



CITY OF BROCKTON, MASSACHUSETTS

Basic Financial Statements and
Required Supplementary Information

June 30, 2009

(With Independent Auditors' Report Thereon)

CITY OF BROCKTON, MASSACHUSETTS

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Independent Auditors' Report

The Honorable Mayor and City Council
City of Brockton, Massachusetts:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brockton, Massachusetts (the City), as of and for the year ended June 30, 2009, 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's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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, each major fund, and the aggregate remaining fund information of the City of Brockton, Massachusetts, as of June 30, 2009, and the respective changes in financial position and where applicable, cash flows, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have issued a separate report, dated March 22, 2010, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



The management's discussion and analysis on pages 3 through 17, the budgetary comparison information on pages 58 through 60, and the schedules of funding progress and contributions from employers on page 61 are not required parts of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

March 22, 2010

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2009

(Unaudited)

As management of the City of Brockton (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009.

Brockton is a city located in Plymouth County, 20 miles southwest of Boston. The City has a population of approximately 94,304 (2000 federal census) and occupies a land area of 21.4 square miles. Brockton is the population center of a primary metropolitan statistical area of approximately 170,000 persons. Government is by an elected mayor and 11-member city council.

The City provides general governmental services for the territory within its boundaries, including police and fire protection, public education, water and sewer maintenance, trash disposal and parks and recreational facilities. Residential trash disposal and operation of the water filtration and wastewater treatment plant facilities are contracted out to private parties.

Financial Highlights

- The assets of the City exceeded its liabilities at the close of fiscal 2009 by approximately \$277.4 million (net assets).
- The City's total net assets decreased in fiscal year 2009 by approximately \$11.6 million, or 4.0%. This is primarily due to the recognition of a \$30.7 million increase in the other post employment benefit liability.
- At the end of fiscal 2009, undesignated fund balance for the general fund was approximately \$10.3 million or 3.8%, of total general fund expenditures.
- The City's total bonded debt decreased by approximately \$3.0 million, or 1.2%, during fiscal 2009. This decrease was due to scheduled debt repayments exceeding new debt issuances.

Overview of the Financial Statements

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

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

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

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

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Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general administration, public safety, education, public works, human services, and cultural development. The business-type activities of the City include water and sewer systems and recreational and refuse activities.

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

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

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

The City maintains 30 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund, which is the City's only major governmental fund. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation.

Proprietary Funds – Enterprise funds (one type of proprietary fund) are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer systems and its refuse, recreational and renewable energy activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer systems, both of which are considered to be major funds of the City. Refuse, recreational and renewable energy activities are combined into a single nonmajor fund.

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

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Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: a pension trust fund and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The City's agency fund accounts for police and fire off-duty details, as well as the school lunch program's meals tax.

The City is the trustee, or fiduciary, for its employees' pension plan. The City's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

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

Other Information – In addition to the basic financial statements and accompanying notes, these financial statements also present certain required supplementary information (RSI).

The City adopts an annual appropriated budget for the general fund and for its enterprise funds. A budgetary comparison schedule has been provided for the general fund as RSI to demonstrate compliance with this budget. Also provided as RSI is the information concerning the City's progress in funding its obligations to provide pension and post employment health benefits to its employees.

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately \$277.4 million at the close of the most recent fiscal year.

A significant portion of the City's net assets (75.5%) reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt are generally provided from other sources, since the capital assets themselves typically are not used to liquidate these liabilities.

An additional portion of the City's net assets (1.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$63.1 million (22.7%) represents unrestricted net assets.

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At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets, both for the City as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Condensed Statement of Net Assets

(In thousands)

	Governmental activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Current and other assets	\$ 251,914	257,572	44,858	55,176	296,772	312,748
Capital assets	176,580	164,254	176,067	156,373	352,647	320,627
Total assets	428,494	421,826	220,925	211,549	649,419	633,375
Long-term debt outstanding	136,944	142,162	111,850	109,538	248,794	251,700
Other liabilities	108,687	75,421	14,520	17,272	123,207	92,693
Total liabilities	245,631	217,583	126,370	126,810	372,001	344,393
Net assets:						
Invested in capital assets, net of related debt	142,367	128,941	67,159	56,911	209,526	185,852
Restricted	4,783	4,974	—	—	4,783	4,974
Unrestricted	35,713	70,328	27,396	27,828	63,109	98,156
Total net assets	\$ 182,863	204,243	94,555	84,739	277,418	288,982

Total Net Assets

During fiscal year 2009, the City's net assets decreased by about \$11.6 million, or 4.0%. Most of this decrease occurred in the unrestricted net asset category (\$35.0 million, or 35.7%). The decrease in unrestricted net assets was due to the recognition of the increase in the City's other post employment benefit net obligation totaling \$30.7 million. This decrease was offset by an increase in invested in capital assets, net of related debt category (\$23.7 million, or 12.7%). The net assets of the business-type activities increased by approximately \$9.8 million. The net assets of governmental activities decreased by approximately \$21.4 million.

Governmental Activities – Assets

For governmental activities, current and other assets decreased \$5.6 million, coupled with an increase in capital assets of \$12.3 million, resulting in an increase in assets of \$6.7 million. The increase in the capital assets of was the result of continued construction for the building of two new schools called the Manthala George and Mary Baker schools.

Governmental Activities – Liabilities

Governmental activities liabilities increased by \$28.0 million. There was an increase of \$33.3 million in other liabilities and a \$5.2 million decrease in long-term debt outstanding. The increase in other liabilities was due to the recognition of a \$30.7 million increase of the other post employment benefit (OPEB) net obligation while the decrease in long-term debt outstanding was due to scheduled debt repayments.

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In 2008, the City implemented Government Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This standard requires the City to recognize postemployment benefits, mainly health insurance, when earned rather than on a pay-as-you-go basis.

In order to comply with this standard, the City hired an actuary to estimate the accrued liability and a required 2009 contribution based on the current level of benefits and an amortization period of 30 years. Based on the results of that review, the City recorded an additional OPEB expense of \$30.7 million.

The City's 2009 Annual Required Contribution was \$46.2 million. Interest on the net OPEB obligation and adjustments to the ARC totaled \$253 thousand. Contributions against the ARC on a pay-as-you-go basis totaled \$15.8 million resulting in a government-wide net OPEB obligation totaling \$59.0 million. While the City's net OPEB obligation is \$59.0 million as of June 30, 2009, ultimately, over the next 30 years, the City will recognize the entire OPEB obligation, which is estimated at \$635.2 million as of June 30, 2008, the date of the City's most recent actuarial valuation.

Business Type Activities – Assets

For business type activities, there also was an increase in net assets of \$9.8 million. Current and other assets decreased by \$10.3 million, while capital assets increased by \$19.7 million, and total assets increased by \$9.4 million. The large decrease in current and other assets was due primarily to the recognition of intergovernmental receivables related to the major ongoing investment in and upgrade of the waste water treatment plant in 2008 that was not necessary for 2009. The increase in capital assets is due to the City's continued investment in capital spending that been funded with borrowings from the MWPAT. In 2009, additions to capital assets totaled \$22.7 million, which is reflected in construction in progress and infrastructure. The work, when completed, will have improved the processing capability and increased the throughput capacity of the plant.

Business Type Activities – Liabilities

Business type activities liabilities increased by \$440 thousand. There was a decrease of \$2.7 million in other liabilities and an increase of \$2.2 million in long-term debt outstanding. The increase of the long-term debt was the result of issuances of \$8.1 million loans from the Massachusetts Water Pollution Abatement Trust (MWPAT) for the on-going waste water treatment plant and water system upgrades.

Governmental Activities – Statement of Activities

Gross expenses for governmental activities were \$357.6 million for fiscal year 2009. This reflected an increase of \$11.9 million, or 3.4%. Included in this net increase is the City's recognition of \$30.7 million of additional expense across all category of governments related to the increase in the City's other post employment benefit net obligation.

Total general revenues for governmental activities of \$128.7 million offset total net expenses of \$149.9 million. Major ongoing revenue contributors were the net property tax at \$94.9 million, an increase of \$1.8 million. The remaining categories in total decreased by \$6.6 million, excise taxes at \$6.4 million, a decrease of

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\$935 thousand; intergovernmental at \$24.2 million, a decrease of \$2.5 million, investment income at \$995 thousand, a decrease of \$1.7 million and other totaling \$1.9 million, a decrease of \$16.0 million.

To further offset the gross expenses of the governmental activities, the City benefited from an increase in its operating grants of \$20.6 million, primarily from the state government, but also from Federal government sources. These revenue categories increased by 12.7%, to almost \$182.8 million. The increases in grant revenue were primarily the result of increases in state and federal grant funding.

In assessing the City's revenue adequacy to finance governmental activities, it is important to acknowledge the criticality of payments from outside agencies, especially from state and federal programs. Total revenues for governmental activities were \$336.3 million. Of this total almost \$207.0 million, or 61.5%, is from operating grants and contributions, mainly state and federal aid. Included in this amount is \$24.2 million in intergovernmental aid is classified as general revenue. Further, \$12.7 million, or 3.8%, is from capital grants and contributions, mainly school construction assistance. Accordingly, about 2.8% of the \$336.3 million total comes primarily from other government sources. An additional 28.2% of the total is derived from the City's property tax. The severe constraints on the City's revenue flexibility to pay for governmental activities is demonstrated by the fact that almost 97% of its revenues are obtained from either intergovernmental sources over which the City has no control, or from the property tax, a source whose growth is limited by state law.

A statewide tax limitation statute known as "Proposition 2½" limits the property tax levy to an amount equal to 2½% of the fair market assessed value of all taxable property in the City. This limit is called the levy ceiling. A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more than 2½%, plus taxes levied on certain property newly added to the tax rolls. This restriction is called the levy limit. The levy limit can be overridden by a citywide referendum vote, but the levy ceiling is an absolute limit.

For fiscal year 2009, the City levied a total of \$96.4 million in real estate property taxes against an aggregate fair market assessed value of \$7.2 billion. This levy compared to a maximum allowable levy under the levy limit of \$96.4 million, leaving only a small amount in unused levy capacity without the approval of the voters. However, the levy comprised only 1.3% of the City's aggregate assessed value. With voter approval, the city could levy an additional \$82.9 million and still remain under the levy ceiling. Accordingly, the taxing capacity exists to substantially improve the City's revenues for financing governmental activities, but converting this potential capacity to real revenues would require voter approval.

Business Type Activities – Statement of Activities

Business-type activities –

The business-type activities increased the City's net assets by approximately \$9.8 million, or 11.6%.

The water fund contributed \$3.0 million of the increase; the sewer fund contributed \$7.2 million of the increase. The net assets for the combination of the nonmajor recreation refuse and renewable energy funds decreased \$381 thousand. The nonmajor refuse fund is self-sufficient. The nonmajor recreation and renewable energy funds require a transfer of general fund revenues to support its programs. Most of the recreation fund's revenues derive from the golf course, but those revenues are not sufficient to pay for both the golf course operations and other park and recreation programs. For this reason, a transfer of other revenues is required. The Solar Energy facility construction concluded during fiscal year 2009 and the facility has begun to generate and sell electricity.

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(Unaudited)

The operations of the water fund and sewer fund are self-sufficient. The water and sewer funds are designed to recover the costs of operations of those funds. In the water and sewer funds, operating income totaled \$3.8 million and \$9.0 million, respectively. In the water and sewer funds, cash flow from operations of \$5.5 million and \$9.0 million, respectively. This resulted in an increase in cash and noncurrent assets. The increase was primarily due to construction work in progress, which, in turn, resulted in the increase in net assets. In both of these funds a major upgrade to the wastewater and water treatment plants have begun and required a major contribution of resources to finance both the construction itself and the impact of construction in increased plant operating costs.

