

CITY OF SPRINGFIELD, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2002

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet	13
Reconciliation of Total Governmental Fund Balances to Net Assets of Governmental Activities in the Statement of Net Assets	14
Statement of Revenues, Expenditures, and Changes in Fund Balances	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues and Other Sources, and Expenditures and Other Uses - Budget and Actual - General Fund	17
Proprietary Funds:	
Statement of Net Assets	18
Statement of Revenues, Expenses, and Changes in Fund Net Assets	19
Statement of Cash Flows	20
Fiduciary Funds:	
Statement of Fiduciary Net Assets	21
Statement of Changes in Fiduciary Net Assets	22
Notes to the Financial Statements	23
SUPPLEMENTARY INFORMATION:	
Contributory Retirement System	47



MELANSON HEATH & COMPANY, PC

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT ADVISORS

51 Davis Street
Greenfield, MA 01301-2422
Tel (413)773-5405 • Fax (413)773-7304
www.melansonheath.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Springfield, Massachusetts as of and for the year ended June 30, 2002, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Springfield's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

In our opinion, except for the effects of the item described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the City of Springfield, Massachusetts, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Additional Offices:

Nashua, NH • Ellsworth, ME • Andover, MA

Management's discussion and analysis on pages 3 through 10 and supplementary pension information on pages 47 and 48 are not required parts of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

As described in Note 1.B., the City has implemented a new financial reporting model as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2002.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 4, 2002 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Melanson, Heath + Company, P.C.

Greenfield, Massachusetts
October 4, 2002

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Springfield, we offer readers of the City of Springfield's financial statements this narrative overview and analysis of the financial activities of the City of Springfield for the fiscal year ended June 30, 2002.

A. FINANCIAL HIGHLIGHTS

- The assets of the City of Springfield exceeded its liabilities at the close of the most recent fiscal year by \$ 129,760,491 (net assets).
- The government's total net assets increased by \$ 28,984,186. This was primarily caused by the accrual of \$ 27 million in fiscal year 2002 School Building Assistance Bureau (SBAB) reimbursements for approximately \$ 44 million of school-related debt issued in fiscal year 2002.
- As of the close of the current fiscal year, the City of Springfield's governmental funds reported combined ending fund balances of \$ (64,614,271), an increase of \$ 27,258,583 in comparison with the prior year. All of this deficit is attributable to the financing of capital projects with short-term debt. The deficit will be eliminated once permanent bonds are issued.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 2,113,074, or one-half of one percent of total general fund expenditures.
- The City of Springfield's total debt increased by \$ 49,090,794 during the current fiscal year. The key factor in this increase was the issuance of \$ 61,316,000 in general obligation bonds, most of which is 90% State-reimbursable through the School Business Assistance Bureau (SBAB).

B. OVERVIEW OF THE FINANCIAL STATEMENTS

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

Government-Wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Springfield's finances in a manner similar to a private-sector business.

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

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

Both of the government-wide financial statements distinguish functions of the City of Springfield that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The government activities of the City of Springfield include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Springfield include parking activities.

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

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

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

The City of Springfield maintains two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund and the School capital project fund, which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation.

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

Proprietary funds. The City of Springfield maintains two different types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Springfield uses enterprise funds to account for its parking operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City of Springfield's various functions. The City of Springfield uses internal services funds to account for its self-insured employee health program and working capital funds. Because both of these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

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

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Springfield's progress in funding its obligation to provide pension benefits to its employees.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Springfield, assets exceeded liabilities by \$ 129,760,491 at the close of the most recent fiscal year.

A large portion of the City of Springfield's net assets reflects its investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Springfield uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Springfield's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The following amounts are reported in thousands of dollars.

CITY OF SPRINGFIELD'S
NET ASSETS

	Governmental <u>Activities</u> <u>2002</u>	Business-Type <u>Activities</u> <u>2002</u>	<u>Total</u> <u>2002</u>
Current and other assets	\$ 168,250	\$ 149	\$ 168,399
Capital assets	<u>362,087</u>	<u>19</u>	<u>362,106</u>
Total assets	530,337	168	530,505
Long-term liabilities outstanding	271,947	-	271,947
Other liabilities	<u>128,784</u>	<u>14</u>	<u>128,798</u>
Total liabilities	400,731	14	400,745
Net assets:			
Invested in capital assets, net of related debt	12,957	19	12,976
Restricted	145,768	-	145,768
Unrestricted	<u>(29,119)</u>	<u>136</u>	<u>(28,983)</u>
Total net assets	\$ <u>129,606</u>	\$ <u>155</u>	\$ <u>129,761</u>

Comparable information for fiscal year 2001 is not available; however, future discussions will include comparative analysis.

An additional portion of the City of Springfield's net assets represents resources that are subject to external restrictions on how they may be used.

There was an increase of \$ 32,785 in net assets reported in connection with the City of Springfield's business-type activities.

The government's net assets increased by \$ 28,984,186 during the current fiscal year. This was primarily caused by the accrual of \$ 27 million in fiscal year 2002 School Building Assistance Bureau (SBAB) reimbursement for approximately \$ 44 million of school-related debt issued in fiscal year 2002.

Governmental activities. Governmental activities increased the City of Springfield's net assets by \$ 28,951,401. Comparative information for fiscal year 2001 is not available; however, future discussions will include comparative analysis.

Business-Type Activities. Business-type activities increased the City of Springfield's net assets by \$ 32,785.

D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City of Springfield uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City of Springfield's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City of Springfield's 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, the City's governmental funds reported combined ending fund balances of \$ (64,614,271) an increase of \$ 27,258,583 in comparison with the prior year. All of this deficit is attributable to the financing of capital projects with short-term debt. The deficit will be eliminated once permanent bonds are issued. Of this total amount \$ 2,113,074 constitutes general fund unreserved fund balance. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the prior period (\$ 5,537,889), (2) to be used as a funding source for the subsequent budget (\$ 3,000,000), (3) to generate income to pay for permanent endowments (\$ 741,889), or (4) for a variety of other restricted purposes (\$76,007,123).

The general fund is the chief operating fund of the City of Springfield. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 2,113,074, while total fund balance was \$ 10,650,963. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents one-half of one percent of total general fund expenditures, while total fund balance represents 2.5 percent of that same amount.

The fund balance of the City of Springfield's general fund decreased by \$ 728,460 during the current fiscal year. Key factors in this change are as follows:

- The use of \$ 3,000,000 overlay surplus and \$ 960,000 stabilization fund (non-revenue sources of funds) were used in the fiscal year 2002 budget. This would have the effect of decreasing fund balance. Conversely, there was approximately \$ 632,000 of non-revenue uses (including a prior year snow and ice deficit and underassessment of State charges), which will have the opposite effect, increasing fund balance.

