>
<u>Capital assets being depreciated:</u>				
Land improvements.....	33,613,879	771,570		34,385,449
Buildings and improvements.....	283,845,185	57,803,709	-	341,648,894
Machinery and equipment.....	68,693,410	2,126,941	-	70,820,351
Total capital assets being depreciated.....	<u>386,152,474</u>	<u>60,702,220</u>	<u>-</u>	<u>446,854,694</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(5,757,396)	(1,131,620)		(6,889,016)
Buildings and improvements.....	(62,292,946)	(9,086,669)	-	(71,379,615)
Machinery and equipment.....	(36,047,915)	(8,363,362)	-	(44,411,277)
Total accumulated depreciation.....	<u>(104,098,257)</u>	<u>(18,581,651)</u>	<u>-</u>	<u>(122,679,908)</u>
Total capital assets being depreciated, net.....	<u>282,054,217</u>	<u>42,120,569</u>	<u>-</u>	<u>324,174,786</u>
Total governmental activities capital assets, net.....	<u>\$ 367,335,807</u>	<u>\$ 44,064,352</u>	<u>\$ (57,263,618)</u>	<u>\$ 354,136,541</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General government.....	\$ 607,442
Public safety.....	2,113,832
Education.....	13,036,145
Public works.....	914,457
Culture and recreation.....	<u>1,909,775</u>
Total depreciation expense - governmental activities.....	<u>\$ 18,581,651</u>

NOTE 7 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2005, are summarized as follows:

<u>Operating Transfers Out</u>	<u>Operating Transfers In</u>
	Nonmajor Governmental Funds
General Fund.....	\$ 6,697,806 (1)
Nonmajor Governmental Funds.....	<u>9,832,136 (2)</u>
Total.....	<u>\$ 16,529,942</u>

(1) Represents budgeted transfers from the general fund to special revenue and capital project funds in the amounts of \$1,212,906 and \$2,000,000, respectively, to provide funding for prior year deficits. In addition, \$1,904,900 and \$1,580,000, respectively, was transferred from the general fund to the capital project funds for capital spending and debt service.

(2) Represents budgeted transfers from receipts reserved in the special revenue fund to capital projects in the amount of \$3,300,000, and various transfers between capital project funds in the amount of \$6,532,136.

NOTE 8 – LEASES

Capital Leases

The City has entered into lease agreements to finance the acquisition of machinery and equipment for public safety, public works and general governmental activities. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The following identifies the assets acquired through capital lease agreements:

<u>Asset description:</u>	<u>Governmental Activities</u>
Machinery and equipment.....	\$ 6,922,149
Less: accumulated depreciation.....	<u>(3,916,160)</u>
Total.....	<u>\$ 3,005,989</u>

Future minimum lease payments under capitalized leases consist of the following at June 30:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2006.....	\$ 924,296
2007.....	634,684
2008.....	526,154
2009.....	<u>494,545</u>
 Total minimum lease payments.....	 2,579,679
 Less: amounts representing interest.....	 <u>(240,743)</u>
 Present value of minimum lease payments.....	 \$ <u><u>2,338,936</u></u>

Operating Leases

The City leases office equipment and various facilities utilized primarily by the school system under noncancelable operating leases that expire on various dates through fiscal year 2007. The cost of the leases for the fiscal year ended June 30, 2005, totaled approximately \$1,160,000, and is reported as educational and general governmental expenditures in the general fund.

The future minimum lease payments are as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2006.....	\$ 818,853
2007.....	<u>719,773</u>
	 \$ <u><u>1,538,626</u></u>

NOTE 9 – SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund.

