

CITY OF SPRINGFIELD, MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 2008

CITY OF SPRINGFIELD, MASSACHUSETTS

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JUNE 30, 2008

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100 Quannapowitt Parkway
Suite 101
Wakefield, MA 01880
T. 781-914-1700
F. 781-914-1701
www.powersandsullivan.com

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information of the City of Springfield, Massachusetts, as of and for the fiscal year ended June 30, 2008 (except for the Springfield Contributory Retirement System which is as of and for the year ended December 31, 2007), which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Springfield, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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 opinion.

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

In our opinion, except for the effects of the items described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information of the City of Springfield, Massachusetts, as of June 30, 2008, (except for the Springfield Contributory Retirement System which is as of and for the year ended December 31, 2007), and the respective changes in financial position and cash flows, where applicable, thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3 to the accompanying financial statements, on July 9, 2004, the Massachusetts legislature enacted Chapter 169 of the Acts of 2004 entitled "An Act Relative To The Financial Stability of Springfield." Under Chapter 169, there is an established Finance Control Board (FCB) vested with comprehensive authority over all of the City's finances, including appropriations, borrowings, transfers of funds, and municipal spending authorizations. Chapter 169 also established a \$52 million trust fund subject to the control of the Commonwealth's Secretary of Administration and Finance ("the Secretary") from which interest-free loans may be disbursed to the City from time to time on terms and conditions determined by the FCB and approved by the Secretary. Chapter 169 provides that if the FCB concludes its powers are insufficient to restore fiscal stability to the City, the Commonwealth's Secretary of Administration and Finance may terminate the existence of the FCB and appoint a receiver for the City. Under Chapter 169, the receiver would not only have all of the powers of the FCB, but also the power to exercise any function or power of any municipal officer or employee, whether elected

or otherwise, including certain powers relative to building and zoning. A receiver would also have the power to file a petition in the name of the City under Chapter 9 of the Federal Bankruptcy Code. Upon appointment of a receiver, the office of Mayor would be abolished and other elected officials would serve solely in an advisory capacity.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 2009, on our consideration of the City of Springfield, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis, located on the following pages, and the schedule of revenues, expenditures and changes in fund balance – general fund – budgetary basis, located after the notes to the basic financial statements, are not a required part of the basic financial statements but is supplementary information required by accounting principals generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

Wakefield, Massachusetts
February 18, 2009

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Springfield, Massachusetts, we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City of Springfield for the fiscal year ended June 30, 2008. This is the seventh year our financial statements have been prepared under the Government Accounting Standards Board Statement 34 – Basic Financial Statements - and Management's Discussion and Analysis – for State and Local Governments. We encourage readers to consider the information presented in this report.

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

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

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Springfield's basic financial statements. These basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The government-wide financial statements provide both long-term and short-term information about the City as a whole. The fund financial statements focus on the individual components of the City government, reporting the City's operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison and enhance the City's accountability. An additional part of the basic financial statements are the notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

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

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

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, education, public works, health and welfare, culture and recreation, Finance Control Board expenses, claims and judgments, and interest. The business-type activities consist of the City's trash collection activities.

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

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

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

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

The City maintains five major funds. The general fund is considered a major fund along with four stabilization funds that are being used to accumulate resources for Financial, Capital, Energy, and Self Insured claims and judgment related activities. The remaining governmental funds are aggregated and shown as nonmajor governmental funds.

Proprietary funds. The City maintains two types of propriety funds.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its trash activities.

Internal service funds are an accounting device used to accumulate and allocate costs internally among various functions. The City uses this fund to account for risk financing activities related to self-insured dental and eye care services, the fully insured health care plan, and a motor pool for gas and auto supplies operated by the Department of Public Works.

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

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

Finance Control Board

The City had been experiencing serious financial stress for several years prior to FY2005 and faced a financial crisis. It was determined that the City needed the Commonwealth of Massachusetts to provide short and long term financial resources in order to avoid a financial collapse. The additional funding provided the much needed time for the City to work with the Commonwealth to turn around its financial condition.

On July 9, 2004, the Massachusetts legislature enacted Chapter 169 of the Acts of 2004 entitled "An Act Relative To The Financial Stability of Springfield." Under Chapter 169, a Finance Control Board (FCB) was established and vested with comprehensive authority over all of the City's finances, including appropriations, borrowings, transfers of funds, and municipal spending authorizations. Chapter 169 also established a \$52 million trust fund subject to the control of the Commonwealth's Secretary of Administration and Finance ("the Secretary") from which interest-free loans may be disbursed to the City from time to time on terms and conditions determined by the FCB and approved by the Secretary.

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

Financial Condition

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

In order for long-term stability to be obtained the City needed to solve its short-term term budget problems for FY2005 and FY2006. The original budget projections for FY2005 and FY2006 estimated there would be a \$37 million and \$8 million deficit, respectively, that would be funded by loans from the state trust fund. During fiscal years 2005 to 2008 the FCB initiated a series of cost cutting measures, revenue enhancement processes, and established budgetary reserves and conservative revenue projections to minimize the structural deficit in the General Fund.

As a result of these measures the General Fund actually had budgetary surpluses of \$14 million, \$8 million, \$32 million, and \$35 million in 2008, 2007, 2006, and 2005, respectively, where revenues exceeded expenditures and transfers out. These surpluses' are all exclusive of amounts transferred to the stabilization funds established by the FCB. The actual results far exceeded the initial expectations but the City believes the structural deficit still exists since some of the surplus was the one-time collection of past due amounts. The result of these favorable results has increased the General Fund total budgetary fund balance to \$69 million at June 30, 2008.

At June 30, 2008 the Health Insurance Internal Service Fund has a positive fund balance of \$4.1 million compared with \$2.4 million in the prior year. The fund experienced a \$1.7 increase during FY2008. Employee benefits increased from \$65.6 million in FY2007 to \$67.2 million in FY2008. During fiscal year 2007 the City joined the Commonwealth's Group Insurance Commission (GIC) program in order to gain access to more favorable health insurance rates and further the initiative to reduce costs while still providing quality health coverage to its employees and retirees. The GIC program is fully insured.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of approximately \$173 million, a decrease of approximately \$14.5 million from the prior year. The decrease is primarily due to current year spending of bond proceeds received in the prior year, net of an \$8.2 million revenue surplus in the general fund before transfers out to the stabilization funds.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved and undesignated fund balance of the general fund was approximately \$39.7 million, while total fund balance was approximately \$57.4 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved and undesignated fund balance represents approximately 7.2% of total general fund expenditures, while total fund balance represents approximately 10.5% of that same amount.

The FCB established four stabilization reserve funds which were initially funded by approximately \$21 million in transfers from the general fund and a \$20 million allocation of proceeds from the Commonwealth's \$52 million trust fund. These funds ended fiscal year 2007 with a balance of \$41.2 million. During fiscal year 2008 the general fund transferred in an additional \$26.6 million into the Financial Reserve Stabilization Fund and \$843,000 into the Self Insurance Stabilization Fund. The Capital Reserve Stabilization Fund transferred \$3.2 million to the capital projects funds and was closed at the end of fiscal year 2008. The Energy Reserve Stabilization Fund's balance at the end of fiscal year 2008 was \$755 thousand. The balance of the Stabilization Funds at fiscal year end amounted to a total of \$68 million. These funds support the City's long-term financial stability.

General Fund Budgetary Highlights

The City of Springfield adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. Actual revenues were greater than budgeted amounts by \$9.4 million or a 1.8% surplus, while actual expenditures, including carryovers, were also less than budgeted amounts by \$7.1 million, or a 1.4% surplus. The City carried over \$9.9 million in appropriations to FY09.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. The City of Springfield's governmental assets exceeded liabilities for governmental activities by approximately \$394 million. Key components of the City's activities are presented below.

Governmental Activities

	2008	2007	2006	2005
Assets:				
Current assets.....	\$ 244,879,118	\$ 257,273,251	\$ 177,123,260	\$ 151,875,485
Noncurrent assets (excluding capital).....	112,842,938	117,275,061	124,735,643	135,409,430
Capital assets, non depreciable.....	26,771,402	26,491,402	26,581,317	29,961,755
Capital assets, net of accumulated depreciation.....	504,225,964	505,182,181	510,323,770 (1)	324,174,786
Total assets.....	888,719,422	906,221,895	838,763,990	641,421,456
Liabilities:				
Current liabilities (excluding debt).....	57,172,869	59,283,741	63,186,396	54,486,376
Noncurrent liabilities (excluding debt).....	48,801,501	29,012,915	23,405,752	35,214,465
Current debt.....	30,231,038	35,145,850	20,005,648	20,422,779
Noncurrent debt.....	358,769,235	375,245,212	325,732,687	337,322,532
Total liabilities.....	494,974,643	498,687,718	432,330,483	447,446,152
Net Assets:				
Capital assets net of related debt.....	341,183,744	355,316,577	337,293,007 (1)	152,135,812
Restricted.....	12,177,583	13,972,030	20,736,805	25,282,204
Unrestricted.....	40,383,452	38,245,570	48,403,695	16,537,288
Total net assets.....	\$ 393,744,779	\$ 407,534,177	\$ 406,433,507	\$ 193,955,304

(1) During FY2006 the City recorded its infrastructure capital assets acquired prior to FY2002, as allowed by GASB Statement 34, which increased the beginning net assets by \$199.8 million.

Governmental net assets of \$341 million (87%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, and machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the net assets of \$12 million (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$40 million (10%) may be used to meet the government's ongoing obligations to citizens and creditors.

