

CITY OF SPRINGFIELD, MASSACHUSETTS

Financial Statements

For the Year Ended June 30, 1997

(With Independent Auditors' Report Thereon)

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
GENERAL PURPOSE FINANCIAL STATEMENTS:	
Combined Balance Sheet - All Fund Types and Account Group	3
Combined Statement of Revenues, Expenditures, and Changes in Fund Equity - All Governmental Fund Types and Expendable Trust Funds	4
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	5
Combined Statement of Revenues, Expenses and Changes in Retained Earnings/Fund Equity - All Proprietary Fund Types and Similar Trust Funds	6
Combined Statement of Cash Flows - All Proprietary Fund Types and Similar Trust Funds	7
Notes to Financial Statements	8



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INDEPENDENT AUDITORS' REPORT

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

We have audited the general purpose financial statements of the City of Springfield, Massachusetts as of June 30, 1997 (December 31, 1996 for the Contributory Retirement System) and for the year(s) then ended. These general purpose financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with generally accepted auditing standards 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 general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Under the terms of our engagement, we did not obtain sufficient evidential matter to support the City's Enterprise Fund fixed asset balance stated at \$ 116,507,886. In addition, we did not observe the taking of the physical inventory of the Internal Service Fund as of June 30, 1997 stated at \$ 1,274,110, nor did we satisfy ourselves as to the inventory quantities by means of other auditing procedures.

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

The City has established separate enterprise funds; however, the City accounts for their activities on a modified accrual basis, similar to governmental funds. As a result, certain assets, such as inventories of supplies, capital projects and fixed assets, certain liabilities, such as capital leases and accrued expenses, and certain expenses, such as depreciation, have not been recorded as required by generally accepted accounting principles for enterprise funds. In addition, fixed assets as reported are not supported by a fixed asset ledger and in some cases have been recorded to equal the capital acquisitions funded by debt, rather than on historical costs, as required by generally accepted accounting principles. Also, annual depreciation is reported at an amount equal to principal debt service payments. The amount by which reported amounts differ from generally accepted accounting principles could not be determined.

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

In our opinion, except for the effects of such adjustments, if any, that might have been determined to be necessary had we been able to examine sufficient evidential matter supporting fixed asset balances in the Enterprise Funds, and inventory balances in the Internal Service Fund, and except for the effects of the items described in the fourth through sixth paragraphs, the general purpose financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the City of Springfield, Massachusetts as of June 30, 1997 (and December 31, 1996 for the Contributory Retirement System) and the results of its operations and cash flows of its proprietary fund types and similar trust funds for the year(s) then ended, in conformity with generally accepted accounting principles.

Melanson, Heath & Company, P.C.
Greenfield, Massachusetts
October 10, 1997

CITY OF SPRINGFIELD, MASSACHUSETTS
 Combined Balance Sheet -
 All Fund Types and Account Group

June 30, 1997

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types Trust and Agency	Account Group General Long-Term Debt	Totals (Memorandum Only)	Contributory Retirement System as of 12/31/96
	General	Special Revenue	Capital Project	Enterprise	Internal Service				
ASSETS									
Cash and cash equivalents	\$ 31,067,417	\$ 1,073,220	\$ (27,795,989)	\$ 23,760,102	\$ 402,179	\$ 1,817,109	\$ -	\$ 30,324,038	\$ 517,775
Investments	-	-	-	-	-	333,592	-	333,592	197,368,113
Investments held by others	-	-	-	-	-	23,593,871	-	23,593,871	-
Receivables:									
Property taxes	11,571,879	-	-	-	-	-	-	11,571,879	-
Tax liens and foreclosures	17,832,695	-	-	2,539,798	-	-	-	20,372,493	-
Excises	10,456,327	-	-	8,016,705	-	-	-	10,456,327	-
User charges	-	-	-	-	-	-	-	8,016,705	-
Other receivables, net of allowance	587,170	-	-	-	-	-	-	587,170	1,987,861
Due from other governments	1,423,000	6,069,543	-	-	-	-	-	7,492,543	1,593,688
Other assets	-	-	-	-	-	-	-	-	-
Inventory	-	-	-	116,507,886	1,274,110	-	-	1,274,110	-
Property, plant and equipment	-	-	-	-	-	-	79,779,282	79,779,282	-
Amount to be provided for long-term obligations	-	-	-	-	-	-	37,524,607	37,524,607	-
Amount to be provided by Commonwealth	-	-	-	-	-	-	-	-	-
Total Assets	\$ 72,938,488	\$ 7,142,763	\$ (27,795,989)	\$ 150,824,491	\$ 1,676,289	\$ 25,744,572	\$ 117,303,889	\$ 347,834,503	\$ 201,467,437
LIABILITIES AND FUND EQUITY									
Liabilities:									
Warrants payable	\$ 3,368,422	\$ 4,787,559	\$ 3,000,085	\$ 4,721,908	\$ 233,404	\$ 626,679	\$ -	\$ 16,738,057	\$ -
Accounts payable	-	260,265	543,250	-	-	-	-	803,515	2,037
Deferred revenues	39,569,349	848,634	-	10,586,957	-	-	-	51,004,940	-
Accrued payroll and withholdings	2,190,794	-	-	-	-	-	-	2,190,794	-
Notes payable	-	-	70,000,000	-	-	-	16,639,000	86,639,000	-
Due to other governments	-	-	-	-	-	-	2,438,064	2,438,064	-
Interest payable	1,877,500	-	-	-	-	-	-	1,877,500	-
Accrued compensated absences	-	-	-	-	-	-	-	5,055,753	-
General obligation long-term debt	-	-	-	7,196,052	-	-	78,997,916	86,193,968	-
Capital lease obligations	-	-	-	-	-	-	4,628,016	4,628,016	-
Deferred compensation	-	-	-	-	-	23,593,871	-	23,593,871	-
Landfill closure	-	-	-	-	-	-	-	-	-
Reserve for tax refund	652,304	-	-	295,947	-	-	5,019,240	5,019,240	-
Other liabilities	576,722	-	-	-	-	-	4,525,900	5,474,151	-
Total Liabilities	48,235,091	5,896,488	73,543,335	22,800,864	233,404	24,220,550	117,303,889	292,233,591	2,037
Fund Equity:									
Retained earnings	-	-	-	16,012,931	1,442,885	-	-	17,455,816	-
Contributed capital	-	-	-	109,311,835	-	762,955	-	109,311,835	-
Reserved for encumbrances	-	-	-	2,698,861	-	-	-	762,955	-
Reserved for retirement	7,301,167	-	-	-	-	-	-	10,000,028	-
Unreserved undesignated	17,402,230	1,246,305	(101,339,324)	-	-	761,067	-	(81,929,722)	-
Total Fund Equity	24,703,397	1,246,305	(101,339,324)	128,023,627	1,442,885	1,524,022	-	55,600,912	201,465,400
Total Liabilities and Fund Equity	\$ 72,938,488	\$ 7,142,763	\$ (27,795,989)	\$ 150,824,491	\$ 1,676,289	\$ 25,744,572	\$ 117,303,889	\$ 347,834,503	\$ 201,467,437

