

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES NO Check each applicable box below. (See instructions for further detail.)

1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. The local unit has adopted a budget for all required funds.
5. A public hearing on the budget was held in accordance with State statute.
6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. The local unit only holds deposits/investments that comply with statutory requirements.
9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. The local unit is free of repeated comments from previous years.
12. The audit opinion is UNQUALIFIED.
13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. The board or council approves all invoices prior to payment as required by charter or statute.
15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	

City of Springfield, Michigan

**Financial Report
with Supplemental Information
June 30, 2006**

City of Springfield, Michigan

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City of Springfield, Michigan

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Independent Auditor's Report

To the Members of the City Council
City of Springfield, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Springfield, Michigan as of and for the year ended June 30, 2006, 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, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Springfield, Michigan as of June 30, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Members of the City Council
City of Springfield, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Springfield, Michigan's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

September 29, 2006

City of Springfield, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the City of Springfield, Michigan's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the City's financial statements.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets (deficit) and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2006:

Property Taxes are the City's largest revenue source. Overall, the City's taxable value grew over \$1.9 million this year. Real property values showed an increase of 2.08 percent, while personal property values increased 4.89 percent. Of the City's \$1.25 million in tax collections, the Tax Increment Finance Authority captured \$206,900 or 16.5 percent. TIF dollars continue to promote Economic Development and fund Public Improvements within the City of Springfield.

State-shared Revenue is the City's second largest revenue source. For the fifth consecutive year, State cuts reduced Constitutional and Statutory Sales Tax distributions. This year, an additional \$8,900 or 1.14 percent was cut. Over the last five years, the City has sustained a total General Fund revenue loss of \$226,900 or 22.74 percent. Also, funding from Act 51 monies for the Street Funds decreased this year \$5,000 or 1.25 percent. The City continues with a conservative and diligent spending objective to preserve a healthy financial position in spite of state cuts.

Income Taxes are the City's third largest revenue source. Tax collections this year increased \$70,800, or 11.40 percent over prior year collections. This favorable revenue trend is primarily attributed to enhanced compliance efforts implemented this year and an overall improvement to the local economic climate.

City of Springfield, Michigan

Management's Discussion and Analysis (Continued)

Investments performed well and remained stable throughout the year. Invested funds yielded over \$111,000 in interest, dividends, and capital gains net of value appreciation, exceeding budget projections. No losses were realized and invested capital was preserved in all funds.

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current date and compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Assets						
Current assets	\$ 2,254,880	\$ 2,081,975	\$ 808,760	\$ 731,879	\$ 3,063,640	\$ 2,813,854
Noncurrent assets	9,051,480	8,892,042	3,101,199	2,935,759	12,152,679	11,827,801
Total assets	11,306,360	10,974,017	3,909,959	3,667,638	15,216,319	14,641,655
Liabilities						
Current liabilities	404,032	592,394	69,611	96,108	473,643	688,502
Long-term liabilities	1,256,508	233,408	234,862	-	1,491,370	233,408
Total liabilities	1,660,540	825,802	304,473	96,108	1,965,013	921,910
Net Assets						
Invested in capital assets -						
Net of related debt	7,334,218	7,900,209	2,857,772	2,935,759	10,191,990	10,835,968
Restricted	940,394	712,660	-	-	940,394	712,660
Unrestricted	1,371,208	1,535,346	747,714	635,771	2,118,922	2,171,117
Total net assets	<u>\$ 9,645,820</u>	<u>\$ 10,148,215</u>	<u>\$ 3,605,486</u>	<u>\$ 3,571,530</u>	<u>\$ 13,251,306</u>	<u>\$ 13,719,745</u>

Net Assets of the City's governmental and business-type activities total over \$13.2 million. This includes cash, investments, receivables, and capital assets vs. short-term and long-term liabilities. The change in the value of capital assets increased \$362,200. This change reflects new purchases net of disposals and annual depreciation. Capital assets include land, buildings, tools, equipment, computer system, office furniture, vehicles, streets and utility infrastructure. Overall, the City realized an increase in cash, investments, receivables and capital assets of \$574,600. Total liabilities increased a little over \$1 million primarily due to bonding for street projects and the purchase of a new fire truck. Gross assets of \$15.2 million are rich in comparison to long-term liabilities of \$1.5 million.

City of Springfield, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year and as compared to the prior year:

	Governmental Activities		Business-type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenue						
Program revenue:						
Charges for services	\$ 215,831	\$ 185,668	\$ 1,096,535	\$ 1,073,618	\$ 1,312,366	\$ 1,259,286
Operating grants and contributions	451,602	421,458	-	-	451,602	421,458
Capital grants and contributions	64,250	40,299	-	-	64,250	40,299
General revenue:						
Property taxes	1,076,981	1,029,391	-	-	1,076,981	1,029,391
Income taxes	694,588	621,910	-	-	694,588	621,910
State-shared revenue	771,126	781,079	-	-	771,126	781,079
Unrestricted investment earnings	64,154	55,247	14,549	12,751	78,703	67,998
Miscellaneous	160,893	179,623	93,172	37,284	254,065	216,907
Total revenue	3,499,425	3,314,675	1,204,256	1,123,653	4,703,681	4,438,328
Program Expenses						
General government	661,372	724,551	-	-	661,372	724,551
Public safety	1,886,066	1,892,972	-	-	1,886,066	1,892,972
Public works	855,810	765,273	-	-	855,810	765,273
Cemetery and parks	148,404	99,975	-	-	148,404	99,975
Buildings and grounds	134,943	123,873	-	-	134,943	123,873
Economic development and culture	25,970	7,982	-	-	25,970	7,982
Other	253,312	111,183	-	-	253,312	111,183
Debt service payments	35,943	815	-	-	35,943	815
Water and sewer	-	-	1,013,836	1,064,320	1,013,836	1,064,320
Refuse	-	-	156,464	149,028	156,464	149,028
Total program expenses	4,001,820	3,726,624	1,170,300	1,213,348	5,172,120	4,939,972
Change in Net Assets	\$ (502,395)	\$ (411,949)	\$ 33,956	\$ (89,695)	\$ (468,439)	\$ (501,644)

Governmental Activities

Public Safety - A new pumper fire truck with rescue capabilities was purchased to replace an outdated and aged truck. This year, the Public Safety Department implemented a "Field Training Officer Program" to add more structure to initial officer training and improve the success rate of new hires and reduce departmental liability. New 800 MHZ radios were purchased for each officer using 911 surcharge monies. These radios allow utilization of a new type of digital voice communication with access to the Michigan Public Safety Communication System. The use of 911 surcharge monies saved the City over \$60k.