Condensed Statement of Changes in Net Assets

(In thousands)

	Governmental activities		Business-type activities		Total	
	2009	2008*	2009	2008	2009	2008
Revenues:						
Program revenues:						
Charge for services	\$ 12,220	10,996	43,176	32,322	55,396	43,318
Operating grants	182,812	162,214	507	514	183,319	162,728
Capital grants	12,711	36,046	531	602	13,242	36,648
General revenues:						
Property taxes	94,921	93,114	—	—	94,921	93,114
Excise taxes	6,376	7,311	—	—	6,376	7,311
Intergovernmental	24,238	26,728	—	—	24,238	26,728
Other	3,205	20,335	—	—	3,205	20,335
Total revenues	<u>336,483</u>	<u>356,744</u>	<u>44,214</u>	<u>33,438</u>	<u>380,697</u>	<u>390,182</u>
Expenses:						
General government	17,129	19,166	—	—	17,129	19,166
Public safety	58,225	57,300	—	—	58,225	57,300
Education	247,250	237,534	—	—	247,250	237,534
Public works	15,006	11,716	—	—	15,006	11,716
Human services	3,206	3,010	—	—	3,206	3,010
Culture and recreation	3,493	3,738	—	—	3,493	3,738
State and county assessments	5,372	4,964	—	—	5,372	4,964
Court judgments	256	422	—	—	256	422
Interest on long-term debt	7,663	7,847	—	—	7,663	7,847

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(Unaudited)

Condensed Statement of Changes in Net Assets

(In thousands)

	Governmental activities		Business-type activities		Total	
	2009	2008*	2009	2008	2009	2008
Enterprise accounts:						
Water	\$ —	—	12,656	8,679	12,656	8,679
Sewer	—	—	12,134	13,313	12,134	13,313
Other	—	—	9,870	9,464	9,870	9,464
Total expenses	<u>357,600</u>	<u>345,697</u>	<u>34,660</u>	<u>31,456</u>	<u>392,260</u>	<u>377,153</u>
Excess (deficiency) before transfers	<u>(21,117)</u>	<u>11,047</u>	<u>9,554</u>	<u>1,982</u>	<u>(11,563)</u>	<u>13,029</u>
Transfers	<u>(263)</u>	<u>329</u>	<u>263</u>	<u>(329)</u>	<u>—</u>	<u>—</u>
Total transfers	<u>(263)</u>	<u>329</u>	<u>263</u>	<u>(329)</u>	<u>—</u>	<u>—</u>
Change in net assets	<u>(21,380)</u>	<u>11,376</u>	<u>9,817</u>	<u>1,653</u>	<u>(11,563)</u>	<u>13,029</u>
Net assets – beginning of year	<u>204,243</u>	<u>192,867</u>	<u>84,738</u>	<u>83,086</u>	<u>288,981</u>	<u>275,953</u>
Net assets – end of year	<u>\$ 182,863</u>	<u>204,243</u>	<u>94,555</u>	<u>84,739</u>	<u>277,418</u>	<u>288,982</u>

* Certain figures have been reclassified to conform to the 2009 presentation

Financial Analysis of the City's Governmental Funds

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

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

As of the end of the fiscal year 2009, the City's governmental funds reported combined fund balances of approximately \$93.8 million, a decrease of approximately \$718 thousand, or 1.0%, in comparison with the prior year which was the result of a drop in investment income. The general fund balance decreased by \$1.5 million, from \$80.1 million to \$78.6 million and the combined fund balances for all the other funds increased, by \$761 thousand, from \$14.4 million to \$15.2 million.

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In assessing these balances, it is important to note that the "Balance Sheet – Governmental Funds" does not include capital assets or bonded indebtedness. Please refer to the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" and the "Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets." These reconciliations will demonstrate that essentially the City's decrease in fund balances of \$718 thousand, compared to its decrease in net assets of \$21.4 million, a difference of \$20.7 million, is explained largely by the following factors:

1. \$755 thousand – the negative effect of revenue accruals.
2. \$5.3 million – the positive effect of the amount by which outstanding bonded indebtedness and long-term leases were increased.
3. \$12.3 million – the positive effect of the amount by which capital assets was decreased, net of depreciation expense.
4. \$3.2 million – the amortization effect of the pension asset in the statement of activities which is not included in the operating statement of the governmental funds.
5. \$31.4 million – the negative effect of increases in other liabilities, primarily other post employment benefits, which did not require the use of current resources.
6. \$2.7 million – the negative effect of the collection of the long-term intergovernmental receivable that is recorded as revenue in the governmental funds.

Of the total of ending fund balances of \$93.8 million, \$24.6 million constitutes undesignated fund balance, which is available for appropriation by the City or for expenditures in accordance with legal restrictions. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed (1) to liquidate contracts and purchase orders of the current period of \$2.9 million, (2) as deposits held for health insurance claims \$6.5 million, (3) to fund future health claims \$30.0 million, (4) to reserve for a note receivable \$7.7 million, (5) as designated for subsequent years expenditures \$15.0 million, and (6) as designated for extraordinary, unforeseen circumstances and stabilization \$7.1 million. The funds for extraordinary and unforeseen circumstances may be appropriated for restricted purposes by majority vote of the city council with approval of the mayor. The fund for stabilization may be appropriated for any legal purpose by a two-thirds vote of the city council with the approval of the mayor.

The general fund is the chief operating fund of the City. At the end of the fiscal year 2009, unreserved and undesignated fund balance of the general fund was approximately \$62.0 million. Total fund balance was approximately \$78.6 million, a decrease of \$1.3 million. This decrease in fund balance was largely driven by an excess of expenditures over revenues. This was offset by an increase of \$656 thousand in other financing sources.

As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 22.6% of total general fund expenditures, while total fund balance represents 28.7% of that same amount.

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The City's liquidity has declined somewhat since fiscal year 2003. This recent trend toward declining balances, especially for the stabilization, unreserved, and undesignated categories, has occurred because revenues have not grown to compensate for certain heavy cost pressures, especially from health benefits. Accordingly, the City has drawn down reserves in order to maintain services.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the business-type activities financial statements, but in more detail.

The net assets of the proprietary funds at the end of the current fiscal year totaled approximately \$94.6 million. Changes in net assets of the proprietary funds at the end of the current fiscal year totaled an increase of approximately \$9.8 million, or 11.6%.

The Proprietary Funds of the City are comprised of five (5) enterprise funds: water, sewer, recreation, refuse, and renewable energy. The results for the water and sewer funds are reported separately; the results for the recreation, refuse, and renewable energy funds are combined. The water, sewer, and refuse enterprise funds have long been self sufficient financially. The nonmajor recreation fund, which includes a golf course, has never been self sufficient. The operation of the golf course creates a modest surplus, but a substantial subsidy from the general fund is required to support the full range of recreation programs. The nonmajor renewable energy fund is also not self sufficient. The operation of the renewable energy fund creates a surplus, but a subsidy from the general fund is required to support the renewable energy fund cost of debt service.

For the water fund, the fiscal year 2009 operating income was \$3.8 million, or 24.1% of operating revenues. Nonoperating revenues, expenses and transfers essentially netted to a negative \$812 thousand, and so net assets increased by \$3.0 million. This increase in net assets was driven by a strong operating income. The operating income was driven by the City's ability to set water rates to recover its operating costs. In fiscal year 2009, budgeted costs were less than expected which drove the positive operating income. Cash flow from operations was a strong \$5.5 million.

For the sewer fund, operating income was \$8.9 million, or 47.4% of operating revenues. However, nonoperating expenses and transfers decreased net assets by \$1.8 million. The aggressive construction schedule for the upgrade of the waste water treatment plant increased capital assets, but it also increased long-term debt and interest expense, which basically nets to a zero effect on the sewer funds net assets. The strong operating income was driven by an increase in sewer rates in the middle of 2008. This sewer rate increase has a full year effect in fiscal year 2009. Further, the rate increase is meant to recover future costs, which resulted in a strong operating income in fiscal year 2009. Cash flow from operations was a strong \$9.0 million.

For the combined results of the other enterprise funds, the value of net assets decreased by \$380 thousand, or 4.7%. The operating loss for the combined totals was increased from a \$1.2 million loss in fiscal year 2008, or 14.1% of operating revenues, to a \$1.4 million loss in fiscal year 2009 or 16.6% of operating revenues. With the benefit of net transfers in (general fund subsidy) and the nonoperating revenue of \$1.0 million, the operating loss of \$1.4 million decreased to a \$380 thousand change in net assets.

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2009

(Unaudited)

Budgetary Highlights

In fiscal year 2009, the original budget called for \$280.4 million in spending. Of this amount \$140.9 million was for Education spending, \$38.9 million was for Public Safety spending and 55.7 million was for Fringe Benefit spending and \$44.9 million for all other categories.

Resources, including transfers in from other funds of \$3.4 million, totaled \$270.0 million, creating a planned deficit of approximately \$10.4 million. Offsetting this deficit was a contribution from "Free Cash" of \$10.4 million. The net total of approximately \$38 thousand was applied to fund the Chapter 324 Supplemental Reserve and Other Financing Sources/Uses.

In the final budget, a total of \$281.9 million in spending was authorized, an increase of \$1.4 million. The budgets that made up this amount included the following: the public safety budgets were increased by \$54 thousand; the public works budget by \$100 thousand, Human services budgets were increased by \$225 thousand, Capital Outlay budgets were increased by \$340 thousand, Pension and Fringe Benefit budgets were increased by \$100 thousand, Transfers Out budgets were increased by \$1.1 million and the general government budgets were decreased by \$160 thousand, all other budgets had a net decrease of \$400 thousand.

To help finance the additional \$1.4 million in authorized spending, transfers in were increased by 1.1 million, raising resources to \$271.3 million. The net financing sources/uses and the Chapter 324 reserve added to the gap in the amount of \$300 thousand.

On an actual basis, resources were lower than the final budget by \$10.4 million. Excluding the unfavorable variance in Intergovernmental, the variance would have been positive by \$3.2 million. The unfavorable intergovernmental variance occurred because the state reduced its support of Chapter 70 Education Aid, replacing it with Federal ARRA funds in the amount of \$13.6 million, the accounting for this revenue, and the spending which it supported, was shifted from the General Fund to a Special Revenue Fund.

The City's revenue estimates normally are conservative and actual results typically exceed budget by 1.5% to 2.0%. For fiscal year 2009, the positive variance, excluding the effect of the ARRA revenue, to final budget was almost 1.2%. The positive variance was largely driven by Real Estate, Personal Property, Excise taxes, User charges and other revenue, Fees, and Licenses and Permits revenues. The increase in the Real Estate and Excise taxes were the result of increased collections in the categories of personal property, real estate, and tax title revenues. The User charges and other revenues increased due to increase in Medicare Part D Reimbursements collections. The Fees category increased as a result of the city receiving a new \$550 thousand fee for the local cable franchise. The Licenses and Permit revenue increased as a result of an increase in the City Clerk and Public Property licenses and permits.

On the expenditure side, a favorable variance of \$20.1 million was achieved. The City has typically achieved 1 to 2% positive variance on spending. For fiscal year 2009, excluding the effect of spending of ARRA funds, the variance was a positive 2.4%. This positive variance was driven by actual budgetary expenditures less than budgeted expenditures in the general government, public safety, education and pension and fringe benefit line items. The reasons for the positive variances in the general government, public safety and pension and fringe benefit were due to conservative budgeting in these line items, about 93% of the positive budget variance in the education budget was a result of the federal government ARRA funds that were used to support the FY 2009

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education budget. As stated above, this state aid revenue was shifted from general fund revenue to special revenue, and a corresponding amount of spending was also shifted.

As a result of the revenue and expenditure positive variances, the City's fiscal year 2010 general fund operations is estimated to create free cash of approximately \$9.7 million.

Capital Assets and Debt Administration

Capital Assets – The City's investment in capital assets for its governmental and business-type activities as of June 30, 2009 amounted to approximately \$352.6 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, construction-in-progress, buildings, machinery and equipment, infrastructure, and historical works of art. The total increase in the City's investment in capital assets of \$32.0 million for fiscal year 2009 represented an increase of almost 10.0%. Capital assets for governmental activities increased by \$12.3 million, or 7.5%, while capital assets for business-type activities increased by \$19.7 million, or 12.6%. The increase in the value of capital assets for business-type activities was primarily caused by the construction in progress, both in water and sewer enterprise funds, but especially for the project to upgrade the sewer treatment plant. The increase in the value of capital assets for governmental activities is the result of the continuation of construction activities for two schools.

Major capital assets included the following:

Capital Assets

(In thousands)

	Governmental activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Land	\$ 7,411	7,211	3,246	3,246	10,657	10,457
Construction in progress	61,981	49,514	116,368	96,302	178,349	145,816
Historical works of art	1,809	1,809	—	—	1,809	1,809
Buildings	75,598	74,912	14,689	14,694	90,287	89,606
Land improvements	2,612	2,385	603	722	3,215	3,107
Machinery and equipment	4,171	4,534	3,470	3,981	7,641	8,515
Infrastructure	22,998	23,889	37,691	37,428	60,689	61,317
Total	\$ 176,580	164,254	176,067	156,373	352,647	320,627

Long-Term Debt – At the end of the current fiscal year, the City had total bonded debt outstanding of approximately \$248.8 million. The entire amount is backed by the full faith and credit of the City.

Outstanding Debt

(In thousands)

	Governmental activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
General obligation bonds, net	\$ 136,943	142,162	111,850	109,638	248,793	251,800
Total	\$ 136,943	142,162	111,850	109,638	248,793	251,800

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The overall net increase is attributable to the following factors:

The City's bonded debt decreased by approximately \$3.0 million or 1.2%. The increase was attributable to the following additions and reductions.

The City issued \$8.1 million of MWPAT loans to fund the City's on-going Sewer and Water rehabilitation projects.

The increase in long-term debt was offset by the following:

The total principal payments during the current fiscal year of \$11.1 million and

The Total Unamortized Bond Premium during the current Fiscal year of \$1.2 million.

Total long-term debt of the City represents a claim of about 70.6% of the City's total capital assets, and a claim of about 38.3% of the City's total assets. As a percentage of the fair value of taxable property in the City, the long-term debt comprises only 3.5%.

The City maintains an "A" rating from Standard and Poor's and an "A2" rating from Moody's for general obligation debt.

Economic Factors and Next Year's Budgets

The economic circumstances confronting the City have deteriorated considerably over the past two fiscal years, and the prospects for fiscal year 2011 portend a continuation of the same bleak factors. Revenue assistance from the state has declined in both real and nominal terms; this has been true even for aid to education. For revenue assistance other than for education, the decline has been particularly steep. For example, the City's aid from lottery proceeds has been reduced by about \$4.1 million, or 19%, from FY2008 through FY2010. A category of general aid entitled "additional assistance" was totally eliminated from FY09 to FY10, a cut of \$4.3 million. For FY2011, the governor's budget proposed level funding local aid, but legislative leaders at this writing are discussing further cuts of 4%.

