City of Springfield, Oregon

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICES

The financial statements of the City of Springfield have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The more significant accounting polices are described below.

1. Financial Reporting Entity

The accompanying financial statements present the City of Springfield and its component units. 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.

DISCRETELY PRESENTED COMPONENT UNITS

Metropolitan Wastewater Management Commission (MWMC) provides regional sewage treatment and is governed by a board comprised of appointed members. The City of Springfield provides all administrative duties for MWMC in accordance with an intergovernmental agreement. Given the nature and significance of MWMC's relationship, the City of Springfield believes it would be misleading to exclude MWMC from the basic financial statements. MWMC is presented as an enterprise fund type.

The Regional Fiber Consortium was formed by units of local government on August 1, 1999 pursuant to ORS190. There are ten member governments: eight cities and two counties. The board is comprised of one representative appointed by each member government. The City of Springfield provides all administrative duties for the Regional Fiber Consortium in accordance with an intergovernmental agreement, and therefore believes it would be misleading to exclude the Regional Fiber Consortium from the basic financial statements. The Regional Fiber Consortium is presented as an enterprise fund type.

BLENDED COMPONENT UNIT

The Springfield Economic Development Agency (SEDA) is a legally separate body, acting as the Urban Renewal Agency of the City of Springfield. Because the SEDA governing body is substantively the same as the City's, the SEDA capital project fund is blended with those of the City by including them in the appropriate statements and schedules of this Comprehensive Annual Financial Report.

Complete financial statements for each of the component units may be obtained as follows:

MWMC	Regional Fiber Consortium	Springfield Economic Development Agency
City of Springfield 225 5th Street Springfield, Oregon 97477	City of Springfield 225 5th Street Springfield,Oregon 97477	City of Springfield 225 5th Street Springfield,Oregon 97477

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Government-wide and fund financial statements

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

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

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

3. Measurement focus, basis of accounting and financial statement presentation

Measurement focus refers to what is being measured by a fund. Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements.

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The fiduciary fund reported by the city, the Agency Fund, has no measurement focus and is reported on the full accrual basis of accounting.

The City reports the following major governmental funds:

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.

The Street Fund accounts for revenues from state gasoline taxes apportioned from the State of Oregon and expenditures as specified under Article IX, Section 3 of the Constitution of the State of Oregon. The street fund also accounts for transportation capital projects that are funded by system development charges.

The Housing and Community Development Fund accounts for the receipt and expenditure of monies received from the United States Government under the Community Development Block Grant Program.

The Development Capital Projects Fund is used to account for costs of constructing and improving city-owned buildings and also to account for construction projects with numerous funding sources, including system development charges, grants, intergovernmental revenues and contributions by private parties.

The City reports the following major proprietary funds:

The Ambulance Fund accounts for the City's ambulance operations. Revenue is derived mainly from ambulance fees. The fund also performs billing and collection of ambulance operations for other Oregon cities. This service is provided for a fee.

The Booth-Kelly Fund accounts for operations and maintenance of the Booth-Kelly Center. Revenue is derived from commercial leases.

The Sewer Utility Fund accounts for the local share of the operations and capital projects of the wastewater collection system. Revenue is derived from sewer user fees and system development charges.

Additionally, the government reports the following fund types:

Internal Service funds account for the ownership and use of rolling stock and computer equipment and for the City's risk and employee benefit program. Resources are provided by charges to other funds.

The Agency Fund is a fiduciary fund used to account for funds received and held by the City in a custodial capacity. The majority of the activity in this fund is made up of Ambulance fees and fees collected by the municipal court that are passed on to other government agencies.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

NOTE A – 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 include interfund services provided and/or used. Interfund services provided and/or used are accounted for as revenues and expenses since the elimination of such revenues and expenses would distort the direct costs and program revenues reported for the various functions.

Accounts recorded as program revenues include charges to customers, operating grants and contributions and capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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 a proprietary fund's principal ongoing operations. The principal operating revenues of the Ambulance Fund are ambulance fees and billing and collection charges. The principal operating revenues of the Booth-Kelly Fund are lease revenues. The principal operating revenues of the Sewer Fund are sewer user fees. The principal operating revenues of the internal service funds are charges to other funds for depreciation on equipment and for services provided. Operating expenses for the enterprise funds and internal service funds include administrative expenses, depreciation on capital assets and the cost of providing services. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's practice to use restricted resources first, then unrestricted resources as they are needed.

4. Assets, liabilities and net assets or equity

a. Cash and Investments

The City maintains a cash and investment pool that is available for use by all funds, as well as for MWMC and the Regional Fiber Consortium, two discretely presented component units. Interest earned on pooled investments is allocated to funds based on the pro-rata amounts each fund has in the pool. Each fund type's portion of this pool is displayed on the combined balance sheet as "cash and investments".

State statutes authorize the City and it's discretely presented component units to invest in obligations of the U.S. Treasury and its agencies, bankers' acceptances, high grade commercial paper, the State of Oregon Local Government Investment Pool and repurchase agreements.

Investments are reported at fair value.

For purposes of the statement of cash flows for proprietary fund types, cash and investments in the City-wide investment pool (including restricted cash and investments) are considered cash and cash equivalents.

The pool has the general characteristics of a demand deposit account in that funds may deposit additional cash at any time and may withdraw cash at any time without prior notice or penalty.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

b. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to /from other funds (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Real and personal property taxes attach as an enforceable lien on property as of July 1. All taxes are levied as of July 1 and are payable in three installments on November 14, February 15 and May 15. All property taxes are billed and collected by Lane County, Oregon and then turned over to the City.

For the year ended June 30, 2006, the City's tax levy did not exceed the Oregon constitutional limitation. The total property tax levy was $18,347,448. This includes general property taxes to support general obligation bond debt service of $1,038,356.

The City has foreclosed on properties, collateralizing assessments receivable over the past twenty years. The properties collateralizing the assessments receivable, where the right to redemption still exists by the benefited property owner, are recorded as liens receivable, which include the cost of the original assessment, foreclosure costs and interest to the date of foreclosure, as provided by Oregon Statutes. Once the right to redeem these properties no longer exists (after one year), the properties are deeded to the City and then become investment in foreclosed property. Liens receivable and investment in foreclosed property are offset by deferred revenue and, accordingly, have not been recorded as revenue in the governmental funds.

The value of these properties, both liens and investment in foreclosed property, has been adjusted to the lower of net realizable value or cost. Net realizable value for the City has been determined by reviewing the true cash value of these properties as recorded by the Lane County assessor, less the underlying property taxes that must be paid upon the sale of the property by the City.

c. Inventory

Governmental fund types – Inventory of materials and supplies is recorded at first-in, first-out (FIFO) cost and is shown in the balance sheet as an asset and a reservation of fund balance. The amount shown as inventory has been recorded as an expenditure, consistent with the "purchase method" of accounting for inventories.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

d. Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006 are recorded as prepaid items.

e. Restricted Assets

Assets whose use is restricted for construction, debt service or other purposes by provisions of grants, bond indentures or other agreements are segregated on the balance sheet.

f. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, multi-use paths and traffic control devices), are reported in the applicable governmental or business-type activities columns 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 greater than one year. Such assets are recorded at historical cost, or estimated historical cost if actual historical cost is not available. In the case of donations, the government values these capital assets at the estimated fair value of the item at the date of its donation.