- The fund balance decrease of \$ 728,460 reflects actual expenditures incurred, regardless of which budget year the expenditures were appropriated in. On a budgetary basis, the City under expended its fiscal year 2002 appropriations by approximately \$ 738,000; however, this reflects adjustments for current year and prior year encumbrances or "carry forwards". The actual expenditures do not reflect such adjustments. The net difference in expenditures from a budgetary basis to the actual basis resulted in an increase to fund balance of approximately \$ 1.5 million.
- Finally, the \$ 728,460 fund balance decrease also reflects certain adjustments made to conform with generally accepted accounting principles. These include accruals for interest on short-term debt and payroll and reflects both the current year accruals and the reversal of the prior year accruals. In fiscal year 2002, the net effect of these accruals was an increase to fund balance of approximately \$ 1.1 million.

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

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 135,870. The total growth in net assets was \$ 32,785.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget were relatively minor (\$ 960,000 increase in appropriations) as a result of one additional appropriation from surplus funds to various departments within the City of Springfield.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City of Springfield's investment in capital assets for its governmental and business-type activities as of June 30, 2002 amounts to \$ 362,105,369 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system improvements, machinery and equipment and park facilities. The total increase in the City of Springfield's investment in capital assets for the current fiscal year was six percent, all of which related to governmental activities.

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

- \$ 19 million for various ongoing school renovation/construction/equipment projects.
- \$ 3 million for several public safety building improvements.

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

	<u>Governmental</u> <u>Activities</u> <u>2002</u>	<u>Business-Type</u> <u>Activities</u> <u>2002</u>	<u>Total</u> <u>2002</u>
Land	\$ 25,835	\$ -	\$ 25,835
Buildings and system improvements	192,816	-	192,816
Machinery and equipment	42,076	19	42,095
Land improvements	19,606	-	19,606
Construction in progress	<u>81,753</u>	<u>-</u>	<u>81,753</u>
Total	\$ <u>362,086</u>	\$ <u>19</u>	\$ <u>362,105</u>

Comparable information for fiscal year 2001 is not available; however, future discussions will include comparative analysis.

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

Long-term debt. At the end of the current fiscal year, the City of Springfield had total bonded debt outstanding of \$ 247,956,886, all of which was debt backed by the full faith and credit of the government.

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

	<u>Governmental Activities</u>	
	<u>2002</u>	<u>2001</u>
General obligation bonds	\$ <u>247,957</u>	\$ <u>198,866</u>

The City of Springfield's total debt increased by \$ 49,090,794 during the current fiscal year, primarily as a result of issuing \$ 61,316,000 of general obligation bonds, most of which is 90% State reimbursable through the School Business Assistance Bureau (SBAB).

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

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

- The unemployment rate for the City of Springfield is currently 6.6 percent, which is an increase from a rate of 5.4 percent a year ago. This compares to the State's average unemployment rate of 4.8 percent and the national average rate of 5.9 percent.
- Inflationary trends in the region compare favorably to national indices.

All of these factors were considered in preparing the City of Springfield's budget for the 2002 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased to \$ 2,113,074. The City of Springfield has appropriated \$ 3,000,000 from overlay surplus for spending in the 2003 fiscal year budget. It is intended that this use of available fund balance will minimize the need to raise taxes or charges during the 2003 fiscal year.

REQUESTS FOR INFORMATION

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

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

CITY OF SPRINGFIELD, MASSACHUSETTS

STATEMENT OF NET ASSETS

June 30, 2002

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Current:			
Cash and cash equivalents	\$ 9,734,074	\$ 149,475	\$ 9,883,549
Investments	250,559	-	250,559
Receivables, net of allowance for uncollectibles:			
Property taxes	7,128,823	-	7,128,823
Motor vehicle excise	2,642,610	-	2,642,610
Departmental and other	355,760	-	355,760
Intergovernmental	18,326,005	-	18,326,005
Other assets	724,166	-	724,166
Noncurrent:			
Receivables, net of allowance for uncollectibles	129,088,354	-	129,088,354
Capital assets, net of accumulated depreciation	<u>362,086,555</u>	<u>18,814</u>	<u>362,105,369</u>
TOTAL ASSETS	530,336,906	168,289	530,505,195
LIABILITIES			
Current:			
Warrants payable	10,446,832	13,605	10,460,437
Accounts payable	1,036,363	-	1,036,363
Accrued payroll and withholdings	2,712,883	-	2,712,883
Tax refunds payable	6,277,690	-	6,277,690
Notes payable	68,300,000	-	68,300,000
Interest payable	4,872,654	-	4,872,654
Due to other governments	9,052,880	-	9,052,880
Bonds payable	14,294,206	-	14,294,206
Other liabilities	11,790,414	-	11,790,414
Noncurrent:			
Bonds payable	233,662,680	-	233,662,680
Compensated absences	19,263,118	-	19,263,118
Other	<u>19,021,379</u>	<u>-</u>	<u>19,021,379</u>
TOTAL LIABILITIES	<u>400,731,099</u>	<u>13,605</u>	<u>400,744,704</u>
NET ASSETS			
Invested in capital assets, net of related debt	12,956,507	18,814	12,975,321
Restricted for:			
Grants	18,700,483	-	18,700,483
Permanent funds	741,889	-	741,889
Other purposes	126,325,245	-	126,325,245
Unrestricted (Deficit)	<u>(29,118,317)</u>	<u>135,870</u>	<u>(28,982,447)</u>
TOTAL NET ASSETS	<u>\$ 129,605,807</u>	<u>\$ 154,684</u>	<u>\$ 129,760,491</u>

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS
STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2002

	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets			
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:						
General government	\$ 57,445,960	\$ 21,393,697	\$ 15,571,814	\$ (17,689,872)	\$ -	\$ (17,689,872)
Public safety	74,389,225	4,345,755	-	(64,481,176)	-	(64,481,176)
Education	278,105,743	269,832,840	-	(1,942,196)	-	(1,942,196)
Public works	34,902,708	420,481	11,025,626	(17,387,259)	-	(17,387,259)
Health and human services	5,101,481	3,580,766	-	(1,279,064)	-	(1,279,064)
Culture and recreation	17,063,333	2,476,249	255,783	(12,574,964)	-	(12,574,964)
Employee benefits	53,842,136	-	-	(53,842,136)	-	(53,842,136)
Interest	16,674,113	-	-	(16,674,113)	-	(16,674,113)
Intergovernmental	2,613,691	-	-	(2,613,691)	-	(2,613,691)
Miscellaneous	235,781	-	-	(235,781)	-	(235,781)
Total Governmental Activities	540,374,191	302,049,788	26,853,223	(188,720,252)	-	(188,720,252)
Business-Type Activities:						
Parking activities	494,568	-	-	-	32,785	32,785
Total primary government	\$ 540,868,759	\$ 302,049,788	\$ 26,853,223	(188,687,467)		(188,687,467)
General Revenues:						
Property taxes				112,725,703		112,725,703
Motor vehicle and other excise taxes				8,622,642		8,622,642
Penalties and interest on taxes				8,390,626		8,390,626
Grants and contributions not restricted to specific programs				83,704,701		83,704,701
Investment income				1,677,777		1,677,777
Miscellaneous				63,319		63,319
Special Items:						
Court settlement				2,486,885		2,486,885
Total general revenues, special items and transfers				217,671,653		217,671,653
Change in Net Assets				28,951,401	32,785	28,984,186
Net Assets:						
Beginning of year				100,654,406	121,899	100,776,305
End of year				\$ 129,605,807	\$ 154,684	\$ 129,760,491