See accompanying notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

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

For the Year Ended June 30, 1997

	Governmental Fund Types			Fiduciary Fund Types Expendable Trusts	Totals (Memorandum Only)
	General	Special Revenue	Capital Projects		
Revenues:					
Property taxes	\$ 92,124,543	-	-	\$ -	\$ 92,124,543
Excise	5,723,071	-	-	-	5,723,071
Penalties, interest and other taxes	7,260,557	-	-	-	7,260,557
Charges for services	18,310,186	700,431	-	-	19,010,617
Intergovernmental	168,971,395	58,018,457	284,669	-	227,274,521
Licenses and permits	1,454,641	-	-	-	1,454,641
Fines and forfeitures	1,344,849	-	-	-	1,344,849
Interest earnings	769,640	-	-	100,421	870,061
Miscellaneous	5,485	1,750,279	16,950	180,375	1,953,089
Contributions	-	-	-	201,377	201,377
Total Revenues	295,964,367	60,469,167	301,619	482,173	357,217,326
Expenditures:					
Current:					
General government	15,577,155	30,546,520	9,470,596	-	55,594,271
Public safety	44,524,528	-	-	175,249	44,699,777
Education	144,697,477	27,791,683	41,881,580	-	214,370,740
Public works	14,433,570	2,558,480	3,156,013	-	20,148,073
Human services	13,008,113	-	-	-	13,008,113
Culture and recreation	11,768,870	-	1,017,152	244,438	13,030,460
Employee benefits	35,091,697	-	-	-	35,091,697
Miscellaneous	339,860	1,464,042	-	1,795,467	3,599,369
Debt service	18,102,643	-	-	-	18,102,643
Intergovernmental	2,657,774	-	-	-	2,657,774
Total Expenditures	300,201,687	62,360,735	55,525,341	2,215,154	420,302,917
Excess (deficiency) of revenues over expenditures	(4,237,320)	(1,891,568)	(55,223,722)	(1,732,981)	(63,085,591)
Other Financing Sources (Uses):					
Bond proceeds	-	-	15,000,000	-	15,000,000
Note proceeds	6,350,000	-	-	-	6,350,000
Proceeds of advance refunding	27,047,572	-	-	-	27,047,572
Proceeds from sale of hospital	3,400,081	-	-	-	3,400,081
Payments to escrow agent	(27,047,572)	-	-	-	(27,047,572)
Operating transfers in	27,365	282,323	-	-	309,688
Operating transfers out	(1,305,041)	-	-	-	(1,305,041)
Total Other Financing Sources (Uses)	8,472,405	282,323	15,000,000	-	23,754,728
Excess (deficiency) of revenues and other sources over expenditures and other uses	4,235,085	(1,609,245)	(40,223,722)	(1,732,981)	(39,330,863)
Fund Equity, July 1, 1996, as restated	20,468,312	2,855,550	(61,115,602)	2,494,048	(35,297,692)
Fund Equity, June 30, 1997	\$ 24,703,337	\$ 1,246,305	\$ (101,339,324)	\$ 761,067	\$ (74,628,555)

See accompanying notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

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

For the Year Ended June 30, 1997

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues and Other Sources:			
Taxes	\$ 89,269,669	\$ 89,269,669	\$ -
Excise	5,458,338	5,723,071	264,733
Penalties, interest and other taxes	6,622,551	7,260,557	638,006
Charges for services	7,711,190	8,347,535	636,345
Hospital	12,103,000	10,376,240	(1,726,760)
Intergovernmental	168,344,802	168,971,395	626,593
Fines and forfeits	1,509,356	1,344,849	(164,507)
Licenses and permits	1,719,748	1,454,641	(265,107)
Interest earnings	652,268	769,640	117,372
Miscellaneous	-	5,485	5,485
Transfers in	7,343,298	7,343,298	-
Borrowing	<u>5,181,157</u>	<u>5,181,157</u>	<u>-</u>
Total Revenues and Other Sources	305,915,377	306,047,537	132,160
Expenditures and Other Uses:			
General government	16,153,954	16,056,308	97,646
Public safety	45,348,733	45,313,307	35,426
Education	141,593,701	141,593,701	-
Public works	14,465,419	14,414,579	50,840
Human services	11,782,354	11,773,810	8,544
Culture and recreation	11,755,338	11,743,193	12,145
Debt service	13,018,378	12,999,817	18,561
Intergovernmental	2,828,094	2,657,774	170,320
Miscellaneous	305,000	304,410	590
Benefits	36,402,842	36,386,944	15,898
Transfers out	2,541,336	2,541,336	-
Other uses	<u>9,720,228</u>	<u>9,720,228</u>	<u>-</u>
Total Expenditures and Other Uses	<u>305,915,377</u>	<u>305,505,407</u>	<u>409,970</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>542,130</u>	\$ <u>542,130</u>