The state has provided municipalities with two new local option revenue sources: the ability to raise the lodging excise tax from four percent up to six percent, and the ability to add 0.75% to the meals sales tax. The city has adopted the higher lodging excise tax, expected to generate annually about \$150 thousand, but the city has not raised the meals tax, which has the potential to generate four to five times that amount. The enactment of the tax requires approval of both the mayor and city council.

Although the property tax levy has provided a predictable, steady source of revenue growth, it provides less than one-third of the City's financing for its general fund spending. The City's utility operations (mainly water, sewer, refuse) are enterprise funds self-supported through user fees, but its general fund operations rely on state assistance for more than 50% of the funding, with less than 10% derived from local receipts other the property tax, and less than 5% from reserves and other available funds. The growth rates of theses other sources of funding have not been as steady or predictable as the growth rate of the property tax. The heavy reliance on state aid has become problematic in a period when almost all of the increase in state assistance have been restricted to education, and even more so when state aid is reduced. In the meantime, for the City, recent cost pressures on

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employee and retiree benefits and pensions have continued, and modest inflation recovery increase in wages and salaries have also raised expenditure levels. Accordingly, maintaining the same level of services in some recent years resulted in drawing down the City's reserves. However, during FY2009, the City balanced its budget without the use of the Stabilization Fund, and the City in FY2010 actually added \$2.2 million to that fund. In FY2011, the City hopes to maintain that balance.

Unemployment nationally and locally remains stubbornly high. The City has been deeply affected by the home mortgage foreclosure crisis. However, the local housing market most recently has shown tentative signs of stabilization. Nonetheless, the median value of a single family home at the end of calendar year 2009 was lower than it had been since the middle of calendar year 2002. For the condominium market, the median sale value comparable to that of year end 2010 would have occurred all the way back in mid-year 2000.

The City's unions, except for the school unions, will have concluded their most recent contractual period on June 30, 2010, and so no contractual salary increases are scheduled or obligated for FY2011. Successor contract bargaining will occur in a constrained revenue environment. Unions for the school department will begin the final year of their last three year contract in FY2011. Financing the 4.0% budgeting impact of that last contract year will present a real challenge in the context of flat or declining revenues; maintaining current staffing levels will be very difficult.

The City's health insurance costs continue to rise, reflective of the experience of most employers in Massachusetts. For FY2011, while the recommended actuarial increases by different product offerings vary, the overall effect is expected to demonstrate about a 12% – 14% increase. The City in FY2010 analyzed its health insurance trust fund, from which the City's self-insured medical and dental claims for employees and retirees are paid, to determine if its available cash balance exceeded the amount required to reserve for incurred but not reported (IBNR) claims and for the potential in any future year of a particularly bad year of claims experience. A bad claims year could occur because even though the City purchases reinsurance against the cost of major claims by individuals, there may still be high claims from individuals which do not meet the individual claimant recovery point. The health insurance trust fund receives financing from both City appropriation and employee contributions according to rates recommended by the actuaries of Blue Cross/Blue Shield and Harvard Pilgrim. For several recent years, the fund's cash position has increased substantially because the funding provided by the recommended actuarial rates has exceeded the actual claims payment experience. The analysis up through FY2009 indicated that the trust fund had a large surplus to its required balance. A portion of this surplus was used to help finance FY2010 health cost. The City has performed another, similar analysis for FY2011. The trust fund still enjoys a very healthy reserve position, which the city anticipates again utilizing to help assist with the budget costs. The specifics will depend upon negotiations with the unions.

In the past, the City has attempted to minimize the impact on reserve levels of the financing of unfavorable cost and revenue trends with a combination of strategies. First, it has moved utility services, initially, water and sewer, and most recently, trash, to self support by user fees, and it has raised those fees as needed.

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Second, it has shifted a growing portion of the cost of health care to the employees and retirees and to the federal government. Over the past 15 years employee and retiree contributions have been successively raised from 5% to 10% to 20% to 25% and 30% for the most expensive plan, and eligible retirees have been required to enroll in Medicare. However, the city has not been able to reduce the level of plan benefits. Municipalities across the Commonwealth have urged state government to allow for the changing of health insurance plan benefits without engaging in collective bargaining with each of the unions, or to allow municipalities to join the state's insurance plans for state employees, where benefits may be unilaterally changed by the State's Group Insurance Commission, again without collective bargaining. Either approach could save an estimated 5% or more of health costs, but state government has not been willing to allow this modification of union collective bargaining rights.

Third, the City has reduced spending levels through both employee attrition and in outright budget reductions. The continuing cost pressures and revenue constraints will likely require additional service and budget reductions in FY2011.

The adverse impact of increasing costs combined with the reduction in state assistance for the fiscal year 2011 budget could be avoided by a voter referendum to override the provisions of Proposition 2½. Even with the recent property valuation decreases, the City enjoys significant override capacity and could safely increase its annual levy by 10% (about \$10 million) per year, as the FY2010 assessed value of the city would support an additional levy of almost \$47 million while still remaining under the absolute levy ceiling. The tax increase on the average residential homeowner would be about \$30 per year for every million dollars of property tax override. However, recent history offers little encouragement. A November 2008 Proposition 2½ referendum with three questions – one for public safety, one for education, and one for libraries – failed to gain voter approval, with no question capturing 40% of the vote total, even though the annual increase on the average homeowner would have been less than \$100.00 per year. Accordingly, it is likely that the FY2011 budget problems will be solved by cost management and service reductions.

Requests for Information

This information is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this document or requests for additional financial information should be addressed to the Finance Department, City Hall, 45 School Street, Brockton, Massachusetts 02301.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Net Assets

June 30, 2009

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Assets:			
Cash and investments	\$ 97,489,892	18,818,610	116,308,502
Receivables, net:			
Property taxes	9,382,281	—	9,382,281
Intergovernmental	14,792,116	4,618,530	19,410,646
Other	2,541,684	20,118,771	22,660,455
Other assets	8,401,887	1,302,145	9,704,032
Long-term note receivable	7,594,432	—	7,594,432
Long-term intergovernmental receivable	22,073,406	—	22,073,406
Pension asset	89,637,327	—	89,637,327
Capital assets:			
Nondepreciable	71,201,620	119,613,761	190,815,381
Depreciable, net	105,378,871	56,453,454	161,832,325
Total assets	<u>428,493,516</u>	<u>220,925,271</u>	<u>649,418,787</u>
Liabilities:			
Warrants and accounts payable	8,911,434	4,659,086	13,570,520
Accrued liabilities:			
Interest	2,471,326	1,120,472	3,591,798
Payroll and related withholdings	8,679,420	219,932	8,899,352
Tax abatement refunds	742,730	—	742,730
Bond anticipation note	9,000,000	—	9,000,000
Noncurrent liabilities:			
Due within one year:			
Compensated absences and claims	5,590,927	173,542	5,764,469
Bonds, note and loans payable	5,783,150	5,789,495	11,572,645
Due in more than one year:			
Compensated absences and claims	12,489,521	7,335,226	19,824,747
Landfill closure and postclosure care costs	1,791,000	1,012,000	2,803,000
Bonds, note and loans payable	131,160,399	106,060,395	237,220,794
Other post employment benefits	59,010,921	—	59,010,921
Total liabilities	<u>245,630,828</u>	<u>126,370,148</u>	<u>372,000,976</u>
Net assets:			
Invested in capital assets, net of related debt	142,366,942	67,159,042	209,525,984
Restricted for:			
Permanent funds:			
Nonexpendable	4,053,446	—	4,053,446
Expendable	729,348	—	729,348
Unrestricted	35,712,952	27,396,081	63,109,033
Total net assets	<u>\$ 182,862,688</u>	<u>94,555,123</u>	<u>277,417,811</u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2009

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net assets		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities:							
General government	\$ 17,128,968	4,252,261	11,108,266	1,307,431	(461,010)	—	(461,010)
Public safety	58,224,622	1,782,584	4,806,892	—	(51,635,146)	—	(51,635,146)
Education	247,250,049	5,736,030	163,509,551	11,403,269	(66,601,199)	—	(66,601,199)
Public works	15,006,017	152,300	2,702,586	—	(12,151,131)	—	(12,151,131)
Human services	3,206,092	256,967	360,102	—	(2,589,023)	—	(2,589,023)
Culture and recreation	3,493,054	40,112	324,315	—	(3,128,627)	—	(3,128,627)
State and county assessments	5,372,254	—	—	—	(5,372,254)	—	(5,372,254)
Court judgments	255,872	—	—	—	(255,872)	—	(255,872)
Interest on long-term debt	7,663,081	—	—	—	(7,663,081)	—	(7,663,081)
Total governmental activities	<u>357,600,009</u>	<u>12,220,254</u>	<u>182,811,712</u>	<u>12,710,700</u>	<u>(149,857,343)</u>	<u>—</u>	<u>(149,857,343)</u>
Business-type activities:							
Water	12,656,494	15,808,010	140,844	46,555	—	3,338,915	3,338,915
Sewer	12,134,071	18,921,903	194,772	484,226	—	7,466,830	7,466,830
Other	9,869,489	8,445,833	171,335	—	—	(1,252,321)	(1,252,321)
Total business-type activities	<u>34,660,054</u>	<u>43,175,746</u>	<u>506,951</u>	<u>530,781</u>	<u>—</u>	<u>9,553,424</u>	<u>9,553,424</u>
Total primary government	<u>\$ 392,260,063</u>	<u>55,396,000</u>	<u>183,318,663</u>	<u>13,241,481</u>	<u>(149,857,343)</u>	<u>9,553,424</u>	<u>(140,303,919)</u>
General revenues:							
Property taxes, levied for general purposes, net					94,920,910	—	94,920,910
Excises					6,376,042	—	6,376,042
Payments in lieu of taxes					185,816	—	185,816
Penalties and interest on taxes					1,426,544	—	1,426,544
Other					598,520	—	598,520
Intergovernmental					24,237,798	—	24,237,798
Investment income					994,652	—	994,652
Transfers					(263,199)	263,199	—
Total general revenues and transfers					<u>128,477,083</u>	<u>263,199</u>	<u>128,740,282</u>
Change in net assets					(21,380,260)	9,816,623	(11,563,637)
Net assets, beginning of year					<u>204,242,948</u>	<u>84,738,500</u>	<u>288,981,448</u>
Net assets, end of year					<u>\$ 182,862,688</u>	<u>94,555,123</u>	<u>277,417,811</u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Balance Sheet – Governmental Funds

June 30, 2009

Assets	General	Other governmental	Total
Cash and investments	\$ 81,744,460	15,745,432	97,489,892
Receivables, net:			
Property taxes	6,538,342	—	6,538,342
Motor vehicle excise	2,375,463	—	2,375,463
Departmental and other	166,221	—	166,221
Tax liens	2,843,939	—	2,843,939
Intergovernmental	2,704,571	12,087,545	14,792,116
Total receivables	14,628,536	12,087,545	26,716,081
Long-term note receivable	7,594,432	—	7,594,432
Long-term intergovernmental receivable	22,073,406	—	22,073,406
Deposit with health claims agent	6,466,400	—	6,466,400
Total assets	\$ <u>132,507,234</u>	<u>27,832,977</u>	<u>160,340,211</u>
Liabilities and Fund Balances			
Warrants and accounts payable	\$ 5,449,556	3,461,878	8,911,434
Accrued liabilities:			
Tax abatement refunds	742,730	—	742,730
Payroll and related withholdings	8,508,720	170,700	8,679,420
Health claims payable	4,049,629	—	4,049,629
Bond anticipation note payable	—	9,000,000	9,000,000
Deferred revenue	35,146,184	—	35,146,184
Total liabilities	53,896,819	12,632,578	66,529,397
Fund balances:			
Reserved for:			
Encumbrances and continuing appropriations	2,455,170	408,222	2,863,392
Deposits held	6,466,400	—	6,466,400
Note receivable	7,729,172	—	7,729,172
Unreserved:			
Designated for subsequent year's expenditures	14,490,760	528,962	15,019,722
Designated for extraordinary and unforeseen expenditures	4,720,203	—	4,720,203
Designated for stabilization	2,387,467	—	2,387,467
Designated for health claims	30,022,501	—	30,022,501
Undesignated, reported in:			
General fund	10,338,742	—	10,338,742
Special revenue funds	—	13,851,264	13,851,264
Capital projects funds	—	(4,370,843)	(4,370,843)
Permanent funds	—	4,782,794	4,782,794
Total fund balances	78,610,415	15,200,399	93,810,814
Total liabilities and fund balances	\$ <u>132,507,234</u>	<u>27,832,977</u>	<u>160,340,211</u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2009

Total fund balance – governmental funds	\$ <u>93,810,814</u>
Amounts reported for governmental activities in the statements of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	176,580,491
Revenues and receivables are recorded on an accrual basis	35,146,184
Bond issuance costs are capitalized in the government-wide statements	1,799,677
Pension asset is not a financial resource and therefore not reported in the funds	89,637,327
Other costs are capitalized in the government-wide statements	135,810
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Taxable bonds	(102,730,000)
Other general obligation bonds	(34,022,925)
Bond premiums	(1,211,814)
Deferred bond gains (losses)	1,021,190
Other post employment benefits	(59,010,921)
Accrued interest on bonds	(2,471,326)
Landfill and postclosure care costs	(1,791,000)
Compensated absences and claims	(14,030,819)
	<u>(214,247,615)</u>
Net assets of governmental activities	\$ <u><u>182,862,688</u></u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds

Year ended June 30, 2009

	<u>General</u>	<u>Other governmental</u>	<u>Total</u>
Revenues:			
Real and personal property taxes, net	\$ 95,588,735	—	95,588,735
Motor vehicle and other excise	6,379,821	—	6,379,821
Penalties and interest on taxes	1,426,544	—	1,426,544
Payments in lieu of taxes	185,816	—	185,816
User charges and other revenue	2,035,361	5,171,632	7,206,993
Fees	1,385,859	5,050,303	6,436,162
Licenses and permits	2,004,126	—	2,004,126
Intergovernmental	147,233,595	55,350,577	202,584,172
Fines	668,256	11,435	679,691
Investment income	847,311	147,342	994,653
Contributions	14,388,380	754,437	15,142,817
	<u>272,143,804</u>	<u>66,485,726</u>	<u>338,629,530</u>
Total revenues			
Expenditures:			
Current:			
General government	11,613,497	1,329,497	12,942,994
Public safety	37,009,397	1,649,899	38,659,296
Education	128,454,533	45,318,098	173,772,631
Public works	8,795,802	770,073	9,565,875
Human services	1,866,668	351,681	2,218,349
Culture and recreation	1,768,568	429,878	2,198,446
State and county assessments	5,372,254	—	5,372,254
Pension and fringe benefits	65,831,713	—	65,831,713
Court judgments	255,872	—	255,872
Capital outlay	496,973	14,955,673	15,452,646
Debt service	12,814,575	—	12,814,575
	<u>274,279,852</u>	<u>64,804,799</u>	<u>339,084,651</u>
Total expenditures			
Excess (deficiency) of revenues over expenditures			
	<u>(2,136,048)</u>	<u>1,680,927</u>	<u>(455,121)</u>
Other financing sources (uses):			
Operating transfers in	2,055,123	127,750	2,182,873
Operating transfers out	(1,398,180)	(1,047,892)	(2,446,072)
	<u>656,943</u>	<u>(920,142)</u>	<u>(263,199)</u>
Total other financing sources (uses)			
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses			
	<u>(1,479,105)</u>	<u>760,785</u>	<u>(718,320)</u>
Fund balance, beginning of year	<u>80,089,520</u>	<u>14,439,614</u>	<u>94,529,134</u>
Fund balance, end of year	\$ <u><u>78,610,415</u></u>	<u><u>15,200,399</u></u>	<u><u>93,810,814</u></u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities

Year ended June 30, 2009

Net change in fund balances – total governmental funds	\$ (718,320)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital additions as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Capital additions (\$18,930,631) exceeded depreciation expense (\$6,603,708).	12,326,923
Accrual basis revenues can result in more or (less) revenues reported in the statement of activities depending upon timing of billings and collections.	(755,431)
Collection of long-term intergovernmental receivable that is recorded as revenue in the governmental funds.	(2,698,584)
Repayment of bond principal are expenditures in the governmental funds but reduce long-term liabilities in the statement of net assets.	5,269,250
Bond premiums net (\$355,820) and deferred losses on refundings (\$152,657) increase the long-term liabilities in the statement of net assets, but are included in the operating statement of the governmental funds. Bond issuance costs net (\$327,794) are expenditures in the governmental funds, but are deferred assets in the statement of net assets. This is the amount by which premiums and deferred losses on refundings exceed bond issue costs.	(180,683)
Amortization of the pension asset in the statement of activities is not included in the operating statement of the governmental funds.	(3,249,193)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This amount represents the difference between a decrease in interest payable (\$62,927) and compensated absences (\$1,190,245) and increases in accrued claims (\$659,625), landfill liability (\$1,279,000) and other postemployment benefit liabilities (\$30,688,769).	<u>(31,374,222)</u>
Change in net assets of governmental activities	<u>\$ (21,380,260)</u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Net Assets – Proprietary Funds

June 30, 2009

Assets	Enterprise funds			Total
	Water	Sewer	Other	
Current assets:				
Cash and cash equivalents	\$ 9,158,978	5,905,452	3,754,180	18,818,610
Customer receivables, net	6,950,867	9,415,914	3,751,990	20,118,771
Intergovernmental receivable	1,676,813	2,941,717	—	4,618,530
Other	306,153	49,958	—	356,111
Total current assets	18,092,811	18,313,041	7,506,170	43,912,022
Noncurrent assets:				
Other	260,952	636,144	48,938	946,034
Capital assets:				
Nondepreciable	25,955,039	93,511,367	147,355	119,613,761
Depreciable, net	21,341,598	29,489,087	5,622,769	56,453,454
Total noncurrent assets	47,557,589	123,636,598	5,819,062	177,013,249
Total assets	65,650,400	141,949,639	13,325,232	220,925,271
Liabilities				
Current liabilities:				
Warrants and accounts payable	2,216,791	1,855,935	586,360	4,659,086
Accrued expenses	343,103	959,046	38,255	1,340,404
Compensated absences and claims	100,733	32,343	40,466	173,542
Bonds, notes, and loans payable	1,293,254	4,346,241	150,000	5,789,495
Total current liabilities	3,953,881	7,193,565	815,081	11,962,527
Noncurrent liabilities:				
Compensated absences and claims	1,341,558	2,820,132	3,173,536	7,335,226
Landfill and postclosure care costs	—	1,012,000	—	1,012,000
Bonds	23,083,012	81,373,878	1,603,505	106,060,395
Total noncurrent liabilities	24,424,570	85,206,010	4,777,041	114,407,621
Total liabilities	28,378,451	92,399,575	5,592,122	126,370,148
Net Assets				
Invested in capital assets, net of related debt	22,920,371	40,222,052	4,016,619	67,159,042
Unrestricted	14,351,578	9,328,012	3,716,491	27,396,081
Total net assets	\$ 37,271,949	49,550,064	7,733,110	94,555,123

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds

Year ended June 30, 2009

	Enterprise funds			Total
	Water	Sewer	Other	
Operating revenues:				
Charges for services	\$ 15,509,696	18,306,084	8,177,752	41,993,532
Fees	298,314	615,819	263,713	1,177,846
Other	—	—	4,368	4,368
Total operating revenues	<u>15,808,010</u>	<u>18,921,903</u>	<u>8,445,833</u>	<u>43,175,746</u>
Operating expenses:				
Salaries and benefits	5,195,091	3,241,918	2,831,296	11,268,305
Utilities	994,349	1,793,036	70,928	2,858,313
Repairs and maintenance	918,442	1,616,708	40,751	2,575,901
Contractual services	3,504,133	1,319,734	6,271,928	11,095,795
Other supplies and expenses	409,331	321,529	315,859	1,046,719
Depreciation	974,480	1,660,225	320,224	2,954,929
Total operating expenses	<u>11,995,826</u>	<u>9,953,150</u>	<u>9,850,986</u>	<u>31,799,962</u>
Operating income (loss)	<u>3,812,184</u>	<u>8,968,753</u>	<u>(1,405,153)</u>	<u>11,375,784</u>
Nonoperating revenue (expense):				
Interest income	140,844	194,772	171,335	506,951
Interest expense	(660,668)	(2,180,921)	(18,503)	(2,860,092)
Debt subsidies	46,555	484,226	—	530,781
Total nonoperating (expenses) revenue	<u>(473,269)</u>	<u>(1,501,923)</u>	<u>152,832</u>	<u>(1,822,360)</u>
Income (loss) before transfers and capital grants	<u>3,338,915</u>	<u>7,466,830</u>	<u>(1,252,321)</u>	<u>9,553,424</u>
Transfers in	191,713	419,203	871,709	1,482,625
Transfers out	(530,681)	(688,745)	—	(1,219,426)
Total transfers in (out)	<u>(338,968)</u>	<u>(269,542)</u>	<u>871,709</u>	<u>263,199</u>
Change in net assets	2,999,947	7,197,288	(380,612)	9,816,623
Total net assets, beginning of year	<u>34,272,002</u>	<u>42,352,776</u>	<u>8,113,722</u>	<u>84,738,500</u>
Total net assets, end of year	\$ <u><u>37,271,949</u></u>	<u><u>49,550,064</u></u>	<u><u>7,733,110</u></u>	<u><u>94,555,123</u></u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2009

	Enterprise funds			Total
	Water	Sewer	Other	
Cash flows from operations:				
Cash received from customers	\$ 14,849,051	17,053,255	8,228,467	40,130,773
Cash paid to employees	(4,034,958)	(1,559,228)	(1,721,264)	(7,315,450)
Cash paid to vendors	(5,288,960)	(6,495,057)	(6,652,939)	(18,436,956)
Net cash provided by (used in) operations	<u>5,525,133</u>	<u>8,998,970</u>	<u>(145,736)</u>	<u>14,378,367</u>
Cash flows from noncapital financing activities:				
Transfers	<u>(338,968)</u>	<u>(269,542)</u>	<u>871,709</u>	<u>263,199</u>
Net cash provided by (used in) noncapital financing activities	<u>(338,968)</u>	<u>(269,542)</u>	<u>871,709</u>	<u>263,199</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(9,256,266)	(15,414,494)	(16,996)	(24,687,756)
Interest paid on debt	(697,783)	(2,199,303)	(18,892)	(2,915,978)
Debt subsidies	46,555	484,226	—	530,781
Drawdown of MWPAT loans	8,702,008	12,193,859	—	20,895,867
Repayment of long-term debt	(1,243,858)	(3,995,590)	(155,000)	(5,394,448)
Other	100,678	—	—	100,678
Net cash used in capital and related financing activities	<u>(2,348,666)</u>	<u>(8,931,302)</u>	<u>(190,888)</u>	<u>(11,470,856)</u>
Cash flows from investing activity:				
Interest income	<u>140,844</u>	<u>194,772</u>	<u>171,335</u>	<u>506,951</u>
Net cash provided by investing activity	<u>140,844</u>	<u>194,772</u>	<u>171,335</u>	<u>506,951</u>
Increase (decrease) in cash and cash equivalents	2,978,343	(7,102)	706,420	3,677,661
Cash and cash equivalents, beginning of year	<u>6,180,635</u>	<u>5,912,554</u>	<u>3,047,760</u>	<u>15,140,949</u>
Cash and cash equivalents, end of year	\$ <u><u>9,158,978</u></u>	<u><u>5,905,452</u></u>	<u><u>3,754,180</u></u>	<u><u>18,818,610</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operations:				
Operating income (loss)	\$ 3,812,184	8,968,753	(1,405,153)	11,375,784
Reconciliation of operating income (loss) to net cash provided by (used in) operations:				
Depreciation expense	974,480	1,660,225	320,224	2,954,929
Changes in operating assets and liabilities:				
Accounts receivable	(842,166)	(1,874,815)	(222,927)	(2,939,908)
Warrants and accounts payable	552,193	(1,372,714)	46,882	(773,639)
Other assets and liabilities	1,028,442	1,617,521	1,115,238	3,761,201
Net cash provided by (used in) operations	\$ <u><u>5,525,133</u></u>	<u><u>8,998,970</u></u>	<u><u>(145,736)</u></u>	<u><u>14,378,367</u></u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Net Assets – Fiduciary Funds

June 30, 2009

(Except for Pension Trust, which is as of December 31, 2008)

Assets	Pension trust fund	Agency funds
	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 2,102,250	323,336
Receivables:		
Interest and dividends	818,010	—
Receivable for securities sold	183,157	—
Contributions from employers	444,918	—
Other	<u>67,014</u>	<u>—</u>
Total receivables	<u>1,513,099</u>	<u>—</u>
Investments, at fair value:		
Short-term:		
Domestic	4,200,113	—
Fixed income:		
Domestic	57,192,930	—
International	27,697,764	—
Equities:		
Domestic	108,815,550	—
International	32,474,908	—
Real estate	17,501,412	—
Alternative	<u>10,054,272</u>	<u>—</u>
Total investments	<u>257,936,949</u>	<u>—</u>
Total assets	<u>261,552,298</u>	<u>323,336</u>
Liabilities		
Payable for securities purchased	271,186	—
Accounts payable	<u>599,664</u>	<u>323,336</u>
Total liabilities	<u>870,850</u>	<u>323,336</u>
Net Assets		
Held in trust for pension benefits	<u>\$ 260,681,448</u>	

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS
Statement of Changes in Net Assets – Fiduciary Funds
Year ended December 31, 2008

	<u>Pension trust fund</u>
Additions:	
Contributions:	
Employers	\$ 10,916,193
Employees	6,898,406
Other	144,828
Total contributions	<u>17,959,427</u>
Investment income:	
Realized and unrealized loss on investments	(128,324,393)
Investment income	9,458,767
Total investment income	<u>(118,865,626)</u>
Less investment expenses	<u>(1,908,823)</u>
Net investment income	(120,774,449)
Intergovernmental	1,229,543
Total additions	<u>(101,585,479)</u>
Deductions:	
Benefits	29,871,151
Member refunds and transfers to other systems, net	804,013
Administrative expenses	543,115
Total deductions	<u>31,218,279</u>
Change in net assets	(132,803,758)
Net assets, beginning of year	<u>393,485,206</u>
Net assets, end of year	<u><u>\$ 260,681,448</u></u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

(1) Financial Statement Presentation

The City of Brockton (the City) is governed by an elected mayor, who has general supervision of and control over the City's boards, commissions, officers and departments. The legislative body of the City is the City Council, which consists of eleven elected members serving two-year terms. U.S. generally accepted accounting principles (GAAP) requires that the accompanying basic financial statements present the City of Brockton (the primary government) and its component units. Component units are included in the City's reporting entity if their operational and financial relationships with the City are significant. Pursuant to this criteria, the City of Brockton Retirement System (the System) has been identified as a component unit. The System was established under the authority of Chapter 32 of the Massachusetts General Laws (MGL), as amended, and is an independent contributory retirement system available to employees of the City. The powers of the System are vested in the Retirement Board. The System has been included in the City's fiduciary funds as a pension trust fund for reporting purposes. A complete set of financial statements of the System for the fiscal year ended December 31, 2008 can be obtained by contacting the Brockton Retirement Board at 15 Christy's Drive, Brockton, MA 02301.