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS
GOVERNMENTAL FUNDS

BALANCE SHEET

June 30, 2002

	General	School Capital/Project	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 28,689,240	\$ 5,325,464	\$ (24,384,119)	\$ 9,640,585
Investments	-	-	250,559	250,559
Receivables, net of allowance for uncollectibles:				
Property taxes	14,982,976	-	-	14,982,976
Motor vehicle excise	11,521,978	-	-	11,521,978
Departmental and other	355,760	-	-	355,760
Intergovernmental	130,695,812	-	16,718,547	147,414,359
Tax liens and foreclosures	26,810,581	-	-	26,810,581
TOTAL ASSETS	\$ 213,066,347	\$ 5,325,464	\$ (7,415,013)	\$ 210,976,798
LIABILITIES AND FUND BALANCES				
Liabilities:				
Warrants payable	\$ 5,457,591	\$ 290,905	\$ 4,584,780	\$ 10,333,276
Accounts payable	1,036,363	-	-	1,036,363
Accrued payroll and withholdings	2,712,883	-	-	2,712,883
Tax refunds payable	996,457	-	-	996,457
Deferred revenues	181,293,973	-	-	181,293,973
Due to other governments	9,052,880	-	-	9,052,880
Notes payable	-	68,300,000	-	68,300,000
Interest payable	851,804	-	-	851,804
Other liabilities	1,013,433	-	-	1,013,433
TOTAL LIABILITIES	202,415,384	68,590,905	4,584,780	275,591,069
Fund Balances:				
Reserved for:				
Encumbrances	5,537,889	-	-	5,537,889
Expenditures	3,000,000	-	-	3,000,000
Permanent fund	-	-	741,889	741,889
Unreserved:				
Undesignated, reported in:				
General fund	2,113,074	-	-	2,113,074
Special revenue funds	-	-	19,952,942	19,952,942
Capital projects funds	-	(63,265,441)	(33,509,574)	(96,775,015)
Permanent funds	-	-	814,950	814,950
TOTAL FUND BALANCES	10,650,953	(63,265,441)	(11,939,793)	(64,614,271)
TOTAL LIABILITIES AND FUND BALANCES	\$ 213,066,347	\$ 5,325,464	\$ (7,415,013)	\$ 210,976,798

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

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

FOR THE YEAR ENDED JUNE 30, 2002

Total governmental fund balances (page 13)	\$ (64,614,271)
<ul style="list-style-type: none">• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	362,086,555
<ul style="list-style-type: none">• Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	129,088,354
<ul style="list-style-type: none">• Internal services funds are used by management to account for health insurance and workers' compensation activities. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Assets.	(5,821,921)
<ul style="list-style-type: none">• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(4,020,850)
<ul style="list-style-type: none">• Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(295,773,577)
<ul style="list-style-type: none">• In the statement of activities, accounts receivable is accrued, net of an allowance for uncollectible accounts. In governmental funds, all receivables are deferred, except for property tax received within 60 days after year end.	<u>8,661,517</u>
Net assets of governmental activities (page 11)	\$ <u>129,605,807</u>

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS
GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2002

	General	School Capital Project	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Property taxes	\$ 108,864,853	-	-	\$ 108,864,853
Excises	8,049,061	-	-	8,049,061
Penalties, interest and other taxes	8,390,626	-	-	8,390,626
Charges for services	8,657,398	-	11,217,199	19,874,597
Intergovernmental	279,166,728	-	106,298,611	385,465,339
Licenses and permits	1,558,496	-	-	1,558,496
Fines and forfeitures	1,363,596	-	-	1,363,596
Interest earnings	735,875	-	5,762	742,437
Miscellaneous	3,503,882	-	393,761	3,897,443
Total Revenues	<u>420,290,915</u>	<u>-</u>	<u>117,915,333</u>	<u>538,206,248</u>
Expenditures:				
Current:				
General government	18,892,694	-	41,890,838	60,783,532
Public safety	63,966,118	-	9,692,054	73,658,172
Education	217,868,104	19,537,728	51,890,340	289,296,172
Public works	17,807,232	-	19,888,293	37,695,525
Health and human services	2,741,699	-	2,350,099	5,091,798
Culture and recreation	11,750,443	-	6,064,370	17,814,813
Employee benefits	55,671,298	-	-	55,671,298
Miscellaneous	235,781	-	-	235,781
Debt service	29,402,883	-	-	29,402,883
Intergovernmental	2,513,691	-	-	2,513,691
Total Expenditures	<u>420,945,943</u>	<u>19,537,728</u>	<u>131,775,994</u>	<u>572,263,665</u>
Excess (deficiency) of revenues over expenditures	(659,028)	(19,537,728)	(13,860,661)	(34,057,417)
Other Financing Sources (Uses):				
Bond proceeds	-	-	16,244,360	61,316,000
Operating transfers in	-	45,071,640	69,432	69,432
Operating transfers out	(69,432)	-	-	(69,432)
Total Other Financing Sources (Uses)	<u>(69,432)</u>	<u>45,071,640</u>	<u>16,313,792</u>	<u>61,316,000</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	(728,460)	25,533,912	2,453,131	27,258,583
Fund Equity, July 1, 2001	11,379,423	(86,799,353)	(14,452,924)	(91,872,854)
Fund Equity, June 30, 2002	<u>\$ 10,650,963</u>	<u>\$ (63,265,441)</u>	<u>\$ (11,999,793)</u>	<u>\$ (64,614,271)</u>