See accompanying notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

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

For the Year Ended June 30, 1997
(and Contributory Retirement System For the Year Ended December 31, 1996)

	Proprietary Fund Types		Fiduciary	Totals	Contributory
	Enterprise	Internal Service	Fund Type Nonexpendable Trust	(Memorandum Only)	Retirement System
Operating Revenues:					
Charges for services	\$ 33,924,344	\$ 1,460,712	\$ -	\$ 35,385,056	\$ -
Intergovernmental	-	-	-	-	19,650,695
Contributions	-	-	-	-	8,226,577
Other	875,734	-	-	875,734	-
Total Operating Revenues	<u>34,800,078</u>	<u>1,460,712</u>	<u>-</u>	<u>36,260,790</u>	<u>27,877,272</u>
Operating Expenses:					
Personnel	9,808,055	-	-	9,808,055	-
Operating	14,639,515	-	-	14,639,515	-
Materials and supplies	2,437,514	1,460,712	-	3,898,226	-
Depreciation	362,091	-	-	362,091	-
Other	638,427	-	-	638,427	1,703,448
Capital	10,597,660	-	-	10,597,660	-
Benefits paid	-	-	-	-	29,059,657
Total Operating Expenses	<u>38,483,262</u>	<u>1,460,712</u>	<u>-</u>	<u>39,943,974</u>	<u>30,763,105</u>
Operating Income (Loss)	(3,683,184)	-	-	(3,683,184)	(2,885,833)
Nonoperating Revenue (Expenses):					
Unrealized gain on investment	-	-	23,146	23,146	-
Investment income	466,365	-	27,257	493,622	22,931,144
Interest expense	(286,688)	-	-	(286,688)	-
Total Nonoperating Revenues (Expenses)	<u>179,677</u>	<u>-</u>	<u>50,403</u>	<u>230,080</u>	<u>22,931,144</u>
Net Income (Loss)	(3,503,507)	-	50,403	(3,453,104)	20,045,311
Transfers in/(out)	<u>44,364</u>	<u>-</u>	<u>-</u>	<u>44,364</u>	<u>-</u>
Increase (decrease) in retained earnings/fund equity	(3,459,143)	-	50,403	(3,408,740)	20,045,311
Retained Earnings, beginning of year, restated	<u>131,482,770</u>	<u>1,442,885</u>	<u>712,552</u>	<u>133,638,207</u>	<u>181,420,089</u>
Retained Earnings, end of year	<u>\$ 128,023,627</u>	<u>\$ 1,442,885</u>	<u>\$ 762,955</u>	<u>\$ 130,229,467</u>	<u>\$ 201,465,400</u>

See accompanying notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS
 Combined Statement of Cash Flows
 All Proprietary Fund Types and Similar Trust Funds
 For the Year Ended June 30, 1997

	Proprietary Fund Types		Fiduciary Fund Type	Totals
	Enterprise	Internal Service	Nonexpendable Trust	(Memorandum Only)
Cash Flows From Operating Activities:				
Operating income (loss)	\$ (3,683,184)	\$ -	\$ -	\$ (3,683,184)
Adjustments to reconcile operating income to net cash:				
Provided for operating activities:				
Depreciation	362,091	-	-	362,091
(Increase) decrease in current assets:				
Inventory	-	(223,428)	-	(223,428)
Due from Commonwealth	1,075,533	-	-	1,075,533
Accounts receivable	(1,710,911)	-	-	(1,710,911)
Increase (decrease) in current liabilities:				
Warrants and accounts payable	1,512,232	(38,732)	-	1,473,500
Deferred revenue	1,741,365	-	-	1,741,365
Other liabilities	(75,542)	-	-	(75,542)
Net Cash Used for Operating Activities	(778,416)	(262,160)	-	(1,040,576)
Cash Flows for Investing Activities:				
Interest expense	(286,688)	-	-	(286,688)
Interest income	466,365	-	27,257	493,622
Net Cash Used for Investing Activities	179,677	-	27,257	206,934
Cash Flows from Capital-Related Financing Activities:				
Principal repayments	(362,091)	-	-	(362,091)
Net Cash Provided by Capital-Related Financing Activities	(362,091)	-	-	(362,091)
Cash Flows for Non-Capital Related Financing Activities:				
Transfers (to)/from other funds	44,364	-	-	44,364
Net increase (decrease) in cash	(916,466)	(262,160)	27,257	(1,151,369)
Cash and Cash Equivalents, July 1, 1996, as restated	24,676,568	664,339	402,106	25,743,013
Cash and Cash Equivalents, June 30, 1997	\$ 23,760,102	\$ 402,179	\$ 429,363	\$ 24,591,644
 Reconciliation of trust and agency fund cash:				
Nonexpendable			\$ 429,363	
Expendable			895,761	
Agency			491,985	
Total			\$ 1,817,109	

See accompanying notes to financial statements.

City of Springfield, Massachusetts
Notes to General Purpose Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

In fiscal year 1997, it was determined the Springfield Redevelopment Authority met the required GASB-14 criteria of a component unit; however, their financial activities are not included in the City's financial statements.

B. Basis of Presentation - Fund Accounting

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

Governmental Fund Types

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

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

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

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

Proprietary Fund Types

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

Enterprise Funds - To account for operations which are supported primarily by user charges.

Internal Service Funds - To account for goods or services provided by one City department or agency to other City departments or agencies.

Fiduciary Fund Types

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

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

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

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

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

Account Groups

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

General Long-Term Debt Account Group - This account group is used to account for all long-term obligations of the City, except for debt issued through proprietary funds.