As permitted by GAAP, the City has limited the retroactive capitalization of governmental fund infrastructure to fiscal years ending after June 30, 1980. Although the majority of such infrastructure was placed in service before that date, it has not been included in these financial statements since it has been substantially depreciated. In addition, the City has chosen to report infrastructure in the governmental activities column of the government-wide financial statements immediately rather than defer reporting to June 30, 2007.

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

Depreciation and amortization of capital assets are computed on the straight-line method over the estimated useful lives of the related assets. Upon disposal of such assets, the accounts are relieved of the related historical costs and accumulated depreciation, and resulting gains or losses are reflected in income. The estimated useful lives of the various categories of assets are as follows:

Category	Estimated Useful Life
Buildings	20-50 years
Equipment	5-20 years
Infrastructure	20-50 years

The capital assets of the Regional Fiber Consortium consist of fiber optic cable donated by the member governments. The cable is valued at fair market value. The fair market value was estimated at the present value of the right-of-way fees waived by the member governments in exchange for the cable. The useful life of the cable is estimated at 24 years.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Interest is capitalized on proprietary fund assets acquired with tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completing of the project with interest earned on invested proceeds over the same period.

g. Compensated Absences

Liabilities for accumulated vacation pay, holiday pay, compensatory time pay and sick pay at year-end are recorded in the government-wide financial statements and proprietary fund financial statements. The governmental fund financial statements do not report liabilities for compensated absences unless they are due for payment.

h. Long-term Liabilities

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

i. 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.

j. Indirect Expenses Allocation

In the government-wide statement of activities, program costs include incidental indirect costs.

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that "all liabilities are reported in the statement of net assets, however if they are not due and payable in the current period, they are not recorded in the governmental funds." The details of this $15,654,881 difference are as follows:

Bonds payable, net of original issue discount	$ 11,490,161
Notes payable	560,456
Due to developer	210,000
Compensated absences	3,394,264
Total	$ 15,654,881

NOTE B – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS – Continued

Another element of that reconciliation states that "capital assets are not financial resources in governmental funds, but are reported in the statement of net assets at their net depreciable value." The details of this $77,667,004 are as follows:

Capital assets (net of accumulated depreciation) reported in the Statement of Net Assets – governmental activities column:	
Land and work in progress	$ 37,965,785
Other capital assets (net of accumulated depreciation)	44,227,457
Total capital assets reported in internal service funds included in the Statement of Net Assets – governmental activities column (net of accumulated depreciation):	(4,526,238)
Net adjustment	$ 77,667,004

2. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between net changes in fund balances – total governmental funds and changes in net assets of government activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "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." The details of this $4,081,076 difference are as follows:

Capital outlay	$ 4,061,774
Donated capital assets	1,961,417
Depreciation	(1,942,115)
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	$ 4,081,076

Another element of that reconciliation states that "the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this $3,336,700 difference are as follows:

Issuance of general obligation bonds	$ 12,425,000
Less discounts	(134,645)
Principal repayment of general obligation debt	(620,000)
Principal repayment of note payable	(48,462)
Payment to escrow agent on refunding	(8,301,763)
Amortization of deferred charge on refunding	9,838
Amortization of bond issue discounts	6,732
Net adjustment to decrease net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	$ 3,336,700

NOTE C – STEWARSHIP, COMPLIANCE AND ACCOUNTABILITY

1. Budgetary information

The City follows these procedures in establishing the budgetary data reflected in the financial statements.

In April of each year, the City Manager submits a recommended budget to the Budget Committee (which consists of the City Council and an equal number of citizens of the City). The City's budget is prepared for each fund on the modified accrual basis of accounting. Estimated receipts and expenditures are budgeted for by fund, program and object. Information on the past two years' actual receipts and expenditures and current-year estimates are included in the budget document.

The Budget Committee conducts public hearings for the purpose of obtaining citizens' comments.

The Budget Committee then proposes an approved budget to the City Council for final adoption. The adopted expenditures for each fund may not be increased by more than 10% during the year without a special public hearing of the governing body with notice to the citizens published 5 to 30 days in advance. After the council adopts the budget and certifies the total of ad valorem taxes to be levied, no additional tax levy may be made for that fiscal year.

The City Council legally adopts the budget before July 1, by resolution. The resolution authorizes fund appropriations as current annual departmental requirements, debt service, capital projects, interfund transfers, interfund loans, statutory payments, contingencies, unappropriated fund balances and reserves. Expenditures cannot legally exceed appropriations at these control levels. Appropriations lapse as of the end of the year.

The City Council may change the budget throughout the year by transferring appropriations between levels of control and by adopting supplemental budgets as authorized by Oregon Revised statutes. Management may transfer budget amounts between individual line items within the control level, but cannot make changes between the legal levels of control. During the fiscal year ended June 30, 2006, the City Council approved several transfer resolutions and supplemental budgets increasing appropriations by $36,017,197.

2. Deficit Fund Balances

The Special Revenue Fund had a GAAP basis deficit ending fund balance of $33,258. The Special Revenue Fund incurs grant expenditures on a reimbursement basis. If the grantor agencies should disallow expenditures for reimbursement, the City plans to transfer funds from the General Fund.

The River Bend Development Fund had a GAAP basis deficit ending fund balance of $151,729.

The Community Development Block Grant Fund had a budget basis deficit ending fund balance of $118,626. This fund incurs grant expenditures on a reimbursement basis. If the grantor agencies should disallow expenditures for reimbursement, the City plans to transfer funds from the General Fund.

NOTE D – CASH AND INVESTMENTS

The City of Springfield maintains a common cash and investment pool that is available for use by all funds. At June 30, 2006, cash and investments are composed of the following:

Cash on Hand	$ 6,011
Cash with Fiscal Agent	5,500
Deposits	23,590,114
Local Government Investment Pool	12,436,389
Investments	54,569,628
	$ 90,607,642

Each fund's portion of this pool is displayed in the Statement of Net Assets.