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2002

Net change in fund balances - total governmental funds (page 15)	\$ 27,258,583																								
<ul style="list-style-type: none"> • Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Capital lease payments</td> <td style="text-align: right;">2,112,680</td> </tr> <tr> <td>Capital outlay purchases</td> <td style="text-align: right;">25,410,994</td> </tr> <tr> <td>Depreciation</td> <td style="text-align: right;">(13,314,180)</td> </tr> </table> • Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">27,833,398</td> </tr> </table> • The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets: <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Issuance of debt</td> <td style="text-align: right;">(61,316,000)</td> </tr> <tr> <td>Repayment of debt</td> <td style="text-align: right;">13,795,206</td> </tr> </table> • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;"></td> <td style="text-align: right;">(1,066,436)</td> </tr> </table> • Some expenses reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore, are not reported as expenditures in the governmental funds: <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">Compensated absences</td> <td style="text-align: right;">537,965</td> </tr> <tr> <td>Landfill closure</td> <td style="text-align: right;">2,641,426</td> </tr> <tr> <td>Estimated refunds of property tax revenue (based on cases pending at the Appellate Tax Board)</td> <td style="text-align: right;">3,285,946</td> </tr> <tr> <td>Other</td> <td style="text-align: right;">340,974</td> </tr> </table> • Internal service funds are used by management to account for health insurance and workers' compensation activities. <table style="width: 100%; margin-left: 40px;"> <tr> <td style="width: 80%;">The net activity of internal service funds is reported with Governmental Activities.</td> <td style="text-align: right; border-top: 1px solid black;">1,430,845</td> </tr> </table> 		Capital lease payments	2,112,680	Capital outlay purchases	25,410,994	Depreciation	(13,314,180)		27,833,398	Issuance of debt	(61,316,000)	Repayment of debt	13,795,206		(1,066,436)	Compensated absences	537,965	Landfill closure	2,641,426	Estimated refunds of property tax revenue (based on cases pending at the Appellate Tax Board)	3,285,946	Other	340,974	The net activity of internal service funds is reported with Governmental Activities.	1,430,845
Capital lease payments	2,112,680																								
Capital outlay purchases	25,410,994																								
Depreciation	(13,314,180)																								
	27,833,398																								
Issuance of debt	(61,316,000)																								
Repayment of debt	13,795,206																								
	(1,066,436)																								
Compensated absences	537,965																								
Landfill closure	2,641,426																								
Estimated refunds of property tax revenue (based on cases pending at the Appellate Tax Board)	3,285,946																								
Other	340,974																								
The net activity of internal service funds is reported with Governmental Activities.	1,430,845																								
Change in net assets of governmental activities (page 12)	\$ <u>28,951,401</u>																								

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS
GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2002

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original Budget	Final Budget	Budgetary Basis	
Revenues and Other Sources:				
Taxes	\$ 108,906,399	\$ 108,906,399	\$ 108,906,399	\$ -
Excise	7,591,785	7,591,785	8,049,061	457,276
Penalties, interest and other taxes	8,313,886	8,313,886	8,390,626	76,740
Charges for services	10,053,681	10,053,681	8,657,398	(1,396,283)
Intergovernmental	259,864,294	259,864,294	259,611,833	(252,461)
Licenses and permits	1,796,880	1,796,880	1,558,496	(238,384)
Fines and forfeits	1,440,867	1,440,867	1,363,596	(77,271)
Interest earnings	1,003,613	1,003,613	736,675	(266,938)
Miscellaneous	2,500,000	2,500,000	3,503,682	1,003,682
Other sources	3,000,000	3,960,000	3,960,000	-
Total Revenues and Other Sources	404,471,405	405,431,405	404,737,766	(693,639)
Expenditures and Other Uses:				
General government	18,677,079	18,738,693	18,560,915	177,778
Public safety	63,370,720	64,135,887	63,896,718	239,169
Education	198,509,304	199,715,148	199,715,148	-
Public works	18,245,434	18,310,514	17,771,478	539,036
Human services	2,599,354	2,621,488	2,590,259	31,229
Culture and recreation	11,839,721	11,850,725	11,760,506	90,219
Debt service	33,664,908	30,959,065	31,057,753	(98,688)
Intergovernmental	2,422,160	2,422,160	2,803,435	(381,275)
Benefits	54,431,702	55,931,702	55,791,300	140,402
Miscellaneous	200,000	235,000	234,929	71
Transfers out	69,432	69,432	69,432	-
Other uses	441,591	441,591	441,591	-
Total Expenditures and Other Uses	404,471,405	405,431,405	404,693,464	737,941
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ -	\$ -	\$ 44,302	\$ 44,302

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2002

	Business-Type Activities Enterprise Funds	Governmental Activities Internal Service Funds
	Parking Fund	
ASSETS		
Current:		
Cash and cash equivalents	\$ 149,475	\$ 93,489
Inventory	<u>-</u>	<u>724,166</u>
Total current assets	149,475	817,655
Noncurrent:		
Property, plant and equipment, net of accumulated depreciation	<u>18,814</u>	<u>-</u>
Total noncurrent assets	<u>18,814</u>	<u>-</u>
TOTAL ASSETS	168,289	817,655
LIABILITIES		
Current:		
Warrants payable	13,605	113,556
Accrued claims payable	<u>-</u>	<u>6,526,020</u>
Total current liabilities	<u>13,605</u>	<u>6,639,576</u>
TOTAL LIABILITIES	13,605	6,639,576
NET ASSETS		
Invested in capital assets, net of related debt	18,814	-
Unrestricted (Deficit)	<u>135,870</u>	<u>(5,821,921)</u>
TOTAL NET ASSETS	\$ <u>154,684</u>	\$ <u>(5,821,921)</u>

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2002

	Business-Type Activities Enterprise Funds	Governmental Activities
	Parking Fund	Internal Service Fund
Operating Revenues:		
Charges for services	\$ 527,353	\$ 43,235,778
Employee contributions	<u>-</u>	<u>13,476,515</u>
Total Operating Revenues	527,353	56,712,293
Operating Expenses:		
Salaries and wages	261,295	-
Operating expenses	143,153	-
Materials and supplies	54,173	1,852,025
Claims paid	-	53,429,423
Depreciation	3,868	-
Other	<u>32,079</u>	<u>-</u>
Total Operating Expenses	<u>494,568</u>	<u>55,281,448</u>
Operating Income (Loss)	32,785	1,430,845
Net Assets at Beginning of Year	<u>121,899</u>	<u>(7,252,766)</u>
Net Assets at End of Year	<u>\$ 154,684</u>	<u>\$ (5,821,921)</u>

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2002

	Business-Type Activities Enterprise Funds	Governmental Activities
	Parking Fund	Internal Service Fund
Cash Flows From Operating Activities:		
Receipts from customers and users	\$ 527,353	\$ -
Receipts from interfund service provided	-	56,712,293
Payments to vendors	(231,094)	(57,075,932)
Payments to employees	<u>(261,295)</u>	<u>-</u>
Net Cash Provided By (Used For) Operating Activities	34,964	(363,639)
Cash Flows From Capital and Related Financing Activities:		
Acquisition and construction of capital assets	<u>(9,400)</u>	<u>-</u>
Net Cash (Used For) Capital and Related Financing Activities	<u>(9,400)</u>	<u>-</u>
Net Change in Cash and Short-Term Investments	25,564	(363,639)
Cash and Short-Term Investments, Beginning of Year	<u>123,911</u>	<u>457,128</u>
Cash and Short-Term Investments, End of Year	<u>\$ 149,475</u>	<u>\$ 93,489</u>
Reconciliation of Operating Income to Net Cash Provided by (Used For) Operating Activities:		
Operating income (loss)	\$ 32,785	\$ 1,430,845
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	3,868	-
Changes in assets and liabilities:		
Inventory	-	(4,567)
Warrants payable	(1,689)	(87,151)
Accrued liabilities	<u>-</u>	<u>(1,702,766)</u>
Net Cash Provided By (Used For) Operating Activities	<u>\$ 34,964</u>	<u>\$ (363,639)</u>