C. Basis of Accounting

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

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

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

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

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

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

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

Accrual Basis (Proprietary, Nonexpendable and Pension Trust Funds)

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

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

The City has elected to apply to the nonexpendable trust funds accounting principles applicable to the private sector unless those principles conflict with or contradict pronouncements of the Governmental Accounting Standards Board.

D. Cash and Cash Equivalents

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

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

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

E. Investments

State and local statutes place certain limitations on the nature of deposits and investment available to the City. Deposits in any financial institution

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

Investments for the Contributory Retirement System and Trust Funds consist of marketable securities, bonds and short-term money market investments. Investments in the Trust Funds are carried at market value, investments in the Retirement System are carried in accordance with State PERA guidelines (equity investments at market value and debt investments at amortized cost), and deferred compensation plan investments are carried at market value.

F. Property Tax Limitations

Legislation known as "Proposition 2 1/2" limits the amount of revenue the City can derive from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 1997 tax levy reflected an excess capacity of \$ 7,308.

G. Long-Term Obligations

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

H. Accrued Employee Benefits

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

I. Fund Equity

Reservations of fund balance represent amounts that are not appropriate or are legally segregated for a specific purpose. Reservations of retained earnings are limited to outside third-party restrictions. The

proprietary fund's contributed capital represents the value of its fixed assets at the time the enterprise funds were established.

J. Encumbrance Accounting and Reporting

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

K. Memorandum Only - Total Columns

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

L. Interfund Transfers

Transfers between funds do not balance due to a net transfer from the general fund to the agency fund in the amount of \$ 950,989.

2. Departures from Generally Accepted Accounting Principles

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

- General fixed asset acquisitions (non-enterprise) are not capitalized in a general fixed asset group of accounts.
- The City has established separate enterprise funds; however, the City continues to account for activities on a modified accrual basis similar to governmental funds. As a result, certain assets, such as inventories of supplies, capital projects and fixed assets, certain liabilities, such as capital leases and accrued expenses, and certain expenses, such as depreciation, have not been recorded as required by generally accepted accounting principles for enterprise funds. The amount by which the actual value for these accounts varies from amounts recorded cannot be determined at this time.
- Fixed assets recorded in the City's Enterprise Funds are not supported by a fixed asset ledger and in some cases have been recorded to

equal the capital acquisitions funded by debt, rather than on historical costs, as required by generally accepted accounting principles. Also, annual depreciation is reported at an amount equal to principal debt service payments. The amount by which reported amounts differ from generally accepted accounting principles could not be determined.

- Activity related to the Springfield Redevelopment Authority, a component unit, should be included to conform to generally accepted accounting principles.

3. Stewardship, Compliance and Accountability

A. Budgetary Information

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

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

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

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

B. Budgetary Basis

The General Fund appropriation appearing on page 5 of the financial statements represents the final amended budget of the City and was authorized as follows:

1997 annual appropriations	\$ 286,201,469
1997 supplemental appropriations	10,370,425
Statutory County and State assessments	2,804,547
Other uses legally required to be raised	<u>6,538,936</u>
Total Appropriation	\$ <u>305,915,377</u>

C. Budget/GAAP Reconciliation

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

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

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 295,964,367	\$ 300,201,687
Other financing sources/uses (GAAP basis)	36,825,018	28,352,613
Adjust tax revenue to accrual basis	(2,854,874)	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(9,712,680)
Add end of year appropriation carryforwards to expenditures	-	7,301,167
Adjust for hospital sale and advance refunding not included in budget	(30,447,653)	(30,447,653)
Remove interfund transfers bud- geted in fiscal year 1997, recorded in fiscal year 1996	7,315,933	1,236,295
Adjust for GAAP accrual entries budgeted in a previous or subse- quent year	413,589	(1,146,250)
Adjust bond proceeds for amounts budgeted in a previous year	(1,168,843)	-
Recognize budgeted, non-cash uses of funds	<u>-</u>	<u>9,720,228</u>
Budgetary basis	\$ <u>306,047,537</u>	\$ <u>305,505,407</u>

D. Deficit Fund Equity

The following Special Revenue fund had a deficit as of June 30, 1997:

Fund 2600, Federal Grants	\$ 3,643,844
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The deficit in this fund will be eliminated through future departmental and intergovernmental revenues, and transfers from other funds.

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

4. Cash and Cash Equivalents

The carrying amount of the City's and Retirement System's deposits with financial institutions at June 30, 1997 and December 31, 1996 was \$ 30,324,038 and \$ 517,775, respectively. The bank balances, which do not include reconciling items such as deposits in transit and outstanding checks, are categorized as follows:

	City Deposits <u>June 30, 1997</u>	Retirement System Deposits <u>December 31, 1996</u>
Amount insured by the FDIC and DIFM, or collateralized with securities held by the City in its name	\$ 10,668,923	\$ 103,373
Uncollateralized	16,612,433	1,871,095
State investment pool	<u>7,016,452</u>	<u>-</u>
Total Bank Balance	\$ <u>34,297,808</u>	\$ <u>1,974,468</u>

5. Investments

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

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

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

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

	Category			Carrying Amount	Market Value
	1	2	3		
Corporate stock	\$ 334	\$ -	\$ -	\$ 334	\$ 334
Investments not subject to categorization:					
Deferred compensation	-	-	-	23,594	23,594
Total Investments	\$ -	\$ -	\$ -	\$ 23,928	\$ 23,928

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

At December 31, 1996, the City's Retirement System's investment balances were as follows (in thousands):

	Category			Carrying Amount	Market Value
	1	2	3		
Short-term investments	\$ -	\$ -	\$ 15,663	\$ 15,663	\$ 15,663
Fixed income	-	-	106,492	106,492	107,458
Equities	-	-	75,213	75,213	75,213
Total	\$ -	\$ -	\$ 197,368	\$ 197,368	\$ 198,334

6. Taxes Receivable

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

The following is a summary of the property tax calendar used for the 1997 tax levies:

June 28, 1996:

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

August 1, 1996:

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

September 30, 1996:

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

November 1, 1996:

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

December 31, 1996:

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

February 3, 1997:

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

March 31, 1997:

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

May 1, 1997:

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

Fourteen days after the due date for the fourth quarter tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property.