The key element of change for FY2008 as compared to previous years was the implementation of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* (OPEB). The Statement required the City to accrue a liability for other post-employment benefits in the amount of approximately \$20.8 million. The related expenses have been allocated to the primary government's functions and programs in a similar manner as other employee benefits.

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Program revenues:				
Charges for services.....	\$ 26,189,441	\$ 26,277,897	\$ 32,314,359	\$ 34,060,055
Operating grants and contributions.....	394,416,551	363,885,595	353,032,208	347,386,326
Capital grants and contributions.....	7,585,134	12,815,331	4,537,749	4,543,703
General Revenues:				
Real estate and personal property taxes.....	148,523,101	145,877,117	137,981,258	137,984,170
Motor vehicle and other excise taxes.....	8,740,169	9,152,281	9,863,385	9,465,439
Penalties and interest on taxes.....	2,185,178	3,360,657	3,537,692	3,892,106
Grants and contributions not restricted to specific programs.....	45,286,984	46,897,842	37,288,365	35,367,054
Unrestricted investment income.....	8,405,541	7,742,338	3,845,110	1,263,014
Other revenues.....	7,012,889	7,866,292	6,413,562	12,008,623
Total revenues.....	<u>648,344,988</u>	<u>623,875,350</u>	<u>588,813,688</u>	<u>585,970,490</u>
Expenses:				
General government.....	48,467,529	37,430,911	37,313,464	36,388,335
Public safety.....	103,672,758	92,037,703	85,728,406	81,568,471
Education.....	420,017,056	397,224,731	362,864,927	353,161,885
Public works.....	34,956,415	42,335,873	39,852,304	35,625,891
Health and welfare.....	12,075,838	10,665,056	14,629,017	14,070,853
Culture and recreation.....	22,120,662	18,500,551	17,056,712	14,854,349
Finance Control Board expenses.....	2,178,191	1,648,086	2,017,262	871,757
Claims and judgements.....	642,918	566,750	532,192	-
Interest.....	15,314,660	14,415,119	16,128,784	14,413,659
Total expenses.....	<u>659,446,027</u>	<u>614,824,780</u>	<u>576,123,068</u>	<u>550,955,200</u>
Excess before transfers.....	(11,101,039)	9,050,570	12,690,620	35,015,290
Transfers.....	(2,688,359)	-	-	-
Change in net assets.....	\$ <u>(13,789,398)</u>	\$ <u>9,050,570</u>	\$ <u>12,690,620</u>	\$ <u>35,015,290</u>

Other financial notes related to governmental activities:

- Charges for services represent 4% of governmental activities resources. These charges have declined in the past two years relating mainly to former trash services which are now accounted for under the business-type activities and for the Springfield Water and Sewer Commission where the City no longer provides these services. The City can exercise more control over this category of revenue than any other. Fees charged for services rendered that are set by the City are included in this category.
- Operating and capital grants and contributions accounted for 62% of the governmental activities resources. Most of these resources apply to education operations. These resources offset costs within the school department in addition to their General Fund operating budget.
- Property taxes are a significant revenue source for the City's governmental activities. They comprised 23% of current resources.
- Other taxes and other revenues comprised a total of 11% of the governmental activity's resources. Other revenues consist mainly of grants and contributions and from investment income earned on the City's deposits.
- Education is by far the largest governmental activity of the City. Approximately \$420 million in expenses were recorded in FY08. After accounting for \$374 million in program revenues an additional \$46 million in taxes and other revenues were needed to cover its Fiscal 2008 operating expenses. Approximately \$37 million of a pension contribution made by the state on-behalf of Springfield teachers have been recorded as an expense and grant revenue.

- Public safety and public works are the third and fourth largest activities of the City. Approximately \$91 million and \$29 million, respectively, of taxes and other revenues were needed to cover their Fiscal 2008 operating expenses.

Business-type Activities. Business-type activities increased the City's net assets by \$747,000 during fiscal year 2008. These activities consist of the newly established Trash enterprise fund as of the beginning of the current year.

Trash business-type activities assets exceeded liabilities by \$747,000 at the close of fiscal year 2008. Capital assets net of related debt was \$19,000 which related to the acquisition of capital assets through capital lease financing. Unrestricted net assets amounted to \$728,000. The increase in net assets is the result of \$4.2 million of charges for services and a transfer in from the general fund of \$2.7 million. Operating and depreciation expenses amounted to \$6.1 million and \$72,000, respectively.

	<u>2008</u>
Assets:	
Current assets.....	\$ 1,331,230
Capital assets, net of accumulated depreciation.....	1,939,774
Total assets.....	<u>3,271,004</u>
Liabilities:	
Current liabilities (excluding debt).....	538,801
Non-current liabilities (excluding debt).....	64,500
Current debt.....	374,570
Noncurrent debt.....	1,545,719
Total liabilities.....	<u>2,523,590</u>
Net Assets:	
Capital assets net of related debt.....	19,485
Unrestricted.....	727,929
Total net assets.....	<u>\$ 747,414</u>
Program revenues:	
Charges for services.....	\$ 4,237,986
Total revenues.....	<u>4,237,986</u>
Expenses:	
Trash.....	6,178,931
Total expenses.....	<u>6,178,931</u>
Excess (Deficiency) before transfers.....	(1,940,945)
Transfers.....	<u>2,688,359</u>
Change in net assets.....	<u>\$ 747,414</u>

Capital Asset and Debt Administration

The City has been approved to receive school construction assistance through the Massachusetts School Building Authority (MSBA). The MSBA provides resources for eligible construction costs and related debt interest and borrowing costs. During fiscal year 2008, approximately \$21.9 million of such assistance was received. Approximately \$160 million is expected to be received in future fiscal years. Of this amount, \$45 million represents reimbursement of long-term interest costs, and \$115 million represents reimbursement of approved construction costs.

Major capital assets are funded by the issuance of long-term debt. During fiscal year 2007 the City issued \$53.6 million of long-term debt to be used for various projects including city-wide energy saving projects, schools renovation projects, various public safety building renovation and demolition projects, various recreational park renovations, road construction projects, and new financial accounting systems for the City. During FY2008 the City's spent and capitalized additions totaling approximately \$33 million on the projects listed above. The unspent bond proceeds remain in the capital projects funds for these on-going improvement projects.

Outstanding long-term debt of the general government, as of June 30, 2008, totaled approximately \$320 million, state loan advances totaled \$52 million, unamortized premiums totaled \$9 million, and guaranteed debt of \$3.1 million is to be reimbursed by the Springfield Water and Sewer Commission.

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

Requests for Information

This financial report is designed to provide a general overview of the City of Springfield's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer or the City Auditor at, 36 Court Street, Springfield, MA 01103.

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Basic Financial Statements

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STATEMENT OF NET ASSETS

JUNE 30, 2008

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 197,774,850	\$ 762,073	\$ 198,536,923
Restricted cash and cash equivalents.....	4,818,449	-	4,818,449
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	9,203,339	-	9,203,339
Tax liens.....	1,418,830	-	1,418,830
Motor vehicle excise taxes.....	2,064,316	-	2,064,316
Departmental and other.....	774,818	-	774,818
Trash fees.....	-	569,157	569,157
Intergovernmental.....	27,911,935	-	27,911,935
Loans.....	375,000	-	375,000
Working capital deposit.....	100,000	-	100,000
Due from Springfield Water and Sewer Commission.....	437,581	-	437,581
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	104,249,183	-	104,249,183
Loans.....	5,898,833	-	5,898,833
Due from Springfield Water and Sewer Commission.....	2,694,922	-	2,694,922
Capital assets, non depreciable.....	26,771,402	-	26,771,402
Capital assets, net of accumulated depreciation.....	504,225,964	1,939,774	506,165,738
TOTAL ASSETS.....	888,719,422	3,271,004	891,990,426
LIABILITIES			
CURRENT:			
Warrants payable.....	17,173,766	339,987	17,513,753
Accrued unemployment liability.....	756,000	-	756,000
Accrued payroll.....	3,023,538	-	3,023,538
Employee contributions paid in advance.....	1,748,969	-	1,748,969
Health claims payable.....	105,156	-	105,156
Tax refunds payable.....	12,850,448	-	12,850,448
Accrued interest.....	6,439,116	-	6,439,116
Other liabilities.....	1,768,571	-	1,768,571
Taxes collected in advance.....	159,444	198,814	358,258
Capital lease obligations.....	918,426	374,570	1,292,996
Landfill closure.....	750,000	-	750,000
Compensated absences.....	6,268,000	-	6,268,000
Workers' compensation.....	1,311,412	-	1,311,412
Due to granting agencies.....	4,818,449	-	4,818,449
Bonds and notes payable.....	29,312,612	-	29,312,612
NONCURRENT:			
Capital lease obligations.....	2,137,804	1,545,719	3,683,523
Due to granting agencies.....	5,913,551	-	5,913,551
Compensated absences.....	14,947,943	-	14,947,943
Workers' compensation.....	3,059,959	-	3,059,959
Landfill closure.....	4,137,582	-	4,137,582
Other post-employment benefits.....	20,742,466	64,500	20,806,966
Bonds and notes payable.....	356,631,431	-	356,631,431
TOTAL LIABILITIES.....	494,974,643	2,523,590	497,498,233
NET ASSETS			
Invested in capital assets, net of related debt.....	341,183,744	19,485	341,203,229
Restricted for:			
Chapter 656 Reserve.....	5,624,879	-	5,624,879
Loans.....	304,833	-	304,833
Permanent funds.....	1,629,236	-	1,629,236
Grants and gifts.....	4,618,635	-	4,618,635
Unrestricted.....	40,383,452	727,929	41,111,381
TOTAL NET ASSETS.....	\$ 393,744,779	\$ 747,414	\$ 394,492,193