Details related to the short-term debt activity for the fiscal year ended June 30, 2005, is as follows:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2004	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2005
BAN	Public buildings.....	2.50%	07/08/04	\$ 21,997,000	\$ -	\$ 21,997,000	\$ -
BAN	Public buildings.....	3.00%	09/24/04	29,916,000	-	29,916,000	-
BAN	Public buildings.....	3.00%	06/17/05	-	33,576,000	33,576,000	-
BAN	Public buildings.....	3.50%	07/08/05	-	21,997,000	21,951,000	46,000
BAN	Public buildings.....	3.50%	07/22/05	-	28,336,000	27,285,000	1,051,000
RAN	Cash flow financing.....	0.00%	01/11/05	-	22,000,000	22,000,000	-
RAN	Cash flow financing.....	0.00%	04/07/05	-	12,000,000	12,000,000	-
RAN	Cash flow financing.....	0.00%	04/07/05	-	24,000,000	24,000,000	-
RAN	Cash flow financing.....	0.00%	06/29/05	-	20,000,000	20,000,000	-
				<u>\$ 51,913,000</u>	<u>\$ 161,909,000</u>	<u>\$ 212,725,000</u>	<u>\$ 1,097,000</u>

At June 30, 2005 the City had \$50,333,000 of BANs outstanding. On July 7, 2005, \$49,236,000 of this amount was refinanced on a long-term basis and the balance of \$1,097,000 was paid down on their respective due dates. The \$49.2 million of BANs converted to long-term meet the GASB criteria for treatment as long-term debt and therefore these amounts are classified as long-term liabilities for the government-wide financial statements.

NOTE 10 – LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

Details related to the outstanding indebtedness at June 30, 2005, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2004	Issued	Redeemed	Outstanding at June 30, 2005
Inside Debt Limit					
July 15, 1993 Series A School Refunding Bond.....	0.00	\$ 455,000	\$ -	\$ 455,000	\$ -
State Qualified Bonds dated August 15, 1996.....	6.25 - 6.375	1,246,316	-	465,800	780,516
State Qualified Bonds dated October 1, 1997.....	4.35 - 6.375	3,455,000	-	770,000	2,685,000
State Qualified Bonds dated November 15, 1998.....	3.55 - 5.0	1,615,000	-	75,000	1,540,000
State Qualified Bonds dated December 1, 1999.....	4.5 - 6.25	4,095,000	-	170,000	3,925,000
State Qualified Bonds dated August 1, 2001.....	3.5 - 5.5	57,560,000	-	2,020,000	55,540,000
July 25, 2002 Qualified Zone Academy Bonds.....	1.28	6,505,000	-	505,000	6,000,000
State Qualified Refunding Bonds dated February 1, 2003.....	2.0 - 5.0	5,340,995	-	650,482	4,690,513
State Qualified New Money Bonds dated July 7, 2005.....	0.00	-	40,869,018	-	40,869,018
Total Inside Debt Limit.....		80,272,311	40,869,018	5,111,282	116,030,047
Outside Debt Limit					
EPA July 26, 1986.....	0.00	166,474	-	99,206	67,268
September 1, 1992 Non-Called Portion School Refunding Bonds...	0.00	1,090,000	-	1,090,000	-
State Qualified Bonds dated August 15, 1996.....	6.25 - 6.375	25,353,684	-	2,654,200	22,699,484
State Qualified Bonds dated October 1, 1997.....	4.35 - 6.375	31,395,000	-	1,945,000	29,450,000
State Qualified Bonds dated November 15, 1998.....	3.55 - 5.0	48,035,000	-	2,270,000	45,765,000
State Qualified Bonds dated December 1, 1999.....	4.5 - 6.25	39,015,000	-	1,630,000	37,385,000
State Qualified New Money Bonds dated February 1, 2003.....	2.0 - 5.25	66,894,234	-	2,366,440	64,527,794
State Qualified New Money Bonds dated July 7, 2005.....	3.00 - 5.25	-	8,366,982	-	8,366,982
Total Outside Debt Limit.....		211,949,392	8,366,982	12,054,846	208,261,528
State Loan.....	0.00	-	21,871,757	-	21,871,757
Hospital Note.....	3.00	3,660,000	-	1,790,000	1,870,000
Total face value of bonds and notes.....		295,881,703	71,107,757	18,956,128	348,033,332
Unamortized Premiums on bonds.....		4,717,103	-	408,118	4,308,985
Total long-term debt and unamortized premiums.....		\$ 300,598,806	\$ 71,107,757	\$ 19,364,246	\$ 352,342,317

The difference between the original long-term debt of \$348,033,332, as presented above, and the debt service requirements of the new refunded debt, as described below, is due to the net difference between the premium issued in July and the deferred loss on refunding which will be recorded in FY06 and amortized over the life of the old debt in the amount of \$1,586,000.