City of Springfield, Michigan

Management's Discussion and Analysis (Continued)

New Homes Project - called "Orchard Hills" was developed from 22 acres of City-owned vacant land. The City sold capital improvement bonds and built new roads, underground utility infrastructure including sewer, water, phone, electric, natural gas and cable TV and street lighting was also installed. The construction of 41 new homes over the next three years will add over \$2.8 million in taxable value and generate an estimated \$24k per year in new income tax revenue. In addition, as the improved lots are sold for a total of \$705k, the money spent to improve the property will return to the City.

Street Projects - In addition to the Orchard Hills project, a total of \$268,400 was spent for the reconstruction of three local streets and one major street this year.

Economic Development continues to thrive in the City of Springfield. Three "new" businesses on the horizon include a Suzuki dealership, hardware store and convenience store, promising 45-60 new jobs. Also, three existing Springfield businesses are planning to expand. Plans are in the works for the move and construction of a new credit union building. The City's tax base is stable and continues to grow.

Business-type Activities

Sewer and Water Funds - This year the City spent a total of \$141,800 for new sanitary sewer infrastructure and \$170,900 for new water infrastructure in conjunction with multiple street projects and the Orchard Hills project.

General Fund Budgetary Highlights

The General Fund primarily pays for city administration, services provided by Public Safety and the Public Works Department, maintenance of cemeteries and parks, and a recreation program. The City originally budgeted revenues at \$2,644,100 and operational expenditures at \$2,702,100 projecting a use of fund balance in the amount of \$58,000. However, the City ended the year favorably, with \$2,655,700 in revenues versus operating expenses of \$2,673,800. This resulted in the use of only \$18,100 in fund balance. (These numbers consider funding from the Income Tax Fund in the amount of \$542,000 and \$18,000 funding provided to the Building Fund). The City's ability to maintain its commitment to cost containment and a conservative spending trend is the primary reasons the budget fared so well this year.

City of Springfield, Michigan

Management's Discussion and Analysis (Continued)

Debt Retirement

The City's long-term debt consists of bonding for street projects and utility infrastructure, a Brownfield loan, and the installment purchase of two fire trucks. TIFA (Tax Increment Finance Authority) Debt consists of bonding for capital projects including the Helmer Farms Industrial Park, East Airport Project and Farmers Market/Begg Park Project. This year, general government retired \$185,000 in bonded debt, and the TIFAs retired \$210,000. The 1991 Heights Project and 1991 TIFA D debt was paid off in 2006. New debt this fiscal year included Capital Improvement Bonds in the amount of \$995,000 for reconstruction of three local streets, one major street and the Orchard Hills New Homes Project. Also, new debt included an installment purchase in the amount of \$215,100 for a new fire truck.

Economic Factors and Next Year's Budget

General Fund - The City's General Fund budget for fiscal year 2006/2007 is \$2,864,200 or a 5 percent increase over the prior year amended budget allowing for the increased cost of health care. Income tax will provide funding for eight full-time positions, totaling \$533,700. One full-time Public Safety position will remain vacant in an effort to constrain costs. The approved budget projects an \$88,700 deficit or use of fund balance. A future change in health care plans has the potential to yield a cost savings of over \$60k annually in the ensuing year.

Street Project - Total cost for reconstruction of 1.7 miles of a major street is estimated at \$707k. Funding from a Federal STP (Surface Transportation Program) Grant and the governor's "Local Jobs Today Program" will provide approximately \$515k. The City's local match is estimated to be \$192k.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the city manager's office.

City of Springfield, Michigan

Statement of Net Assets (Deficit) June 30, 2006

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents (Note 2)	\$ 1,359,889	\$ 422,794	\$ 1,782,683	\$ 548,822
Investments (Note 2)	390,642	109,358	500,000	633,843
Receivables:				
Customers	-	188,367	188,367	-
Special assessment	353,586	32,370	385,956	125,203
Delinquent taxes	26,401	-	26,401	-
Other	133,413	-	133,413	25,469
Notes receivable	110,237	-	110,237	-
Due from other governmental units	224,055	55,871	279,926	-
Capital assets - Net:				
Assets not being depreciated (Note 3)	646,161	-	646,161	35,349
Depreciated assets (Note 3)	8,051,733	3,101,199	11,152,932	-
Prepaid costs and other assets	10,243	-	10,243	-
Total assets	11,306,360	3,909,959	15,216,319	1,368,686
Liabilities				
Accounts payable	122,899	15,414	138,313	12,294
Accrued and other liabilities	47,645	-	47,645	-
Due to other governmental unit	125	3,148	3,273	-
Deferred revenue	-	42,484	42,484	25,469
Noncurrent liabilities (Note 5):				
Due within one year	144,051	8,565	152,616	140,000
Due in more than one year	1,219,625	234,862	1,454,487	1,465,000
Employee absences:				
Due within one year	89,312	-	89,312	-
Due in more than one year	36,883	-	36,883	-
Total liabilities	1,660,540	304,473	1,965,013	1,642,763
Net Assets (Deficit)				
Invested in capital assets - Net of related debt	7,334,218	2,857,772	10,191,990	35,349
Restricted - Highways and streets	1,277,446	-	1,277,446	-
Unrestricted	1,034,156	747,714	1,781,870	(309,426)
Total net assets (deficit)	\$ 9,645,820	\$ 3,605,486	\$ 13,251,306	\$ (274,077)

City of Springfield, Michigan

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 661,372	\$ 114,176	\$ -	\$ 64,250
Public safety	1,886,066	-	3,514	-
Public works	855,810	-	437,756	-
Cemetery and parks	148,404	4,679	-	-
Buildings and grounds	134,943	-	-	-
Economic development and culture	25,970	2,680	-	-
Other	253,312	94,296	10,332	-
Debt service payments	35,943	-	-	-
Total governmental activities	4,001,820	215,831	451,602	64,250
Business-type activities:				
Sewer Fund	576,623	549,678	-	-
Water Fund	437,213	389,772	-	-
Refuse Fund	156,464	157,085	-	-
Total business-type activities	1,170,300	1,096,535	-	-
Total primary government	<u>\$ 5,172,120</u>	<u>\$ 1,312,366</u>	<u>\$ 451,602</u>	<u>\$ 64,250</u>
Component units:				
Tax Increment Finance Authority	\$ 281,157	\$ -	\$ -	\$ -
Brownfield Authority	755,239	-	586,493	-
Total component units	<u>\$ 1,036,396</u>	<u>\$ -</u>	<u>\$ 586,493</u>	<u>\$ -</u>

General revenues:
 Property taxes
 Income taxes
 State-shared revenues
 Unrestricted investment earnings
 Miscellaneous

Total general revenues

Change in Net Assets

Net Assets (Deficit) - Beginning of year (restated)