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 48,467,529	\$ 5,174,271	\$ 12,968,091	\$ -	\$ (30,325,167)
Public safety.....	103,672,758	7,789,484	4,795,096	-	(91,088,178)
Education.....	420,017,056	9,545,159	361,621,425	2,444,542	(46,405,930)
Public works.....	34,956,415	854,745	31,597	5,140,592	(28,929,481)
Health and welfare.....	12,075,838	223,639	6,319,473	-	(5,532,726)
Culture and recreation.....	22,120,662	2,602,143	2,041,000	-	(17,477,519)
Finance Control Board.....	2,178,191	-	-	-	(2,178,191)
Claims and judgments.....	642,918	-	-	-	(642,918)
Interest.....	15,314,660	-	6,639,869	-	(8,674,791)
Total Governmental Activities.....	659,446,027	26,189,441	394,416,551	7,585,134	(231,254,901)
<i>Business-Type Activities:</i>					
Trash.....	6,178,931	4,237,986	-	-	(1,940,945)
Total Primary Government.....	\$ 665,624,958	\$ 30,427,427	\$ 394,416,551	\$ 7,585,134	\$ (233,195,846)

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES

FISCAL YEAR ENDED JUNE 30, 2008

	<i>Primary Government</i>		
	Governmental Activities	Business-Type Activities	Total
Changes in net assets:			
Net (expense) revenue from previous page.....	\$ (231,254,901)	\$ (1,940,945)	\$ (233,195,846)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	145,585,893	-	145,585,893
Tax liens.....	2,937,208	-	2,937,208
Motor vehicle and other excise taxes.....	7,779,625	-	7,779,625
Hotel/motel tax.....	960,544	-	960,544
Penalties and interest on taxes.....	2,185,178	-	2,185,178
Payments in lieu of taxes.....	6,936,565	-	6,936,565
Grants and contributions not restricted to specific programs.....	45,286,984	-	45,286,984
Unrestricted investment income.....	8,405,541	-	8,405,541
Miscellaneous.....	76,324	-	76,324
<i>Transfers, net</i>	(2,688,359)	2,688,359	-
Total general revenues.....	217,465,503	2,688,359	220,153,862
Change in net assets.....	(13,789,398)	747,414	(13,041,984)
<i>Net Assets:</i>			
Beginning of year.....	407,534,177	-	407,534,177
End of year.....	\$ 393,744,779	\$ 747,414	\$ 394,492,193

See notes to basic financial statements.

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2008

ASSET	General	Financial Reserve Stabilization	Capital Reserve Stabilization	Energy Services Stabilization	Self Insurance Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
Cash and cash equivalents.....	\$ 79,165,886	\$ 66,447,689	\$ -	\$ 755,233	\$ 844,334	\$ 44,490,769	\$ 191,703,911
Restricted cash and cash equivalents.....	-	-	-	-	-	4,818,449	4,818,449
Receivables, net of uncollectibles:							
Real estate and personal property taxes.....	9,203,339	-	-	-	-	-	9,203,339
Tax liens	1,418,830	-	-	-	-	-	1,418,830
Motor vehicle excise taxes.....	2,064,316	-	-	-	-	-	2,064,316
Departmental and other.....	93,050	-	-	-	-	681,768	774,818
Intergovernmental.....	118,019,117	-	-	-	-	14,142,001	132,161,118
Loans.....	-	-	-	-	-	6,273,833	6,273,833
Working capital deposit.....	100,000	-	-	-	-	-	100,000
TOTAL ASSETS.....	\$ 210,064,538	\$ 66,447,689	\$ -	\$ 755,233	\$ 844,334	\$ 70,406,820	\$ 348,518,614
LIABILITIES AND FUND BALANCES							
LIABILITIES:							
Warrants payable.....	\$ 11,051,609	\$ -	\$ -	\$ -	\$ -	\$ 5,989,269	\$ 17,040,878
Accrued unemployment liability.....	193,000	-	-	-	-	-	193,000
Accrued payroll.....	3,023,538	-	-	-	-	-	3,023,538
Tax refunds payable.....	12,850,448	-	-	-	-	-	12,850,448
Due to granting agencies.....	-	-	-	-	-	10,732,000	10,732,000
Other liabilities.....	1,448,452	-	-	-	-	124,119	1,572,571
Deferred revenues.....	124,094,590	-	-	-	-	3,871,252	127,965,842
Notes payable.....	-	-	-	-	-	2,100,000	2,100,000
TOTAL LIABILITIES.....	152,661,637	-	-	-	-	22,816,640	175,478,277
FUND BALANCES:							
Reserved for:							
Encumbrances and continuing appropriations.....	9,885,173	-	-	-	-	-	9,885,173
Chapter 656 Reserve.....	5,624,879	-	-	-	-	-	5,624,879
Unreserved:							
Designated for subsequent year's expenditures.....	2,215,000	-	-	-	-	-	2,215,000
Undesignated, reported in:							
General fund.....	39,677,849	-	-	-	-	-	39,677,849
Special revenue funds.....	-	66,447,689	-	755,233	844,334	18,528,924	86,576,180
Capital projects funds.....	-	-	-	-	-	27,432,020	27,432,020
Permanent funds.....	-	-	-	-	-	1,629,236	1,629,236
TOTAL FUND BALANCES.....	57,402,901	66,447,689	-	755,233	844,334	47,590,180	173,040,337
TOTAL LIABILITIES AND FUND BALANCES.....	\$ 210,064,538	\$ 66,447,689	\$ -	\$ 755,233	\$ 844,334	\$ 70,406,820	\$ 348,518,614

See notes to basic financial statements.

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

JUNE 30, 2008

Total governmental fund balances.....		\$ 173,040,337
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		530,997,366
Accounts receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.....		127,806,398
Internal service funds are used by management to account for health insurance and parts inventory.		
The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net assets.....		4,083,926
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(6,439,116)
The City's component unit is responsible for the payment of certain bonds and the City has recorded an amount due from them equal to the outstanding bonds.....		3,132,503
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds:		
Bonds and notes payable.....	(383,844,043)	
Capital lease obligations.....	(3,056,230)	
Landfill closure liability.....	(4,887,582)	
Accrued unemployment liability.....	(563,000)	
Workers compensation liability.....	(4,371,371)	
Compensated absences.....	(21,215,943)	
Other post-employment benefits.....	(20,742,466)	
Other long-term liabilities.....	(196,000)	
Net effect of reporting long-term liabilities.....		(438,876,635)
Net assets of governmental activities.....		\$ 393,744,779

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2008

	General	Financial Reserve Stabilization	Capital Reserve Stabilization	Energy Services Stabilization	Self Insurance Stabilization	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:							
Real estate and personal property taxes, net of tax refunds.....	\$ 142,947,339	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 142,947,339
Tax liens.....	4,472,030	-	-	-	-	-	4,472,030
Motor vehicle and other excise taxes.....	8,921,591	-	-	-	-	-	8,921,591
Hotel/motel tax.....	960,544	-	-	-	-	-	960,544
Charges for services.....	151,699	-	-	-	-	3,459,035	3,610,734
Penalties and interest on taxes.....	2,185,178	-	-	-	-	-	2,185,178
Payments in lieu of taxes.....	6,936,565	-	-	-	-	-	6,936,565
Licenses and permits.....	2,556,063	-	-	-	-	-	2,556,063
Fines and forfeitures.....	724,686	-	-	-	-	32,900	757,586
Intergovernmental.....	367,391,916	-	-	-	-	81,724,049	449,115,965
Departmental and other.....	13,756,968	-	-	-	-	5,155,247	18,912,215
Contributions.....	-	-	-	-	-	2,574,334	2,574,334
Investment income.....	4,591,041	3,486,995	-	53,233	1,244	170,224	8,302,737
TOTAL REVENUES.....	555,595,620	3,486,995	-	53,233	1,244	93,115,789	652,252,881
EXPENDITURES:							
Current:							
General government.....	27,598,458	-	-	-	-	22,024,644	49,623,102
Public safety.....	62,056,393	-	-	-	-	8,540,616	70,597,009
Education.....	331,895,269	-	-	-	-	65,640,533	397,535,802
Public works.....	16,622,864	-	-	-	-	12,690,607	29,313,471
Health and welfare.....	3,078,235	-	-	-	-	8,016,668	11,094,903
Culture and recreation.....	14,200,844	-	-	-	-	3,207,932	17,408,776
Finance Control Board Expenses.....	2,178,191	-	-	-	-	-	2,178,191
Pension benefits.....	21,685,459	-	-	-	-	-	21,685,459
Employee fringe benefits.....	1,604,431	-	-	-	-	-	1,604,431
Employee health benefits.....	26,400,181	-	-	-	-	-	26,400,181
Claims and judgments.....	642,918	-	-	-	-	-	642,918
State, county and district assessments.....	2,591,642	-	-	-	-	-	2,591,642
Debt service:							
Principal.....	20,477,383	-	-	-	-	-	20,477,383
Interest.....	16,445,028	-	-	-	-	-	16,445,028
TOTAL EXPENDITURES.....	547,477,296	-	-	-	-	120,121,000	667,598,296
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	8,118,324	3,486,995	-	53,233	1,244	(27,005,211)	(15,345,415)
OTHER FINANCING SOURCES (USES):							
State loan issuance.....	478,191	-	-	-	-	-	478,191
Capital lease financing.....	3,085,340	-	-	-	-	-	3,085,340
Transfers in.....	2,629,110	26,643,643	-	-	843,090	5,411,270	35,527,113
Transfers out.....	(30,160,539)	(1,000,000)	(3,194,186)	-	-	(3,860,747)	(38,215,472)
TOTAL OTHER FINANCING SOURCES (USES).....	(23,967,898)	25,643,643	(3,194,186)	-	843,090	1,550,523	875,172
NET CHANGE IN FUND BALANCES.....	(15,849,574)	29,130,638	(3,194,186)	53,233	844,334	(25,454,688)	(14,470,243)
FUND BALANCES AT BEGINNING OF YEAR.....	73,252,475	37,317,051	3,194,186	702,000	-	73,044,868	187,510,580
FUND BALANCES AT END OF YEAR.....	\$ 57,402,901	\$ 66,447,689	\$ -	\$ 755,233	\$ 844,334	\$ 47,590,180	\$ 173,040,337