Governmental Funds	$ 45,224,165
Business-type Funds	13,660,443
Component Units	
MWMC	26,037,219
MWMC Restricted	4,089,153
Regional Fiber	57,055
Not Appearing on Statement of Net Assets	
Fiduciary Fund	1,539,607
	$ 90,607,642

Deposits

On June 30, 2006, the City of Springfield held $23,590,114 in deposits. Of this total, $5,919,387 is in a commercial checking account with a bank balance of $6,389,546 and the remainder is invested in time certificates of deposit with local institutions. The insurance and collateral requirements for deposits are established by banking regulations and Oregon law. FDIC insurance of $100,000 applies to the deposits in each depository. Where balances continually exceed $100,000, ORS 295.025 requires the depositor to obtain certificates of participation (COPs) in the amount of the excess deposit from its pool manager. ORS 295.005 provides that the pool manager can be the Oregon State Treasury, an insured bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank. Depository banks must pledge securities with a value of at least 25% of the COP, and the securities are held by a custodian for the benefit of the State of Oregon. The pool manager ensures that the value of the securities pledged is at least 25% of the COP.

The balances in excess of the FDIC plus 25% of the COPs are considered exposed to custodial credit risk. Custodial credit risk for deposits is the risk that, in the event of the bank failure, the fund will be unable to recover deposits or collateral securities in possession of an outside party. As of June 30, 2006, the balances exposed to custodial credit risk totaled $17,316,835

Local Government Investment Pool

The Oregon State Treasurer maintains the Oregon Short Term Fund, of which the Local Government Investment Pool (LGIP) is a part. Participation by local governments is voluntary. The State of Oregon Investment policies are governed by statute and the Oregon Investment Council. In accordance with Oregon Statutes, funds are invested as a prudent investor would do, exercising reasonable care, skill and caution. LGIP was created to offer a short-term investment alternative for Oregon local governments. The investments are regulated by the Oregon Short-term Fund Board and approved by the Oregon Investment Council (ORS 294.805 to 294.895). Separate financial statements for the Oregon Short Term Fund are available from the Oregon State Treasurer or www.ost.state.or.us. On June 30, 2006, the City had $12,436,389 in the LGIP. This represents a book amount of $12,461,311 which was adjusted down by $24,922 to the fair value. The maximum amount of pooled investments to be placed in the LGIP is limited by Oregon Statute. At June 30, 2006, that amount was $39,304,918.

Investments
On June 30, 2006, the City of Springfield held $54,569,628 of investments: Corporate indebtedness of $6,913,032 and Government Agency securities totaling $47,656,596.

The scope of the City's investment policy includes not only investments, but all cash-related assets included within the scope of the City of Springfield's financial statements and held directly by the City. The investment policy establishes the City's permitted investments and provides guidelines for managing the various types of risk associated with these investments. The different risks will be discussed below.

A. Interest rate risk
Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. City staff manages this risk by limiting the maturity of the investments held by the City. The investment policy requires that all short-term investments mature in less than 18 months. The investment policy defines short-term investments as those not reserved for specific capital projects or debt payments. Long-term investments are required to have maturities less than 3 years. Commercial paper is required to have a maturity which does not exceed 270 days. On June 30, 2006, 100% of the total investments were considered short-term and had maturities less than 18 months. The table below displays the liquidity requirements of the investment policy and the liquidity characteristics of the City's cash and investments on June 30, 2006.

Maturity	Amount	Actual %	Investment Policy %
Under 30 days	$ 27,619,067	25%	10 % minimum
Under 90 days	31,620,067	35	25 % minimum
Under 270 days	64,398,877	71	50 % minimum
Under one year	80,957,261	89	80 % minimum
Under 18 months	90,607,642	100	100 % minimum

B. Credit risk
Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The City's investment policy provides that all corporate debt securities be rated at a minimum of A1 or AA by Standard and Poor's rating service or P1 or Aa by Moody's rating service, or for an Oregon issuer, a minimum of A1 or A or better by S & P; or P1 or Aa by Moody's. At June 30, 2006, all of the corporate debt in the City's portfolio is in compliance with the investment policy. The policies of the State of Oregon Investment Pool provide that the weighted average credit quality ratings for their holdings are a minimum of AA, Aa2 or AA for Standard & Poor's, Moody's or Fitch, respectively. On June 30, 2006, the pool's weighted average rating was between the AA+/Aa1/AA+ and AA/Aa2/AA ratings. At June 30, 2006, the City has $12,436,389 invested with the pool.

C. Custodial credit risk

Custodial credit risk is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of an investment or collateral securities in the possession of an outside party. The City's investment policy requires that broker/dealers meet certain qualifications and that purchased investment securities will be delivered by either Fed book entry, DTC, or physical delivery, and held in third party safekeeping - registered to the City of Springfield - with a designated custodian. All of the City's investments at June 30, 2006 were delivered by book entry to the account of BNY Western Trust Company, who holds the securities for the benefit of the City.

D. Concentration of credit risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The City's investment policy provides concentration guidelines by both institution and by type of investment. The table below displays the investment policy parameters and the actual concentrations of cash and investment funds at June 30, 2006. At June 30, 2006, the City's concentration in government agencies exceeds the investment policy limitation by 2%.

Diversification by Financial Institution:

Financial Institution	Amount	% Invested	Maximum % of Portfolio
State of Oregon Investment Pool	$ 12,436,389	14 %	100 %
US National Bank	10,919,387	12	15
Umpqua Bank	8,588,713	9	15
General Electric	3,999,721	5	5
Toyota	2,809,941	3	5
Government Agencies	47,759,967	53	N/A
Pacific Continental	2,081,013	2	15
Key Bank	1,000,000	1	15
Siuslaw Valley Bank	1,000,000	1	15
Other	12, 511	0	N/A
Totals	$ 90,607,643	100 %	

Diversification by Financial Instrument:

Instrument	Amount	% Invested	Maximum % of Portfolio
State of Oregon Investment Pool	$ 12,436,389	14%	100 %
Interest Bearing Checking Account	5,919,387	7	50 %
Money Market Account	4,352,099	5	50 %
Time Certificates of Deposit	13,318,627	15	25 %
Commercial Paper	6,809,662	7	25 %
Government Agencies	47,759,967	52	50 %
Other	11,511	0	0 %
Totals	$ 90,607,643	100 %	

E. Foreign currency

The City of Springfield has not made any investments that are not US dollar denominated, therefore the City is not exposed to this risk.

NOTE E – RECEIVABLES AND DEFERRED REVENUE

Receivables at June 30, 2006 consist of the following:

Fund	Property Taxes	Accounts	Assessments and liens	Grants	Accrued Interest	Mortgage Notes	Total gross receivable	Less Allowance for uncollectibles	Total net receivable
General	$ 625,853	$ 378,859	$ -	$ 15,930	$ 142,037	$ -	$ 1,162,679	$ -	$ 1,162,679
Street	89,384	855,768	-	117,907	79,210	-	1,142,269	-	1,142,269
CDBG	-	-	-	383,327	-	3,006,228	3,389,555	-	3,389,555
Development Projects	-	83,954	-	-	82,614	17,704	184,272	-	184,272
Sewer	-	842,712	-	-	109,284	-	951,996	-	951,996
Ambulance	-	1,201,823	-	-	8,151	-	1,209,974	(577,925)	632,049
Booth-Kelly	-	12,777	-	-	11,669	-	24,446	-	24,446
Nonmajor funds	254,814	162,934	130,234	147,470	84,320	12,243	792,015	-	792,015
Internal Service Funds	-	90,824	-	-	74,277	-	165,101	-	165,101
	$ 970,051	$ 3,629,651	$ 130,234	$ 664,634	$ 591,562	$ 3,036,175	$ 9,022,307	$ (577,925)	$ 8,944,382

Assessments and liens, and mortgage notes are collateralized by real estate.