Net Assets (Deficit) - End of year

Statement of Activities
June 30, 2006

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (482,946)	\$ -	\$ (482,946)	\$ -
(1,882,552)	-	(1,882,552)	-
(418,054)	-	(418,054)	-
(143,725)	-	(143,725)	-
(134,943)	-	(134,943)	-
(23,290)	-	(23,290)	-
(148,684)	-	(148,684)	-
(35,943)	-	(35,943)	-
(3,270,137)	-	(3,270,137)	-
-	(26,945)	(26,945)	-
-	(47,441)	(47,441)	-
-	621	621	-
-	(73,765)	(73,765)	-
(3,270,137)	(73,765)	(3,343,902)	-
-	-	-	(281,157)
-	-	-	(168,746)
-	-	-	(449,903)
1,076,981	-	1,076,981	481,656
694,588	-	694,588	-
771,126	-	771,126	-
64,154	14,549	78,703	37,735
160,893	93,172	254,065	-
2,767,742	107,721	2,875,463	519,391
(502,395)	33,956	(468,439)	69,488
10,148,215	3,571,530	13,719,745	(343,565)
\$ 9,645,820	\$ 3,605,486	\$ 13,251,306	\$ (274,077)

City of Springfield, Michigan

Governmental Funds Balance Sheet June 30, 2006

	General Fund	Major Streets Fund	Local Streets Fund	Income Tax Fund	Capital Improvement Bond Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 200,392	\$ 547,722	\$ 323,416	\$ 67,831	\$ 113,164	\$ 82,561	\$ 1,335,086
Investments	211,281	-	-	179,361	-	-	390,642
Special assessment receivable	-	200,060	136,992	-	-	16,534	353,586
Delinquent taxes receivable	26,401	-	-	-	-	-	26,401
Accounts receivable	19,028	-	-	102,976	-	11,409	133,413
Notes receivable	-	-	-	-	-	110,237	110,237
Due from other governmental units	158,204	48,645	17,206	-	-	-	224,055
Due from other funds	7,699	1,553	89,690	-	-	-	98,942
Prepaid costs and other assets	10,243	-	-	-	-	-	10,243
Total assets	\$ 633,248	\$ 797,980	\$ 567,304	\$ 350,168	\$ 113,164	\$ 220,741	\$ 2,682,605
Liabilities and Fund Balances							
Liabilities							
Accounts payable	\$ 25,300	\$ 975	\$ 85,310	\$ 586	\$ 889	\$ 1,852	\$ 114,912
Due to other funds	-	1,553	-	-	89,690	-	91,243
Due to other governmental units	125	-	-	-	-	-	125
Accrued and other liabilities	38,496	-	-	1,688	-	7,461	47,645
Deferred revenue	11,339	200,060	136,992	44,505	-	38,275	431,171
Total liabilities	75,260	202,588	222,302	46,779	90,579	47,588	685,096
Fund Balances							
Reserved for:							
Noncurrent receivable	-	-	-	-	-	110,237	110,237
Cemetery	10,416	-	-	-	-	-	10,416
Unreserved - Designated	-	-	-	-	-	24,916	24,916
Unreserved and undesignated, reported in:							
General Fund	547,572	-	-	-	-	-	547,572
Special Revenue Funds	-	595,392	345,002	303,389	-	37,851	1,281,634
Debt Service Funds	-	-	-	-	22,585	149	22,734
Total fund balances	557,988	595,392	345,002	303,389	22,585	173,153	1,997,509
Total liabilities and and fund balances	\$ 633,248	\$ 797,980	\$ 567,304	\$ 350,168	\$ 113,164	\$ 220,741	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds

8,383,398

Special assessment receivables are expected to be collected over several years and are not available to pay for current year expenditures

431,171

Long-term liabilities are not due and payable in the current period and are not reported in the funds

(1,212,768)

Internal Service Funds are included as part of governmental activities

46,510

Net assets of governmental activities

\$ 9,645,820

City of Springfield, Michigan

Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2006

	General Fund	Major Streets Fund	Local Streets Fund	Income Tax Fund	Capital Improvement Bond Fund	Other Non- major Governmental Funds	Total Governmental Funds
Revenue							
Taxes	\$ 1,078,309	\$ -	\$ -	\$ 692,797	\$ -	\$ -	\$ 1,771,106
Special assessments	-	45,172	39,865	-	-	16,534	101,571
Licenses and permits	64,569	-	-	-	-	61,977	126,546
State sources	774,640	310,466	127,290	-	-	-	1,212,396
Charges for services	7,359	-	-	-	-	11,030	18,389
Fines and forfeitures	49,607	-	-	-	-	18,996	68,603
Interest and rentals	20,348	17,162	9,868	6,113	6,386	3,807	63,684
Other	118,881	1,006	-	1,014	12	39,980	160,893
Total revenue	2,113,713	373,806	177,023	699,924	6,398	152,324	3,523,188
Expenditures - Current							
General government	555,756	-	-	-	-	-	555,756
Public safety	1,843,030	-	-	-	-	22,691	1,865,721
Public works	42,744	-	-	-	-	-	42,744
Highways and streets	77,863	239,458	699,476	-	-	-	1,016,797
Cemetery	73,943	-	-	-	-	-	73,943
Buildings and grounds	55,625	-	-	-	-	79,778	135,403
Debt service	-	-	-	-	29,381	191,562	220,943
Administration and other	-	30,225	10,013	152,565	-	59,136	251,939
Economic development and culture	6,876	-	-	-	-	-	6,876
Total expenditures	2,655,837	269,683	709,489	152,565	29,381	353,167	4,170,122
Excess of Revenue Over (Under)							
Expenditures	(542,124)	104,123	(532,466)	547,359	(22,983)	(200,843)	(646,934)
Other Financing Sources (Uses)							
Proceeds from debt issue	-	-	-	-	995,000	-	995,000
Reimbursements to other funds	-	-	-	-	(243,427)	-	(243,427)
Transfers in	542,000	116,373	664,632	-	-	209,563	1,532,568
Transfers out	(18,000)	(75,000)	(49,928)	(683,635)	(706,005)	-	(1,532,568)
Total other financing sources (uses)	524,000	41,373	614,704	(683,635)	45,568	209,563	751,573
Net Change in Fund Balances	(18,124)	145,496	82,238	(136,276)	22,585	8,720	104,639
Fund Balances - Beginning of year	576,112	449,896	262,764	439,665	-	164,433	1,892,870
Fund Balances - End of year	\$ 557,988	\$ 595,392	\$ 345,002	\$ 303,389	\$ 22,585	\$ 173,153	\$ 1,997,509

City of Springfield, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$ 104,639

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Asset purchases	607,871
Depreciation	(525,238)
Asset disposals	(74,463)

Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end (37,321)

Revenues in the statement of activities that do not provide current finance resources are not reported as revenues in the funds, net effect of change in deferred revenue 13,548

Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) 185,000

Debt proceeds are not reported as financing sources on the statement of activities (751,573)

Increases in accumulated employee sick and vacation pay, as well as estimated general liability claims, are recorded when earned in the statement of activities (3,073)

Internal Service Fund activity reported in the governmental activities (21,785)

Change in Net Assets of Governmental Activities **\$ (502,395)**

City of Springfield, Michigan

Proprietary Funds Statement of Net Assets June 30, 2006

	Enterprise Funds			Total	Internal Service Fund
	Water	Sewer	Refuse		
Assets					
Current assets:					
Cash and cash equivalents	\$ 305,330	\$ 193,580	\$ 33,242	\$ 532,152	\$ 24,803
Receivables:					
Customer	57,686	96,700	33,981	188,367	-
Special assessment	-	32,370	-	32,370	-
Due from other governmental units	55,871	-	-	55,871	-
Total current assets	418,887	322,650	67,223	808,760	24,803
Noncurrent assets - Capital assets	1,480,404	1,620,795	-	3,101,199	314,496
Total assets	1,899,291	1,943,445	67,223	3,909,959	339,299
Liabilities					
Current liabilities:					
Accounts payable	1,062	2,122	12,230	15,414	7,987
Due to other funds	-	-	-	-	7,699
Due to other governmental units	-	3,148	-	3,148	-
Deferred revenue	-	42,484	-	42,484	-
Current portion of long-term debt	-	-	-	-	37,616
Total current liabilities	1,062	47,754	12,230	61,046	53,302
Long-term debt	116,975	126,452	-	243,427	239,487
Total liabilities	118,037	174,206	12,230	304,473	292,789
Net Assets					
Investment in capital assets - Net of related debt	1,363,429	1,494,343	-	2,857,772	75,009
Unrestricted	417,825	274,896	54,993	747,714	(28,499)
Total net assets	<u>\$ 1,781,254</u>	<u>\$ 1,769,239</u>	<u>\$ 54,993</u>	<u>\$ 3,605,486</u>	<u>\$ 46,510</u>

City of Springfield, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2006

	Enterprise Funds			Total	Internal Service Fund
	Water	Sewer	Refuse		
Operating Revenue					
Charges for services	\$ 389,772	549,678	157,085	\$ 1,096,535	159,275
Miscellaneous	<u>67,890</u>	<u>25,282</u>	<u>-</u>	<u>93,172</u>	<u>9,421</u>
Total operating revenue	457,662	574,960	157,085	1,189,707	168,696
Operating Expenses					
Operating expenses	385,021	479,745	156,464	1,021,230	140,322
Depreciation	<u>52,192</u>	<u>96,878</u>	<u>-</u>	<u>149,070</u>	<u>47,257</u>
Total operating expenses	<u>437,213</u>	<u>576,623</u>	<u>156,464</u>	<u>1,170,300</u>	<u>187,579</u>
Operating Income (Loss)	20,449	(1,663)	621	19,407	(18,883)
Nonoperating Revenue (Expense)					
Interest income	7,466	6,164	919	14,549	470
Interest expense	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,372)</u>
Total nonoperating revenue (expense)	<u>7,466</u>	<u>6,164</u>	<u>919</u>	<u>14,549</u>	<u>(2,902)</u>
Change in Net Assets	27,915	4,501	1,540	33,956	(21,785)
Net Assets - Beginning of year	<u>1,753,339</u>	<u>1,764,738</u>	<u>53,453</u>	<u>3,571,530</u>	<u>68,295</u>
Net Assets - End of year	<u>\$ 1,781,254</u>	<u>\$ 1,769,239</u>	<u>\$ 54,993</u>	<u>\$ 3,605,486</u>	<u>\$ 46,510</u>

City of Springfield, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2006

	Enterprise Funds				Internal Service Fund
	Water	Sewer	Refuse	Total	
Cash Flows from Operating Activities					
Receipts from customers	\$ 401,696	\$ 543,812	\$ 156,627	\$ 1,102,135	\$ 159,275
Payments to suppliers	(313,348)	(428,466)	(143,944)	(885,758)	(119,116)
Payments to employees	(89,990)	(79,370)	(12,088)	(181,448)	(11,362)
Other receipts	67,890	25,282	-	93,172	9,421
Net cash provided by operating activities	66,248	61,258	595	128,101	38,218
Cash Flows from Capital and Related Financing Activities					
Collection of customer assessments (principal and interest)	-	4,065	-	4,065	-
Principal and interest payments	-	-	-	-	(22,373)
Proceeds from debt	116,975	126,452	-	243,427	215,181
Purchase of capital assets	(171,825)	(142,685)	-	(314,510)	(235,847)
Net cash used in capital and related financing activities	(54,850)	(12,168)	-	(67,018)	(43,039)
Cash Flows from Investing Activities -					
Interest received on investments	7,466	6,164	919	14,549	470
Net Increase (Decrease) in Cash and Cash Equivalents					
	18,864	55,254	1,514	75,632	(4,351)
Cash and Cash Equivalents - Beginning of year	286,466	138,326	31,728	456,520	29,154
Cash and Cash Equivalents - End of year	\$ 305,330	\$ 193,580	\$ 33,242	\$ 532,152	\$ 24,803
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities					
Operating income (loss)	\$ 20,449	\$ (1,663)	\$ 621	\$ 19,407	\$ (18,883)
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation and amortization	52,192	96,878	-	149,070	47,257
Changes in assets and liabilities:					
Receivables	11,924	(5,866)	(458)	5,600	-
Accounts payable	(14,317)	(11,060)	432	(24,945)	2,145
Accrued and other liabilities	(4,000)	(17,031)	-	(21,031)	7,699
Net cash provided by operating activities	\$ 66,248	\$ 61,258	\$ 595	\$ 128,101	\$ 38,218

City of Springfield, Michigan

Fiduciary Funds Statement of Net Assets June 30, 2006

	<u>Retiree Health Care Fund</u>
Assets - Mutual fund investments	<u>\$ 104,483</u>
Net Assets - Held in trust for pension and other employee benefits	<u>\$ 104,483</u>

City of Springfield, Michigan

Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2006

	Retiree Health Care Fund
Net Increase in Net Assets Held in Trust - Interest and dividends	\$ 16,990
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>87,493</u>
End of year	<u>\$ 104,483</u>