The Brockton Educational Foundation meets the definition of a component unit; however, their operations are not significant.

The City has entered into joint ventures with other municipalities to pool resources and share the costs, risks, and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specified service recipients. The following is a list of the City's joint ventures, their purpose, the address where the joint venture financial statements are available, and the annual assessment paid by the City in 2009:

<u>Joint venture and address</u>	<u>Purpose</u>	<u>Annual assessment</u>
Brockton Area Transit Authority 45 School Street Brockton, MA 02301	To provide public transportation	\$ 1,825,207
Southeastern Regional School District 250 Foundry Street South Easton, MA 02375	To provide educational services	2,588,411

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

(2) Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with GAAP as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The City also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, to its governmental and business-type activities and proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the City's accounting policies are described below.

(a) *Basis of Presentation*

The financial condition and results of operations of the City are presented as of and for the year ended June 30, 2009, except for the System, which is presented as of and for the year ended December 31, 2008.

Government-Wide Statements

The statement of net assets and the statement of activities display information about the primary government (the City). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statements of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the City's funds, including its fiduciary funds. Separate statements for each fund category-governmental, proprietary, and fiduciary—are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each of which is displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major governmental fund:

General Fund – This 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 City reports the following major enterprise funds:

Water Fund – This fund accounts for the provisions of water treatment and distribution to its residential and commercial users located within the City.

Sewer Fund – This fund accounts for the provisions of sanitary sewer service to the residents and commercial users located within the City.

Additionally, the City reports the following fund types:

Pension Trust Fund – Accounts for the activities of the System, which accumulates resources for pension benefit payments to qualified employees of its contributing members.

Agency Funds – These funds account for off-duty police, fire and custodial details. The City’s agency funds are custodial in nature (assets equals liabilities) and do not involve measurement of results of operations.

(b) *Measurement Focus, Basis of Accounting*

Government-Wide, Proprietary, and Fiduciary Fund Financial Statements – The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements – Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City generally considers nongrant revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Grant revenues that the City earns by incurring obligations are recognized in the same period as when the obligations are recognized. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Tax abatement refunds are recognized as fund liabilities for refunds filed prior to year-end and paid within a year. General capital asset acquisitions are reported as

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

expenditures in governmental funds. Proceeds of general long-term debt are reported as other financial sources.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

(c) *Deferred Revenue*

In the governmental fund financial statements, deferred revenue represents monies received or revenues accrued that have not been earned or do not meet the "available" criteria for revenue recognition under the modified accrual basis of accounting.

(d) *Cash and Cash Equivalents*

To improve cash management, cash received by the City is pooled. Monies for all funds, except those restricted by MGL to be held separately, are maintained in this pool. Individual fund integrity is maintained through City records. Each fund's interest in the pool is presented as "cash and cash equivalents" on the balance sheets.

For purposes of the statements of cash flows, all highly liquid investments with maturities of three months or less when purchased are considered to be cash equivalents.

(e) *Investment Valuation*

The City's investments are carried at fair value. The City invests in the Massachusetts Municipal Depository Trust (MMDT), which is an external investment pool and is not SEC registered. This fund is state regulated and is valued at current share price.

(f) *Compensated Absences*

The liability for compensated absences reported in the government-wide and proprietary fund statements consists of unpaid, accumulated annual vacation and sick leave balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included.

(g) *Capital Assets*

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statements of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statements of net assets and in the respective funds.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and requirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The City maintains a capitalization threshold of \$10,000. The City's infrastructure consists of bridges, culverts, curbs, sidewalks, storm sewers, streets, and water and sewer lines. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets are depreciated except for land, construction in progress and historical works of art. Improvements are depreciated over the remaining useful lives of the related capital assets. Useful lives for infrastructure were estimated based on the City's historical records of necessary improvements and replacement. Depreciation is computed using the straight-line method over the following useful lives:

Buildings	40 – 50 years
Land improvements	20 years
Machinery and equipment	5 – 20 years
Infrastructure	15 – 100 years

(h) Fund Balances – Governmental Funds

The City has allocated fund balances to its governmental funds as follows:

Encumbrances and continuing appropriations – represents the amount of unexpended appropriations carried forward to fiscal year 2009 for projects which have not been completed, open purchase orders, and for contracts which have not been performed.

Deposits held – represents amount deposited with health claims agent.

Note receivable – represents amount of fund balance reserved for long-term note receivable.

Subsequent year's expenditures – represents the amount of fund balance authorized to fund fiscal year 2010 appropriations.

Extraordinary and unforeseen expenditures – in accordance with Chapter 324 – Acts of 1990 of the MGL, the City has designated an amount not less than 1.5% of the gross amount raised from the prior fiscal year's tax recapitulation sheet.

Stabilization – represents the amount of fund balance that can be appropriated for any municipal use upon two-thirds approval of the City Council.

Health claims – represents amount of fund balance that can be expended for the purpose of paying health claims.

Undesignated – represents the amount of funds available for appropriations by the City or for expenditure in accordance with legal restrictions for certain special revenue, capital projects, and permanent funds.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

(i) Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation of the City or through external restrictions imposed by grantors or laws or regulations.

The City applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

(j) Bond Discounts, Premiums, Reacquisition Costs, and Issuance Costs

In the government-wide and proprietary fund financial statements, bond discounts/premiums, reacquisition costs, and issuance costs are deferred and amortized over the term of the bonds using the straight-line method. Bond issuance costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond discounts, premiums, and issuance costs in the period the bond proceeds are received. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as expenditures.

(k) Use of Estimates

The preparation of financial statements in conformity with GAAP 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 revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(l) Adoption of a New Accounting Pronouncement

During the fiscal year ended June 30, 2009, the City adopted GASB Statement No. 49 (GASB 49), *Accounting and Financial Reporting for Pollution Remediation Obligations*, establishing accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. The standard excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care.

The City did not identify any pollution remediation obligations that are required to be recorded under GASB Statement No. 49.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

(3) Receivables

(a) Property Taxes

Real and personal property taxes are based on values assessed as of each January 1 and are due in quarterly installments on August 1, November 1, February 1, and May 1. By law, all taxable property in the Commonwealth must be assessed at 100% of fair cash value. Taxes due and unpaid after the respective due dates are subject to interest and penalties. The City has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables in the fiscal year of the levy.

A statewide tax limitation statute known as “Proposition 2½” limits the property tax levy to an amount equal to 2½% of the value of all taxable property in the City. A secondary limitation is that no levy in a fiscal year may exceed the preceding year’s allowable tax levy by more than 2½%, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2½ taxing limitations can be overridden by a City-wide referendum vote.

(b) Note Receivable

In January 2002, the City issued an \$8.0 million note (the Note) to the Brockton 21st Century Corporation (the Corporation), to partially finance the construction of a 4,700 seat baseball stadium for minor league baseball and a 14,000 square-foot conference center.

The corporation was created by a special act (the Act) of the Massachusetts Legislature in 1993 to serve as a private corporation for economic development in the City; costs of the activities of the corporation pursuant to the Act qualify as public purpose expenditures.

The facilities are leased by the Corporation to a private third party which operates both the conference center and a minor league baseball team.

The Note was financed with the issuance of a like amount of taxable bonds.

The Note matures in fiscal 2022, has an effective interest rate of 6.31%, and is secured by the stadium, related conference center, and all stadium-generated lease revenues paid to the corporation, and almost all conference center lease revenues. The scheduled principal payments are as follows:

Fiscal year:		
2010	\$	134,740
2011		143,249
2012		152,295
2013		161,912
2014		172,137
2015 – 2019		1,038,134
2020 – 2023		5,926,705
Total	\$	<u>7,729,172</u>

CITY OF BROCKTON, MASSACHUSETTS

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This baseball stadium and conference center is constructed on City-owned land that has been leased to the Corporation for an annual ground lease payment of \$10 for the term of the Note, after which time the lease payment amount will be based upon fair market value.

(c) Long-Term Receivable

The City participates in the Commonwealth's school building assistance program, which is administered by the Massachusetts School Building Authority (MSBA). The MSBA provides financial assistance (90% of total costs) to the City to build and/or renovate schools. As of June 30, 2009, under MSBA's contract assistance program, the City was due funds totaling \$24,771,990.

In the General Fund, the receivable is offset by deferred revenue because the revenue is not considered available. The following is a schedule of the five-year paydown as of June 30, 2009 through 2013, and in five-year increments thereafter:

Fiscal year:	
2010	\$ 2,698,584
2011	2,698,584
2012	2,698,584
2013	2,698,584
2014	2,698,584
2015 – 2019	10,217,964
2020 – 2023	1,061,106
Total	<u>\$ 24,771,990</u>

(d) Intergovernmental Receivables

Massachusetts Water Pollution Abatement Trust (MWPAT)

In order to fund continuous upgrades to the City's wastewater treatment plant, the City has entered into loan agreements with the MWPAT. When the loan agreements are executed, the City is responsible for paying the debt service on the loan. However, the City does not receive all loan proceeds when the loan agreements are executed.

For the year ended June 30, 2009, the City entered into loan agreements with MWPAT totaling \$8.1 million, however, only a portion of those proceeds had been received. The remaining proceeds to be received are recorded as a receivable in the Water and Sewer Funds and are expected to be collected in future fiscal years as construction costs are incurred.

Massachusetts School Building Authority (MSBA)

In order to help fund the construction of two new schools, the City has entered into an agreement where the MSBA will fund 90% of eligible costs of the school construction. The City works on a cost-reimbursement basis and as of June 30, 2009, the City incurred costs of \$5.6 million for which reimbursement has not been received. That amount is recorded as an intergovernmental receivable in the Other Governmental Funds.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

(4) Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

Primary Government

	Beginning balance	Increases	Decreases	Ending balance
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 7,210,638	200,060	—	7,410,698
Construction in progress	49,513,474	14,083,943	1,616,009	61,981,408
Historical works of art	1,809,514	—	—	1,809,514
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total capital assets, not being depreciated	<u>58,533,626</u>	<u>14,284,003</u>	<u>1,616,009</u>	<u>71,201,620</u>
Capital assets, being depreciated:				
Buildings	137,724,956	3,515,707	—	141,240,663
Land improvements	7,548,336	530,074	—	8,078,410
Machinery and equipment	19,946,270	607,834	—	20,554,104
Infrastructure	83,441,674	1,609,022	—	85,050,696
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total capital assets, being depreciated	<u>248,661,236</u>	<u>6,262,637</u>	<u> </u>	<u>254,923,873</u>
Less accumulated depreciation for:				
Buildings	62,812,520	2,830,786	—	65,643,306
Land improvements	5,162,955	302,967	—	5,465,922
Machinery and equipment	15,412,379	970,196	—	16,382,575
Infrastructure	59,553,440	2,499,759	—	62,053,199
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total accumulated depreciation	<u>142,941,294</u>	<u>6,603,708</u>	<u> </u>	<u>149,545,002</u>
Total capital assets, being depreciated, net	<u>105,719,942</u>	<u>(341,071)</u>	<u> </u>	<u>105,378,871</u>
Governmental capital assets, net	\$ <u>164,253,568</u>	<u>13,942,932</u>	<u>1,616,009</u>	<u>176,580,491</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

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Depreciation expense was charged to governmental functions as follows:

Governmental activities:

General government	\$	161,242
Public safety		971,906
Public works		2,228,878
Education		2,871,233
Human services		94,687
Culture and recreation		275,762
		<u>275,762</u>
Total depreciation expense – governmental activities	\$	<u><u>6,603,708</u></u>