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

FIDUCIARY FUNDS
(CONTRIBUTORY RETIREMENT SYSTEM)

STATEMENT OF FIDUCIARY NET ASSETS

DECEMBER 31, 2001

ASSETS

Cash and cash equivalents		\$ 2,632,747
Investments:		
Fixed income	\$ 93,743,476	
Equities	72,337,436	
Mutual funds and other	<u>103,603,446</u>	
Total Investments		269,684,358
Accounts receivable		3,526,331
Other assets		<u>1,041,900</u>
Total Assets		276,885,336

LIABILITIES AND NET ASSETS

Accounts payable		13,663,960
Deferred revenue		<u>4,426,092</u>
Total Liabilities		<u>18,090,052</u>
TOTAL NET ASSETS HELD IN TRUST FOR PENSION BENEFITS		<u>\$ 258,795,284</u>

See notes to financial statements.

CITY OF SPRINGFIELD, MASSACHUSETTS

FIDUCIARY FUNDS
(CONTRIBUTORY RETIREMENT SYSTEM)

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED DECEMBER 31, 2001

Additions:

Contributions:

Employers	\$ 19,715,424
Plan members	10,965,398
Other	<u>3,488,120</u>
Total contributions	34,168,942

Investment Income:

Interest and dividends	9,664,309
Realized (loss) on sale of investments	(12,321,616)
Depreciation in fair value of investments	(15,168,860)
Less: management fees	<u>(1,368,321)</u>
Net investment income	<u>(19,194,488)</u>

Total additions	14,974,454
-----------------	------------

Deductions:

Benefit payments to plan members and beneficiaries	35,689,575
Refunds to plan members	2,881,516
Administrative expenses	<u>537,113</u>
Total deductions	<u>39,108,204</u>

Net increase (decrease)	(24,133,750)
-------------------------	--------------

Net assets held in trust for pension benefits:

Beginning of year	<u>282,929,034</u>
End of year	<u>\$ 258,795,284</u>

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

In fiscal year 2002 it was determined the Springfield Redevelopment Authority and the Massachusetts Career Development Institute, Inc. met the required GASB-14 criteria of a component unit; however, their financial activities are not included in the City's financial statements.

B. GASB Statement No. 34

In fiscal year 2002, the City of Springfield implemented the Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments. Accordingly, the financial statements include, for the first time, a Management's Discussion and Analysis, Government-Wide and Fund Financial Statements, with the focus on major funds, as more fully described in the remainder of Note 1.

C. Government-Wide and Fund Financial Statements

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

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

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

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, excises and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The school capital project fund is used to account for several major school renovation projects that will be funded primarily from bond proceeds.

The government reports the following major proprietary funds:

- Parking enterprise fund

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

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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

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

E. 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 other governmental 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 major fund is included under earnings on investments.

For purpose of the statement of cash flows, the proprietary fund considers investments with original maturities of three months or less to be cash equivalents.

F. 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 other governmental funds consist of marketable securities, bonds and short-term money market investments and are carried at market value.

G. 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 2002 tax levy reflected an excess capacity of \$ 5,193.

H. Inventories

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

I. Capital Assets

Capital assets, which include property, plant and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$ 10,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

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

J. Long-Term Obligations

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

K. Compensated Absences

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

L. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

M. 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.

2. Departures from Generally Accepted Accounting Principles

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

- Activity related to the Springfield Redevelopment Authority and the Massachusetts Career Development Institute, Inc., component units of the City, should be included to conform to generally accepted accounting principles.

3. Stewardship, Compliance and Accountability

A. Budgetary Information

The Mayor presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by the City Council, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at City Council meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the City Council is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time 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 17 of the financial statements represents the final amended budget of the City and was authorized as follows:

2002 annual appropriations	\$ 401,607,654
2002 supplemental appropriations	960,000
Statutory County and State assessments	2,399,347
Other items legally required to be raised	<u>464,404</u>
Total Appropriation	<u>\$ 405,431,405</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)	\$ 420,290,915	\$ 420,949,943
Other financing sources/uses (GAAP basis)	-	69,432
Adjust tax revenue to accrual basis	41,746	-
Reverse beginning of year appropriation carryforwards from expenditures	-	(4,071,190)

(continued)

(continued)	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
<u>General Fund</u>		
Add end of year appropriation carryforwards to expenditures	-	5,537,889
Adjust for GAAP accrual entries budgeted in a previous or subsequent year	-	1,130,950
Adjust State and County charges for prior year over/under assessments	-	189,744
To reverse effect of non-budgeted State contributions for teachers retirement	(19,554,895)	(19,554,895)
Recognize budgeted, non-cash sources/uses of funds	<u>3,960,000</u>	<u>441,591</u>
Budgetary basis	<u>\$ 404,737,766</u>	<u>\$ 404,693,464</u>

D. Excess of Expenditures Over Appropriations

The overexpenditure reported under debt service was funded by management through unanticipated bond premiums.

E. Deficit Fund Equity

The following funds had deficits as of June 30, 2002:

Special Revenue Funds:	
MCDI	\$ 151,623
Payroll Refunds	58,274
Forest Park Zoo	58,427
Internal Service Funds:	
Self Insurance Fund	6,677,722

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

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

4. Cash and Cash Equivalents

The carrying amount of the City's and Retirement System's deposits with financial institutions at June 30, 2002 and December 31, 2001 was \$ 9,883,549 and \$ 2,632,747, respectively. The bank balances, which do not include reconciling items such as deposits in transit and outstanding checks, are categorized as follows:

	<u>City Deposits</u> <u>June 30, 2002</u>	<u>Retirement System</u> <u>Deposits</u> <u>December 31, 2001</u>
Amount insured by the FDIC and DIFM, or collateralized with securities held by the City in its name	\$ 474,274	\$ 100,225
Amount collateralized with securities held by the pledging financial institution's trust department in the City's name	1,021,790	3,994,182
Uncollateralized	20,871,861	-
State investment pool	<u>41,101</u>	<u>-</u>
Total Bank Balance	<u>\$ 22,409,026</u>	<u>\$ 4,094,407</u>

5. Investments

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

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

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

	<u>Category</u>			<u>Market</u> <u>Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Short-term investments	\$ -	\$ -	\$ 41	\$ 41
Corporate stock	-	-	206	206
Bonds	4	-	-	<u>4</u>
Total				<u>\$ 251</u>

At December 31, 2001, the City's Retirement System's investment balances were as follows (in thousands):

	<u>Category</u>			<u>Market</u> <u>Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Short-term investments	\$ -	\$ -	\$ 27,437	\$ 27,437
Fixed income	-	-	93,743	93,743
Equities	-	-	148,504	<u>148,504</u>
Total				<u>\$ 269,684</u>

6. Taxes Receivable

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

The following is a summary of the property tax calendar used for the 2002 tax levies:

July 1, 2001:

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, 2001:

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.