City of Springfield, Michigan

Component Units Statement of Net Assets (Deficit) June 30, 2006

	Tax Increment Finance Authority	Brownfield Authority	Total
Assets			
Cash and cash equivalents	\$ 475,875	\$ 72,947	\$ 548,822
Investments	633,843	-	633,843
Special assessment receivable	125,203	-	125,203
Other receivables	-	25,469	25,469
Interfund balances	8,161	(8,161)	-
Capital assets - Assets not being depreciated - Land	35,349	-	35,349
Total assets	1,278,431	90,255	1,368,686
Liabilities			
Accounts payable	12,294	-	12,294
Deferred revenue	-	25,469	25,469
Notes payable, due within one year	140,000	-	140,000
Notes payable, due in more than one year	1,165,000	300,000	1,465,000
Total liabilities	1,317,294	325,469	1,642,763
Net Assets - Unrestricted	\$ (38,863)	\$ (235,214)	\$ (274,077)

City of Springfield, Michigan

Component Units Statement of Activities Year Ended June 30, 2006

	Expenses	Program Revenues Operating Grants/ Contributions	Net (Expense) Revenue and Changes in Net Assets		
			Tax Increment Finance Authority	Brownfield Authority	Total
Tax Increment Finance Authority	\$ 281,157	\$ -	\$ (281,157)	\$ -	\$ (281,157)
Brownfield Authority	755,239	586,493	-	(168,746)	(168,746)
Total governmental activities	\$ 1,036,396	\$ 586,493	(281,157)	(168,746)	(449,903)
General Revenues					
Property taxes			481,656	-	481,656
Interest income			33,062	4,673	37,735
Transfers			8,161	(8,161)	-
Total general revenues			522,879	(3,488)	519,391
Change in Net Assets			241,722	(172,234)	69,488
Net Assets (Deficit) - Beginning of year, as restated (Note 1)			(280,585)	(62,980)	(343,565)
Net Assets (Deficit) - End of year			\$ (38,863)	\$ (235,214)	\$ (274,077)

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Springfield (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Springfield:

Reporting Entity

The City of Springfield is governed by an elected seven-member council. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Discretely Presented Component Units - The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in locating and expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC's governing body, which consists of nine individuals, is selected by the mayor of the City of Springfield with advice and consent of the City Council. The EDC board governs the Tax Increment Finance Authority Development Areas A, B, C, and D and the Brownfield Authority. The TIFA funds and the Brownfield Authority are reported within the component units column of the financial statements in order to emphasize that they are legally separate from the City. The EDC holds no assets and records no activity.

Government-wide and Fund Financial Statements

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

Note I - Summary of Significant Accounting Policies (Continued)

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

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

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Note I - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and expenditures relating to compensated absences are recorded only when payment is due.

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is first to apply restricted resources.

The City reports the following major governmental funds:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

Local Streets Fund - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

Income Tax Fund - The Income Tax Fund accounts for income tax revenues received by the City during the year.

Capital Improvement Bond Fund - The Capital Improvement Bond Fund accounts for the 2006 Capital Improvement Bond proceeds. The bond proceeds are transferred to the funds which are incurring the expense.

The City reports the following major proprietary funds:

Water Fund - The Water Fund is a municipal utility formed by City Charter to pump and distribute the City water supply.

Sewer Fund - The Sewer Fund is a municipal utility formed by City Charter to operate and maintain the wastewater collections and treatment.

Refuse Fund - The Refuse Fund is formed by City Charter to operate and maintain the refuse collection for the City.

Additionally, the City reports the following fiduciary activities:

Retiree Health Care Fund - This fund accounts for monies set aside by the City to use for future retirement health care benefits.

Note 1 - Summary of Significant Accounting Policies (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

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

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on December 1 of the following year, at which time penalties and interest are assessed.

The 2005 taxable valuation of the City totaled \$83.8 million (a portion of which is captured by the TIFA), on which taxes levied consisted of 14.0000 mills for operating purposes and 1.0000 mills for pension. This resulted in approximately \$980,000 for general operating and \$70,000 for pension and are recognized in the General Fund as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair market value.

Note I - Summary of Significant Accounting Policies (Continued)

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Items - Inventories are valued at cost, on a first-in, first-out basis.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	20 to 40 years
Buildings and building improvements	7 to 50 years
Water and sewer distribution systems	20 to 40 years
Land improvements	20 to 40 years
Vehicles	5 to 20 years
Furniture and fixtures	5 to 7 years
Other tools and equipment	3 to 7 years

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, 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. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

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

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Restatement of Net Assets - Beginning of the year net assets have been restated in the Brownfield Authority Component Unit to account for a loan of \$300,000 received in 2005, recorded in the year ended June 30, 2006.

Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs. The City's deposits and investment policies are in accordance with statutory authority.

Note 2 - Deposits and Investments (Continued)

The City's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk 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 year end, the City had approximately \$1,558,000 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

As a result, the City evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Rate Risk - The City does not specifically identify credit risk in the investment policy adopted by the City. The City holds mutual funds that are either not rated or rated with a credit risk rating of at least BB.

Interest Rate Risk - Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. The City's investment policy does not restrict investment maturities, other than commercial paper which can only be purchased with a 270-day maturity. At year end, the average maturities of investments are as follows:

Investment	Less than		More than	
	One Year	1-5 Years	6-10 Years	10 Years
Mutual funds	\$ 203,845	\$ 40,313	\$ 31,344	\$ 321,990

City of Springfield, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

Governmental Activities	Balance June 30, 2005	Additions	Disposals and Reclassifications	Balance June 30, 2006
Capital assets not being depreciated -				
Land	\$ 720,622	\$ -	\$ 74,461	\$ 646,161
Capital assets being depreciated:				
Roads and sidewalks	19,765,152	589,658	-	20,354,810
Buildings and improvements	2,064,269	-	108,859	1,955,410
Land improvements	48,762	-	(38,803)	87,565
Vehicles	1,011,211	235,847	5,074	1,241,984
Furniture and fixtures	84,045	-	130	83,915
Other tools and equipment	505,455	18,213	2,350	521,318
Subtotal	23,478,894	843,718	77,610	24,245,002
Accumulated depreciation:				
Roads and sidewalks	13,544,996	429,097	-	13,974,093
Buildings and improvements	781,725	50,914	70,056	762,583
Land improvements	26,587	4,902	-	31,489
Vehicles	885,303	47,257	5,072	927,488
Furniture and fixtures	80,476	1,020	130	81,366
Other tools and equipment	379,295	39,305	2,350	416,250
Subtotal	15,698,382	572,495	77,608	16,193,269
Net capital assets being depreciated	7,780,512	271,223	2	8,051,733
Net capital assets	\$ 8,501,134	\$ 271,223	\$ 74,463	\$ 8,697,894

City of Springfield, Michigan

Notes to Financial Statements June 30, 2006

Note 3 - Capital Assets (Continued)