Mortgage notes within the Special Revenue and CDBG funds are a result of loans made under the HOME and CDBG federal programs. Repayment is dependent on the type of mortgage note. Deferred payment loans, housing improvement loans, and SHOP loans are due and payable at the time of sale or transfer of title. Rental rehabilitation loans are considered paid in full 10 years after the date the note is signed, provided the client meets all contract requirements. If all contract requirements are not met, the note becomes immediately due in full. Home revolving loans are due and payable at the earlier of sale or transfer of title, or 24 months from the date of project completion. CHDO and HOME loans require amortized monthly payments. The first payment is due a specified number of months after project completion. Most loans are interest free.

In all cases, loans become immediately due and payable if the client fails to meet any contract requirements.

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. In addition, governmental funds report unearned revenue in connection with resources that have been received but not yet earned. At June 30, 2006, the various components of deferred and unearned revenue consist of the following:

NOTE E – RECEIVABLES AND DEFERRED REVENUE - Continued

FUND BY TYPE	Deferred	Unearned	Total
Property taxes receivable:			
General fund	$ 600,354	$ -	$ 600,354
Debt service funds	128,480	-	128,480
Special revenue funds	114,199	-	114,199
Capital project funds	5,058	-	5,058
Fees and charges:			
General fund	8,714	-	8,714
Street fund	461,386	-	461,386
Development projects fund	83,954	-	83,954
Special revenue funds	154,483	-	154,483
Grants receivable:			
General fund	83,295	-	83,295
Street fund	228,319	-	228,319
Special revenue funds	100,600	4,122	104,722
CDBG fund	2,846,398	-	2,846,398
Mortgage notes receivable:			
Development projects fund	17,704	-	17,704
Assessments:			
Debt service funds	81,842	-	81,842
Capital projects funds	51,021	-	51,021
Use of Money & Property:			
Special revenue funds	11,385	-	11,385
Street fund	8,000	-	8,000
CDBG fund	195,369	-	195,369
Total deferred revenue	$ 5,180,560	$ 4,122	$ 5,184,682

NOTE F – CAPITAL ASSETS

Primary Government

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$32,014,712	$ 1,855,495	$ (250)	$33,869,957
Work in progress	3,110,184	2,032,809	(1,047,165)	4,095,828
Total capital assets, not being depreciated	35,124,896	3,888,304	(1,047,415)	37,965,785
Capital assets, being depreciated:				
Buildings	14,469,599	15,574	-	14,485,173
Infrastructure	41,884,102	2,720,300	-	44,604,402
Machinery & equipment	13,142,017	814,825	(350,828)	13,606,014
Library books	1,599,054	228,246	-	1,827,300
Studies	183,592	-	-	183,592
Bond issue costs	-	63,112	(3,155)	59,957
Total capital assets, being depreciated	71,278,364	3,842,057	(353,983)	74,766,438
Less accumulated depreciation for :				
Buildings	(6,341,225)	(378,034)	-	(6,719,259)
Infrastructure	(12,830,231)	(1,276,223)	-	(14,106,454)
Machinery & equipment	(7,605,098)	(1,155,055)	337,050	(8,423,103)
Library books	(1,094,036)	(104,333)	-	(1,198,369)
Studies	(73,436)	(18,360)	-	(91,796)
Total depreciation	(27,944,026)	(2,932,005)	337,050	(30,538,981)
Total capital assets, being depreciated, net	43,334,338	910,052	(16,933)	44,227,457
Governmental activities capital assets, net	$ 78,459,234	$ 4,798,356	$ (1,064,348)	$ 82,193,242

NOTE F – CAPITAL ASSETS- Continued

Business-type activities:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	$ 4,073,713	$ 5,528	$ -	$ 4,079,241
Construction in progress	4,463,374	2,378,406	(2,372,369)	4,469,411
Total capital assets, not being depreciated:	8,537,087	2,383,934	(2,372,369)	8,548,652
Capital assets, being depreciated:				
Buildings & structure	39,750,524	2,855,814	-	42,606,338
Land improvements	507,931	-	-	507,931
Equipment	1,091,229	-	-	1,091,229
Studies	176,554	-	-	176,554
Bond issue costs	56,222	-	(5,646)	50,576
Total capital assets,being depreciated	41,582,460	2,855,814	(5,646)	44,432,628
Less accumulated depreciation for:				
Land improvements	(356,903)	(25,397)	-	(382,300)
Buildings	(10,828,242)	(955,449)	-	(11,783,691)
Equipment	(824,372)	(80,889)	-	(905,261)
Studies	(65,739)	(3,642)	-	(69,381)
Total depreciation	(12,075,256)	(1,065,377)	-	(13,140,633)
Total capital assets, being depreciated, net	29,507,204	1,790,437	(5,646)	31,291,995
Business-type activities capital assets, net	$38,044,291	$ 4,174,371	$ (2,378,015)	$ 39,840,647

NOTE F – CAPITAL ASSETS- Continued

Depreciation expense was charged to functions of the City as follows:

Governmental activities:	
General Government	$ 325,955
Police	254,461
Fire	332,856
Public Works	1,615,523
Library	120,438
Development Services	46,884
Unallocated	235,888
Total depreciation expense – governmental activities	$2,932,005
Business-type activities:	
Sewer	$776,464
Booth-Kelly	217,062
Ambulance	71,851
Total depreciation expense – business type activities	$1,065,377

Reconciliation to Proprietary Funds Statement of Revenues, Expenses and Changes in Fund Net Assets

Business type activities depreciation	$1,065,377
Amortization of bond issue costs	5,646
Amortization of original issue discount	3,181
Total depreciation and amortization expense	$1,074,204

NOTE F – CAPITAL ASSETS- Continued

Component units:

Metropolitan Wastewater Management Commission

	Beginning Balance	Increases	Decreases and Reclassifications	Ending Balance
Capital assets, not being depreciated:				
Land	$ 7,812,697	$ -	$ (81,147)	$ 7,731,550
Construction in progress	4,157,259	2,303,621	(2,972,674)	3,488,206
Total capital assets, not being depreciated:	11,969,956	2,303,621	(3,053,821)	11,219,756
Capital assets, being depreciated:				
Buildings	61,702,796	100,000	(2,267,760)	59,535,036
Machinery & equipment	73,789,481	4,483,783	(7,363,424)	70,909,840
Other	1,665,663	6,028	-	1,671,691
Total capital assets,being depreciated	137,157,940	4,589,811	(9,631,184)	132,116,567
Less accumulated depreciation for:				
Buildings	(31,982,620)	(1,679,865)	1,124,817	(32,537,668)
Machinery & equipment	(48,053,292)	(2,575,731)	5,469,117	(45,159,906)
Other	(390,351)	(85,178)	-	(475,529)
Total depreciation	(80,426,263)	(4,340,774)	6,593,934	(78,173,103)
Total capital assets, being depreciated, net	56,731,677	249,037	(3,037,250)	53,943,464
Total capital assets, net	$68,701,633	$2,552,658	$(6,091,071)	$65,163,220

Regional Fiber Consortium

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets being depreciated				
Fiber cable	$ 27,446,105	$ -	$ -	$ 27,446,105
Less accumulated depreciation for:				
Fiber cable	(4,574,351)	(1,143,588)	-	(5,717,939)
Capital assets, net	$ 22,871,754	$ (1,143,588)	$ -	$ 21,728,166

In proprietary funds, the following estimated useful lives are used to compute depreciation:

Buildings	10 to 40 years
Sewer lines	50 years
Equipment	3 to 20 years
Fiber system	24 years

NOTE G - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions; injuries to employees, and natural disasters.

The City maintains a professional risk management program. Various risk control techniques, including employee accident prevention training, have been implemented to minimize accident-related losses. The City has third-party coverage for all lines of insurance. The liability program has token deductibles (less than $1,000), except for workers' compensation claims. No significant reductions in the levels of insurance coverage have been made in the past fiscal year. Settled claims have not exceeded insurance coverage in any of the past three fiscal years, except in the fiscal year ended June 30, 2003, when the City paid $50,000 to settle a disputed contract issue with several firefighters.

During fiscal year 1991, the City implemented a Workers' Compensation Self-Insurance Plan (Plan). Under the Plan, the City is self-insured up to a maximum of $150,000 per occurrence with specific excess and aggregate excess insurance purchased. Claims, expenditures and liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported.

The Workers' Compensation Self-Insurance Plan was terminated on March 31, 1999. From that point forward, workers compensation claims have been covered by third-party carrier, SAIF Corporation.

At June 30, 2006, the amount of liabilities for self-insured claims incurred but not reported was $2,400. This liability is the City's best estimate based on available information.

Changes in the reported liability since June 30, 1994 resulted from the following:

	Beginning of Fiscal Year Liability	Current Year Claims and Change in Estimates	Claim Payments	Balance At Fiscal Year End
1993-94	$ 64,000	$702,000	$(194,000)	$572,000
1994-95	572,000	52,000	(169,000)	455,000
1995-96	455,000	232,000	(117,000)	570,000
1996-97	570,000	179,000	(186,000)	563,000
1997-98	563,000	215,000	(317,000)	461,000
1998-99	461,000	193,000	(204,000)	450,000
1999-00	450,000	(192,000)	(117,000)	141,000
2000-01	141,000	67,000	(61,000)	147,000
2001-02	147,000	(23,000)	(60,000)	64,000
2002-03	64,000	29,000	(28,000)	65,000
2003-04	65,000	79,000	(27,000)	117,000
2004-05	117,000	(12,000)	(76,000)	29,000
2005-06	29,000	(21,100)	(5,500)	2,400

NOTE H - CAPITAL AND OPERATING LEASES

The City leases certain equipment under various operating leases which are not, in the aggregate, material.

The City purchased a fire engine in the fiscal year ending June 30, 2004 for $227,501 with a down payment of $5,563 and entered into a lease agreement for financing the remaining balance of $221,938 over 6 years. The City purchased equipment in the fiscal year ending June 30, 2006 for $32,296 with no down payment and monthly payments over 5 years. These 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 assets acquired through capital leases are as follows:

Machinery and equipment	$259,798
Less: Accumulated depreciation	(33,966)
Total	$225,832

The future minimum lease obligations as of June 30, 2006, are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2007	$ 36,517	7,823
2008	38,068	5,889
2009	40,037	3,920
2010	39,572	1,935
2011	3,390	57
Totals	$ 157,584	$ 19,624

NOTE I - LONG-TERM DEBT

General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. The original amount of general obligation bonds issued in prior years was $12,700,000.

The City sold $4,000,000 of new general obligation bonds to generate resources to construct a new Justice Center. The total of the original issue discount on the Series 2005 bonds of $10,148 and the underwriter's discount of $124,498 are being amortized over the life of the new bonds.

Advanced Refunding

The City issued $8,425,000 of general obligation refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments on the Series 1996A general obligation bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by $196,763. This amount is being netted against the new debt and amortized over the life of the new bonds. The refunding was undertaken to reduce total future debt service payments. The net present value of the aggregate difference between debt service on the refunded debt and debt service on the refunding debt is $721,175. The transaction resulted in an economic gain of $721,355.

General obligation bonds payable transactions for the year ended June 30, 2006 are as follows:

	Issue Date	Final Maturity Date	Effective Interest Rate	Outstanding July 1, 2005	Issued During Year	Refunded/ Matured/Called During Year	Outstanding June 30, 2006	Due Within One Year
General issue bonds, paid from ad valorem taxes:								
Series 1996 A	3-01-96	2015	5.37%	$ 8,105,000	$ -	$ (8,105,000)	$ -	$ -
Series 2005	7-26-05	2025	3.49%	$ -	$ 12,425,0000	$ 620,000	$ 11,805,000	$ 935,000

Revenue Bonds

The City issues revenue bonds to finance major construction projects in business-type activities. Revenue bonds are secured by system revenues. The original amount of revenue bonds issued in prior years was $1,985,000. Revenue obligation bonds payable transactions for the year ended June 30, 2006 are as follows:

	Issue Date	Final Maturity Date	Effective Interest Rate	Outstanding July 1, 2005	Issued During Year	Matured During Year	Outstanding June 30, 2006	Due Within One Year
Sewer system revenue bonds serviced by fund revenues:								
Series 2005	5-13-05	2015	3.625	$1,985,000	$ -	$ (170,000)	$ 1,815,000	$ 170,000

NOTE I - LONG-TERM DEBT - Continued

Maturities of bond principal and interest are as follows:

	General Obligation Bonds		Revenue Bonds		Total	
Year	Principal	Interest	Principal	Interest	Principal	Interest
2006-07	$ 935,000	$ 381,450	$ 170,000	$ 58,612	$ 1,105,000	$ 440,062
2007-08	960,000	355,738	175,000	53,512	1,135,000	409,250
2008-09	985,000	329,338	190,000	48,262	1,175,000	377,600
2009-10	1,010,000	301,758	200,000	42,562	1,210,000	344,320
2010-11	1,035,000	271,458	200,000	36,562	1,235,000	308,020
2011-12	1,065,000	240,408	205,000	30,312	1,270,000	270,720
2012-13	1,100,000	207,393	215,000	23,650	1,315,000	231,043
2013-14	1,130,000	171,643	225,000	16,394	1,355,000	188,037
2014-15	1,165,000	134,352	235,000	8,519	1,400,000	142,871
2015-16	205,000	94,743	-	-	205,000	94,743
2016-21	1,135,000	355,938	-	-	1,135,000	355,938
2021-25	1,080,000	112,495	-	-	1,080,000	112,495
	11,805,000	2,956,714	1,815,000	318,385	13,620,000	3,275,099
Unamortized discount	(314,839)	-	(28,496)	-	(343,335)	-
	$ 11,490,161	$ 2,956,714	$ 1,786,504	$ 318,385	$ 13,276,665	$ 3,275,099

Notes Payable

At June 30, 2006 notes payable are as follows:

Governmental activities:

Oregon Special Public Works (OSPW), payable in annual installments of $81,684 including interest at 5.8%, due 2015	$ 560,456

Business-type activities:

Oregon Department of Environmental Quality (DEQ) State Revolving Fund loan, payable in semiannual installments of $36,609 including interest at 3%, due 2014	517,320
Oregon Department of Environmental Quality (DEQ) State Revolving Fund loan, payable in semiannual installments of $147,256 including interest at 3.93%, due 2011. In addition, the City pays additional interest annually based on the declining principal balance.	1,325,162
Subtotal business-type activities	1,842,482
TOTAL	$ 2,402,938

Principal amounts due on these notes payable in each of the next five years, and in the aggregate thereafter, are as follows:

Fiscal Year	Governmental Activities	Business-type Activities
2006-07	$ 49,177	$ 298,227
2007-08	52,030	309,513
2008-09	55,047	321,229
2009-10	58,240	333,394
2010-11	61,618	346,024
Thereafter	284,344	234,095
	$ 560,456	$ 1,842,482

Notes and Contracts Payable, Governmental Activities

Changes in notes and contracts payable recorded in governmental activities and business-type activities for the year ended June 30, 2006 are as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Governmental activities				
Notes payable	$ 608,918	$ -	$ 48,462	$ 560,456
Contracts payable	210,000	-	-	210,000
	$ 818,918	$ -	$ 48,462	$ 770,456
Business-type activities	$ 2,248,720	$ -	$ 406,238	$ 1,842,482

The contract payable represents an amount due to Sycan B Corporation for a land purchase, with a due date to be established by mutual agreement of both parties.

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
General obligation bonds	$ 8,105,000	$12,425,000	$ (8,725,000)	$ 11,805,000	$ 935,000
Less deferred amounts for issuing discounts	-	(331,409)	16,570	(314,839)	-
Total bonds payable	8,105,000	12,093,591	(8,708,430)	11,490,161	935,000
Notes payable	608,918	-	(48,462)	560,456	49,177
Contracts payable	210,000	-	-	210,000	-
Capital leases	158,167	32,296	(32,879)	157,584	36,517
Compensated absences	3,137,807	526,245	(269,788)	3,394,264	296,595
Governmental activity long-term liabilities	$ 12,219,892	$ 12,652,132	$ (9,059,559)	$ 15,812,465	$ 1,317,289
Business-type activities:					
Bonds payable:					
Revenue bonds	$ 1,985,000	-	$ (170,000)	$ 1,815,000	$ 170,000
Less deferred amounts for issuance discounts on refunding	(31,677)	-	3,181	(28,496)	-
Total bonds payable	1,953,323	-	(166,819)	1,786,504	170,000
Notes payable	2,248,720	-	(406,238)	1,842,482	302,945
Compensated absences	517,933	264,179	(165,401)	616,711	236,111
Business-type activities long-term liabilities	$ 4,719,976	$ 264,179	$ (738,458)	$ 4,245,697	$ 709,056
Discretely presented component unit					
MWMC					
Compensated absences	$ 51,111	$ 64,699	$ (14,280)	$ 101,530	$ 28,367

For the governmental activities, compensated absences are generally liquidated by the general fund.

NOTE J – RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY

Interfund Payables & Receivables

Receivable Fund	Payable Fund	Amount
Ambulance fund	Internal service funds	$ 56,863
Booth Kelly fund	Internal service funds	28,532
Sewer fund	Internal service funds	65,455
Total due to/from other funds (different fund types)		$ 150,850

The balances shown above are for services rendered and are generally paid within 30 days.

Receivable Fund	Payable Fund	Amount
General fund	Special Revenue fund	$ 95,977
General fund	RiverBend fund	49,375
Development Assessment fund	Bancroft fund	50,426
Total due to/from other funds (similar fund types)		$ 195,778

Interfund receivables and payables are due to temporary cash flow deficiencies and are generally paid back within 30 days.

Amounts due to other governments at June 30, 2006 are presented below:

Fund	MWMC
Internal service funds	$ 24,009
Total due to other governments – government-wide statement of net assets	$ 24,009

Interfund Transfers

Fund	General	Street	CDBG	Development Projects	Non-major Governmental Funds	Internal Service	Total Transfers Out
General	$ -	$ 10,000	$ -	$ -	$ 75,533	$ 85,000	$ 170,533
Street	-	-	-	-	12,405	-	12,405
Non-major Governmental	680,653	-	88,049	325,772	23,545	-	1,118,019
Sewer	-	373	-	-	71,311	-	71,684
Booth Kelly	344,868	-	-	-	-	-	344,868
Internal Service	18,714	-	-	-	-	2,079	20,793
Total Transfers In	$ 1,044,235	$ 13,987	$ 88,049	$ 325,772	$ 182,794	$ 87,079	$ 1,741,916

NOTE J – RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY - Continued

Transfers are routinely made for the following purposes:

To move unrestricted revenues collected in other funds to the general fund to finance government programs.

To move revenues appropriated for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due.

NOTE K – REBATABLE ARBITRAGE

The City issued general obligation bonds in the amount of $12,700,000 on March 1, 1996. The first arbitrage calculation was prepared in March 2001. At that time, the City's liability was calculated as $207,648. Payments were made to the Internal Revenue Service in the amount of $186,883, leaving a liability in the General Obligation Bond Capital Projects fund of $20,765. The next arbitrage calculation was prepared in March 2006. No additional liability was calculated or paid at that time. A final arbitrage calculation was prepared in June 2006, when the bonds were called. This calculation produced a total arbitrage liability of $69,224. The City has applied to the Internal Revenue Service for a refund of $117,659. The liability was removed from the General Obligation Bond Capital Projects fund. As the overpayment amount could be subject to IRS audit, no receivable is recorded in the financial statements.

The City issued general obligation bonds in the amount of $12,425,000 in December 2005. Arbitrage liability is estimated at $20,712 and is recorded in the Police Building Bond Capital Project fund.