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Water:				
Capital assets, not being depreciated:				
Land	\$ 2,929,492	—	—	2,929,492
Construction in progress	<u>16,352,468</u>	<u>9,181,387</u>	<u>2,508,308</u>	<u>23,025,547</u>
Total capital assets, not being depreciated	<u>19,281,960</u>	<u>9,181,387</u>	<u>2,508,308</u>	<u>25,955,039</u>
Capital assets, being depreciated:				
Buildings	2,937,386	804,261	—	3,741,647
Land improvements	105,700	—	—	105,700
Machinery and equipment	10,012,810	135,042	—	10,147,852
Infrastructure	<u>29,811,060</u>	<u>1,643,884</u>	<u>—</u>	<u>31,454,944</u>
Total capital assets, being depreciated	<u>42,866,956</u>	<u>2,583,187</u>	<u>—</u>	<u>45,450,143</u>
Less accumulated depreciation for:				
Buildings	1,748,051	75,721	—	1,823,772
Land improvements	100,111	860	—	100,971
Machinery and equipment	7,588,080	336,463	—	7,924,543
Infrastructure	<u>13,697,823</u>	<u>561,436</u>	<u>—</u>	<u>14,259,259</u>
Total accumulated depreciation	<u>23,134,065</u>	<u>974,480</u>	<u>—</u>	<u>24,108,545</u>
Total capital assets being depreciated, net	<u>19,732,891</u>	<u>1,608,707</u>	<u>—</u>	<u>21,341,598</u>
Water capital assets, net	<u>39,014,851</u>	<u>10,790,094</u>	<u>2,508,308</u>	<u>47,296,637</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Sewer:				
Capital assets, not being depreciated:				
Land	\$ 186,327	—	—	186,327
Construction in progress	<u>79,949,060</u>	<u>13,375,980</u>	—	<u>93,325,040</u>
Total capital assets, not being depreciated	<u>80,135,387</u>	<u>13,375,980</u>	—	<u>93,511,367</u>
Capital assets, being depreciated:				
Buildings	28,622,519	—	—	28,622,519
Land improvements	258,000	—	—	258,000
Machinery and equipment	42,571,680	—	—	42,571,680
Infrastructure	<u>37,813,100</u>	—	—	<u>37,813,100</u>
Total capital assets, being depreciated	<u>109,265,299</u>	—	—	<u>109,265,299</u>
Less accumulated depreciation for:				
Buildings	15,529,501	715,300	—	16,244,801
Land improvements	238,650	12,900	—	251,550
Machinery and equipment	41,246,355	228,419	—	41,474,774
Infrastructure	<u>21,101,481</u>	<u>703,606</u>	—	<u>21,805,087</u>
Total accumulated depreciation	<u>78,115,987</u>	<u>1,660,225</u>	—	<u>79,776,212</u>
Total capital assets being depreciated, net	<u>31,149,312</u>	<u>(1,660,225)</u>	—	<u>29,489,087</u>
Sewer capital assets, net	<u>111,284,699</u>	<u>11,715,755</u>	—	<u>123,000,454</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Other:				
Capital assets, not being depreciated:				
Land	\$ 130,359	—	—	130,359
Construction in progress	—	16,996	—	16,996
Total capital assets, not being depreciated	<u>130,359</u>	<u>16,996</u>	<u>—</u>	<u>147,355</u>
Capital assets, being depreciated:				
Buildings	862,298	—	—	862,298
Land improvements	32,459,301	—	—	32,459,301
Machinery and equipment	2,256,551	—	—	2,256,551
Infrastructure	6,848,196	—	—	6,848,196
Total capital assets, being depreciated	<u>42,426,346</u>	<u>—</u>	<u>—</u>	<u>42,426,346</u>
Less accumulated depreciation for:				
Buildings	450,595	18,645	—	469,240
Land improvements	31,762,849	104,955	—	31,867,804
Machinery and equipment	2,025,207	81,866	—	2,107,073
Infrastructure	2,244,702	114,758	—	2,359,460
Total accumulated depreciation	<u>36,483,353</u>	<u>320,224</u>	<u>—</u>	<u>36,803,577</u>
Total capital assets being depreciated, net	<u>5,942,993</u>	<u>(320,224)</u>	<u>—</u>	<u>5,622,769</u>
Other capital assets, net	<u>6,073,352</u>	<u>(303,228)</u>	<u>—</u>	<u>5,770,124</u>
Business-type activities capital assets, net	\$ <u>156,372,902</u>	<u>22,202,621</u>	<u>2,508,308</u>	<u>176,067,215</u>

(5) Deposits and Investments

The following represents the City's essential risk information about deposits and investments.

(a) Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned. The City carries deposits that are insured by FDIC insurance or collateralized with securities held by the City or the City's agent in the City's name. The City also carries deposits that are not collateralized and are uninsured. As of June 30, 2009, the City's bank balances of uninsured and uncollateralized deposits totaled \$106,616,488 under the \$250,000 FDIC limit which will expire

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

on December 31, 2013 when it resorts back to the previous limit of \$100,000. All of the System's deposits are fully insured by FDIC insurance or collateralized with securities held by the System or the System's agent in the System's name.

(b) Investment Policy

The provisions of Massachusetts General Laws (M.G.L.) c. 32, sec 23(2) govern the City's investment practice.

Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. c. 32, sec 23(3), the "Prudent Person" rule.

(c) Interest Rate Risk

The following is a listing of the City's fixed-income investments and related maturity schedule (in years) as of June 30, 2009 for the primary government and December 31, 2008 for the retirement system:

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
Retirement system:					
Short term investment fund	\$ 4,200,113	4,200,113	—	—	—
U.S. treasury notes and bonds	5,290,143	—	—	2,600,337	2,689,806
U.S. agencies	3,168,971	—	2,786,639	289,407	92,925
Municipal	583,390	—	—	201,628	381,762
Corporate	34,826,252	979,905	8,429,899	14,778,886	10,637,562
Pooled funds – domestic	4,474,397	—	—	4,474,397	—
Pooled funds – international	27,697,764	—	—	27,697,764	—
Asset backed:					
CMOs	1,423,449	—	—	—	1,423,449
Mortgage backed	5,114,916	—	509,341	746,345	3,859,230
Other	2,311,412	24,915	11,075	1,201,003	1,074,419
Subtotal	<u>89,090,807</u>	<u>5,204,933</u>	<u>11,736,954</u>	<u>51,989,767</u>	<u>20,159,153</u>
City:					
U.S. treasury notes and bonds	10,066	10,066	—	—	—
U.S. agencies	1,971,793	161,907	1,433,417	376,469	—
Corporate Bonds	70,934	—	—	70,934	—
MMDT	7,701,767	7,701,767	—	—	—
Subtotal	<u>9,754,560</u>	<u>7,873,740</u>	<u>1,433,417</u>	<u>447,403</u>	<u>—</u>
Total	<u>\$ 98,845,367</u>	<u>13,078,673</u>	<u>13,170,371</u>	<u>52,437,170</u>	<u>20,159,153</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

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The City's guidelines do not specifically address limits on maturities as a means of managing its exposure to fair-value losses arising from increasing interest rates. The manager of each fixed-income portfolio is responsible for determining the maturity and commensurate returns of his/her portfolio.

The collateralized mortgage obligations (CMOs) held by the System as of December 31, 2008 are highly sensitive to changes in interest rates.

(d) Credit Risk

The City allows investment managers to apply discretion under the "Prudent Person" rule. Investments are made, as a prudent person would be expected to act with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments.

The City's fixed-income investments as of June 30, 2009 for the primary government and December 31, 2008 for the retirement system were rated by Standard & Poor's and/or an equivalent national rating organization, and the ratings are presented below using the Standard and Poor's rating scale:

<u>Investment type</u>	<u>Fair value</u>	<u>AAA to A</u>	<u>BBB to B</u>	<u>CCC</u>	<u>D</u>	<u>Not rated</u>
Retirement system:						
Short term investment fund	\$ 4,200,113	—	—	—	—	4,200,113
U.S. agencies	3,168,971	3,131,925	37,046	—	—	—
Municipal	583,390	583,390	—	—	—	—
Corporate	34,826,252	11,836,213	21,323,924	901,301	764,814	—
Pooled funds – domestic	4,474,397	—	—	—	—	4,474,397
Pooled funds – international	27,697,764	—	—	—	—	27,697,764
Asset backed:						
CMO's	1,423,449	1,172,155	251,294	—	—	—
Mortgage backed	5,114,916	5,114,916	—	—	—	—
Other	2,311,412	1,895,549	415,863	—	—	—
Subtotal	<u>83,800,664</u>	<u>23,734,148</u>	<u>22,028,127</u>	<u>901,301</u>	<u>764,814</u>	<u>36,372,274</u>
City:						
U.S. agencies	1,971,793	1,971,793	—	—	—	—
Corporate Bonds	70,934	70,934	—	—	—	—
MMDT	7,701,767	—	—	—	—	7,701,767
Subtotal	<u>9,744,494</u>	<u>2,042,727</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,701,767</u>
Total	<u>\$ 93,545,158</u>	<u>25,776,875</u>	<u>22,028,127</u>	<u>901,301</u>	<u>764,814</u>	<u>44,074,041</u>

In addition to the above schedule, the City and the System have \$10,066 and \$5,290,143, respectively, invested in U.S. government securities, which are not included above as they are explicitly guaranteed by the U.S. government.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

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(e) Concentration Risk

The System has no investments, at fair value, that exceed 5% of the System's investments as of December 31, 2008. Additionally, the City has no investments, at fair value, that exceed 5% of the City's net assets as of June 30, 2009.

The City adheres to the provisions of M.G.L. c. 32, sec 23(2) when managing concentration risk.

(f) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Only the retirement system is statutorily allowed to invest in foreign currency securities. Similar to the investments in domestic equities, the City employs, or encourages its investment advisor to employ, diversification, asset allocation, and quality strategies. On currency hedging is permitted for defensive purposes. Currency hedging shall be effected through the use of forward currency contracts. At December 31, 2008, there were no open forward currency contracts.

Risk of loss arises from changes in currency exchange rates. The System's exposure to foreign currency risk is presented on the following table.

<u>Currency</u>	<u>Fixed income</u>	<u>Equity</u>	<u>Total</u>
International pooled funds (various currencies):			
Retirement System	\$ 27,697,764	32,474,908	60,172,672
City	—	320,969	320,969
Total	\$ 27,697,764	32,795,877	60,493,641

(6) Retirement System

(a) Plan Description

The City contributes to the System, an agent, multiple-employer, public employee retirement system that acts as the investment and administrative agent for the City, the Private Industry Council, the Brockton Housing Authority, the Brockton Redevelopment Authority and the Brockton Area Transit Authority. The System provides retirement, disability, and death benefits to plan members and beneficiaries. The System is a member of the Massachusetts Contributory System which is governed by Chapter 32 of the MGL. The System is overseen by an independent five-member board consisting of the following: Chairperson, City Auditor (Ex-Officio), Mayoral appointment, a member elected by the System members and a member elected by the other board members. Public school teachers are covered by the Commonwealth of Massachusetts Teachers' Retirement System, to which the City does not contribute.

(b) Basis of Accounting

The System's financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide

CITY OF BROCKTON, MASSACHUSETTS

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contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

Investments of the System are stated as follows:

- (a) Domestic and international bonds and equity securities are stated a quoted market value.
- (b) Real estate funds are stated at appraised value or partner's account value, whichever is more readily determinable.
- (c) Venture capital funds are stated at fair value
- (d) Domestic and international pooled funds are stated a net asset value.

(c) Membership

The City's membership in the System consisted of the following at January 1, 2009, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,320
Terminated plan members entitled to but not receiving benefits	284
Active plan members	<u>1,817</u>
Total membership	<u><u>3,421</u></u>

(d) Contributions

Plan members are required to contribute to the System, depending on their employment date. Active members contribute 5%, 7%, 8%, or 9% of their regular gross compensation depending on the date upon which their membership began. Members hired after January 1, 1979 must contribute an additional 2% of regular compensation in excess of \$30,000. Participating employers are required to pay into the System their share of the remaining system-wide actuarially determined contribution. The contributions of plan members and the participating employers are governed by Chapter 32 of the MGL.

The following table presents the schedule of the City's contributions:

<u>Fiscal year ending</u>	<u>Annual required contribution</u>	<u>Interest on net pension asset</u>	<u>Amortization of net pension asset</u>	<u>Pension cost</u>	<u>Actual contribution</u>	<u>Change in net pension asset</u>	<u>Net pension asset</u>
2009	\$ 9,584,465	(7,430,922)	10,817,911	12,971,454	9,742,513	(3,228,941)	89,657,579
2008	9,470,426	(7,607,974)	9,821,132	11,683,584	9,470,426	(2,213,158)	92,886,520
2007	9,232,629	(7,748,493)	9,504,979	10,989,115	9,232,629	(1,756,486)	95,099,678

The System's Retirement Board, the City Council and the Mayor approved the option for local funding of cost-of-living adjustments. The System's funding schedule has been updated to reflect the increased liabilities resulting from the adoption of this option. These cost-of-living adjustments will

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

be awarded automatically each year, except in years in which the Retirement Board determines that such an adjustment would substantially impair the funding schedule.

(e) Legally Required Reserve Accounts

The balances in the System's legally required reserves at December 31, 2008 are as follows:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity Savings Fund	\$ 67,485,798	Active members' contribution balance
Annuity Reserve Fund	26,464,781	Retired members' contribution account
Military Service Credit	70,144	Members' contribution account while on military leave
Pension Reserve Fund	112,824,197	Amounts to fund future retirement benefits
Pension Fund	<u>53,836,528</u>	Remaining net assets
Total	\$ <u><u>260,681,448</u></u>	

All reserve accounts are funded at levels required by state statute.

(f) Funded Status and Funding Progress

The funded status of the City's pension plan administered by the System as of January 1, 2008, the most recent actuarial valuation date, is as follows:

Actuarially accrued liability (AAL)	\$ 410,270
Actuarial value of plan assets	<u>377,647</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u><u>32,623</u></u>
Funded ratio (actuarial value of plan assets/AAL)	92.0%
Covered payroll (active plan members)	\$ 69,345
UAAL as a percentage of covered payroll	47.0%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the AAL's for benefits.