Debt service requirements for principal and interest for Governmental bonds payable in future fiscal years are as follows:

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006.....	\$ 18,570,524	\$ 12,600,228	\$ 31,170,752
2007.....	18,336,770	14,863,280	33,200,050
2008.....	22,190,095	14,049,476	36,239,571
2009.....	21,901,923	13,235,138	35,137,061
2010.....	22,548,409	12,374,744	34,923,153
2011.....	23,390,847	11,435,645	34,826,492
2012.....	24,232,456	10,433,099	34,665,555
2013.....	23,366,309	9,404,650	32,770,959
2014.....	20,085,000	8,367,333	28,452,333
2015.....	21,085,001	7,299,174	28,384,175
2016.....	20,834,999	6,206,665	27,041,664
2017.....	18,310,000	5,198,673	23,508,673
2018.....	18,695,000	4,273,569	22,968,569
2019.....	19,605,000	3,303,154	22,908,154
2020.....	15,950,000	2,409,992	18,359,992
2021.....	12,705,000	1,690,664	14,395,664
2022.....	13,330,000	1,036,274	14,366,274
2023.....	9,009,999	474,349	9,484,348
2024.....	2,300,000	56,312	2,356,312
Total.....	\$ <u>346,447,332</u>	\$ <u>138,712,419</u>	\$ <u>485,159,751</u>

Guaranteed Loans

The City issued debt through general obligation bonds and the Massachusetts Water Pollution Abatement Trust (MWPAT) on behalf of the Water and Sewer Commission, a separate reporting entity. At the time of its creation, the Water and Sewer Commission assumed this debt and is responsible for reimbursing the City for the debt service payments. The City has recorded a corresponding asset of due from the Springfield Water and Sewer Commission to offset the liability. As of June 30, 2005, the following amounts are included in long-term debt of the City:

<u>Description</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2004</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2005</u>
August 1, 2001 MWPAT 91-59.....	1.0 - 2.75	\$ 1,007,509	\$ -	\$ 68,537	\$ 938,972
August 1, 2001 Phase I MWPAT 94-24.....	1.0 - 2.75	2,521,882	-	171,553	2,350,329
State Qualified New Money Bonds dated February 1, 2003.....	4.25 - 6.0	1,164,771	-	128,078	1,036,693
Total.....		\$ <u>4,694,162</u>	\$ <u>-</u>	\$ <u>368,168</u>	\$ <u>4,325,994</u>

School Building Assistance

The City has been approved to receive school construction assistance through the Massachusetts School Building Authority (MSBA). The MSBA provides resources for eligible construction costs and related debt interest

and borrowing costs. During fiscal year 2005, approximately \$19.4 million of such assistance was received. Approximately \$200 million is expected to be received in future fiscal years. Of this amount, \$66 million represents reimbursement of long-term interest costs, and \$134 million represents reimbursement of approved construction costs. Accordingly, a \$134 million intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue for the entire grant has been recognized as revenue in the conversion to the government-wide financial statements for prior fiscal years.

Advance Refunding and Defeased Bonds

Subsequent to year end, as authorized by the Commonwealth of Massachusetts, the City advance refunded \$99,860,000 of general obligation bonds through the issuance of \$98,274,000 of general obligation refunding bonds on July 7, 2005. Proceeds (net of bond premiums, issuance costs and other closing costs) were used to purchase \$107,143,336 of U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered defeased and the liabilities therefore will be removed from the financial statements in FY2006. Through this advance refunding, the City has taken advantage of lower interest rates to realize a decrease in its aggregate debt service payments by approximately \$7,658,000 over the next 10 years. The City also realized an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$5,698,410. Subsequent to the refinancing, \$99,860,000 of the bonds refunded remain outstanding and are considered defeased.