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2008

Net change in fund balances - total governmental funds.....		\$ (14,470,243)
<p>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.</p>		
Capital outlay.....	32,980,139	
Depreciation expense.....	<u>(33,656,356)</u>	
Net effect of reporting capital assets.....		(676,217)
<p>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.....</p>		
		(2,630,934)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Proceeds from state loan issuance.....	(478,191)	
Capital lease financing.....	(3,085,340)	
Capital lease principal payments.....	947,739	
Amortization of bond premiums.....	922,198	
Debt service principal payments.....	20,477,383	
Other changes in long term debt.....	<u>(417,667)</u>	
Net effect of reporting long-term debt.....		18,366,122
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	(837,955)	
Net change in workers compensation accrual.....	1,214,898	
Net change in accrued interest on long-term debt.....	208,170	
Net change in unemployment liability accrual.....	899,000	
Net change in landfill accrual.....	256,176	
Net change in health claims payable accrual.....	1,513,000	
Court judgments.....	1,600,000	
Other post-employment benefits.....	(20,742,466)	
Net change in other liabilities.....	<u>(196,000)</u>	
Net effect of recording long-term liabilities.....		(16,085,177)
<p>Internal service funds are used by management to account for health insurance and workers' compensation activities.</p>		
The net activity of internal service funds is reported with Governmental Activities.....		<u>1,707,051</u>
Change in net assets of governmental activities.....		<u>\$ (13,789,398)</u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

JUNE 30, 2008

	<u>Business-type Activities- Trash</u>	<u>Governmental Activities - Internal Service Funds</u>
ASSETS		
CURRENT:		
Cash and cash equivalents.....	\$ 762,073	\$ 6,070,939
Receivables, net of allowance for uncollectibles:		
Trash fees.....	<u>569,157</u>	<u>-</u>
Total current assets.....	<u>1,331,230</u>	<u>6,070,939</u>
NONCURRENT:		
Capital assets, net of accumulated depreciation.....	<u>1,939,774</u>	<u>-</u>
TOTAL ASSETS.....	<u>3,271,004</u>	<u>6,070,939</u>
LIABILITIES		
CURRENT:		
Warrants payable.....	339,987	132,888
Unearned revenues.....	198,814	-
Capital lease obligations.....	374,570	-
Employee contributions paid in advance.....	-	1,748,969
Health claims payable.....	<u>-</u>	<u>105,156</u>
Total current liabilities.....	<u>913,371</u>	<u>1,987,013</u>
NONCURRENT:		
Capital lease obligations.....	1,545,719	-
Other post-employment benefits.....	<u>64,500</u>	<u>-</u>
Total noncurrent liabilities.....	1,610,219	-
TOTAL LIABILITIES.....	<u>2,523,590</u>	<u>1,987,013</u>
NET ASSETS		
Invested in capital assets, net of related debt.....	19,485	-
Unrestricted.....	<u>727,929</u>	<u>4,083,926</u>
TOTAL NET ASSETS.....	<u>\$ 747,414</u>	<u>\$ 4,083,926</u>

See notes to basic financial statements.

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

FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities- Trash	Governmental Activities - Internal Service Funds
OPERATING REVENUES:		
Employee contributions	\$ -	\$ 16,456,864
Employer contributions	-	52,318,399
Charges for services.....	4,237,986	-
TOTAL OPERATING REVENUES	4,237,986	68,775,263
OPERATING EXPENSES:		
Cost of services and administration	6,107,087	35,468
Depreciation.....	71,844	-
Employee benefits	-	67,135,548
TOTAL OPERATING EXPENSES	6,178,931	67,171,016
OPERATING INCOME.....	(1,940,945)	1,604,247
NONOPERATING REVENUES (EXPENSES):		
Investment income.....	-	102,804
NET INCOME (LOSS).....	(1,940,945)	1,707,051
TRANSFERS:		
Transfers in.....	2,688,359	-
CHANGE IN NET ASSETS.....	747,414	1,707,051
NET ASSETS AT BEGINNING OF YEAR.....	-	2,376,875
NET ASSETS AT END OF YEAR.....	\$ 747,414	\$ 4,083,926

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

FISCAL YEAR ENDED JUNE 30, 2008

	Business-type Activities- Trash	Governmental Activities - Internal Service Funds
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Receipts from customers and users.....	\$ 3,867,643	\$ 16,622,069
Receipts from interfund services provided.....	-	52,596,170
Payments to vendors.....	(4,452,001)	-
Payments to employees.....	(1,250,599)	-
Payments for interfund services used.....	-	(67,171,016)
NET CASH FROM OPERATING ACTIVITIES.....	(1,834,957)	2,047,223
<u>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</u>		
Transfers in.....	2,688,359	-
<u>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</u>		
Capital lease payments.....	(91,329)	-
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
Investment income.....	-	102,804
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	762,073	2,150,027
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	-	3,920,912
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	\$ 762,073	\$ 6,070,939
<u>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES:</u>		
Operating income.....	\$ (1,940,945)	\$ 1,604,247
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation.....	71,844	-
Changes in assets and liabilities:		
Trash fees.....	(569,157)	-
Departmental and other.....	-	280,615
Warrants payable.....	339,987	101,687
Unearned revenues.....	198,814	-
Other post-employment benefits.....	64,500	-
Employee contributions paid in advance.....	-	165,205
Health claims payable.....	-	(104,531)
Total adjustments.....	105,988	442,976
NET CASH FROM OPERATING ACTIVITIES.....	\$ (1,834,957)	\$ 2,047,223
<u>NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:</u>		
Acquisition of capital assets under capital lease obligations.....	\$ 2,011,618	-

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

	Pension Trust Fund (as of December 31, 2007)	Agency Funds
ASSETS		
Cash and cash equivalents.....	\$ 2,641,462	\$ 2,578,654
Investments.....	307,356,017	-
Receivables, net of allowance for uncollectibles:		
Departmental and other.....	2,631,858	-
TOTAL ASSETS	<u>312,629,337</u>	<u>2,578,654</u>
LIABILITIES		
Warrants payable.....	<u>588,848</u>	<u>2,578,654</u>
NET ASSETS		
Held in trust for pension plan participants.....	<u>\$ 312,040,489</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FISCAL YEAR ENDED JUNE 30, 2008

	Pension Trust Fund (year ended December 31, 2007)
<u>ADDITIONS:</u>	
Contributions:	
Employer.....	\$ 31,057,850
Plan members.....	10,840,021
Total contributions.....	41,897,871
Net investment income:	
Net change in fair value of investments.....	23,257,074
PRIT investment income.....	8,697,764
Total investment income.....	31,954,838
Less: investment expense.....	(1,676,430)
Net investment income.....	30,278,408
Intergovernmental.....	2,657,510
Transfers from other systems.....	1,124,413
TOTAL ADDITIONS.....	75,958,202
<u>DEDUCTIONS:</u>	
Administration.....	599,944
Transfers to other systems.....	1,651,946
Retirement benefits and refunds.....	53,638,595
TOTAL DEDUCTIONS.....	55,890,485
CHANGE IN NET ASSETS.....	20,067,717
NET ASSETS AT BEGINNING OF YEAR.....	291,972,772
NET ASSETS AT END OF YEAR.....	\$ 312,040,489

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

The City is a municipal corporation governed by its Massachusetts Plan A charter, by which voters elect a "strong" Mayor with broad powers to supervise City departments and to appoint their managers. A nine-member City Council, elected at large, serves as a representative legislature.

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

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

In the Fiduciary Funds:

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

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

Availability of Financial Information for Component Units

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

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

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

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

Fund Financial Statements

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

Major Fund Criteria

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

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

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

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

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment.

- Grants and contributions that are restricted to meeting the operational requirements of a particular function or segment.
- Grants and contributions that are restricted to meeting the capital requirements of a particular function or segment.

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

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. However, the effect of interfund services provided and used between functions is not eliminated as the elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

The City established four Stabilization Funds. These *stabilization funds* are special revenue and capital project funds used to account for the accumulation of resources to provide *Financial Reserves*, *Capital Reserves*, *Energy Services*, and non employee benefit related *Self Insurance Reserves*, and planning and development's ongoing and future operations.

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

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

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

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

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

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

The following proprietary fund is reported:

The *internal service fund* is used to account for the financing of services provided by one department to other departments or governmental units. This fund is used to account for risk financing activities related to the remaining self-insured dental and eye care services, the fully insured health care plan, and a motor pool for gas and auto supplies operated by the Department of Public Works.

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

The following fiduciary fund types are reported:

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

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

Government-Wide and Fund Financial Statements

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

D. Cash and Investments

Government-Wide and Fund Financial Statements

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

Restricted cash and cash equivalents

Restricted cash and cash equivalents in the amount of \$4,818,449 represents amounts collected on HUD Section 108 loans that are being repaid to the granting agency.

E. Accounts Receivable*Government-Wide and Fund Financial Statements*

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

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year of the levy.