In the January 1, 2008 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions included an 8.0% investment rate of return, projected salary increases of 4.8%, and cost-of-living adjustments of 3% up to \$360 annually. The actuarial value of assets was determined using the fair value of investments. The System's unfunded actuarial accrued liability is being amortized as a level percentage of pay on an open basis. The remaining amortization period at January 1, 2008 was 10 years.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

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(7) Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2009:

<u>General long-term obligations</u>	<u>Maturing through year ended June 30</u>	<u>Interest percentage range</u>	<u>Outstanding beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding end of year</u>
Governmental activities:						
General:						
Taxable	2027	(4.75% – 6.45%)	\$ 104,920,000	—	2,190,000	102,730,000
General obligation	2022	(3.00% – 6.75%)	37,102,175	—	3,079,250	34,022,925
Subtotal			\$ 142,022,175	—	5,269,250	136,752,925
Add (deduct):						
Unamortized bond premium						\$ 1,211,814
Unamortized deferred amounts on refundings						(1,021,190)
Total governmental activities bonded debt, net						136,943,549
Business-type activities:						
Water	2028	(3.00% – 7.75%)	\$ 26,095,457	—	1,701,010	24,394,447
Sewer	2028	(2.00% – 6.75%)	80,639,434	8,116,446	3,995,590	84,760,290
Other	2019	(3.80% – 6.00%)	1,905,000	—	155,000	1,750,000
Subtotal			\$ 108,639,891	8,116,446	5,851,600	110,904,737
Add (deduct):						
Unamortized bond premium						1,200,488
Unamortized deferred amounts on refundings						(255,335)
Total business-type activities bonded debt, net						111,849,890
Total bonded debt, net						\$ 248,793,439
Other long-term obligations:						
Self-insured benefit plans:						
Governmental activities			\$ 5,933,444	43,181,066	41,309,383	7,805,127
Business-type activities:						
Water			46,242	1,491,340	446,941	1,090,641
Sewer			1,119,806	1,905,683	274,001	2,751,488
Other			1,966,663	1,378,376	295,942	3,049,097
Compensated absences, net:						
Governmental activities			11,465,567	7,464	1,197,709	10,275,322
Business-type activities:						
Water			330,698	20,952	—	351,650
Sewer			88,734	12,253	—	100,987
Other			158,561	6,394	—	164,955
Landfill closure and postclosure care costs:						
Governmental activities			512,000	1,279,000	—	1,791,000
Business-type activities:						
Sewer			989,000	23,000	—	1,012,000
Other post employment benefits						
Governmental activities			28,322,152	47,377,036	16,688,267	59,010,921
Total other long-term obligations			\$ 50,932,867	96,682,564	60,212,243	87,403,188

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

Included in the general long-term obligations above is \$870,000 in State Qualified Bonds (SQB's). SQB's are serial bonds issued as "State Qualified" with approval of the State Emergency Finance Board. The Commonwealth pays debt service on qualified bonds and subsequently withholds the amount of debt service from State aid payments to the City. The City issues SQB's to take advantage of more favorable interest rates. Of the \$870,000 of State Qualified debt outstanding at June 30, 2009, \$730,000, \$100,000, and \$40,000 relate to the general nontaxable, water, and sewer funds, respectively.

On March 18, 2009, the City issued \$8,116,446 of Massachusetts Water Pollution Abatement Trust bonds to fund the City's on-going sewer plant rehabilitation projects. The interest rate on the bonds is 2% and due serially through July 15, 2028.

Maturity of Bond Indebtedness

Bond indebtedness outstanding at June 30, 2009 matures as follows:

	Governmental activities		
	Principal	Interest	Total
Year ending June 30:			
2010	\$ 5,783,150	7,015,607	12,798,757
2011	6,321,825	6,727,972	13,049,797
2012	4,338,400	6,497,425	10,835,825
2013	4,806,750	6,304,586	11,111,336
2014	5,331,900	6,083,309	11,415,209
2015 – 2019	30,550,900	25,744,200	56,295,100
2020 – 2024	34,500,000	17,179,778	51,679,778
2025 – 2028	45,120,000	5,226,330	50,346,330
	<u>\$ 136,752,925</u>	<u>80,779,207</u>	<u>217,532,132</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

Business-type activities				
Water				
Sewer				
	Principal	Interest	Principal	Interest
Year ending June 30:				
2010	\$ 1,293,254	623,397	4,346,241	2,186,013
2011	1,288,922	576,973	4,413,202	2,087,040
2012	1,303,792	542,008	4,500,382	1,964,458
2013	1,317,972	507,810	4,548,992	1,888,699
2014	1,337,217	465,567	4,693,956	1,714,562
2015 – 2019	6,814,838	1,745,353	24,348,187	6,414,894
2020 – 2024	6,289,885	860,700	24,933,374	2,973,267
2025 – 2028	4,748,567	192,537	12,975,956	366,473
	<u>\$ 24,394,447</u>	<u>5,514,345</u>	<u>84,760,290</u>	<u>19,595,406</u>
Business-type activities				
Other				
Total				
	Principal	Interest	Principal	Interest
Year ending June 30:				
2010	\$ 150,000	11,350	5,789,495	2,820,760
2011	150,000	9,163	5,852,124	2,673,176
2012	150,000	6,912	5,954,174	2,513,378
2013	150,000	4,662	6,016,964	2,401,171
2014	150,000	2,350	6,181,173	2,182,479
2015 – 2019	500,000	—	31,663,025	8,160,247
2020 – 2024	500,000	—	31,723,259	3,833,967
2025 – 2028	—	—	17,724,523	559,010
	<u>\$ 1,750,000</u>	<u>34,437</u>	<u>110,904,737</u>	<u>25,144,188</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

The City has entered into loan agreements with the Massachusetts Water Pollution Abatement Trust (MWPAT) to finance certain water and wastewater related capital improvements. Since the City is legally obligated for the total debt amounts, the full liability has been recorded in the Water and Sewer funds in the accompanying basic financial statements. The City expects to receive \$517,818 and \$4,444,668 of Water and Sewer principal and interest subsidies, respectively, from MWPAT over the remaining life of the loans as follows:

	Business-type activities					
	Water		Sewer		Total	
	Principal subsidy	Interest subsidy	Principal subsidy	Interest subsidy	Principal subsidy	Interest subsidy
Year ending June 30:						
2010	\$ 12,876	32,558	100,562	367,312	113,438	399,870
2011	13,367	31,038	104,494	346,592	117,861	377,630
2012	14,353	28,994	109,941	322,901	124,294	351,895
2013	15,397	27,299	85,474	332,939	100,871	360,238
2014	18,035	20,990	112,321	288,388	130,356	309,378
2015 – 2019	105,990	73,100	361,937	1,120,955	467,927	1,194,055
2020 – 2024	102,927	20,893	139,253	573,209	242,180	594,102
2025 – 2028	—	—	78,388	—	78,388	—
Total	\$ 282,945	234,872	1,092,370	3,352,296	1,375,315	3,587,168

The City is subject to a dual-level general debt limit; the normal debt limit and the double-debt limit. Such limits are equal to 2½% and 5%, respectively, of the valuation of taxable property in the City as last equalized by the Commonwealth’s Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double-debt limit, however, require the approval of the Commonwealth’s Emergency Finance Board. Additionally, there are many categories of general obligation debt which are exempt from the debt limit but are subject to other limitations.

As of June 30, 2009, the City may issue approximately \$418.1 million of additional general-obligation debt under the normal debt limit. The City has approximately \$235.0 million of debt exempt from the debt limit.

As of June 30, 2009, the City has total authorized unissued debt of \$134,835,137. The remaining authorized unissued debt is intended to finance the following:

School construction/furnishings	\$ 68,875,000
Pension funding	47,710,000
Water projects	3,641,473
School refunding	3,380,000
Sewer projects	11,228,664
	<u>\$ 134,835,137</u>

(8) Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require that the City place a final cover on its landfill sites and perform certain maintenance and monitoring functions at the landfill sites for a minimum of thirty years after closure. In addition to operating expenses related to current activities of the landfill sites, an expense

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfills no longer accept waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfills used during the year. The estimated liability for landfill closure and postclosure care costs is based on the percent usage (filled) of the landfills and is as follows at June 30, 2009:

	<u>Governmental activities</u>	<u>Business-type activities (Sewer fund)</u>
Closure and postclosure care costs	\$ 1,791,000	1,012,000
Percentage usage (filled)	100.00%	44.00%

It is estimated that an additional \$1,288,000 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the Sewer fund landfill is currently expected to be filled to capacity (the year 2047).

The landfill liability recorded by the governmental activities represents postclosure care costs only, as the closure costs have been contractually assumed by a third party in exchange for the future use of the landfill site. As of June 30, 2009, the landfill has been closed and the City began to incur postclosure care costs in fiscal year 2010.

The third party has placed an irrevocable letter of credit in the amount of \$5,485,000 in trust to provide assurance that funds will be available when needed for closure, maintenance, and/or corrective action.

The estimated total current cost of the landfill closure and postclosure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired as of June 30, 2009. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

(9) Temporary Borrowings

Under state law and by authorization of the City Council, the City is authorized to borrow on a temporary basis to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue anticipation notes (RANs);
- Capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANs); and
- Federal and state-aided capital projects and other program expenditures prior to receiving reimbursement through issuance of federal and state-aid anticipation notes (FANs and SANs).

Temporary loans are general obligations of the City and carry maturity dates which are limited by statute.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

Short-term debt activity for the year ended June 30, 2009 was as follows:

	Outstanding as of June 30, 2008	Additions	Reductions	Outstanding as of June 30, 2009
Bond anticipation notes payable:				
Governmental activities:				
Other governmental funds:				
Capital projects funds:				
School construction	\$ 9,000,000	9,000,000	9,000,000	9,000,000

(10) Operating Transfers

Operating transfers and their purposes during the year ended June 30, 2009 were as follows:

	Governmental funds		Enterprise funds		
	General	Other	Water	Sewer	Other
Water receipts – in lieu of taxes	\$ 530,681	—	(530,681)	—	—
Sewer receipts – in lieu of taxes	688,745	—	—	(688,745)	—
General fund revenue – grant match	242,200	(242,200)	—	—	—
Parking authority reserve – parking authority	572,486	(572,486)	—	—	—
Parking meter fees – parking authority	164,305	(164,305)	—	—	—
Weights and Measures – Services	68,901	(68,901)	—	—	—
General fund revenue - sewer deficit	(419,203)	—	—	419,203	—
General fund revenue - grant deficits	(141,028)	127,750	—	—	13,278
General fund revenue –recreation debt service costs	(168,688)	—	—	—	168,688
General fund revenue –recreation subsidy	(517,370)	—	—	—	517,370
General fund revenue –refuse subsidy	(172,373)	—	—	—	172,373
General fund revenue –bond issue costs	(191,713)	—	191,713	—	—
Total	\$ <u>656,943</u>	<u>(920,142)</u>	<u>(338,968)</u>	<u>(269,542)</u>	<u>871,709</u>

(11) Other Postemployment Benefit (OPEB) Disclosures

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the government-wide statement of activities when a future retiree earns their postemployment benefit rather than when they use their postemployment benefit.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the government-wide statement of net assets over time.

In addition to the pension benefits described in note 6, the City provides postemployment health care and life insurance benefits, in accordance with state statute and City ordinance, to participating retirees and their beneficiaries.

As of June 30, 2008, the valuation date, 2,577 retirees and 3,064 active members meet the eligibility requirements as put forth in Chapter 32B of MGL. The City sponsors and participates in a single employer defined benefit OPEB plan. The OPEB plan is administered by the City and does not issue a stand-alone financial report.

Medical and prescription drug benefits are provided to all eligible retirees not enrolled in Medicare through a variety of plans offered by Blue Cross Blue Shield of Massachusetts and Harvard Pilgrim HealthCare. Medical and prescription drug benefits are provided to retirees enrolled in Medicare through Medicare Supplemental plans offered by Blue Cross Blue Shield of Massachusetts and Harvard Pilgrim HealthCare.

Groups 1 and 2 retirees, including teachers, with at least 10 years or 20 years of creditable service are eligible at age 55 or any age, respectively. Group 4 retirees with at least 10 years or 20 years of creditable service are eligible at age 45 or any age, respectively. Retirees on ordinary or accidental disability retirement are eligible at any age while ordinary disability requires 10 years of creditable service. The surviving spouse is eligible to receive both pre- and post-retirement death benefits, as well as medical and prescription drug coverage.

(a) Funding Policy

Employer and employee contribution rates are governed by the respective collective bargaining agreements. The City currently funds the plan on a pay-as-you-go basis. The City and plan members share the cost of benefits. As of June 30, 2008, the valuation date, the plan members contribute 10% to 25% of the monthly premium cost, depending on the plan in which they are enrolled. The City contributes the balance of the premium cost.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

(b) Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2009, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of June 30, 2009:

Annual Required Contribution (ARC)	\$ 46,244,150
Interest on net OPEB obligation	1,132,886
Adjustment to ARC	<u>(879,889)</u>
Annual OPEB cost	46,497,147
Contributions made	<u>(15,808,378)</u>
Change in net OPEB obligation	30,688,769
Net OPEB obligation – beginning of year	<u>28,322,152</u>
Net OPEB obligation – end of year	<u><u>\$ 59,010,921</u></u>

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

	<u>Annual OPEB cost</u>	<u>Percentage of OPEB cost contributed</u>	<u>Net OPEB obligation</u>
Fiscal year ended: 2009	46,497,147	27%	\$ 59,010,921

The City's net OPEB obligation as of June 30, 2009 is recorded on the Government-wide Statement of Net Assets.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

(c) ***Funded Status and Funding Progress***

The funded status of the plan as of June 30, 2009, based on an actuarial valuation as of June 30, 2008, was as follows:

Actuarially accrued liability (AAL)	\$ 635,223,886
Actuarial value of plan assets	—
Unfunded actuarial accrued liability (UAAL)	<u>\$ 635,223,886</u>
Funded ratio (actuarial value of plan assets/AAL)	—%
Covered payroll (active plan members)	\$ 147,088,494
UAAL as a percentage of covered payroll	431.9%

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

(d) ***Actuarial Methods and Assumptions***

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

In the June 30, 2008 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.0% investment rate of return and an annual health care cost trend rate of 7.5%, reduced by decrements to an ultimate rate of 5% after 5 years. The City's unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis assuming 4.5% increases. The remaining amortization period at June 30, 2009 was thirty years.