Taxes receivable at June 30, 1997 consist of the following (in thousands):

Real Estate		
1997	\$ 6,955	
1996	1,108	
1995	11	
Prior	<u>954</u>	
		9,028
Personal Property		
1997	273	
1996	367	
1995	319	
Prior	<u>1,585</u>	
		<u>2,544</u>
Total		\$ <u>11,572</u>

7. Other Receivables

The other receivable balance in the general fund is shown net of a reserve for uncollectible accounts for the Veterans Department of \$ 276,715.

8. Due From Other Governments

The due from other governments balance in the General Fund represents State reimbursement for the Municipal Hospital and other receivables which were substantially received in July and August 1997. The due from other governments balance in the other funds represents various grant awards reimbursement requests expected to be received in fiscal year 1998.

9. Amount to be Provided by Commonwealth

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

10. Warrants and Accounts Payable

Warrants payable represent 1997 expenditures paid by July 15, 1997 as permitted by law. Accounts payable represent additional 1997 expenditures paid after July 15, 1997.

11. Deferred Revenue

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 1997 receivable balances, except real and personal property taxes that are accrued for subsequent 60 day collections. The City's statutory "allowance for abatements and exemptions" (overlay) account, with a balance of \$ 19,165,050 has been reclassified to deferred revenue for reporting purposes.

12. Anticipation Notes Payable

The City had the following notes outstanding at June 30, 1997:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 1997</u>
Bond anticipation	4.25%	6/27/97	6/26/98	\$ 15,000,000
Bond anticipation	4.60%	7/12/96	7/11/97	30,000,000
Bond anticipation	4.10%	12/13/96	11/21/97	<u>25,000,000</u>
Total				\$ <u>70,000,000</u>

The City had an additional \$ 16,639,000 in notes payable which was classified as long-term debt at June 30, 1997. See Footnotes 13 and 27.

13. Long-Term Debt

A. General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both general government and proprietary activities. The bonds reported in the proprietary funds are expected to be repaid from proprietary fund revenues. Payment is not limited to a particular revenue source. However, as previously noted, the City's ability to raise property taxes is restricted by the enactment of legislation known as "Proposition 2 1/2". General obligation bonds currently outstanding are as follows:

<u>Governmental Funds:</u>	<u>Serial Maturities Through</u>	<u>Interest Rate (s)%</u>	<u>Amount Outstanding as of June 30, 1997</u>
<u>Bonds Payable:</u>			
<u>Inside Debt Limit:</u>			
Multi-purpose	8/01/97	9.534	\$ 50,000
Multi-purpose remodeling	12/01/97	7.0 - 7.4	250,000
Artery streets	12/01/97	7.0	30,000
Building remodeling	11/01/98	6.9	1,280,000
Landfill	11/01/02	6.9 - 7.0	640,000
Parks	11/01/02	6.9 - 7.0	120,000
Multi-purpose parks	12/01/02	7.0	75,000
Refunding bonds	9/01/03	3.40 - 6.25	4,300,000
Multi-purpose	5/01/06	7.75 - 7.80	2,170,000
Multi-purpose	1/15/13	4.75 - 6.00	11,067,000
Mass Mutual/Milton Bradley school	8/01/14	4.35 - 6.375	15,000,000
Refunding bonds	8/01/14	4.35 - 6.375	<u>3,410,000</u>
Total Inside Debt Limit:			38,392,000

<u>Governmental Funds:</u>	<u>Serial</u> <u>Maturities</u> <u>Through</u>	<u>Interest</u> <u>Rate (s)%</u>	<u>Amount</u> <u>Outstanding</u> <u>as of</u> <u>June 30, 1997</u>
<u>Outside Debt Limit:</u>			
Refunding bonds	9/01/04	2.75 - 5.05	4,265,000
Putnam High	12/01/05	7.0 - 7.4	1,925,000
EPA asbestos removal	7/28/06	-	860,916 ***
Multi-purpose	8/01/06	7.0 - 7.3	1,500,000
Putnam High	11/01/07	6.9 - 7.0	2,310,000
RMJ School	3/01/09	3.40 - 6.25	7,185,000
Refunding bonds	8/01/14	4.35 - 6.375	<u>22,560,000</u>
Total Outside Debt Limit:			<u>40,605,916</u>
Total Bonds Payable			78,997,916
<u>Notes Payable:</u>			
Hospital deficit bond anticipation note	6/26/98	4.25	<u>16,639,000</u> *
Total Governmental Funds			95,636,916
<u>Enterprise Fund:</u>			
<u>Inside Debt Limit:</u>			
Sewer bonds	12/01/97	7.0	20,000
Refunding sewer bonds	9/01/03	3.40 - 6.25	665,000
Sewer bonds	5/01/06	7.0 - 7.8	30,000
Sewer bonds	1/15/13	4.75 - 6.00	1,753,000
Inflow/infiltration (MWPAT)	2/01/15	5.6	1,212,890 **
Aeration project (MWPAT)	2/01/15	5.6	<u>3,515,162</u> **
Total Enterprise Fund			<u>7,196,052</u>
Total Debt			\$ <u>102,832,968</u>

* The City's hospital deficit bond anticipation note will be repaid over a ten year period by issuing one year notes for lesser amounts each year.

** State Revolving Loan

The U.S. Environmental Protection Agency sponsors a low interest rate loan program. The loans are administered by the States and are used by local communities to improve their sewer systems.

In 1995, the City was issued loans through the Massachusetts Water Pollution Abatement Trust (MWPAT) Revolving Loan Program for the following projects. The total is included in the City's proprietary fund.