Authorized and Unissued Debt

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. Following delivery of the bonds described above and the application of the bond proceeds and revenue funds of the City to permanently fund the outstanding bond anticipation notes maturing in July 2005, the City will have approximately \$25 million of authorized and unissued debt, for which there are no plans in place for the issuance of this debt.

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2005, the following changes occurred in long-term liabilities:

	Balance June 30, 2004 (as restated)	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Increases (Decreases)	Balance June 30, 2005	Current Amount Due
<u>Governmental Activities:</u>						
Long-Term Bonds and Notes...	\$ 295,881,703	\$ 71,107,757	\$ (18,956,128)	\$ -	\$ 348,033,332	\$ 18,570,524
Capital Lease Obligations.....	3,878,727	-	-	(1,539,791)	2,338,936	838,000
Guaranteed Loans.....	4,694,162	-	(368,168)	-	4,325,994	381,561
Unamortized Bond Premium....	4,717,103	-	-	(408,118)	4,308,985	393,694
Compensated Absences.....	21,492,094	-	-	(1,907,445)	19,584,649	5,966,000
Workers' Compensation.....	8,697,920	-	-	(817,520)	7,880,400	2,365,500
Court Judgements.....	-	-	-	8,000,000	8,000,000	-
Landfill Closure.....	4,262,466	-	-	2,492,513	6,754,979	175,000
Total governmental activity long-term liabilities.....	\$ 330,663,789	\$ 71,107,757	\$ (19,324,296)	\$ 5,819,639	\$ 378,591,896	\$ 28,690,279

Compensated absences liabilities related to both governmental activities are normally paid from the funds reporting the payroll and related expenditures; namely the general fund.

NOTE 11 - LANDFILL CLOSURE AND POST CLOSURE CARE

State and federal laws and regulations require the City to construct a final capping system on the Bondi Island and Amory Street landfill sites as it stops accepting waste and to perform certain maintenance and monitoring functions at the sites after closure. The City closed various portions of the landfills beginning in 1992 and is currently implementing a closure and post closure care plan. To date, the City has expended approximately \$4,870,000 and has reflected \$6,755,000 as the estimate of the remaining liability at June 30, 2005. This amount is based upon estimates of what it would cost the City to perform all closure and post closure care as of June 30, 2005. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

NOTE 12 – RISK FINANCING

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the City carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The City is self-insured for its health, workers’ compensation, and unemployment insurance activities. Health insurance activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred. Workers’ compensation and unemployment claims are administered by the City and are funded on a pay-as-you-go basis from annual appropriations.

Liabilities are reported when it’s probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities an amount for claims that have been incurred but not reported (IBNR). The result of the process to estimate the claims liability is not an exact amount as it depends on many factors. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claims settlement trends, and other economic and social factors.

(a) *Health Insurance*

The estimate of Incurred But Not Reported (IBNR) claims based on an estimate of claims incurred but unpaid at year end. At June 30, 2005, the liability for health insurance claims totaled approximately \$8.2 million. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2003, are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claim Payments		Balance at Fiscal Year-End Currently Due
Fiscal Year 2004.....	\$ 2,154,008	\$	70,906,272	\$	(66,963,503)	\$	6,096,777
Fiscal Year 2005.....	6,096,777		76,779,762		(74,632,334)		8,244,205

(b) *Workers’ Compensation*

The estimated future workers’ compensation liability is based on history and injury type. At June 30, 2005, the amount of the estimated liability for workers’ compensation claims totaled approximately \$7.9

million. Changes in the reported liability since July 1, 2004 (information for fiscal year 2004 is not available), are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claim Payments	Balance at Fiscal Year-End	Current Portion
Fiscal Year 2005.....	\$ 8,697,920	\$ 2,544,870	\$ (3,362,390)	\$ 7,880,400	\$ 2,365,500

The liability for unemployment claims at June 30, 2005 is based on known claims reported to the Massachusetts Division of Unemployment Assistance and the future liability at year end was estimated to be approximately \$123,000.