	Balance June 30, 2005	Additions	Disposals and Reclassifications	Balance June 30, 2006
Business-type Activities				
Capital assets being depreciated:				
Water and sewer distribution systems	\$ 5,930,511	\$ 312,844	\$ (157,270)	\$ 6,086,085
Other tools and equipment	224,976	1,666	157,270	383,912
Subtotal	6,155,487	314,510	-	6,469,997
Accumulated depreciation:				
Water and sewer distribution systems	3,197,950	133,422	(65,352)	3,266,020
Other tools and equipment	21,778	15,648	65,352	102,778
Subtotal	3,219,728	149,070	-	3,368,798
Net capital assets being depreciated	2,935,759	165,440	-	3,101,199
Net capital assets	\$ 2,935,759	\$ 165,440	\$ -	\$ 3,101,199
Component Units				
Capital assets not being depreciated - Land	\$ -	\$ 35,349	\$ -	\$ 35,349

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

Governmental activities:	
General government	\$ 32,628
Public safety	32,408
Public works	441,108
Economic development	19,094
Internal Service Fund	47,257
Total governmental activities	\$ 572,495
Business-type activities:	
Water	\$ 52,192
Sewer	96,878
Total business-type activities	\$ 149,070

City of Springfield, Michigan

Notes to Financial Statements June 30, 2006

Note 4 - Interfund Due To/From, Transfers, and Contributions

Interfund due to and due from reported in the fund financial statements are comprised of the following:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Internal Service Fund	\$ 7,699
Major Streets Fund	Capital Improvement Bond Fund	1,553
Local Streets Fund	Major Streets Fund	1,553
Local Streets Fund	Capital Improvement Bond Fund	<u>88,137</u>
Total		<u>\$ 98,942</u>

Payments from the Capital Improvement Bond Fund and the Major Streets Fund represent street construction activity. Payments from the Internal Service Fund to the General Fund is for vehicle rental activity.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
Income Tax Fund	General Fund	\$ 542,000
Major Streets Fund	Local Streets Fund	75,000
Local Streets Fund	Nonmajor governmental fund	49,928
Income Tax Fund	Nonmajor governmental fund	141,635
General Fund	Nonmajor governmental fund	18,000
Capital Improvement Bond Fund	Local Streets Fund	589,632
Capital Improvement Bond Fund	Major Streets Fund	<u>116,373</u>
Total		<u>\$ 1,532,568</u>
Component Units - Brownfield		
Authority	Tax Increment Finance Authority	<u>\$ 8,161</u>

Note 4 - Interfund Due To/From, Transfers, and Contributions (Continued)

The transfers from the Income Tax Fund to the General Fund and Bond Redemption Fund represent the funding of projects and debt service payments. The transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51. The transfers from the Capital Improvement Bond Fund to the Major and Local Streets Funds represent the disbursement of bond proceeds for street projects. All other transfers relate to operating activities between funds.

Note 5 - Long-term Debt

Changes in Long-term Debt

The following are summaries of long-term debt transactions of the City for the year ended June 30, 2006:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 50,000	\$ -	\$ 50,000	\$ -	\$ -
Special assessment bonds	45,000	-	45,000	-	-
Capital appreciation bonds	15,000	-	15,000	-	-
1995 Public Improvement City Share Bonds	105,000	-	20,000	85,000	20,000
1995 Michigan Transportation Bonds	230,000	-	40,000	190,000	45,000
1995 Public Improvement Special Assessment Bonds	75,000	-	15,000	60,000	15,000
2006 Capital Improvements Bond	-	751,573	-	751,573	26,435
1993 Installment loan	80,925	-	19,003	61,922	19,925
2006 Installment loan	-	215,181	-	215,181	17,691
Compensated absences	123,122	3,073	-	126,195	89,312
Total governmental activities	<u>\$ 724,047</u>	<u>\$ 969,827</u>	<u>\$ 204,003</u>	<u>\$ 1,489,871</u>	<u>\$ 233,363</u>
Business-type Activities -					
2006 Capital Improvements Bond	<u>\$ -</u>	<u>\$ 243,427</u>	<u>\$ -</u>	<u>\$ 243,427</u>	<u>\$ 8,565</u>

City of Springfield, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Long-term Debt (Continued)

Component Units	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
1991 Tax Increment Bonds	\$ 75,000	\$ -	\$ 75,000	\$ -	\$ -
1993 Tax Increment Bonds	145,000	-	45,000	100,000	50,000
1999 Tax Increment Bonds	800,000	-	35,000	765,000	35,000
2003 Tax Increment Bonds	495,000	-	55,000	440,000	55,000
Brownfield Loan	300,000	-	-	300,000	-
Total component units	<u>\$ 1,815,000</u>	<u>\$ -</u>	<u>\$ 210,000</u>	<u>\$ 1,605,000</u>	<u>\$ 140,000</u>

The accrued vacation and longevity payable represents the estimated liability to be paid governmental fund-type employees under the City's vacation and longevity policy. Under the City's policy, employees earn vacation time and longevity based on time of service with the City.

Debt Service Requirements

The annual requirements to service all debt outstanding as of June 30, 2006 (excluding employee benefits), including both principal and interest, are as follows:

	Governmental Activities		
	Principal	Interest	Total
2007	\$ 144,051	\$ 65,903	\$ 209,954
2008	166,881	58,453	225,334
2009	130,673	49,659	180,332
2010	140,273	42,781	183,054
2011	51,132	35,328	86,460
2012-2016	281,212	142,452	423,664
2017-2021	203,931	87,135	291,066
2022-2026	245,523	36,055	281,578
Total	<u>\$ 1,363,676</u>	<u>\$ 517,766</u>	<u>\$ 1,881,442</u>

City of Springfield, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Long-term Debt (Continued)

	Business-type Activities		
	Principal	Interest	Total
2007	\$ 8,565	\$ 11,015	\$ 19,580
2008	8,564	10,652	19,216
2009	8,564	10,288	18,852
2010	9,788	9,924	19,712
2011	9,788	9,508	19,296
2012-2016	52,611	41,070	93,681
2017-2021	66,069	28,230	94,299
2022-2026	79,478	11,681	91,159
Total	<u>\$ 243,427</u>	<u>\$ 132,368</u>	<u>\$ 375,795</u>

	Component Units		
	Principal	Interest	Total
2007	\$ 140,000	\$ 59,030	\$ 199,030
2008	150,000	53,215	203,215
2009	105,000	46,815	151,815
2010	137,743	42,645	180,388
2011	142,398	43,745	186,143
2012-2016	595,432	137,273	732,705
2017-2021	334,427	29,208	363,635
Total	<u>\$ 1,605,000</u>	<u>\$ 411,931</u>	<u>\$ 2,016,931</u>

Outstanding Debt

The following is a summary of the debt outstanding of the City as of June 30, 2006:

Governmental Activities:

1995 Public Improvement City Share Bonds, payable in annual installments of \$20,000 to \$25,000, plus interest at rates from 5.65 percent to 5.9 percent through 2010 \$ 85,000