NOTE L – DEFINED CONTRIBUTION PENSION PLAN

<u>City Retirement Plan</u>
The City sponsors a single-employer pension plan for Springfield Police Association employees hired before April 1, 1996 (City Retirement Plan – CRP). Participants of the plan are fully vested for employer contributions after five years participation in the plan. Participants are fully vested for employee contributions at all times.

The CRP covers full-time regular employees covered by the Springfield Police Association and Fire management hired before April 1, 1996, all Police management employees, and all disability retirees formerly in the Money Purchase Pension Plan. The CRP is subject to Oregon PERS "equal to or better than" statutory requirements. PERS completed its latest "equal to or better than" testing in July of 2005. The most recent testing prior to July 2005 was in 1995.

Prior to August 1, 2005, the City contributed 7% of salaries as employee contributions. The City also paid an employer contribution of 12.6% for public safety employees, in compliance with PERS "equal to or better than" statutory requirements, and employer contribution of 10% for police dispatchers and 7% for other union employees. The annual interest earnings to be credited to plan participants' accounts were guaranteed at 9% for emergency service employees. The guarantee for disability retirees was 8%. The guaranteed earnings requirement makes the CRP a "hybrid" pension plan. Periodic actuarial valuations are performed to determine the amount of contribution need to fund the plan. Wells Fargo Bank is trustee for the CRP.

NOTE L – DEFINED CONTRIBUTION PENSION PLAN - Continued

The change the City of Springfield made in August of 2005, in response to the "equal to or better than" tests completed by PERS and labor contract language, was to reduce the employer contribution of 12.6% for public safety employees to 2.3%. This change by the City prompted both an unfair labor practice filling by the SPA and the filing of a suit in the Circuit Court against both the City and PERS by SPA and one police management employee. As of June 30, 2006, the Employee Relations Board has settled the unfair labor practice in favor of the City. As of that same date, the suit in Circuit Court was still pending.

Subsequent to June 30, 2006, but prior to November 10, 2006, the City and SPA reached agreement on a new labor contract retroactive to July 1, 2005 and containing an agreement to amend the CRP from both what was in effect on July 1, 2005 and the change that was made in August of 2005. In summary and retroactive to August 1, 2005 for SPA members, the City will contribute 6% of salaries as employee contributions. The City will also pay an employer contribution of 12.8% for public safety employees and employer contribution of 10% for police dispatchers and 7% for other union employees. The annual interest earnings to be credited to plan participants' accounts remains at a guarantee of 9% for emergency service employees while employed with the City, but includes additional provisions on the withdrawal of individual retirement funds once employment is terminated. Negotiations are currently underway with police management employees towards acceptance of the same terms and conditions for their participation in the CRP. As of this time, the suit filed in Circuit Court by SPA on behalf of its members and one police management employee is still pending. Settlement of the labor contract, which includes the new provisions of the CRP, has resulted in an agreement in principle to drop the suit on behalf of SPA members. Final disposition of the suit is not likely until final CRP amendments are settled with all police management employees.

Funding policy – The City's contribution rate, based upon the most current actuarial valuation as of June 30, 2003, is 41.72%. This rate has continued to be utilized. The change required in the CRP from the PERS "equal to or better than" and the resulting litigation has prevented the City from completing an updated actuarial study as planned for June 30, 2005. An actuarial study as of June 2006 is now underway and will be implemented immediately upon completion.

The City's contribution to the CRP was calculated using the covered base salary amount of $3,108,258. The City's total payroll was $24,377,875.

Annual Pension Cost – For the fiscal year 2005-06, the City's contribution of $1,220,539 for the CRP was equal to the City's required and actual contributions. The required contributions and liabilities were determined as part of the July 2003 actuarial valuation using the Aggregate Actuarial Cost method. Significant actuarial assumptions used in the valuation include: (a) a rate of return on the investment of present and future assets of 8% per year; (b) projected annual salary increases for inflation of 5% per year; (c) demographic assumptions chosen to mirror those in use by Oregon PERS except: (d) 50% of the members who terminate or retire will leave their accounts in the Plan until they reach age 65.

NOTE L – DEFINED CONTRIBUTION PENSION PLAN – Continued

The following table presents trend information for the CRP:

Fiscal Year Ending	Annual Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2000	$591,234	100%	$ -
6/30/2001	902,199	100	-
6/30/2002	899,739	100	-
6/30/2003	803,591	100	-
6/30/2004	756,650	104	-
6/30/2005	801,702	100	-
6/30/2006	1,220,539	100	-

The following table presents a schedule of required contributions for the CRP:

Acturial Valuation for the Year Ended June 30,	Present Value of Projected Benefits	Less Market Value of Assets	Value of Future Contributions	Value of Future Salaries	Total Contribution Rate
1997	$26,032,656	$15,103,201	$10,929,455	$36,388,012	30.04%
2000	26,575,704	17,435,792	9,138,912	35,223,549	25.95%
2003	28,755,625	16,893,683	11,861,942	30,535,724	38.82%*

* The actuary provided the following recommended contribution schedule and provided assurance that it is actuarially equivalent to contributing 38.82% effective July 1, 2003.

July 1, 2003 – June 30, 2005	27.60%
July 1, 2005 and thereafter	41.72%

If all future experiences emerge as assumed, the total City contribution rate multiplied by the salary of active members will produce sufficient income to fully fund all benefits by the time the last active member leaves the workforce.

A separate, audited GAAP-basis pension plan report for this plan is not available.

NOTE M – DEFINED BENEFIT PENSION PLAN

Plan Description – All City employees in qualified fire public safety positions and full time regular public safety employees covered by the Springfield Police Association (SPA) hired on or after April 1, 1996, and beginning April 1, 2002, all general service employees participate in the Oregon Public Employees Retirement System (OPERS). Contributions are made for employees after six months of employment unless they are already members of OPERS and eligible for contributions when they begin employment. OPERS is an agent multiple-employer defined benefit pension plan that acts as a common investment and administrative agent for government units in the State of Oregon. Benefits generally vest after five years of continuous service in OPERS covered position(s).

Retirement age varies depending on whether the member belongs to Tier 1, Tier 2 or OPSRP, whether the member is a general services employee or a public service employee and whether the member is retiring with full or reduced benefits.

	Full Benefit		Reduced Benefit	
	Public Safety	General Service	Public Safety	General Service
PERS Tier 1	55	58	50	55
PERS Tier 2	55	60	50	55
OSPRP	60	65	50	55

Compulsory retirement age is 70.

Contributions made by, or on the behalf of, the employee are payable in a lump sum or monthly amounts using several payment options. OPERS also provides death and disability benefits. These benefit provisions and other requirements are established by state statutes, Chapter 238, Oregon Revised Statutes.