Real estate tax liens are processed on delinquent properties and are recorded as receivables in the fiscal year they are processed. Real estate receivables that are secured via the tax lien process are considered more likely to be collected. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

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

Motor Vehicle Excise

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

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

Intergovernmental

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

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

Other

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

F. Inventories

Government-Wide and Fund Financial Statements

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

G. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

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

All purchases and construction costs in excess of \$15,000 are capitalized at the date of acquisition or construction with expected useful lives of greater than one year.

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Infrastructure.....	40-100
Buildings.....	40
Building improvements.....	20
Vehicles.....	5-10
Office equipment.....	5-10
Computer equipment.....	5-10

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

Governmental Fund Financial Statements

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

H. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

I. Interfund Transfers

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

J. Deferred Revenue

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

K. Net Assets and Fund Equity

Government-Wide Financial Statements (Net Assets)

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

Net assets reported as "invested in capital assets, net of related debt" includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of

capital related debt are not considered to be capital assets. Outstanding debt related to future reimbursements from the state's school building program is not considered to be capital related debt.

Net assets have been "restricted for" the following:

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

"Loans" represents the City's Community Development outstanding loans receivable balances, net of the amounts due back to granting agencies.

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

"Grants and gifts" represents amounts held for school and other grants, as well as gift funds.

Fund Financial Statements (Fund Balances)

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

Fund balances have been "reserved for" the following:

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

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

L. Long-term Debt

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

M. Investment Income

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

N. Compensated Absences

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

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Fund Financial Statements

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

O. Individual Fund Deficits

There are individual fund deficits with the special revenue and capital project funds at June 30, 2008. The deficits will be funded by grants and other available funds during fiscal year 2009.

P. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

Q. Total Column

Fund Financial Statements

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

NOTE 2 – DEPARTURES FROM GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

In fiscal year 2008 it was determined that the Springfield Water and Sewer Commission, the Springfield Redevelopment Authority, the Massachusetts Career Development Institute, Inc., and the Springfield Museums Association met the required GASB 39 criteria of component units of the City; however because audited financial statements for these entities are not available for inclusion as of the date of this report, these entities have not been included with the City's basic financial statements. These entities should be included in order to conform to generally accepted accounting principles.

NOTE 3 – FINANCE CONTROL BOARD

On July 9, 2004, the Massachusetts legislature enacted Chapter 169 of the Acts of 2004 entitled "An Act Relative To The Financial Stability of Springfield." Under Chapter 169, there is an established Finance Control Board (FCB) vested with comprehensive authority over all of the City's finances, including appropriations, borrowings,

transfers of funds, and municipal spending authorizations. Chapter 169 also established a \$52 million trust fund subject to the control of the Commonwealth's Secretary of Administration and Finance ("the Secretary") from which interest-free loans may be disbursed to the City from time to time on terms and conditions determined by the FCB and approved by the Secretary. For fiscal years 2005 through fiscal year 2007, the City relied upon loans from the trust fund to offset its budgetary deficits. At June 30, 2008 the City has drawn down the \$52 million from the trust fund to be used as a funding source to balance its budget through fiscal year 2008. In January 2009, new legislation was enacted (Chapter 458) that extended the loan repayment period from 12 years to 15 years beginning in fiscal year 2008.

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

The Finance Control Board is expected to be dissolved on June 30, 2009 and responsibility for the City's operations will revert back to the Mayor and the City Council under the new legislative guidance set forth in Chapter 458 of the Acts of 2009.

NOTE 4 – CASH AND INVESTMENTS

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

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

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

The System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At fiscal year-end, the carrying amount of deposits totaled \$15,232,142 and the bank balance totaled \$29,832,284. Of the bank balance, \$300,000 was covered by Federal Depository Insurance and \$29,532,284 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2007, the carrying amount of deposits for the Retirement System was covered by Federal Depository Insurance.

Investments

As of June 30, 2008, the City had the following investments:

Investment Type	Fair Value	Maturity Under 1 Year
<u>Debt Securities</u>		
Repurchase Agreements.....	\$ 1,005,586	\$ <u>1,005,586</u>
<u>Other Investments</u>		
Money Market Mutual Funds.....	5,976,479	
MMDT.....	<u>183,719,819</u>	
Total Investments.....	<u>\$ 190,701,884</u>	

As of December 31, 2007, the Retirement System had the following investments and maturities:

<u>Other Investments</u>		
Alternative Investments.....	\$ 6,590,758	
Pension Reserve Investment Trust (PRIT).....	<u>300,765,259</u>	(1)
Total Investments.....	<u>\$ 307,356,017</u>	

(1) Subsequent to fiscal year end the market value of the PRIT investment declined by approximately (\$89,000,000). Please refer to Note 5 for further information on this matter.

Custodial Credit Risk – Investments

For investments, this is the risk that, in the event of a failure by the counterparty, the City will not be able to recover the value of its investments or collateral security that are in the possession of an outside party

The City does not have an investment policy for custodial credit risk.

Of the Retirement System's total investments of \$307,356,017 there was custodial credit risk exposure of \$6,590,758 in alternative investments because the related securities are uninsured, unregistered and held by the counterparty.

Investment Rate Risk

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

Credit Risk

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

Concentration Credit Risk

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

NOTE 5 – SUBSEQUENT EVENT

The Retirement System carries its investments at fair (market) value in accordance with Generally Accepted Accounting Principles (GAAP). Market value adjustments are recorded monthly. Subsequent to fiscal year end the System's investment of \$300,765,017 in the Pension Reserves Investment Trust (PRIT), as determined by PRIT, has declined in value by approximately (\$89) million. The market value decline is consistent with recent trends in the overall financial securities markets.

In accordance with GAAP, the System has not recorded the losses in its financial statements as the impairments were not known as of December 31, 2007. The System has recorded the losses associated with the investment during calendar year 2008.

NOTE 6 – RECEIVABLES

At June 30, 2008, receivables for the individual major and non-major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 15,405,779	\$ (6,202,440)	\$ 9,203,339
Tax liens.....	5,675,321	(4,256,491)	1,418,830
Motor vehicle and other excise taxes.....	7,303,708	(5,239,392)	2,064,316
Departmental and other	774,818	-	774,818
Intergovernmental.....	132,161,118	-	132,161,118
Loans.....	6,273,833	-	6,273,833
Total.....	<u>\$ 167,594,577</u>	<u>\$ (15,698,323)</u>	<u>\$ 151,896,254</u>

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of *deferred revenue* reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable type:</u>			
Real estate and personal property taxes.....	\$ 5,996,266	\$ -	\$ 5,996,266
Tax Liens.....	1,418,830	-	1,418,830
Motor vehicle excise.....	2,064,316	-	2,064,316
Departmental and other.....	93,050	681,768	774,818
Intergovernmental.....	114,522,128	2,884,651	117,406,779
Loans.....	-	304,833	304,833
	<u> </u>	<u> </u>	<u> </u>
Total.....	<u>\$ 124,094,590</u>	<u>\$ 3,871,252</u>	<u>\$ 127,965,842</u>

NOTE 7 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 26,491,402	\$ 280,000	\$ -	\$ 26,771,402
<u>Capital assets being depreciated:</u>				
Land improvements.....	37,928,080	15,049,985	-	52,978,065
Buildings and improvements.....	356,662,416	5,589,420	-	362,251,836
Machinery and equipment.....	86,013,276	7,408,994	-	93,422,270
Infrastructure.....	418,934,739	4,651,740	(2,228,144)	421,358,335
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total capital assets being depreciated.....	<u>899,538,511</u>	<u>32,700,139</u>	<u>(2,228,144)</u>	<u>930,010,506</u>
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(9,500,713)	(1,549,930)	-	(11,050,643)
Buildings and improvements.....	(92,980,907)	(12,041,563)	-	(105,022,470)
Machinery and equipment.....	(60,625,130)	(11,263,741)	-	(71,888,871)
Infrastructure.....	(231,249,580)	(8,801,122)	2,228,144	(237,822,558)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total accumulated depreciation.....	<u>(394,356,330)</u>	<u>(33,656,356)</u>	<u>2,228,144</u>	<u>(425,784,542)</u>
Total capital assets being depreciated, net.....	<u>505,182,181</u>	<u>(956,217)</u>	<u>-</u>	<u>504,225,964</u>
Total governmental activities capital assets, net.....	<u>\$ 531,673,583</u>	<u>\$ (676,217)</u>	<u>\$ -</u>	<u>\$ 530,997,366</u>

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
<u>Capital assets being depreciated:</u>				
Machinery and equipment.....	\$ -	\$ 2,011,618	\$ -	\$ 2,011,618
<u>Less accumulated depreciation for:</u>				
Machinery and equipment.....	-	(71,844)	-	(71,844)
Total business-type activities capital assets, net.....	\$ -	\$ 1,939,774	\$ -	\$ 1,939,774

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

	2008
Governmental Activities:	
General government.....	\$ 2,073,870
Public safety.....	2,728,402
Education.....	16,113,144
Public works.....	10,527,089
Human services.....	11,144
Culture and recreation.....	2,202,707
Total depreciation expense - governmental activities.....	\$ 33,656,356
Business-Type Activities:	
Trash.....	\$ 71,844

NOTE 8 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2008, are summarized as follows:

Transfers Out	Transfers In					Total
	General Fund	Financial Reserve Stabilization	Self Insurance Stabilization	Nonmajor Governmental Funds	Trash Enterprise Fund	
General Fund.....	\$ -	\$ 26,629,090	\$ 843,090	\$ -	\$ 2,688,359	\$ 30,160,539 (1)
Financial Reserve Stabilization.....	-	-	-	1,000,000	-	1,000,000 (2)
Capital Reserve Stabilization.....	-	14,553	-	3,179,633	-	3,194,186 (2)
Nonmajor Governmental Funds.....	2,629,110	-	-	1,231,637	-	3,860,747 (3)
Total.....	\$ 2,629,110	\$ 26,643,643	\$ 843,090	\$ 5,411,270	\$ 2,688,359	\$ 38,215,472

- (1) Represents budgeted transfers from the general fund to the Financial Reserve Stabilization Fund, to the Self Insurance Stabilization Fund and to the Trash Enterprise Funds for operations.
- (2) Represents budgeted transfers from the Stabilization Funds to nonmajor capital project funds.
- (3) Represents transfers from a nonmajor special revenue fund to the general fund and various transfers between capital project funds.