October 1, 2001:

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, 2001:

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.

January 13, 2002:

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

February 1, 2002:

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.

April 1, 2002:

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, 2002:

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, 2002 consist of the following (in thousands):

Real Estate		
2002	\$ 8,176	
2001	2,523	
2000	188	
Prior	<u>999</u>	
		11,886
Personal Property		
2002	222	
2001	153	
2000	81	
Prior	<u>2,641</u>	
		<u>3,097</u>
Total		\$ <u>14,983</u>

7. Allowance for Doubtful Accounts

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

Property taxes	\$ 9,692
Tax liens and foreclosures	24,972
Excises	<u>8,879</u>
	\$ <u>43,543</u>

8. Due From Other Governments

The intergovernmental receivables balance in the General Fund represents a Medicaid reimbursement which was received in fiscal year 2003 and an estimated reimbursement from the State through the SBAB program. The balance in the other governmental funds represents various grant awards reimbursement requests expected to be received in fiscal year 2003.

9. Capital Assets

Capital asset activity for the year ended June 30, 2002 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 24,898	\$ 937	\$ -	\$ 25,835
Construction in progress	<u>72,238</u>	<u>9,515</u>	<u>-</u>	<u>81,753</u>
Total capital assets, not being depreciated	97,136	10,452	-	107,588
Capital assets, being depreciated:				
Buildings and improvements	236,134	3,481	-	239,615
Machinery and equipment	50,512	10,298	-	60,810
Land improvements	<u>22,995</u>	<u>1,181</u>	<u>-</u>	<u>24,176</u>
Total capital assets, being depreciated	309,641	14,960	-	324,601
Less accumulated depreciation for:				
Buildings and improvements	40,601	6,198	-	46,799
Machinery and equipment	12,554	6,180	-	18,734
Land improvements	<u>3,634</u>	<u>936</u>	<u>-</u>	<u>4,570</u>
Total accumulated depreciation	<u>56,789</u>	<u>13,314</u>	<u>-</u>	<u>70,103</u>
Total capital assets, being depreciated, net	<u>252,852</u>	<u>1,646</u>	<u>-</u>	<u>254,498</u>
Governmental activities capital assets, net	<u>\$ 349,988</u>	<u>\$ 12,098</u>	<u>\$ -</u>	<u>\$ 362,086</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities:				
Capital assets, being depreciated:				
Machinery and equipment	\$ 179	\$ 9	\$ -	\$ 188
Total capital assets, being depreciated	179	9	-	188
Less accumulated depreciation for:				
Machinery and equipment	165	4	-	169
Total accumulated depreciation	<u>165</u>	<u>4</u>	<u>-</u>	<u>169</u>
Business-type activities capital assets, net	<u>\$ 14</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 19</u>

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

Governmental Activities:	
General government	\$ 380
Public safety	1,943
Education	8,318
Public works	992
Culture and recreation	1,662
Human services	<u>19</u>
Total depreciation expense - governmental activities	<u>\$ 13,314</u>
Business-Type Activities:	
Parking	\$ 4
Total depreciation expense - business-type activities	<u>\$ 4</u>

10. Warrants and Accounts Payable

Warrants payable represent 2002 expenditures paid by July 15, 2002 as permitted by law. Accounts payable represent additional 2002 expenditures paid after July 15, 2002.

11. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2002 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 \$ 13,266,220 has been reclassified to deferred revenue for reporting purposes.

12. Reserve for Tax Refunds

In the fund-basis financial statements, the balance in the general fund represents abatements granted in fiscal year 2002 which are expected to be refunded in fiscal year 2003.

In the entity-wide financial statements, the balance consists of the above and an estimate of refunds due to property taxpayers for potential abatements. These cases are currently pending with the state Appellate Tax Board.

13. Anticipation Notes Payable

The City had the following notes outstanding at June 30, 2002:

	<u>Interest Rate</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Balance at June 30, 2002</u>
Bond anticipation	2.3%	11/13/01	11/13/02	\$ 35,000,000
Bond anticipation	3.0%	2/22/02	2/21/03	<u>33,300,000</u>
Total				\$ <u>68,300,000</u>

The City had an additional \$ 7,015,000 in notes payable which was classified as long-term debt at June 30, 2002. See Footnotes 14 and 15.

The following summarizes activity in notes payable during fiscal year 2002 (in thousands):

	Balance Beginning of Year	New Issues	Maturities	Balance End of Year
Bond anticipation notes	\$ 127,310	\$ 68,300	\$ 127,310	\$ 68,300
Revenue anticipation notes	-	50,000	50,000	-
Total	\$ <u>127,310</u>	\$ <u>118,300</u>	\$ <u>177,310</u>	\$ <u>68,300</u>

14. Long-Term Debt

A. General Obligation Bonds

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

General obligation bonds currently outstanding are as follows:

<u>Bonds Payable</u>	<u>Serial Maturities Through</u>	<u>Interest Rate (s)%</u>	<u>Amount Outstanding as of June 30, 2002</u>
<u>Inside Debt Limit:</u>			
Refunding bonds of 1992	9/01/03	3.40 - 6.25	\$ 905,000
Multi-purpose of 1997	9/01/15	4.25 - 5.65	12,685,000
Multi-purpose of 1993	1/15/16	4.75 - 6.00	7,256,000
Multi-purpose of 1998	11/15/18	3.50 - 5.25	1,760,000
Multi-purpose of 2000	10/01/19	4.50 - 6.25	6,920,000
Multi-purpose of 2002	8/01/21	3.50 - 5.50	<u>17,244,360</u>
Total Inside Debt Limit:			46,770,360
<u>Outside Debt Limit:</u>			
Refunding bonds of 1993	9/01/04	2.75 - 5.05	1,465,000
RMJ School	9/01/04	3.40 - 6.25	3,095,000
EPA asbestos removal	7/28/05	-	364,886 **
Refunding bonds of 1996	8/01/11	4.35 - 6.375	20,875,000
Mass Mutual/Milton Bradley school	8/01/14	4.35 - 6.375	12,150,000
Multi-purpose of 1997	9/01/15	4.25 - 5.65	27,330,000
Multi-purpose of 1998	11/15/18	3.50 - 5.25	52,275,000
School construction	10/01/19	4.50 - 6.25	31,195,000
Multi-purpose of 2000	10/01/19	4.50 - 6.25	8,365,000
Multi-purpose of 2002	8/01/21	3.50 - 5.50	<u>44,071,640</u>
Total Outside Debt Limit:			<u>201,186,526</u>
Total Bonds Payable			247,956,886
<u>Notes Payable:</u>			
Hospital deficit bond anticipation note	6/20/03	3.0	<u>7,015,000 *</u>
Total Notes Payable			\$ <u>254,971,886</u>

- * The City's hospital deficit bond anticipation note will be repaid over a ten year period beginning in fiscal year 1997 by issuing one year notes for lesser amounts each year.
- ** In 1986, the U.S. Environmental Protection Agency sponsored a no interest rate loan program to enable the City to remove asbestos from public buildings. The loan amount was revised in 1993 at the project's completion. The revised 1993 loan amount was \$ 1,785,709. The balance at June 2002 was \$ 364,886, which the City will repay in annual installments of \$ 99,206 until fiscal year 2006.