	<u>Loan</u> <u>Authoriz.</u>	<u>Principal</u> <u>Subsidy</u>	<u>Repayment</u> <u>Obligation</u>	<u>Balance at</u> <u>June 30, 1997</u>
Infiltration/inflow	\$ 1,513,116	\$ 197,745	\$ 1,315,371	\$ 1,212,890
Aeration Project	3,750,091	-	3,750,091	3,515,162

In addition to the above projects, the City has loans pending with MWPAT for the following projects:

Infiltration/inflow (part 2)	\$ 400,000
Aeration project (part 2)	6,158,000

*** EPA Loan

In 1986, the U.S. Environmental Protection Agency sponsored a no interest rate loan program to enable the City to remove asbestos from public buildings. The loan amount was revised in 1993 at the project's completion. The revised 1993 loan amount was \$ 1,785,709. The balance at June 1997 was \$ 860,916, which the City will repay in annual installments of \$ 99,206 until 2006.

B. Future Debt Service

The annual principal and interest payments to retire all general obligation long-term debt outstanding (excluding notes payable) as of June 30, 1997 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1998	\$ 7,251,206	\$ 4,231,305	\$ 11,482,511
1999	6,880,206	3,814,846	10,695,052
2000	6,435,206	3,435,080	9,870,286
2001	6,210,206	3,092,415	9,302,621
2002	6,110,206	2,780,415	8,890,621
Thereafter	<u>46,110,886</u>	<u>13,004,102</u>	<u>59,114,988</u>
Total	\$ <u>78,997,916</u>	\$ <u>30,358,163</u>	\$ <u>109,356,079</u>

<u>Proprietary</u>			
1998	\$ 371,160	\$ 270,429	\$ 641,589
1999	364,615	254,538	619,153
2000	372,566	238,678	611,244
2001	381,054	222,380	603,434
2002	395,117	287,790	682,907
Thereafter	<u>5,311,540</u>	<u>1,815,182</u>	<u>7,126,722</u>
Total	\$ <u>7,196,052</u>	\$ <u>3,088,997</u>	\$ <u>10,285,049</u>

C. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 1997 are as follows:

<u>Purpose</u>	<u>Amount</u>
Departmental equipment	\$ 4,545
Remodel public buildings	970
City Hall remodeling	4,000
Remodel public buildings	2,000
Departmental equipment	1,500
Milton Bradley Elementary	4,150,000
School department computer equipment	3,500,000
Remodel public building	1,060,000
Departmental equipment	530,000
Street construction	1,700,000
Sidewalk construction	500,000
Traffic signal replacement	150,000
Franconia and veterans golf courses	380,000
Sewer construction	40,000
Repair school roofs	835,000
Composting facility	400,000
Landfill closeout	5,000,000
Aerial mapping	445,000
North end industrial park	600,000
Improvements to wastewater treatment plant	410,000
Milton Bradley School increase	3,600,000
Indian Orchard Elementary School architectural design and engineering	422,430
Commerce High School architectural design and engineering	1,110,000
Sumner Avenue School architectural design and engineering	422,430
Chestnut Middle School architectural design and engineering	1,004,500
Monarch High School renovation	24,250,000
Five Mile Pond Park renovations	500,000
Aeration basin upgrade	4,749,909
Repair school roofs	835,000
Construction of facility and trailway	250,000
Develop and design computer software	242,000
Appraisal costs for school purposes	100,000
Remodel public buildings	3,996,400
Tapley Street design and improvements	1,700,000
Baseball stadium design and construction	2,000,000
Forest Park aquatic garden restoration	800,000
Departmental equipment	240,000
Departmental equipment	627,000
Acquire land - Boston Road/Parker Street	2,000,000
Remodel public buildings	2,000,000
Street construction	1,375,000
Sidewalk construction	500,000
Remodel public buildings	2,000,000
Remodel/reconstruct Commerce High	31,900,000

(continued)

(continued)	<u>Purpose</u>	<u>Amount</u>
	Remodel/reconstruct Indian Orchard School	10,500,000
	Remodel/reconstruct New Chestnut Middle School	34,350,000
	Remodel/reconstruct Sumner Avenue School	9,900,000
	Replace radio tower - Police Dept.	150,000
	Remodel/reconstruct Gerena School	10,000,000
	Infiltration/inflow pilot rehab.	400,000
	Aeration basin upgrade	1,406,585
	Dept. equipment - library and museums	300,000
	West Columbus urban renewal Amend. #3	9,700,000
	Furnish and equip High School tech/science	3,200,000
	Furnish and equip Milton Bradley School	1,500,000
	Hospital deficit bond	16,639,000
	Relocation - York St. pump station	7,000,000
	Land acquisition - Chestnut Middle School	3,250,000
	Basketball Hall of Fame - remodeling	25,000,000
	Emergency repairs various City schools	1,000,000
	Commerce High School additional remodeling and equipment	5,320,000
	Improvements to Franconia and Veterans Golf	2,120,000
	New Chestnut Middle School - additional land acquisition	1,550,000
	Emergency repairs - various City schools	2,000,000
	Tapley Street central facility - additional reconstruction	<u>3,500,000</u>
	Total	<u>\$ 255,123,269</u>

D. Overlapping Debt

The City's proportionate share of debt of other governmental units which provide services within the City's boundaries, and which must be borne by the resources of the City, is summarized below (in thousands of dollars) (unaudited):

<u>Related Entity</u>	<u>Total Principal</u>	<u>City's Percent</u>	<u>City's Share</u>
Hampden County	\$ 3,600	22.59%	\$ 813
Pioneer Valley Transit Authority	<u>15,000</u>	38.39%	<u>5,759</u>
Total	<u>\$ 18,600</u>		<u>\$ 6,572</u>

This liability is appropriately not reported in the accompanying financial statements.