NOTE 9 – LEASESCapital Leases

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

The following identifies the assets acquired through capital lease agreements:

<u>Asset description:</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Machinery and equipment.....	\$ 10,007,489	\$ 2,011,618
Less: accumulated depreciation.....	<u>(6,886,417)</u>	<u>(71,844)</u>
Total.....	<u>\$ 3,121,071</u>	<u>\$ 1,939,774</u>

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

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
2009.....	\$ 1,074,050	\$ 444,564
2010.....	579,279	444,564
2011.....	579,279	444,564
2012.....	579,279	444,564
2013.....	<u>579,279</u>	<u>333,423</u>
Total minimum lease payments.....	3,391,166	2,111,679
Less: amounts representing interest.....	<u>(334,936)</u>	<u>(191,390)</u>
Present value of minimum lease payments.....	<u>\$ 3,056,230</u>	<u>\$ 1,920,289</u>

Operating Leases

The City leases office equipment, vehicles, and various facilities utilized primarily by the school system, the department of public works, and the animal control center under noncancelable operating leases that expire on various dates through fiscal year 2028. The cost of the leases for the fiscal year ended June 30, 2008, totaled approximately \$1,575,000, and is reported as educational, public works, and general governmental expenditures in the general fund and special revenue funds.

The future minimum lease payments are as follows:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2009.....	\$ 1,715,557
2010.....	786,610
2011.....	638,796
2012.....	465,833
2013.....	425,600
2014 to 2018.....	2,265,256
2019 to 2023.....	2,829,354
2024 to 2028.....	<u>2,636,791</u>
	<u>\$ 11,763,796</u>

NOTE 10 – SHORT-TERM FINANCING

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

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

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

Details related to the short-term debt activity for the fiscal year ended June 30, 2008, is as follows:

<u>Type</u>	<u>Purpose</u>	<u>Rate (%)</u>	<u>Due Date</u>	<u>Balance at June 30, 2007</u>	<u>Renewed/ Issued</u>	<u>Retired/ Redeemed</u>	<u>Balance at June 30, 2008</u>
BAN	Various public building projects.....	2.50%	10/30/08	\$ -	\$ <u>2,100,000</u>	\$ -	\$ <u>2,100,000</u>

On the scheduled maturity date the City renewed the BAN in its entirety. The new BAN matures on April 30, 2009 at an interest rate of 3.25%.

NOTE 11 – LONG-TERM DEBT

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

Details related to the outstanding indebtedness at June 30, 2008, and the debt service requirements are as follows:

Bonds and Notes Payable Schedule – Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2007	Issued	Redeemed	Outstanding at June 30, 2008
State Qualified Bonds Dated August 15, 1996.....	4.55 - 6.375	\$ 8,230,000	\$ -	\$ 1,980,000	\$ 6,250,000
State Qualified Bonds Dated October 1, 1997.....	4.50 - 5.65	2,795,000	-	2,795,000	-
State Qualified Bonds Dated November 15, 1998.....	3.55 - 5.0	5,510,000	-	2,700,000	2,810,000
State Qualified Bonds Dated December 1, 1999.....	4.5 - 5.0	6,515,000	-	2,065,000	4,450,000
State Qualified Bonds Dated August 1, 2001.....	3.50 - 5.0	19,200,000	-	2,350,000	16,850,000
Qualified Zone Academy Bonds Dated July 25, 2002.....	1.28	5,000,000	-	500,000	4,500,000
State Qualified Refunding Bonds Dated February 15, 2003.....	2.0 - 5.0	21,310,348	-	3,309,716	18,000,632
State Qualified Refunding Bonds Dated July 7, 2005.....	3.0 - 5.25	98,230,000	-	900,000	97,330,000
State Qualified New Money Bonds Dated July 7, 2005.....	3.0 - 5.25	47,345,000	-	1,945,000	45,400,000
State Qualified New Money Bonds Dated February 7, 2007.....	4.5 - 5.75	51,805,000	-	1,480,000	50,325,000
State Qualified Refunding Bonds Dated February 7, 2007.....	4.5 - 5.75	73,795,000	-	34,999	73,760,001
Total General Obligation Bonds.....		339,735,348	-	20,059,715	319,675,633
State Loan.....	0.00	51,521,809	478,191	-	52,000,000
Total face value of bonds and loans.....		391,257,157	478,191	20,059,715	371,675,633
Unamortized Premiums on Bonds.....		9,958,105	-	922,198	9,035,907
Total Long Term Debt.....		\$ 401,215,262	\$ 478,191	\$ 20,981,913	\$ 380,711,540

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

Year	Principal	Interest	Total
2009.....	\$ 25,832,102	\$ 15,188,252	\$ 41,020,354
2010.....	26,295,800	14,236,163	40,531,963
2011.....	27,380,555	13,200,961	40,581,516
2012.....	27,557,165	12,122,048	39,679,213
2013.....	28,676,011	10,967,500	39,643,511
2014.....	29,905,000	9,635,810	39,540,810
2015.....	29,995,001	8,319,361	38,314,362
2016.....	28,809,995	7,033,692	35,843,687
2017.....	27,315,000	5,870,893	33,185,893
2018.....	24,315,000	4,823,442	29,138,442
2019.....	25,219,999	3,819,067	29,039,066
2020.....	17,450,000	2,870,817	20,320,817
2021.....	17,494,999	2,034,902	19,529,901
2022.....	14,959,999	1,288,913	16,248,912
2023.....	10,744,007	694,450	11,438,457
2024.....	4,075,000	349,531	4,424,531
2025.....	1,830,000	213,075	2,043,075
2026.....	1,885,000	129,488	2,014,488
2027.....	1,935,000	43,538	1,978,538
Total.....	\$ <u>371,675,633</u>	\$ <u>112,841,903</u>	\$ <u>484,517,536</u>

Guaranteed Loans

The City issued debt through general obligation bonds and the Massachusetts Water Pollution Abatement Trust (MWPAT) on behalf of the Water and Sewer Commission, a separate reporting entity. At the time of its creation, the Water and Sewer Commission assumed this debt and is responsible for reimbursing the City for the debt service payments. The City has recorded a corresponding asset of due from the Springfield Water and Sewer Commission to offset the liability. As of June 30, 2008, the following amounts are included in long-term debt of the City:

	Interest Rate (%)	Outstanding at June 30, 2007	Issued	Redeemed	Outstanding at June 30, 2008
August 1, 2001 MWPAT 91-59.....	5.0 - 6.13	\$ 790,879	\$ -	\$ 80,610	\$ 710,269
August 1, 2001 Phase 1 MWPAT 94-24.....	5.0 - 6.13	1,979,640	-	201,775	1,777,865
State Qualified New Money Bonds Dated February 15, 2003.....	2.0 - 5.0	779,652	-	135,283	644,369
Total Guaranteed Loans.....		\$ <u>3,550,171</u>	\$ <u>-</u>	\$ <u>417,668</u>	\$ <u>3,132,503</u>

School Building Assistance

The City has been approved to receive school construction assistance through the Massachusetts School Building Authority (MSBA). The MSBA provides resources for eligible construction costs and related debt interest and borrowing costs. During fiscal year 2008, approximately \$21.9 million of such assistance was received.

Approximately \$160 million is expected to be received in future fiscal years. Of this amount, \$45 million represents reimbursement of long-term interest costs, and \$115 million represents reimbursement of approved construction costs. Accordingly, a \$115 million intergovernmental receivable and corresponding deferred revenue have been reported in governmental fund financial statements. The deferred revenue for the entire grant has been recognized as revenue in the conversion to the government-wide financial statements for prior fiscal years.

Advance Refunding and Defeased Bonds

In prior fiscal years certain general obligation bonds were defeased by placing the proceeds of bonds in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account's assets and liabilities for the defeased bonds are not included in the financial statements. At June 30, 2008, \$141,255,000 of the bonds refunded remain outstanding and are considered defeased.

Authorized and Unissued Debt

The City is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2008, the City has \$11 million of authorized and unissued debt for various City-wide projects.