B. Guaranteed Loans - Water and Sewer Commission

The City has issued debt through general obligation bonds and the Massachusetts Water Pollution Abatement Trust (MWPAT) on behalf of the Springfield Water and Sewer Commission, a separate reporting entity. While this debt is an obligation of the City, it is to be reimbursed by the Commission. Outstanding debt related to the Water and Sewer Commission at June 30, 2002 is included in other long-term liabilities on the government-wide financial statements. The balance consists of the following:

	<u>Serial Maturities Through</u>	<u>Interest Rate (s)%</u>	<u>Amount Outstanding as of June 30, 2002</u>
General obligation bond	9/01/03	3.40 - 6.25	\$ 190,000
MWPAT (aeration)	2/01/15	1.00 - 2.75	2,840,342
MWPAT (inflow/infiltration)	2/01/15	1.00 - 2.75	1,134,735
General obligation bond	1/15/16	4.75 - 6.00	<u>1,314,000</u>
Total Guaranteed Loans			<u>\$ 5,479,077</u>

C. Future Debt Service

The annual principal and interest payments to retire all general obligation long-term debt outstanding (excluding notes payable) as of June 30, 2002 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2003	\$ 14,294,206	\$ 12,550,332	\$ 26,844,538
2004	14,367,206	11,852,526	26,219,732
2005	14,327,206	11,106,699	25,433,905
2006	13,770,268	10,372,391	24,142,659
2007	13,343,000	9,652,842	22,995,842
2008 - 2012	69,013,000	38,146,579	107,159,579
2013 - 2017	67,292,000	19,679,310	86,971,310
2018 - 2022	<u>41,550,000</u>	<u>3,954,860</u>	<u>45,504,860</u>
Total	<u>\$ 247,956,886</u>	<u>\$ 117,315,539</u>	<u>\$ 365,272,425</u>

D. Bond Authorizations

Long-term debt authorizations which have not been issued or rescinded as of June 30, 2002 are as follows:

<u>Purpose</u>	<u>Amount</u>
Departmental equipment	\$ 4,545
Remodel public buildings	970
City Hall remodeling	4,000
Remodel public buildings	2,000
Departmental equipment	1,500
Remodel public building	1,060,000
Sewer construction	40,000
Composting facility	400,000
Landfill closeout	5,000,000
Improvements to wastewater treatment plant	410,000
Aeration basin upgrade	4,749,909
Repair school roofs	835,000
Construction of facility and trailway	250,000
Remodel public buildings	3,996,000
Baseball stadium design and construction	2,000,000
Departmental equipment	240,000
Acquire land - Boston Road/Parker Street	200,000
Remodel public buildings	2,000,000
Remodel public buildings	2,000,000
Remodel/reconstruct Commerce High	113,000
Remodel/reconstruct New Chestnut Middle School	377,000
Replace radio tower - Police Dept.	150,000
Infiltration/inflow pilot rehab.	400,000
Aeration basin upgrade	1,406,585
Dept. equipment - library and museums	300,000
West Columbus urban renewal Amend. #3	700,000
Hospital deficit bond	7,015,000
Relocation - York St. pump station	7,000,000
Emergency repairs various City schools	1,000,000
Improvements to Franconia and Veterans Golf	2,120,000
Emergency repairs - various City schools	2,000,000
Acquisition/demolition - condemned City property	143
VanSickle School - remodeling and reconstruction	323,360
Qual Zone Academy	6,406,000
Boland Learning Center - architectural design	615,000
Library and museum remodeling	385,000
Qual Zone Academy	1,409,000
VanSickle School - remodeling	48,300,000
Harris Elementary School - remodeling	6,100,000
Boland Learning Center - remodeling	13,285,000
City parks improvement	2,000,000
City parks improvement	4,210,000
Cyr Arena	635,000
Balliet School - design	1,300,000
Municipal group repairs	7,300,000
Forest Park Middle School - design	2,200,000
Balliet School - remodeling	19,972,919
Forest Park Middle School - remodeling	27,566,600
Public building repair	500,000
Public building repair	2,100,000

(continued)

(continued)	<u>Purpose</u>	<u>Amount</u>
	Repair schools	2,900,000
	Fire/safety complex	2,000,000
	Renovate R. Johnson school	1,200,000
	Repairs Springfield library and museums	2,990,000
	Acquisition/demolition/relocation - Camp Wilder	912,000
	Acquisition/demolition/site preparation - Court Square	4,700,000
	Final closure and cap landfill	5,800,000
	Charter school	<u>1,630,000</u>
	Total	<u>\$ 212,515,531</u>

E. Legal Debt Margin

The City is subject to the General Laws of the Commonwealth of Massachusetts which limits the amount of bonded debt the City may have outstanding to 2.5 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, 2002 (in thousands of dollars):

Equalized valuation - January 1, 2002		<u>\$ 4,732,628</u>
Debt limit - 2.5% of equalized valuation		\$ 118,316
Total debt outstanding - City	247,957	
Total debt outstanding - Water and Sewer Commission	5,479	
Less debt exempt from limit	<u>(205,162)</u>	<u>(48,274)</u>
Bonds authorized and unissued	212,516	
Less outside limit	<u>(173,074)</u>	<u>(39,442)</u>
Legal Debt Margin		<u>\$ 30,600</u>

F. Changes in General Long-Term Liabilities

During the year ended June 30, 2002, the following changes occurred in long-term liabilities (in thousands of dollars):

<u>Governmental Activities</u>	<u>Balance July 1, 2001</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2002</u>
Notes payable	\$ 8,585	\$ -	\$ (1,570)	\$ 7,015
Due to other governments	1,350	-	(341)	1,009
Accrued employee benefits	19,801	-	(538)	19,263
General obligation debt	198,866	61,316	(12,225)	247,957
Guaranteed loans	5,880	-	(401)	5,479
Capital leases	7,266	4	(2,117)	5,153
Court judgment	550	-	(550)	-
Landfill closure cost	7,258	-	(2,642)	4,616
Reserve for tax refund	<u>8,567</u>	<u>-</u>	<u>(3,286)</u>	<u>5,281</u>
Totals	<u>\$ 258,123</u>	<u>\$ 61,320</u>	<u>\$ (23,670)</u>	<u>\$ 295,773</u>

15. Other Long-Term Liabilities

The accompanying statement of net assets reflects other long-term liabilities, which consist of the following (all reported net of current portions):

Capital leases	\$ 3,201,743
Landfill closure	4,616,037
Guaranteed bonds - Water and Sewer Commission	5,075,723
Hospital deficit note payable	5,445,000
Due to retirement system	<u>682,876</u>
Total	\$ <u>19,021,379</u>

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, 2002, the notes payable balance outstanding was \$ 7,015,000. The Massachusetts Department of Revenue has required the City to repay the bonds over ten years.