1995 Michigan Transportation Fund Bonds, payable in annual installments of \$45,000 to \$50,000, plus interest at rates from 5.6 percent to 5.9 percent through 2010 190,000

City of Springfield, Michigan

Notes to Financial Statements June 30, 2006

Note 5 - Long-term Debt (Continued)

1995 Public Improvement Special Assessment Bonds, payable in annual installments of \$15,000, plus interest at rates from 5.65 percent to 5.9 percent through 2010	\$ 60,000
2006 Capital Improvements Bond, payable in annual installments from \$26,435 to \$52,871, plus interest at rates from 4.25 percent to 4.75 percent through 2026	751,573
Installment note, payable in 15 equal annual installments of \$23,319, including interest at the five-year U.S. Treasury Bill Index as of July 15, 2003 plus 150 basis points	61,922
Installment note, payable in 10 equal annual installments of \$26,901, including interest at 4.28 percent through April 20, 2016	215,181
Compensated absences	<u>126,195</u>
Total governmental activity debt	<u>\$ 1,489,871</u>

Business-type Activities

2006 Capital Improvements Bond, payable in annual installments from \$8,565 to \$17,129, plus interest at rates from 4.25 percent to 4.75 percent through 2026	<u>\$ 243,427</u>
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Component Units

1993 Tax Increment Bonds (General Obligation Limited Tax), payable in annual installments of \$50,000, plus interest at rates from 5.25 percent to 5.3 percent through 2008	\$ 100,000
1999 Tax Increment Bonds (General Obligation Limited Tax), payable in annual installments of \$35,000 to \$85,000, plus interest at rates from 4.40 percent to 5.2 percent through 2019	765,000
2003 Tax Increment Bonds (General Obligation Limited Tax), payable in annual installments of \$55,000 to \$70,000, plus interest at rates from 3.0 percent to 4.1 percent through 2013	440,000
2005 Michigan Department of Environmental Quality Brownfield Redevelopment Loan, payable in annual installments of \$32,743, including interest at 2.0 percent beginning March 2010 through 2019	<u>300,000</u>
Total component units	<u>\$ 1,605,000</u>

Note 5 - Long-term Debt (Continued)

Interest Incurred - Interest expense for the year ended June 30, 2006 was approximately \$26,600 in the Debt Service Funds, \$3,400 in the Internal Service Fund, and \$66,800 in the component units.

Note 6 - Stewardship, Compliance, and Accountability

The annual budget is prepared by the city management and adopted by the City Council; subsequent amendments are approved by the City Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2006 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted on a departmental basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the General Fund budget, as adopted by the City Council, is included in the additional information. A comparison of the actual results of operations to the Special Revenue and Debt Service Fund budgets, as adopted by the City Council, is available at the treasurer's office for inspection.

There were no significant budget overruns during the year ended June 30, 2006.

Deficit Net Assets - As of June 30, 2006, the Tax Increment Finance Authority and the Brownfield Authority component units show deficit net assets. Although the component units show net asset deficits on the full accrual method of accounting, on a fund based modified-accrual basis, the funds of the component units do not result in a deficit. The deficit in the Tax Increment Finance Authority is the result of debt issued by the component unit to construct an asset which is owned by the primary government. The deficit in the Brownfield Authority is the result of debt issued by the component unit to provide funding to local businesses. The debt will be paid by future tax captures. As a result, management does not feel that there is a deficit and therefore a deficit elimination plan is not required.

Note 7 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for employee health and life and retiree health and life claims (see Note 9). The City participates in the Michigan Municipal Risk Management Authority for claims relating to auto, liability, and property damage and the Michigan Municipal Workers' Compensation Fund for workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

The Michigan Municipal Workers' Compensation Fund operates as a common risk-sharing program for Michigan municipalities. Member premiums are used to purchase excess insurance coverage and to pay member claims and expenses.

Note 8 - Defined Benefit Pension Plans

Plan Description

Michigan Municipal Employees' Retirement System - The City participates in the Michigan Municipal Employees' Retirement System (MMERS), which is an agent multiple-employer defined benefit pension plan that covers all full-time employees of the City. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MMERS. That report may be obtained by writing to the MMERS at 1134 Municipal Way, Lansing, MI 48917.

Note 8 - Defined Benefit Pension Plans (Continued)

Annual Pension Cost

Michigan Municipal Employees' Retirement System - For the year ended June 30, 2006, the City's annual pension cost of \$150,943 for the plan was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0 percent to 4.5 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5 percent per year after retirement for certain benefit provisions. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 30 years.

Contributions

Michigan Municipal Employees' Retirement System - The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires no contribution from the employees, except for the public safety division, which requires a contribution from employees of 7 percent.

Trend Information

Michigan Municipal Employees' Retirement System:

	2004	2005	2006
Annual pension costs (APC)	\$ 151,631	\$ 164,487	\$ 150,943
Percentage of APC contributed	100%	100%	100%
Net pension obligation	\$ -	\$ -	\$ -
	2003	2004	2005
Actuarial value of assets	\$ 6,611,003	\$ 6,845,357	\$ 7,080,268
Actuarial Accrued Liability (AAL)			
(entry age)	\$ 7,222,416	\$ 7,584,567	\$ 7,947,925
(Overfunded) Unfunded AAL	\$ 611,413	\$ 739,210	\$ 867,657
Funded ratio	91.5%	90.3%	89.1%
Covered payroll	\$ 1,612,135	\$ 1,601,486	\$ 1,622,839

Note 9 - Postemployment Benefits

The City of Springfield provides health and life insurance benefits to all full-time employees upon retirement, in accordance with labor contracts. Currently, 12 retirees are eligible. Expenditures for postemployment benefits are recognized as insurance premiums become due. During the year, these expenditures amounted to \$32,196.

Note 10 - Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2010.