In the 2003 legislative session, the Oregon Legislative Assembly created a successor plan for PERS. The Oregon Public Service Retirement Plan (OPSRP) is effective for all new employees hired on or after August 29, 2003, and applies to any inactive PERS members who return to employment following a six month or greater break in service. The new plan consists of a defined benefit program (the Pension Program) and a defined contribution portion (the Individual Account Program or IAP). The Pension Program portion of OPSRP provides a life pension funded by employer contributions. Benefits are calculated by a formula for members who attain normal retirement age. The formula takes into account final average salary and years of service and a factor that varies based on type of service (general vs. police or fire).

Beginning January 1, 2004, all PERS member contributions go into the IAP portion of OPSRP. PERS members retain their existing PERS accounts, but any future member contributions are deposited into the member's IAP, not the member's PERS account. Those employees who had established a PERS membership prior to creation of OPSRP will be members of both the PERS and OPSRP system as long as they remain in covered employment.

Both existing PERS and OPSRP accounts are administered by the Oregon Public Employees Retirement Board (OPERB). The comprehensive annual financial report of the funds administered by the OPERB may be obtained by writing to the Oregon Public Employees Retirement System, PO Box 23700, Tigard, Oregon 97281-3700, by calling (503) 598-7377, or by accessing the PERS website at www.pers.state.or.us.

Funding Policy – The City's contribution rate for the fiscal year ended June 30, 2006 was 11.86% of covered payroll for the following members: PERS Fire (Emergency Services), PERS Fire Management (Emergency

Services), PERS General Service and PERS Police (Emergency Services). For members of OPSRP Fire (Emergency Services), OPSRP Fire Management (Emergency Services), OPSRP Police (Emergency Services), the rate was 11.65% of covered payroll. For members of OPSRP General Service, the rate was 8.04% of covered payroll.

The required employee contribution of 6% of covered compensation is paid by the City for SPA members and is paid by employee contribution for all other members. The contribution requirements of the City are established and may be amended by the OPERS Retirement Board, while the employees' rate is set by the state statute, ORS 238.200. The City's payroll for employees covered by OPERS for the year ended June 30, 2006 was $21,148,110. The City's total payroll was $24,377,875.

Annual Pension Cost – For the fiscal year 2005-06, the City's annual pension cost of $3,811,289 for OPERS was equal to the City's required and actual contributions. Of this amount, $2,565,257 was funded by the City and $1,246,032 was paid by employee contributions from fire public safety and general service members. The required contributions and liabilities were determined as part of the December 31, 2003 actuarial valuation using the entry age actuarial cost method and amended in April 2002 to reflect the additional city OPERS members. Because all OPERS employers are required by law to submit the contributions adopted by the Retirement Board, and the employer contributions are calculated in conformance with the standards of GASB Statement No. 27, there is no net pension obligation. The contributions actually made are equivalent to the annual pension cost. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.0% per year; (b) projected annual salary increases for inflation of 4.25% per year; (c) projected automatic post-retirement benefit increases of 2.0% per year; and (d) demographic assumptions chosen to reflect the best estimate of emerging experience of the members of OPERS. The unfunded actuarial liability is amortized as a level percentage of covered payroll over a thirty year period on an open basis.

The actuarial value of OPERS assets are reported at fair market value, less a reserve equal to a pro-rata portion of the investment gains (losses) over the four-year period ending on the valuation date. Investment gains (losses), effective from January 1, 2000, are recognized at the rate of 25% per year. The actuarial value of assets is limited to a 10% corridor above and below the fair market value.

The following table presents three-year trend information for the City's Defined Benefit Pension Plan:

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/03	$2,696,586	100%	$ -
6/30/04	3,257,793	100	-
6/30/05	3,554,616	100	-
6/30/06	3,811,289	100	-

NOTE N – OTHER POSTEMPLOYMENT BENEFITS

The City provides postretirement health benefits for qualified retirees and their eligible dependents. The following groups are eligible: Non-Medicare eligible regular retirees, disability retirees, Non-Medicare eligible early retirees eligible for pension under a City Plan or OPERS with at least 2 years of benefited service at the City, and Non-Medicare eligible early retirees whose age plus years of service equal 70 or greater at their time of retirement. The authority for this coverage is City personnel policy. At June 30, 2006, 36 qualified retirees are eligible to receive this benefit. The cost of the coverage, financed on a pay-as-you-go basis, is shared between the City and the retirees. The city's share is capped at $115 per month, per qualified retiree. The total cost of providing this coverage for the fiscal year ended June 30, 2006 was $31,179.

The City also provides disability retirement contributions for employees who cease working because of a permanent disability. The following groups are eligible: employees, who at the time of disability retirement were covered under the City Retirement Plan, and employees, who at the time of disability retirement were covered under the Money Purchase Pension Plan. The authority for this coverage is in the pension plan documents. All of the disability retirees are members of the City Retirement Plan.

For these employees, the amount of the pension contribution is either 7% or 12.6% of the employee's last monthly salary, depending on what the employee's contribution rate was before retirement. At June 30, 2006, there were six employees receiving this benefit. No payments are sent to the plan for these employees, but their accounts are credited for the correct amount.

NOTE O - COMMITMENTS AND CONTINGENCIES

At June 30, 2006, the City was obligated under incomplete construction contracts in the amount of $73,607.

The Sick Leave Reserve Program was substantially revised effective July 1, 2004. The plan allows employees to join by contributing hours from their sick leave bank. The number of hours required to join depends on the employee's status (full time vs. part time) and regular weekly schedule (40 hours vs. 56 hours). Employees may draw from the reserve bank under certain circumstances. Prior to drawing, employees must exhaust all their own leave accruals first. At June 30, 2006, the Sick Leave Reserve Program bank contained 2,809 hours. The value of these hours are not included in the liability for compensated absences because there is no estimate of the number of hours that will be used.

NOTE P – CONSTITUTIONAL PROPERTY TAX LIMITATION

The State of Oregon has a constitutional limit on property taxes for governmental operations. The limitation specifies a maximum rate for local government operations of $10.00 per $1,000 of assessed value.

In May 1997, the voters approved a citizen initiative (Measure 50) that rolls back assessed property values to 90 percent of their 1995-96 real market value amount and limits future increases to 3 percent per year, except for major improvements. Under Measure 50, voters may approve new local initiatives provided a majority approves at either a general election in an even numbered year, or at any other election in which at least 50 percent of registered voters cast a ballot.

NOTE Q – SUBSEQUENT EVENTS

On November 7, 2006, Springfield voters approved two local option levies: The Fire local option levy is a renewal of an existing levy and will continue to provide funding to fully staff a fifth fire engine company for the City. The levy continues until June 30, 2011. The Police local option levy is a renewal of an existing levy that provides funding for police officers, court and city prosecutor staff through June 30, 2013. In addition, the levy also provides operating resources for a planned 100-bed municipal jail for which construction will begin in early 2007.