Due to Retirement System

The liability due to the retirement system is the result of prior years unpaid and disputed assessments related to teachers' aide employees. The original amount owed from prior years and recognized in fiscal year 1997 was \$ 2.8 million. The City and retirement system have agreed on a repayment schedule which anticipates the liability will be paid off by fiscal year 2005. The City is materially compliant with the anticipated repayment schedule.

16. Capital Lease Obligations

The City is the lessee of certain equipment under capital leases expiring in various years through 2008. Future minimum lease payments under the capital leases consisted of the following as of June 30, 2002:

2003	\$ 1,951,123
2004	1,420,110
2005	1,400,835
2006	442,824
2007	302,330
Thereafter	<u>198,000</u>
Total minimum lease payments	5,715,222
Less amount representing interest	(562,356)
Present Value of Minimum Lease Payments	\$ <u>5,152,866</u>

17. Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require the City to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and post-closure care costs as a liability in the general long-term debt account group in each period based on landfill capacity used as of each balance sheet date. In 1993, the City authorized borrowing \$ 5,000,000 to fund the expected costs of closure. In fiscal year 2002, the City authorized an additional \$ 5.8 million. Monitoring costs are expected to be funded from general fund operating budgets.

The \$ 4,616,037 reported as landfill closure and post-closure care liability at June 30, 2002 represents the total estimated cost of \$ 9,144,000 reduced to the estimated capacity of the landfill, less expenses incurred to date of \$ 4,345,083. The City estimates the landfill is 98% of capacity at June 30, 2002. The City will recognize the remaining estimated cost of closure and post-closure care of \$ 182,880 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2002. The City expects to close the landfill in 2003 - 2004. The actual life of the landfill may be longer due to increased recycling efforts or if another use for the landfill material (ash) can be found. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

18. Restricted Net Assets

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

19. 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, 2002:

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

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

Reserved for Permanent Fund - Represents permanent funds that may be invested and the earnings spent, based on the donor's intent.

20. General Fund Undesignated Fund Balance

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

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

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

The financial statements also reflect accruals for tax refunds and short-term interest expenditures due as of June 30, 2002. Massachusetts General Laws do not recognize these accruals.

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

GAAP basis balance	\$ 2,113,074
Stabilization fund	(4,061,685)
State and County over/under assessments	381,275
Tax refund due	996,457
Accrued interest payable	<u>851,804</u>
Statutory (UMAS) Balance	\$ <u>280,925</u>

21. Subsequent Events

Temporary Debt

Subsequent to June 30, 2002, the City has incurred the following additional temporary debt:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Revenue anticipation note	\$ 10,000,000	3.0%	9/13/02	9/20/02
Revenue anticipation note	\$ 25,000,000	3.0%	9/20/02	6/30/03
Bond anticipation note	\$ 21,997,000	3.0%	7/08/02	7/08/03

Subsequent Budget Authorization

The financial statements for the City as of June 30, 2002 do not reflect the fiscal 2003 annual budget authorized in June 2002. The amount authorized in June (all funds) totaled \$ 413,127,761.

22. 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.

23. 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, 2002 was not available.

24. Contributory Retirement System

A. Summary of Significant Accounting Policies

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

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

B. Plan Description and Contribution Information

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

Membership of each plan consisted of the following at January 1, 2001, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	2,680
Terminated plan members entitled to but not yet receiving benefits	792
Active plan members	<u>4,040</u>
Total	<u>7,512</u>
Number of participating employers	3

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

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

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

C. Teachers

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

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

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

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

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

In fiscal year 2002, the Commonwealth of Massachusetts contributed \$ 19,554,895 to the MTRS on behalf of the City. This is included in the education expenditures and operating grant revenues reported on pages 12 and 15.

D. Related Party Transactions

At June 30, 2002, the City owed \$ 1,009,360 to the retirement system for prior years' assessments. This amount is reflected as a receivable in the retirement system and a liability in the government-wide financial statements.

25. Self Insurance

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

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

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

Changes in the aggregate liability for claims for the year ended June 30, 2002 are as follows:

Claims liability, July 1, 2001	\$ 8,228,786
Claims incurred/recognized in fiscal year 2002	53,429,423
Claims paid in fiscal year 2002	(55,132,189)
Claims liability, June 30, 2002	\$ <u>6,526,020</u>

26. Risk Management

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

CITY OF SPRINGFIELD, MASSACHUSETTS
CONTRIBUTORY RETIREMENT SYSTEM

Schedule of Funding Progress and Employer Contributions

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

Schedule of Funding Progress (in thousands):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial 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)
1/1/01	\$ 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	54.5%	\$ 110,832	201.9%
1/1/98	\$ 237,262	\$ 439,441	\$ 202,179	54.0%	\$ 104,251	193.9%
1/1/94	\$ 164,561	\$ 298,111	\$ 133,550	55.2%	\$ 89,978	148.4%
1/1/93	\$ 151,322	\$ 289,821	\$ 138,499	52.2%	\$ 81,489	170.0%
1/1/92	\$ 142,305	\$ 282,780	\$ 140,475	50.3%	\$ 81,980	171.4%
1/1/90	\$ 114,439	\$ 260,553	\$ 146,114	43.9%	\$ 75,169	194.4%
1/1/86	\$ 71,187	\$ 279,412	\$ 208,225	25.5%	\$ 73,304	284.1%

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

Schedule of Employer Contributions (City share only):

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1992	\$ 14,715,334	100%
1993	14,904,419	98%
1994	14,137,735	95%
1995	14,999,384	95%
1996	15,721,914	94%
1997	16,726,379	100%
1998	15,065,133	100%
1999	16,288,949	100%
2000	16,420,408	100%
2001	16,864,748	100%
2002	17,890,147	100%

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

Valuation date	January 1, 2001
Actuarial cost method	Entry age, normal cost
Asset valuation method	Market value

Actuarial assumptions:

Investment rate of return	8.5% per annum
Projected salary increases	5.5% per annum
Cost of living adjustments	3% of the lesser of the pension amount and \$ 12,000/ year
Salary cap	The \$ 30,000 salary cap no longer applies for purposes of benefit determination.

See Independent Auditors' Report.