Required Supplemental Information

City of Springfield, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Taxes:				
Operating	\$ 996,800	\$ 980,900	\$ 980,741	\$ (159)
Pension	71,100	71,100	70,055	(1,045)
Tax collection fees	13,900	22,100	22,115	15
Penalties and interest	<u>6,500</u>	<u>6,500</u>	<u>5,398</u>	<u>(1,102)</u>
Total taxes	1,088,300	1,080,600	1,078,309	(2,291)
Licenses and permits:				
Trailer fees	1,400	1,400	1,408	8
Business licenses	2,800	2,800	2,435	(365)
Liquor licenses	4,500	4,500	4,687	187
Cable franchise fees	<u>38,000</u>	<u>46,900</u>	<u>56,039</u>	<u>9,139</u>
Total licenses and permits	46,700	55,600	64,569	8,969
State sources:				
Police training grant	5,000	5,000	3,514	(1,486)
Statutory sales tax	430,300	415,800	414,839	(961)
Constitutional sales tax	<u>352,100</u>	<u>355,000</u>	<u>356,287</u>	<u>1,287</u>
Total state sources	787,400	775,800	774,640	(1,160)
Fines and forfeitures	45,000	45,000	49,607	4,607
Interest earned	5,300	21,000	20,348	(652)
Other:				
Parks and recreational fees	3,500	3,500	2,680	(820)
Cemetery lot sales and openings	6,000	6,000	4,679	(1,321)
Sale of City property	10,000	2,800	2,376	(424)
Other refunds	11,600	8,700	8,759	59
Miscellaneous	<u>93,300</u>	<u>104,800</u>	<u>107,746</u>	<u>2,946</u>
Total other	<u>124,400</u>	<u>125,800</u>	<u>126,240</u>	<u>440</u>
Total revenue	<u>\$ 2,097,100</u>	<u>\$ 2,103,800</u>	<u>\$ 2,113,713</u>	<u>\$ 9,913</u>

City of Springfield, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund (Continued) Year Ended June 30, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Expenditures				
General government:				
City Council	\$ 39,700	\$ 43,300	\$ 46,151	\$ (2,851)
City manager	52,200	49,200	43,108	6,092
Elections	6,500	6,500	3,484	3,016
City assessor	94,700	94,700	93,827	873
City attorney	24,000	24,000	27,230	(3,230)
Treasurer	213,800	265,200	241,736	23,464
Clerk	98,800	98,800	100,220	(1,420)
Total general government	529,700	581,700	555,756	25,944
Public safety - Public safety office	1,817,100	1,836,100	1,843,030	(6,930)
Public works	137,300	77,000	42,744	34,256
Street lights	76,500	76,500	77,863	(1,363)
Cemetery	73,000	73,000	73,943	(943)
Building and grounds	49,400	56,700	55,625	1,075
Recreation	9,100	9,100	6,876	2,224
Total expenditures	<u>\$ 2,692,100</u>	<u>\$ 2,710,100</u>	<u>\$ 2,655,837</u>	<u>\$ 54,263</u>

City of Springfield, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended June 30, 2006

	Major Streets Fund				Local Streets Fund			
	Original Budget	Amended Budget	Actual	Variance with Amended Budget	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue								
State sources	\$ 321,700	\$ 324,800	\$ 310,466	\$ (14,334)	\$ 121,700	\$ 132,700	\$ 127,290	\$ (5,410)
Special assessments	41,000	41,000	45,172	4,172	31,800	38,000	39,865	1,865
Interest	7,200	15,000	17,162	2,162	2,500	8,000	9,868	1,868
Other	-	-	1,006	1,006	-	-	-	-
Total revenue	\$ 369,900	\$ 380,800	\$ 373,806	\$ (6,994)	\$ 156,000	\$ 178,700	\$ 177,023	\$ (1,677)
Expenditures								
Highways and streets	\$ 273,300	\$ 290,300	\$ 239,458	\$ 50,842	\$ 721,200	\$ 1,078,800	\$ 699,476	\$ 379,324
Other	35,200	35,200	30,225	4,975	10,000	10,000	10,013	(13)
Total expenditures	\$ 308,500	\$ 325,500	\$ 269,683	\$ 55,817	\$ 731,200	\$ 1,088,800	\$ 709,489	\$ 379,311

City of Springfield, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended June 30, 2006

	Income Tax Fund			Variance with Amended Budget
	Original Budget	Amended Budget	Actual	
Revenue				
State sources	-	-	-	-
Interest	18,000	18,000	6,113	(11,887)
Other	500	500	1,014	514
Total revenue	\$ 640,000	\$ 640,000	\$ 699,924	\$ 59,924
Expenditures - Other	\$ 156,600	\$ 156,600	\$ 152,565	\$ 4,035

Note: Budget to actual required for General and Major Special Revenue Funds

Other Supplemental Information

City of Springfield, Michigan

Other Supplemental Information Combining Balance Sheet Nonmajor Governmental Funds June 30, 2006

	Special Revenue Funds				Total Nonmajor Governmental Funds
	Drug Law Enforcement Fund	Economic Development Fund	Building Fund	Bond Redemption Fund	
	Fund	Fund	Fund	Fund	
Assets					
Cash and cash equivalents	\$ 1,272	\$ 69,016	\$ 12,124	\$ 149	\$ 82,561
Special assessment receivable	-	16,534	-	-	16,534
Accounts receivable	-	-	11,409	-	11,409
Notes receivable	-	110,237	-	-	110,237
	\$ 1,272	\$ 195,787	\$ 23,533	\$ 149	\$ 220,741
Liabilities and Fund Balances					
Liabilities					
Accounts payable	\$ 53	\$ 888	\$ 911	\$ -	\$ 1,852
Accrued and other liabilities	-	582	6,879	-	7,461
Deferred revenue	-	26,866	11,409	-	38,275
	53	28,336	19,199	-	47,588
Fund Balances					
Reserved - Noncurrent receivable	-	110,237	-	-	110,237
Unreserved - Designated	-	24,916	-	-	24,916
Unreserved	1,219	32,298	4,334	149	38,000
	1,219	167,451	4,334	149	173,153
Total liabilities and fund balances	\$ 1,272	\$ 195,787	\$ 23,533	\$ 149	\$ 220,741

City of Springfield, Michigan

Other Supplemental Information Combining Statement of Revenue, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds Year Ended June 30, 2006

	Special Revenue Funds			Bond Redemption Fund	Total Nonmajor Governmental Funds
	Drug Law Enforcement Fund	Economic Development Fund	Building Fund		
Revenue					
Special assessments	\$ -	\$ 16,534	\$ -	\$ -	\$ 16,534
Licenses and permits	-	-	61,977	-	61,977
Charges for services	-	11,030	-	-	11,030
Fines and forfeitures	18,996	-	-	-	18,996
Interest	325	3,256	226	-	3,807
Other	411	39,569	-	-	39,980
	19,732	70,389	62,203	-	152,324
Expenditures					
Public safety	22,691	-	-	-	22,691
Building and grounds	-	-	79,778	-	79,778
Debt service	-	-	-	191,562	191,562
Administration and other	-	59,136	-	-	59,136
	22,691	59,136	79,778	191,562	353,167
Excess of Revenue Over (Under) Expenditures	(2,959)	11,253	(17,575)	(191,562)	(200,843)
Other Financing Sources - Transfers in	-	-	18,000	191,563	209,563
Net Change in Fund Balances	(2,959)	11,253	425	1	8,720
Fund Balances - Beginning of year	4,178	156,198	3,909	148	164,433
Fund Balances - End of year	\$ 1,219	\$ 167,451	\$ 4,334	\$ 149	\$ 173,153