E. Legal Debt Margin

The City is subject to the General Laws of the Commonwealth of Massachusetts which limits the amount of bonded debt the City may have outstanding to 5 percent of the valuation of taxable property as last equalized by the Commonwealth's Department of Revenue. The following is a computation of the legal debt margin as of June 30, 1997 (in thousands of dollars):

Equalized valuation - January 1, 1996		\$ <u>4,097,775</u>
Debt limit - 5% of equalized valuation		\$ 204,889
Total debt outstanding	86,194	
Less: debt exempt from limit	(41,819)	(<u>44,375</u>)
Legal Debt Margin		\$ <u>160,514</u>

F. Changes in General Long-Term Liabilities

During the year ended June 30, 1997, the following changes occurred in liabilities reported in the general long-term debt account group (in thousands of dollars):

	Balance July 1, 1996 <u>Restated</u>	<u>Additions</u>	<u>Reductions</u>	Balance June 30, 1997
Notes payable	\$ 15,000	\$ 6,350	\$ (4,711)	\$ 16,639
Due to other governments	2,765	-	(327)	2,438
Accrued employee benefits	5,451	-	(395)	5,056
General obligation debt	68,806	40,970	(30,778)	78,998
Capital leases	5,904	-	(1,276)	4,628
Landfill closure cost	4,755	264	-	5,019
Reserve for tax refund	<u>3,750</u>	<u>776</u>	<u>-</u>	<u>4,526</u>
Totals	\$ <u>106,431</u>	\$ <u>48,360</u>	\$ <u>(37,487)</u>	\$ <u>117,304</u>

The July 1, 1996 balance in general obligation debt has been restated to exclude a MWPAT loan of \$ 1,264,771 issued June 1, 1995.

G. Debt Defeasance

Current Year

On August 1, 1996, the City issued general obligation bonds in the amount of \$ 25,970,000 with a variable interest rate ranging from 4.35% to 6.375% to advance refund \$ 24,065,000 of term bonds with an interest rate ranging from 6.9% to 7.3%. The term bonds mature in between fiscal years 2006 and 2012. The general obligation bonds were issued at 103%

and, after paying issuance costs of \$ 514,946, the net proceeds were \$ 26,532,626. The net proceeds from the issuance of the general obligation bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the term bonds mature in fiscal years 2006-2012. The advance refunding met the requirements of an in-substance debt defeasance and the term bonds were removed from the City's General Long-Term Account Group.

As a result of the advance refunding, the City reduced its total debt service cash flow requirements by \$ 1,572,491, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$ 1,258,294.

Defeased debt still outstanding at June 30, 1997 is \$ 24,065,000.

14. Capital Lease Obligations

The City is the lessee of certain equipment under capital leases expiring in various years through 2005. Future minimum lease payments under the capital leases consisted of the following as of June 30, 1997:

1998	\$ 1,413,629
1999	856,143
2000	704,351
2001	582,020
2002	431,504
Thereafter	<u>983,458</u>
Total minimum lease payments	4,971,105
Less amount representing interest	(<u>343,089</u>)
Present Value of Minimum Lease Payments	\$ <u>4,628,016</u>

15. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and post-closure care costs as a liability in the general long-term debt account group in each period based on landfill capacity used as of each balance sheet date. In 1993, the City authorized borrowing \$ 5,000,000 to fund the expected costs of closure and monitoring.

The \$ 5,019,240 reported as landfill closure and post-closure care liability at June 30, 1997 represents that cumulative amount reported to date based on the use of 95% of the estimated capacity of landfill. The City will recognize the remaining estimated cost of closure and post-closure care of \$ 264,170 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 1997. The City expects to close the landfill in the year 2003. The actual life of the landfill may be longer due to increased recycling efforts or if another use for the landfill material (ash) can be found. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

16. Reserve for Tax Refunds

The balance in the general and enterprise funds represent abatements granted in fiscal year 1997 which were refunded in fiscal year 1998.

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

17. Other Liabilities

This balance consists primarily of unclaimed items (tailings).

18. Reserves of Fund Equity

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

The City reported the following types of reserves at June 30, 1997:

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

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

19. General Fund Undesignated Fund Balance

The undesignated general fund balance reported on the balance sheet is stated in accordance with generally accepted accounting principles (GAAP), which differs in certain respects from the Massachusetts Uniform Municipal

Accounting System (UMAS). The following paragraphs summarize the major differences.

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

Massachusetts General Laws include provisions to allow municipalities to raise overexpended State and County assessment in the subsequent year's tax rate.

Massachusetts General Laws place restrictions on the use of unexpended bond proceeds. As a result, hospital deficit note proceeds which have not been appropriated at June 30, 1997 are separated through a reserved fund balance.

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

GAAP basis balance	\$ 17,402,230
Stabilization fund	(3,810,513)
State and County over/under assessments	508,562
Unexpended bond proceeds	(1,530,193)
Statutory (UMAS) Balance	<u>\$ 12,570,086</u>

20. Beginning Fund Balance Restatement

The beginning (July 1, 1996) fund balances of the City have been restated as follows:

	Special Revenue Fund	Enterprise Fund	Internal Service Fund
As previously reported	\$ 2,751,605	\$ 128,920,604	\$ (2,087,090)
To reclassify inflow - infiltration project to sewer enterprise fund	103,945	-	-
To capitalize prior year expenses related to aeration project	-	2,562,166	-
Eliminate accrued claims for self insured plan which was eliminated in FY '97	<u>-</u>	<u>-</u>	<u>3,529,975</u>
As restated	<u>\$ 2,855,550</u>	<u>\$ 131,482,770</u>	<u>\$ 1,442,885</u>

21. Segment Information For Enterprise Funds

The City maintains enterprise funds which provide water, sewer and solid waste disposal services. Segment information for the year ended June 30, 1997 follows (in thousands):

	Water Fund	Parking Fund	Sewer Local Fund	Sewer Regional	Sewer Industrial	Total
Operating revenues	\$ 11,884	\$ 543	\$ 9,185	\$ 12,764	\$ 424	\$ 34,800
Depreciation expense	-	-	-	362	-	362
Operating income (loss)	3,030	48	(198)	(6,589)	26	(3,683)
Net income (loss)	3,497	92	(198)	(6,876)	26	(3,459)
Total assets	87,228	121	7,335	56,035	105	150,824
Bonds payable	-	-	-	7,196	-	7,196
Interfund transfers	-	44	-	-	-	44
Retained earnings	25,006	(154)	(1,361)	(7,307)	(171)	16,013
Total equity	82,884	92	(397)	45,608	(163)	128,024

22. Subsequent Events

Bond Proceeds

In October 1997, the City issued \$ 50,000,000 in permanent bonds with interest rates ranging from 4.5% to 5.6%, maturing in 2012.