NOTE 13 – PENSION PLAN

Plan Description - The City contributes to the System, a multi-employer defined benefit pension plan administered by the Springfield Contributory Retirement System (SCRS). Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$29,218,721 for the fiscal year ended June 30, 2005, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth’s state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the SCRS and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth’s PERAC. That report may be obtained by contacting the System located at 70 Tapley Street, Springfield, MA 01104.

At December 31, 2004, the System’s membership consists of the following:

Active members.....	3,577
Inactive members.....	886
Disabled members.....	483
Retirees and beneficiaries currently receiving benefits.....	<u>2,790</u>
Total.....	<u><u>7,736</u></u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. Chapter 32 of the MGL governs the contributions of plan members and the City.

Annual Pension Cost - The City contributions to the System for the fiscal years ended June 30, 2005, 2004, and 2003 were \$22,410,950, \$22,255,144, and \$18,842,305, respectively, which equaled its required contribution for

each fiscal year. At June 30, 2005, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2004, actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.5% investment rate of return and projected salary increases of 5.5% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll. The remaining amortization period at January 1, 2004, was 24 years with payments increasing at 4.5% per year.

Schedule of Funding Progress
(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/04	\$ 291,017	\$ 615,605	\$ 324,588	47.3%	\$ 109,937	295.2%
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%

Noncontributory Retirement Allowance - The City pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2005 totaled approximately \$508,000.

NOTE 14 – COMMITMENTS

Waste Services Agreement

In August 1998, the City of Springfield and 6 other communities entered into nearly identical "Service Agreements" with what is now eco/Springfield, LLC, a company that owns and operates 240 ton per day waste-to-energy facility located on Bondi's Island, Agawam, Massachusetts. Under the Service Agreement, the City has agreed to deliver for disposal at the facility, in each year for a period of 25 years, specified quantities of solid waste and to pay a specified monthly service fee. Waste from the City of Springfield comprises approximately 61% of the aggregate solid waste committed to the facility. The City's obligation to pay the monthly service fee is absolute and unconditional and is payable whether or not it receives solid waste disposal services from the facility. The City is entitled to certain credits for a portion of certain revenues derived from the facility by the operator. For the fiscal year ending June 30, 2005, the City's costs under the Service Agreement were \$3,469,000 and the credits received amounted to \$207,000.

NOTE 15 – CONTINGENCIES*Litigation*

Various lawsuits, claims and proceedings have been or may be instituted or asserted against the City of Springfield, including those pertaining to water and sewer breaks, motor vehicle accidents, eminent domain cases, premise liability cases, civil rights/discrimination cases, and labor and employment case matters. While the amounts claimed may be substantial, the ultimate liability cannot be determined because of the considerable uncertainties that exist. Therefore, it is possible that there could be material negative outcomes affected by certain contingencies existing as of June 30, 2005. However, except for matters relating to the labor and employment cases discussed below, management believes that the disposition of matters that are pending or asserted will not have a materially adverse affect on the financial statements.

Wage Freeze

The City's Teachers Union, along with other Unions, have brought suit against the wage freeze imposed by the City during fiscal year 2004. In December of 2005 the court ruled in favor of the teachers. As of the date of this report the court has not determined damages and judgment has not been entered. The estimated damages to the teachers for the fiscal year 2004 are estimated to be \$2.5 million. The City is expected to appeal the decision once judgment is entered, and the teachers have filed a motion to amend its complaint to add fiscal years 2005 and 2006 to the scope of the case.

The Police Patrol Officer's Union has also filed suit challenging the wage freeze imposed by the City and wages that were frozen under this agreement for fiscal year 2004 are estimated at \$1.2 million.

The City's defense relies upon special statutes enacted by the Massachusetts Legislature to remedy the fiscal crisis in the City of Springfield as more fully described in Note 3.

Health Insurance

Several Unions have filed suit claiming that the City's changes to its health insurance plans and the re-distribution of costs to employees were illegal under state law. Again, the City's defenses rely on the special laws enacted to remedy the fiscal crisis in the City. There are approximately 4,500 City and school employees whose labor contracts have not settled, however several unions have settled labor contracts in which they waived their claims that the health care changes were illegal.