Changes in Long-term Liabilities

During the fiscal year ended June 30, 2008, the following changes occurred in long-term liabilities:

	Balance June 30, 2007	Bonds and Notes Issued	Bonds and Notes Redeemed	Other Increases (Decreases)	Balance June 30, 2008	Current Amount Due
<u>Governmental Activities:</u>						
Long-Term Bonds and Notes.....	\$ 391,257,157	\$ 478,191	\$ (20,059,715)	\$ -	\$ 371,675,633	\$ 25,832,102
Capital Lease Obligations.....	918,629	-	-	2,137,601	3,056,230	918,426
Guaranteed Loans.....	3,550,171	-	(417,668)	-	3,132,503	437,581
Unamortized Bond Premium.....	9,958,105	-	(922,198)	-	9,035,907	942,929
Compensated Absences.....	20,377,988	-	-	837,955	21,215,943	6,268,000
Workers' Compensation.....	5,586,269	-	-	-	5,586,269	1,311,412
Due to Granting Agencies.....	11,357,000	-	-	-	11,357,000	4,818,449
Court Judgments.....	1,600,000	-	-	(1,600,000)	-	-
Landfill Closure.....	5,143,758	-	-	(256,176)	4,887,582	750,000
Other Post-employment Benefits.....	-	-	-	20,742,466	20,742,466	-
Total governmental activity long-term liabilities.....	<u>449,749,077</u>	<u>478,191</u>	<u>(21,399,581)</u>	<u>21,861,846</u>	<u>450,689,533</u>	<u>41,278,899</u>
<u>Business-Type Activities:</u>						
Capital Lease Obligations.....	-	-	-	1,920,289	1,920,289	354,750
Other Post-employment Benefits.....	-	-	-	64,500	64,500	-
Total business-type activity long-term liabilities.....	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,984,789</u>	<u>1,984,789</u>	<u>354,750</u>
Total.....	<u>\$ 449,749,077</u>	<u>\$ 478,191</u>	<u>\$ (21,399,581)</u>	<u>\$ 23,846,635</u>	<u>\$ 452,674,322</u>	<u>\$ 41,633,649</u>

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

NOTE 12 - LANDFILL CLOSURE AND POST CLOSURE CARE

State and federal laws and regulations require the City to construct a final capping system on the Bondi Island and Amory Street landfill sites as it stops accepting waste and to perform certain maintenance and monitoring functions at the sites after closure. The City closed various portions of the landfills beginning in 1992 and is currently implementing a closure and post closure care plan. To date, the City has expended approximately \$6,620,000 and has reflected \$4,888,000 as the estimate of the remaining liability at June 30, 2008. This amount is based upon estimates of what it would cost the City to perform all closure and post closure care as of June 30, 2008. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

NOTE 13 – RISK FINANCING

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

The City established a Self Insured Stabilization fund to set aside amounts to be used by the law department to settle certain claims and judgments issues as they arise.

The City is self-insured for its dental and eye care insurance, workers' compensation insurance, and unemployment insurance activities. In January 2007 the City began purchasing fully insured health insurance through the Commonwealth's Group Insurance Commission (GIC). These fully insured health insurance activities are accounted for in the internal service fund where revenues are recorded when earned and expenses are recorded when the liability is incurred. The City contracts out the administration of the dental and eye care and the workers' compensation activities. The unemployment claims are administered by the City. Claims are funded on a pay-as-you-go basis from annual appropriations.

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

(a) Dental and Eye Care Insurance

The estimate of Incurred But Not Reported (IBNR) claims based on an estimate of claims incurred but unpaid at year end. At June 30, 2008, the liability for dental and eye care insurance claims totaled approximately \$105,000. This liability is the best estimate based on available information. Changes in the reported liability since July 1, 2006, are as follows:

	Balance at Beginning of Fiscal Year		Current Year Claims and Changes in Estimate		Claim Payments		Balance at Fiscal Year-End Currently Due
Fiscal Year 2007.....	\$ 5,807,994	\$	30,196,922	\$	(35,795,229)	\$	209,687
Fiscal Year 2008.....	209,687		2,629,529		(2,734,060)		105,156

(b) *Workers' Compensation*

The estimated future workers' compensation liability is based on history and injury type. At June 30, 2008, the amount of the estimated liability for workers' compensation claims totaled approximately \$4.4 million. Changes in the reported liability since July 1, 2005 are as follows:

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claim Payments	Balance at Fiscal Year-End	Current Portion
Fiscal Year 2007.....	\$ 6,334,995	\$ 4,160,748	\$ (4,909,474)	\$ 5,586,269	\$ 1,675,100
Fiscal Year 2008.....	5,586,269	2,712,681	(3,927,579)	4,371,371	1,311,412

The liability for unemployment claims at June 30, 2008 is based on known claims reported to the Massachusetts Division of Unemployment Assistance and the future liability at year end was estimated to be approximately \$756,000.

NOTE 14 – PENSION PLAN

Plan Description - The City contributes to the System, a multi-employer defined benefit pension plan administered by the Springfield Contributory Retirement System (System). Substantially all employees are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System, to which the City does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled \$36,999,858 for the fiscal year ended June 30, 2008, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

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

At December 31, 2007, the System's membership consists of the following:

Active members.....	3,793
Inactive members.....	992
Disabled members.....	449
Retirees and beneficiaries currently receiving benefits.....	<u>2,530</u>
Total.....	<u><u>7,764</u></u>

Funding Policy - Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative

expenses are funded through investment earnings. Chapter 32 of the MGL governs the contributions of plan members and the City.

Annual Pension Cost - The City contributions to the System for the fiscal years ended June 30, 2008, 2007, and 2006 were \$26,987,363, \$23,657,210, and \$22,003,249, respectively, which equaled its required contribution for each fiscal year. At June 30, 2008, the City did not have a net pension obligation. The required contribution was determined as part of the January 1, 2005 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included an 8.5% investment rate of return and projected salary increases of 4.0% per year. The actuarial value of the System's assets was determined using the fair value of the assets. The System's unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at January 1, 2008, was 20 years with payments increasing at 4.0% per year.

**Schedule of Funding Progress
(Dollar amounts in thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/08	\$ 296,522	699,026	\$ 402,504	42.4%	\$ 126,478	318.2%
1/1/05	276,286	649,023	372,737	42.6%	115,383	323.0%
1/1/04	291,017	615,605	324,588	47.3%	109,937	295.2%
1/1/03	266,402	573,138	306,736	46.5%	113,848	269.4%
1/1/02	268,001	570,958	302,957	46.9%	137,353	220.6%
1/1/01	291,264	539,502	248,238	54.0%	131,363	189.0%
1/1/00	292,172	515,716	223,544	56.7%	126,095	177.3%
1/1/99	266,826	490,551	223,725	54.4%	110,832	201.9%
1/1/98	237,262	439,441	202,179	54.0%	104,251	193.9%
1/1/94	164,561	298,111	133,550	55.2%	89,978	148.4%
1/1/93	151,322	289,821	138,499	52.2%	81,489	170.0%
1/1/92	142,305	282,780	140,475	50.3%	81,980	171.4%
1/1/90	114,439	260,553	146,114	43.9%	75,169	194.4%

Noncontributory Retirement Allowance - The City pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2008 totaled approximately \$491,000.

NOTE 15 – POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Fiscal year 2008 is the initial year that the City has implemented GASB Statement 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other than Pensions* (GASB 45). As allowed by GASB 45, the City has established the net Other Post Employment Benefit (OPEB) obligation at zero at the beginning of the transition year and has applied the measurement and recognition requirements of GASB 45 on a prospective basis.

Plan Description –The City maintains a single employer defined benefit healthcare plan. The plan provides lifetime medical, dental, and vision benefits for eligible retirees and their spouses. Chapter 32B of the MGL

assigns authority to establish and amend benefit provisions of the Plan. The plan provides the benefits by participating in Commonwealth of Massachusetts' Group Insurance Commission (GIC). Medical, prescription drugs, dental, and vision benefits are provided to all eligible retirees through a variety of plans offered by the GIC. Benefit provisions are negotiated between the City and the unions representing City employees and are renegotiated each bargaining period.

At June 30, 2008, the Plan's membership consisted of the following:

Current retirees, beneficiaries, and dependents.....	4,917
Current active members.....	<u>4,179</u>
Total	<u><u>9,096</u></u>

Funding Policy—Contributions requirements are also negotiated between the City and union representatives. Retired plan members and beneficiaries currently receiving benefits are required to contribute 25% of the cost of benefits provided depending on the plan they choose. There is also a relatively small group of retirees that are required to contribute between 13%, increasing to 25% in the year 2014. For the year ended June 30, 2008, plan members contributed approximately \$6,403,000 (including approximately \$1.5 million of negotiated funds provided by the City) through their required contributions. The City is required to contribute the balance of the current premiums and may contribute additional amounts to pre-fund benefits. The City contributed approximately \$21,023,000 during fiscal year 2008 towards these benefits. Administrative costs of the Plan are assumed to be included in the fully insured premium rates.

Annual OPEB Costs and Net OPEB Obligation – The City's annual other post employment benefit (OPEB) cost/expense is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligations are summarized in the following table:

Normal Cost.....	\$ 19,824,206
Amortization of unfunded actuarial accrued liability.....	<u>22,005,835</u>
Annual OPEB cost/expense.....	41,830,041
Contributions made.....	<u>(21,023,075)</u>
Increase/(Decrease) in net OPEB obligation.....	20,806,966
Net OPEB obligation - beginning of year.....	<u>-</u>
Net OPEB obligation - end of year.....	<u><u>\$ 20,806,966</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the year is as follows:

<u>Fiscal Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/2008	\$ 41,830,041	50.3%	\$ 20,806,966

Funded Status and Funding Progress — The funded status of the Plan as of the most recent actuarial valuation date, June 30, 2008, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (A)</u>	<u>Actuarial Accrued Liability (AAL) (B)</u>	<u>Unfunded AAL (UAAL) (B-A)</u>	<u>Funded Ratio (A/B)</u>	<u>Covered Payroll (C)</u>	<u>UAAL as a Percentage of Covered Payroll ((B-A)/C)</u>
6/30/2008	\$ -	\$ 761,576,067	\$ 761,576,067	0.00%	\$ 299,998,526	253.86%

Actual valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the basic financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effect of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following additional information is provided as of the latest actuarial valuation:

Valuation date.....	June 30, 2008
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortization payments increasing at 4.50%
Remaining amortization period.....	29 years as of July 1, 2008, closed
Actuarial Assumptions:	
Investment rate of return.....	3.50%, pay-as-you-go scenario
Inflation rate.....	3.2%
Projected salary increases.....	4.0%
Medical/drug cost trend rate.....	9.02% decreasing to 5.0% in year 2016 and thereafter

NOTE 16 – COMMITMENTS

Museum Services Agreement

With the approval of Special Legislation (Chapter 54 of the Acts of 2008) in March of 2008, the City entered into an agreement with the Springfield Museums Association (SMA) where the City has agreed to pay SMA \$1,320,000 per year for a minimum of 25 years. SMA has agreed to provide certain museum services to residents and visitors of the City and to transfer its branch libraries and their contents to the City under individual lease agreements. The 4 branch libraries and their respective contents are being leased to the City for the same 25 year term for the sum of \$1 each per year. The City can extend this agreement with successive 5 year options at terms to be mutually agreed upon.