Subsequent Budget Authorization

The financial statements for the City as of June 30, 1997 do not reflect the fiscal 1998 annual budget authorized in May 1997. The amount authorized in May 1997 (all funds) totaled \$ 302,078,318.

23. Commitments and Contingencies

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

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

Springfield Municipal Hospital - In August 1996, the City signed a purchase and sale agreement with an independent purchaser for the sale of Municipal Hospital. The sale was completed in December 1996. The City realized proceeds of \$ 3,400,081 which they used to retire an equal amount of hospital

deficit notes payable. The City also estimates that any additional post-closure and accrued employee benefit costs related to the sale will be minimal. These costs, if any, are expected to be funded through annual appropriations.

Union Contracts - The City is in the process of negotiating with several City unions whose contracts have expired prior to or during fiscal year 1997. The amount of retroactive salary adjustment for those contracts which have been settled subsequent to year end is estimated to be approximately \$1 million and will be funded through 1998 appropriations. The amount of retroactive salary adjustment for those contracts which are currently in negotiation cannot be determined.

24. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

The City funds all amounts of compensation deferred under the Plan, at the direction of the covered employee, through investments underwritten by the London Agency, Ltd.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, are (until paid or made available to the employee or other beneficiary) solely the property and rights of the City, subject only to the claims of the City's general creditors. Participants' rights under the plan are equal to those of general creditors of the City in an amount equal to the fair market value of the deferred account for each participant.

On August 20, 1996, the Small Business Reform Act changed Section 457 to require that all assets of a plan be held in a trust for the exclusive benefit of participants and their beneficiaries, thus eliminating the ability of the City's creditors to obtain funds from the plan.

The City has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

25. Post-Retirement Health Care and Life Insurance Benefits

The City's employee contracts provide for health care and life insurance benefits to retirees, their dependent, or their survivors. These benefits are

provided through the City's group plans. The cost of these benefits are included in the total cost of benefits for both active and retired employees. The number of participants currently eligible to receive benefits, and cost of benefits for retirees, their dependents, or their survivors for the year ended June 30, 1997 was not available.

26. Contributory Retirement System

A. Summary of Significant Accounting Policies

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

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

B. Plan Description and Contribution Information

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

Membership of each plan consisted of the following at January 1, 1994, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	2,858
Terminated plan members entitled to but not yet receiving benefits	379
Active plan members	<u>3,624</u>
Total	<u>6,861</u>
Number of participating employers	3

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

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

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

C. Other Required Information

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]
1/1/94	\$ 164,561	\$ 298,111	\$ 133,550	55.2%	\$ 89,978	148.4%
1/1/93	\$ 151,322	\$ 289,821	\$ 138,499	52.2%	\$ 81,489	170.0%
1/1/92	\$ 142,305	\$ 282,780	\$ 140,475	50.3%	\$ 81,980	171.4%
1/1/90	\$ 114,439	\$ 260,553	\$ 146,114	43.9%	\$ 75,169	194.4%
1/1/86	\$ 71,187	\$ 279,412	\$ 208,225	25.5%	\$ 73,304	284.1%

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

Schedule of Employer Contributions (City share only):

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1992	\$ 14,715,334	100%
1993	14,904,419	98%
1994	14,137,735	95%
1995	14,999,384	95%
1996	15,721,914	94%
1997	16,726,379	100%

At June 30, 1997, the City owed \$ 2,438,064 to the retirement system for prior years' assessments. This amount is reflected as a receivable in the

retirement system and a liability in the City's General Long-Term Debt Account Group.

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

Valuation date	January 1, 1994
Actuarial cost method	Entry age, normal cost
Amortization method	Normal cost plus 30 years, 4.5% increase for active liability; 13 years, 4.5% increase for retiree liability; 14 years level funded for early retirement incentive; 15 year level funded of 1992 and 1993 net actuarial gain.
Remaining amortization period	Active liability 30 years; retiree liability 13 years; early retirement 14 years
Asset valuation method	Short-term securities at cash value; fixed income securities at amortized value; equities at market
Actuarial assumptions:	
Investment rate of return	8.5% per annum; includes inflation at 4.5% per year
Projected salary increases	6.0% per annum; includes inflation at 4.5% per year
Cost of living adjustments	Assumed to be funded by the Commonwealth

D. Teachers

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

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

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the par-

Participants date of entry into the system and gross earnings, up to \$ 30,000, as follows:

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

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

27. Special Legislation and Appropriations

Hospital Deficit Bonds

In 1996, the Commonwealth passed special legislation (Chapter 112) which allowed the City to issue up to \$ 30,000,000 in "Hospital Deficit" bonds. The act provides, among other things, that the bond proceeds be used to defray costs, expenses and liabilities of the Municipal Hospital or to fund deficits resulting directly or indirectly from hospital operations. In fiscal year 1996, the City issued \$ 15,000,000 in hospital deficit bonds and issued an additional \$ 6,350,000 in fiscal year 1997. At June 30, 1997, the notes payable balance outstanding was \$ 16,639,000. The Massachusetts Department of Revenue has required the City to repay the bonds over ten years.

Water and Sewer Commission

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

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

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