In addition to the lawsuits described above there are numerous Arbitration cases pending that all raise, in one form or another, all claim of illegal action by the City in freezing wages or changing health care costs. The estimated aggregate exposure to the City for the health care changes is approximately \$16 million. The aggregate wage freeze estimate currently exceeds \$10 million. These estimated amounts relate to all years under the existing contracts which expire at the end of fiscal year 2006.

In light of the fact that the Teachers Union was successful in its case relating to the fiscal year 2004 wage freeze, management has determine that it is likely that a wage freeze liability exists as of June 30, 2005 and accordingly, has accrued an estimate of \$8.0 million for potential future payments.

Management believes it will be successful in either negotiating or defending itself against significant claims relating to the legality of the heath care changes.

Federal Grants

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2005, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be

disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2005, the following GASB pronouncements were implemented:

The GASB issued Statement #40, *Deposit and Investment Risk Disclosures, an Amendment of GASB Statement #3*, which is required to be implemented during fiscal year 2005. This pronouncement required changes to the note disclosure.

Other Future GASB Pronouncements:

The GASB issued Statement #42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, which is required to be implemented in fiscal year 2006. Management does not believe that this pronouncement will significantly impact the basic financial statements.

The GASB issued Statement #43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in fiscal year 2007. Since there is no legally established separate trust for the postemployment benefit plan this pronouncement will not impact the basic financial statements.

GASB issued Statement #44, *Economic Condition Reporting: The Statistical Section*, which is required to be implemented in fiscal year 2006. This new GASB establishes and modifies requirements related to supplementary information presented in a statistical section. The presentation of a statistical section is not required by this pronouncement. This pronouncement will not impact the basic financial statements.

The GASB issued Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2008. Management believes this pronouncement will require additional disclosure and will impact the basic financial statements.

The GASB issued Statement # 46, *Net Assets Restricted by Legislation an amendment of GASB Statement No. 34*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government—such as citizens, public interest groups, or the judiciary—can compel a government to honor. It requires governments to disclose the portion of total net assets that is restricted by enabling legislation. This statement is required to be implemented in FY2006. Management believes that this statement will not effect the basic financial statements.

The GASB issued Statement # 47, *Accounting for Termination Benefits*. The Statement provides accounting and reporting guidance for state and local governments that offer benefits such as early retirement incentives or severance to employees that are involuntarily terminated. The Statement requires that similar forms of termination benefits be accounted for in the same manner and is intended to enhance both the consistency of reporting for termination benefits and the comparability of financial statements. This statement is required to be implemented in FY2006. Management believes that this statement will not effect the basic financial statements.

NOTE 17 – RESTATEMENT OF NET ASSETS

The beginning net assets of the governmental activities, the enterprise fund, the pension trust fund along with the fund balances of the General and Non-major governmental funds have been restated. The table below describes the restatements.

Description	Fund Based Financial Statements				Entity-wide
	General Fund	Non-Major Funds	Enterprise Fund	Pension Trust Fund	Governmental Net Assets
June 30, 2004 Balance previously reported.....	\$ 13,502,876	\$ (23,636,507)	\$ 570,754	\$ 242,263,360	\$ 18,096,695
Reclass parking enterprise fund.....	-	469,380	(570,754)	-	570,754
Record MSBA receivable.....	-	-	-	-	145,672,685
Record revolving loans receivable.....	-	-	-	-	5,392,272
Record workers compensation liability.....	-	-	-	-	(8,697,920)
Adjustment to assets reported.....	(891,794)	(1,202,678)	-	-	(2,094,472)
Adjust intergovernmental receivable.....	-	-	-	13,781,139	-
June 30, 2004 Balance, as restated.....	<u>\$ 12,611,082</u>	<u>\$ (24,369,805)</u>	<u>\$ -</u>	<u>\$ 256,044,499</u>	<u>\$ 158,940,014</u>