Waste Services Agreement

In August 1998, the City of Springfield and 6 other communities entered into nearly identical "Service Agreements" with what is now eco/Springfield, LLC, a company that owns and operates 240 ton per day waste-to-energy facility located on Bondi's Island, Agawam, Massachusetts. Under the Service Agreement, the City has agreed to deliver for disposal at the facility, in each year for a period of 25 years, specified quantities of solid waste and to pay a specified monthly service fee. The City's obligation to pay the monthly service fee is absolute and unconditional and is payable whether or not it receives solid waste disposal services from the facility. For the fiscal year ending June 30, 2008, the City's costs under the Service Agreement were approximately \$3.9 million.

NOTE 17 – CONTINGENCIES

Litigation

Various lawsuits, claims and proceedings have been or may be instituted or asserted against the City of Springfield, including those pertaining to water and sewer breaks, motor vehicle accidents, eminent domain cases, premise liability cases, civil rights/discrimination cases, and labor and employment case matters. While the amounts claimed may be substantial, the ultimate liability cannot be determined because of the considerable uncertainties that exist. Therefore, it is possible that there could be material negative outcomes affected by certain contingencies existing as of June 30, 2008. However, management believes that the disposition of matters that are pending or asserted will not have a materially adverse affect on the financial statements.

Federal Grants

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2007, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

NOTE 18 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2008, the following GASB pronouncements were implemented:

- The GASB issued Statement #45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is required to be implemented in fiscal year 2008. This pronouncement has required additional disclosures and has impacted the basic financial statements.
- The GASB issued Statement #50, *Pension Disclosures—an amendment of GASB Statements No. 25 and No. 27*, which is required to be implemented in fiscal year 2008. This GASB did not change the disclosures related to pensions.
- The GASB issued Statement #52, *Land and Other Real Estate Held as Investments by Endowments*, which is required to be implemented in fiscal year 2009. The standards in this statement require all investments in land and real estate in permanent and similar funds to be reported at fair value. Management elected to implement this standard early and this standard did not impact the basic financial statements.
- The GASB issue Statement #53, *Accounting and Financial Reporting for Derivative Instruments*, which is required to be implemented in fiscal year 2010. The standards requires governments to measure most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. Management elected to implement this standard early and this standard did not impact the basic financial statements.

Required Supplementary Information

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

FISCAL YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 144,222,234	\$ 144,222,234	\$ 144,389,339	\$ -	\$ 167,105
Tax liens.....	-	-	4,472,030	-	4,472,030
Motor vehicle and other excise taxes.....	8,500,000	8,500,000	8,921,591	-	421,591
Hotel/motel tax.....	900,000	900,000	960,544	-	60,544
Charges for services.....	205,442	205,442	151,699	-	(53,743)
Penalties and interest on taxes.....	2,521,109	2,521,109	2,185,178	-	(335,931)
Payments in lieu of taxes.....	7,033,036	7,033,036	6,936,565	-	(96,471)
Licenses and permits.....	1,284,023	1,284,023	2,556,063	-	1,272,040
Fines and forfeitures.....	433,843	433,843	724,686	-	290,843
Intergovernmental.....	327,078,910	327,078,910	330,392,058	-	3,313,148
Departmental and other.....	15,910,899	15,910,899	13,760,708	-	(2,150,191)
Investment income.....	2,600,000	2,600,000	4,591,041	-	1,991,041
TOTAL REVENUES.....	510,689,496	510,689,496	520,041,502	-	9,352,006
EXPENDITURES:					
Current:					
General government.....	28,840,327	29,505,938	27,020,347	1,257,405	1,228,186
Public safety.....	62,090,060	62,410,060	61,802,852	229,833	377,375
Education.....	298,589,547	302,199,072	294,230,492	5,038,677	2,929,903
Public works.....	14,536,418	14,651,418	13,907,765	476,379	267,274
Health and welfare.....	3,218,776	3,218,776	2,853,993	40,599	324,184
Culture and recreation.....	14,738,352	14,738,352	14,200,844	242,280	295,228
Finance Control Board Expenses.....	2,178,191	2,178,191	2,178,191	-	-
Pension benefits.....	21,777,366	21,777,366	21,685,459	-	91,907
Employee fringe benefits.....	1,773,164	1,773,164	1,648,584	-	124,580
Employee health benefits.....	26,399,265	27,079,265	26,400,181	-	679,084
Claims and judgments.....	916,880	916,880	642,918	-	273,962
State, county and district assessments.....	2,908,793	2,908,793	2,591,642	-	317,151
Debt service:					
Principal.....	20,699,954	23,299,954	20,477,383	2,600,000	222,571
Interest.....	16,445,028	16,445,028	16,445,028	-	-
TOTAL EXPENDITURES.....	515,112,121	523,102,257	506,085,679	9,885,173	7,131,405
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(4,422,625)	(12,412,761)	13,955,823	(9,885,173)	16,483,411
OTHER FINANCING SOURCES (USES):					
State loan issuance.....	-	-	478,191	-	478,191
Transfers in.....	2,629,110	2,629,110	2,629,110	-	-
Transfers out.....	(30,160,539)	(30,160,539)	(30,160,539)	-	-
TOTAL OTHER FINANCING SOURCES (USES).....	(27,531,429)	(27,531,429)	(27,053,238)	-	478,191
NET CHANGE IN FUND BALANCE.....	(31,954,054)	(39,944,190)	(13,097,415)	(9,885,173)	16,961,602
BUDGETARY FUND BALANCE, Beginning of year.....	82,382,887	82,382,887	82,382,887	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 50,428,833	\$ 42,438,697	\$ 69,285,472	\$ (9,885,173)	\$ 16,961,602

See notes to required supplementary information.

OTHER POST-EMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

JUNE 30, 2008

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
6/30/2008	\$ -	\$ 761,576,067	\$ 761,576,067	0.00%	\$ 299,998,526	253.86%

Schedule of Employer Contributions

Fiscal Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
2008	\$ 41,830,041	\$ 21,023,075	50.3%

The City implemented GASB Statement No. 45 for the fiscal year ended June 30, 2008.

See notes to required supplementary information.

OTHER POST-EMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

June 30, 2008

Actuarial Methods:

Valuation date.....	June 30, 2008
Actuarial cost method.....	Projected Unit Credit
Amortization method.....	Amortization payments increasing at 4.50%
Remaining amortization period.....	29 years as of July 1, 2008, closed
Actuarial Assumptions:	
Investment rate of return.....	3.50%, pay-as-you-go scenario
Inflation rate.....	3.2%
Projected salary increases.....	4.0%
Medical/drug cost trend rate.....	9.02% decreasing to 5.0% in year 2016 and thereafter

Plan Membership:

Current retirees, beneficiaries, and dependents.....	4,917
Current active members.....	<u>4,179</u>
Total	<u><u>9,096</u></u>

See notes to required supplementary information.

NOTE A - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is certified by the Massachusetts Department of Revenue. On July 9, 2004, the Massachusetts legislature enacted Chapter 169 of the Acts of 2004 entitled “An Act Relative To The Financial Stability of Springfield.” Under Chapter 169, there is an established Finance Control Board (FCB) vested with comprehensive authority over all of the City’s finances, including appropriations, borrowings, transfers of funds, and municipal spending authorizations. Therefore the budget process for the City has changed from prior years. The FCB has the authority to amend the original budget throughout the fiscal year.

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

Generally, expenditures may not exceed the legal level of spending authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote of the City Council and written approval from the Massachusetts Department of Revenue.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2008 approved budget authorized approximately \$541 million in appropriations and other amounts to be raised. The City Auditor’s office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Budgetary - GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2008, is presented below:

Net change in fund balance - budgetary basis.....	\$ (13,097,415)
<u>Basis of accounting differences:</u>	
Increase in revenues due to on-behalf payments.....	36,999,858
Increase in expenditures due to on-behalf payments.....	(36,999,858)
Net change in recording 60 day receipts and other accrued revenues.....	302,260
Net change in recording other accrued expenses.....	(1,306,419)
Net change in recording tax refunds payable.....	<u>(1,748,000)</u>
Net change in fund balance - GAAP basis.....	<u>\$ (15,849,574)</u>

NOTE B – OTHER POST-EMPLOYMENT BENEFITS

The City administers a single-employer defined benefit healthcare plan (“The Other Post Employment Benefit Plan”). The plan provides lifetime medical, dental, and vision benefits for eligible retirees and their spouses

through the City's participation in the Commonwealth of Massachusetts' Group Insurance Commission (GIC), which covers both active and retired members.

The City currently finances its other post-employment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarially accrued liability) was zero. In accordance with Governmental Accounting Standards, the City has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the actuarially accrued liability for benefits with the actuarial value of accumulated plan assets. Since this is the City's initial year of implementation of GASB Statement 45, information for prior years is not available.

Projections for benefits for financial reporting purposes are based on the substantive plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefits costs between the employer and the plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.