(12) Risk Management

The City is exposed to various risks of loss related to general liability, property and casualty, workers' compensation, unemployment and employee health, and life insurance claims.

Buildings and property are insured against fire, theft, and natural disaster to the extent that losses exceed a deductible of \$100,000 per incident. Vehicle damage and loss is insured to \$2,000,000 with a deductible of \$1,000.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

The City is self insured for workers' compensation and unemployment claims. The City is also self insured for those employees participating in the City's Health Care Plans (Health Care Plans). Approximately 60% of the City's employees participate in preferred provider Health Care Plans.

Both employees and the City contribute to the Health Care Plans based upon a percentage formula, 75% (City) and 25% (employee), with the exception of Blue Cross Blue Shield Master Medical which is 70% City and 30% employee. The retirees' contribution rate is 25%, except for those retirees who were 65 or older as of July 1, 2003 and whose annual household income was \$17,650 or less for a single person over 65 years of age, or \$22,266 for a two-person household with one person over 65 years of age. For these retirees, the contribution rates are 15% for Blue Cross Blue Shield (BCBS) Master Medical, BCBS Master Medical Carve Out A&B, BCBS Medex III, and BCBS Choice and 10% for HMO Blue, Harvard Pilgrim Healthcare, and Harvard Pilgrim Enhanced. The 15% and 10% rates were established through a Home Rule Petition voted and approved by the City Council and the Massachusetts General Court. Stop loss insurance is carried on the Health Care Plans for claims in excess of \$200,000 per covered person and \$1,800,000 maximum per covered person, with the exception of individual specific deductible of \$250,000 and maximum specific benefit per lifetime of \$1,750,000. The City maintains a working deposit with the administrator of its Blue Cross Blue Shield Health Care Plans. At June 30, 2009, that deposit was \$6,466,400. The financial arrangement with Harvard Pilgrim is monthly level funding of \$1.2 million with quarterly adjustments if necessary.

The City is insured for other types of general liability; however, Chapter 258 of the MGL limits the City's liability to a maximum of \$100,000 per claim in all matters except actions relating to federal/civil rights, eminent domain, and breach of contract.

Liabilities for self-insured claims are reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Changes in the self-insurance liability for the years ended June 30, 2009 and 2008 were as follows:

	Workers' compensation plan	Health care plans	Total
Balance at June 30, 2007	\$ 5,438,600	3,064,600	8,503,200
Provision for losses/change in estimate	1,982,362	40,481,877	42,464,239
Payments for claims	(1,245,062)	(40,656,177)	(41,901,239)
Balance at June 30, 2008	6,175,900	2,890,300	9,066,200
Provision for losses/change in estimate	5,642,891	42,832,063	48,474,954
Payments for claims	(1,252,991)	(41,591,863)	(42,844,854)
Balance at June 30, 2009	\$ <u>10,565,800</u>	<u>4,130,500</u>	<u>14,696,300</u>

The liability for claims and judgments consists of governmental and business-type activities in the amount of approximately \$7,805,100 and \$6,891,200, respectively.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

(13) Commitments

On May 22, 2001, the City entered into a Water Purchase Agreement (the Agreement) with Inima, Servicios Europeos De Medio Ambiente, S.A. (Inima), jointly with Bluestone Energy Services, operating as Aquaria.

This Agreement provides for obtaining additional water from Aquaria's desalinization facility, which it designed, permitted, constructed, and operates. The plant employs conventional water treatment, followed by a reverse osmosis process to remove salinity. This will provide a minimum of five million gallons daily (MGD) of potable water and will be readily capable of expansion to ten MGD.

The Agreement expires in 20 years from December 2008 unless extended, renewed, or terminated. This Agreement may be renewed for up to 30 additional years in five year renewal terms.

Aquaria makes available to the City a minimum of the Firm Commitment of water on a daily and yearly average basis. The Firm Commitment begins at 1.9 MGD and increases over the 20 years to 4.07 MGD.

The schedule for the City's fixed purchase commitment resembles the projected growth in water demand for the City, but the schedule somewhat exceeds this curve, especially in years three to eight. In the event that other water purchase contracts are executed, the City has the right to offset its fixed commitment to a minimum of 2.0 MGD with the volume commitment of other long term purchasers or the right to reduce by about 50%, on a gallon for gallon basis, its fixed price for its fixed volume commitment. The contract also provided the significant benefit that all of the risk of financing, the permitting process, plant construction, and operation, rested with a third party and not with the City's rate payers. The City made no payment until the water was available for delivery, which began in November 2008.

The rate charged to the City for the Firm Commitment is a fixed annual charge of \$167,480 per year per 0.1 MGD of the City's Firm Commitment; this charge is incurred regardless of whether the City takes the water. In addition, the City incurs an additional charge of \$1.23 per 1,000 gallons for water actually delivered. For example, with a firm commitment of 2.0 MGD plus actual usage of 1.0 MGD for an entire year, the City would pay nearly \$3.8 million. The financial obligation is primarily attached to the fixed price component. The rate structure is permitted to escalate with the Producer Price Index for Finished Goods, excluding food after three years of water delivery. Accordingly, escalation will begin, in the fourth year of the contract, which is at the end of 2011. Fixed and variable charges are recorded in the major Water fund when incurred, which totaled \$2.1 million in fiscal year 2009.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2009

As of June 30, 2009, based on the current fixed annual charge, the City expects to pay \$121.5 million for its Firm Commitment as follows:

	<u>Amount</u>
Fiscal year:	
2010	\$ 3,768,300
2011	4,605,700
2012	5,443,100
2013	5,861,800
2014	5,912,044
2015 – 2019	31,930,062
2020 – 2024	34,082,180
2025 – 2029	29,859,778
	<u>\$ 121,462,964</u>

(14) Fund Deficits

The following funds had deficit fund balances at June 30, 2009:

Other governmental funds:	
Special revenue:	
Federal and state law enforcement grants	\$ 2,992
State economic development grants	4,358
City – Manning Pool	1,429
Capital projects:	
School construction	<u>4,117,808</u>
Total	<u>\$ 4,126,587</u>

The special revenue deficits will be eliminated upon satisfactory completion of federal and state audits, receipt of final grant funds, and recovery of costs through fees. The capital projects deficit will be eliminated upon receipt of school construction assistance from the MSBA.

(15) Subsequent Events

On December 15, 2009, two of the City's loans with the MWPAT were reduced by \$457,152 to account for unspent proceeds. The City reflected this change as of June 30, 2009 in their Water Fund long-term debt.

On January 22, 2010, the City borrowed \$10.04 million from the MWPAT to finance the City's ongoing sewer treatment plant rehabilitation. The loan carries an interest rate of 2% and is due serially through July 15, 2029.

CITY OF BROCKTON, MASSACHUSETTS

Budgetary Comparison Schedule – General Fund
Required Supplementary Information

June 30, 2009

(Unaudited)

	Budgeted amounts		Actual amounts (budgetary basis)	Variance with final budget positive (negative)
	Original	Final		
Resources (inflows):				
Real and personal property taxes, net	\$ 93,397,015	93,855,380	94,973,925	1,118,545
Motor vehicle and other excise	5,845,000	5,565,000	5,832,167	267,167
Penalties and interest on taxes	1,480,000	1,485,000	1,426,544	(58,456)
Payments in lieu of taxes	230,000	235,000	185,816	(49,184)
User charges and other revenue	2,135,000	2,780,920	3,613,268	832,348
Fees	445,000	320,000	1,219,429	899,429
Licenses and permits	945,000	975,000	2,004,127	1,029,127
Intergovernmental	159,350,558	159,385,587	145,822,118	(13,563,469)
Fines	600,000	685,000	668,256	(16,744)
Investment income	2,190,000	1,455,000	729,437	(725,563)
Transfers in	3,411,102	4,558,994	4,468,045	(90,949)
	<u>270,028,675</u>	<u>271,300,881</u>	<u>260,943,132</u>	<u>(10,357,749)</u>
Amounts available for appropriation				
Charges to appropriations (outflows):				
Current:				
General government	14,501,866	14,341,812	12,285,429	2,056,383
Public safety	38,948,319	39,002,624	36,998,458	2,004,166
Education	140,867,647	140,867,647	126,309,758	14,557,889
Public works	7,093,646	7,193,646	8,593,325	(1,399,679)
Human services	1,948,329	2,173,329	1,860,556	312,773
Culture and recreation	1,886,168	1,886,168	1,756,029	130,139
State and county assessments	5,186,248	5,140,616	5,372,254	(231,638)
Pension and fringe benefits	55,725,028	55,825,028	53,910,207	1,914,821
Court judgment	204,100	204,100	255,872	(51,772)
Capital outlay	31	340,031	69,275	270,756
Debt service	14,083,889	13,858,889	13,310,103	548,786
Transfers out	—	1,047,892	1,047,892	—
	<u>280,445,271</u>	<u>281,881,782</u>	<u>261,769,158</u>	<u>20,112,624</u>
Total charges to appropriations				
Excess (deficiency) of resources over charges to appropriations	<u>(10,416,596)</u>	<u>(10,580,901)</u>	<u>(826,026)</u>	<u>9,754,875</u>
Other budget items:				
Free cash	10,383,451	10,383,451		
Chapter 324 reserve	(150,872)	(150,872)		
Other financing sources/uses	184,017	348,322		
	<u>10,416,596</u>	<u>10,580,901</u>		
Total other budget items				
Net budget	\$ <u>—</u>	\$ <u>—</u>		

See notes to required supplementary information.

See accompanying independent auditors' report.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2009

Note A – Budgetary Basis of Accounting

The City must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2½ and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all nonproperty tax revenue and transfers projected to be received by the City, including available surplus funds.

The budgets for all departments and operations of the City, except that of public schools, are prepared under the direction of the Mayor. The School Department budget is prepared by the School Committee. Original and supplemental appropriations are submitted by the Mayor and approved by the City Council. The Finance Department independently develops revenue estimates which effectively limit total expenditures consistent with the City's Chief Financial Officer's requirement under Chapter 324 of the Acts of 1990 to certify the affordability of spending requests.

The City's annual budget is prepared on a basis other than GAAP. The "actual" amounts column of the Budgetary Comparison Schedule is presented on a "budgetary basis" to provide a meaningful comparison with the budget. The major differences between the budget and GAAP bases are that:

- (a) Budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP).

Note B – Expenditures in Excess of Budget

In fiscal year 2009, the City had expenditures in excess of budgeted appropriations totaling \$1.9 million, \$231,638, and \$51,772 in the snow and ice removal, state and county assessments, and court judgment line items, respectively. As required by Massachusetts General Law, the City will raise these deficits in their 2010 budget.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2009

Note C – Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures – General Fund

Budgetary inflows and GAAP revenues:

Actual amounts (budgetary basis) “amounts available for appropriation” from the budgetary comparison schedule \$ 260,943,132

Differences – budget to GAAP:

Property and excise taxes and intergovernmental revenues are reported as a budgetary resource on the cash basis, rather than on the modified accrual basis 1,162,463

Contributions for health claims are not reported as a budgetary resource 14,388,380

Interest earned for health claims are not reported as a budgetary resource 117,874

Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes (4,468,045)

Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances \$ 272,143,804

Budgetary outflows and GAAP expenditures:

Actual amounts (budgetary basis) “total charges to appropriation” from the budgetary comparison schedule \$ 261,769,158

Differences – budget to GAAP:

Enterprise fund related budgetary expenditures are recorded as reductions to transfers for GAAP purposes (2,155,947)

Health claims expenditures and accruals are not reported as charges to appropriations on a budgetary basis 11,882,900

Adjustments for expenditures, encumbrances, and accruals, net 3,831,633

Transfers to other funds are outflows of budgetary appropriations but are not expenditures for financial reporting purposes (1,047,892)

Total expenditures as reported on the statements of revenues, expenditures and changes in fund balances \$ 274,279,852

CITY OF BROCKTON, MASSACHUSETTS

Required Supplementary Information

June 30, 2009

(Unaudited)

(Dollar amounts in thousands)

Schedules of Funding Progress

<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (b)</u>	<u>Unfunded (b-a) Pension</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>((b-a)/c)</u>
January 1, 2008	\$ 377,647	410,270	32,623	92.0%	\$ 69,345	47.0%
January 1, 2007	361,767	398,969	37,202	90.7	67,660	55.0
January 1, 2006	233,724	377,730	144,006	61.9	64,983	221.6
Other Post Employment Benefits						
June 30, 2009	\$ —	635,224	635,224	—%	\$ 147,088	431.9%

Schedule of Contributions from City – Pension

	<u>Annual required contribution</u>	<u>Percentage contributed</u>
Year ended December 31:		
2008	\$ 9,584	100%
2007	9,470	100
2006	9,233	100

See accompanying independent auditors' report.