Required Supplementary Information

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2005

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance Over/(Under)
	Final Budget				
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 118,057,083	\$	127,798,211	\$ -	\$ 9,741,128
Tax liens.....	-		5,926,760	-	5,926,760
Motor vehicle and other excise taxes.....	7,512,085		9,206,553	-	1,694,468
Hotel/motel tax.....	900,000		694,458	-	(205,542)
Charges for services.....	412,322		566,753	-	154,431
Penalties and interest on taxes.....	1,304,383		3,892,106	-	2,587,723
Payments in lieu of taxes.....	6,286,547		6,785,417	-	498,870
Licenses and permits.....	2,870,203		3,067,713	-	197,510
Fines and forfeitures.....	1,480,731		1,672,981	-	192,250
Intergovernmental.....	274,181,279		274,124,837	-	(56,442)
Departmental and other.....	11,058,984		15,470,115	-	4,411,131
Investment income.....	200,000		1,173,429	-	973,429
TOTAL REVENUES.....	424,263,617		450,502,572	-	26,238,955
EXPENDITURES:					
Current:					
General government.....	20,707,534		17,977,065	546,273	2,184,196
Public safety.....	52,365,444		51,021,172	209,731	1,134,541
Education.....	204,366,167		192,614,851	11,285,682	465,634
Public works.....	19,420,355		17,358,136	484,712	1,577,507
Health and welfare.....	2,280,332		1,930,201	11,019	339,112
Culture and recreation.....	10,050,655		8,663,063	80,278	1,307,314
Finance Control Board Expenses.....	871,757		871,757	-	-
Pension benefits.....	22,673,218		22,446,447	899	225,872
Employee fringe benefits.....	5,248,516		346,686	4,200,000	701,830
Employee health benefits.....	68,226,484		62,734,281	3,228,491	2,263,712
Claims and judgments.....	413,721		413,721	-	-
State, county and district assessments.....	17,997,676		17,997,676	-	-
Debt service:					
Principal.....	19,644,993		19,382,003	-	262,990
Interest.....	16,114,832		16,114,832	-	-
TOTAL EXPENDITURES.....	460,381,684		429,871,891	20,047,085	10,462,708
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES....	(36,118,067)		20,630,681	(20,047,085)	36,701,663
OTHER FINANCING SOURCES (USES):					
State loan issuance.....	37,950,803		21,871,757	-	(16,079,046)
Transfers out.....	(8,843,913)		(6,697,806)	-	2,146,107
TOTAL OTHER FINANCING SOURCES (USES).....	29,106,890		15,173,951	-	(13,932,939)
NET CHANGE IN FUND BALANCE.....	(7,011,177)		35,804,632	(20,047,085)	22,768,724
BUDGETARY FUND BALANCE, Beginning of year.....	25,688,816		25,688,816	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 18,677,639	\$	61,493,448	\$ (20,047,085)	\$ 22,768,724

See notes to required supplementary information.

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is certified by the Massachusetts Department of Revenue. On July 9, 2004, the Massachusetts legislature enacted Chapter 169 of the Acts of 2004 entitled “An Act Relative To The Financial Stability 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. Therefore the budget process for the City has changed from prior years. The FCB has the authority to amend the original budget throughout the fiscal year.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the FCB has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year. These carry forwards are included as part of the subsequent fiscal year’s original budget.

Generally, expenditures may not exceed the legal level of spending authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2005 approved budget authorized approximately \$469 million in appropriations and other amounts to be raised. The City Auditor’s office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2005, is presented below:

Net change in fund balance - budgetary basis.....	\$	35,804,632
<u>Basis of accounting differences:</u>		
Increase in revenues due to on-behalf payments.....		29,218,721
Increase in expenditures due to on-behalf payments.....		(29,218,721)
Net change in recording other accrued revenues.....		1,145,352
Net change in recording other accrued expenses.....		4,642,860
Net change in recording accrued payroll.....		2,855,232
Net change in recording tax refunds payable.....		(5,693,762)
Net change in short-term debt interest accrual.....		574,078
Net change in recording 60 day receipts.....		<u>(988,427)</u>
Net change in fund balance - GAAP basis.....	\$	<u><u>38,339,965</u></u>