

CITY OF BROCKTON, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTARY INFORMATION
AND ADDITIONAL INFORMATION

JUNE 30, 2017

CITY OF BROCKTON, MASSACHUSETTS
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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2017 (except for the Brockton Contributory Retirement System, which is as of and for the year ended December 31, 2016), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

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 as of June 30, 2017 (except for the Brockton Contributory Retirement System, which is as of and for the year ended December 31, 2016), and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 4 through 21) and budgetary comparison of the General Fund and certain pension and other post-employment benefits information (located on pages 76 through 83) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The water and sewer enterprise funds' budget to actual schedules (additional information) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The additional information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2018 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 solely 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 effectiveness of the City of Brockton, Massachusetts' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "CliftonLarsonAllen LLP".

CliftonLarsonAllen LLP

Boston, Massachusetts
March 27, 2018

CITY OF BROCKTON, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2017
(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, 2017.

Brockton is a City located in Plymouth County, 20 miles southwest of Boston. The City has a population of approximately 93,810 (2010 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 liabilities and deferred inflows of the City exceeded its assets and deferred outflows at the close of fiscal year 2017 by approximately \$165.9 million (net position).

- The City's total net position decreased in fiscal year 2017 by approximately \$33.5 million, or 25.3%. This is primarily due to the recognition of increases in the other post-employment benefit (OPEB) liability and net pension liability.
- At the end of fiscal year 2017, unassigned fund balance for the general fund was approximately \$29.1 million, or 7.5%, of total general fund expenditures.
- The City's total bonded debt decreased by approximately \$10.7 million during fiscal year 2017. 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 and additional 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 position presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position 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).

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, refuse and renewable energy 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 40 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 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.

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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.

Fiduciary fund reporting focuses on net position and changes in net position. 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 position and a statement of changes in fiduciary net position. 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.

Required Supplementary and Additional 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 pension fund and progress in funding its obligation to provide post-employment health benefits to its employees.

The City has also included the budget to actual results of its water and sewer enterprise funds as additional information.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities and deferred inflows exceeded assets and deferred outflows by approximately \$165.9 million at the close of the most recent fiscal year.

A significant portion of the City's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. This amount increased by approximately \$7.8 million, or 3.1% from the prior fiscal year. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**CITY OF BROCKTON, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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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 position, \$48.8 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of a negative \$472.2 million represents an unrestricted net deficit.

Condensed Statements of Net Position (In Thousands)						
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 156,397	\$ 154,598	\$ 47,859	\$ 46,370	\$ 204,256	\$ 200,968
Capital Assets	191,127	189,709	176,042	177,266	367,169	366,975
Total Assets	<u>\$ 347,524</u>	<u>\$ 344,307</u>	<u>\$ 223,901</u>	<u>\$ 223,636</u>	<u>\$ 571,425</u>	<u>\$ 567,943</u>
Deferred Outflows of Resources	<u>\$ 35,382</u>	<u>\$ 50,251</u>	<u>\$ 3,141</u>	<u>\$ 4,725</u>	<u>\$ 38,523</u>	<u>\$ 54,976</u>
Long-term Debt Outstanding	\$ 104,485	\$ 112,741	\$ 84,255	\$ 86,674	\$ 188,740	\$ 199,415
Other Liabilities	544,178	512,878	42,407	42,392	586,585	555,270
Total Liabilities	<u>\$ 648,663</u>	<u>\$ 625,619</u>	<u>\$ 126,662</u>	<u>\$ 129,066</u>	<u>\$ 775,325</u>	<u>\$ 754,685</u>
Deferred Outflows of Resources	<u>\$ 461</u>	<u>\$ 591</u>	<u>\$ 41</u>	<u>\$ 55</u>	<u>\$ 502</u>	<u>\$ 646</u>
Net Position:						
Invested in Capital Assets	\$ 165,321	\$ 158,611	\$ 92,255	\$ 91,190	\$ 257,576	\$ 249,801
Restricted	48,794	44,990	-	-	48,794	44,990
Unrestricted	(480,333)	(435,253)	8,084	8,050	(472,249)	(427,203)
Total Net Position	<u>\$ (266,218)</u>	<u>\$ (231,652)</u>	<u>\$ 100,339</u>	<u>\$ 99,240</u>	<u>\$ (165,879)</u>	<u>\$ (132,412)</u>

Total Net Position

The City's total net position decreased in fiscal year 2017 by approximately \$33.5 million, or 25.3%. This is primarily due to the increase of \$30.6 million in the other post-employment benefit (OPEB) liability, and increase of \$1.7 million in the net pension liability.

Governmental Activities – Assets

For governmental activities, current and other assets increased \$1.8 million, coupled with an increase in capital assets of \$1.4 million, resulting in an increase in total assets of \$3.2 million. The majority of the increase in current and other assets was the result of an increase in cash. The increase in the capital assets was the result of capital additions exceeding depreciation during fiscal year 2017.

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MANAGEMENT'S DISCUSSION AND ANALYSIS
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Governmental Activities – Liabilities

Liabilities increased by \$23.0 million. There was an increase of \$31.3 million in other liabilities and a \$8.3 million decrease in long-term debt outstanding. The increase in other liabilities was primarily due to the recognition of a \$29.6 million increase of the OPEB liability as well as the \$2.3 million increase of the Net Pension Liability, while the decrease in long-term debt outstanding was due to scheduled debt repayments.

The City's 2017 OPEB annual required contribution (ARC) was \$44.9 million. Interest on the net OPEB obligation and adjustments to the ARC totaled a reduction of \$1.4 million. Contributions against the ARC on a pay-as-you-go basis totaled \$12.8 million resulting in an increase in the government-wide net OPEB obligation of \$30.6 million. While the City's net OPEB obligation is \$286.3 million as of June 30, 2017, the City's entire net OPEB obligation, which is estimated at \$495.5 million as of June 30, 2016, the date of the City's most recent actuarial valuation, will be required to be recorded in its entirety in fiscal year 2018.

Business Type Activities – Assets

Current and other assets increased by \$1.5 million, while capital assets decreased by \$1.2 million and total assets increased by \$265 thousand. The increase in current and other assets was due primarily as a result of an increase in customer and intergovernmental receivables. The decrease in capital assets of \$1.2 million is due to depreciation totaling more than the City's continued investment in capital spending that has been funded with borrowings from the Massachusetts Clean Water Trust (MCWT). In 2017, additions to business type activities capital assets totaled \$5.7 million, which is reflected in construction in progress, buildings, machinery and equipment and infrastructure. The work, when completed, will have improved the processing capability and increased the throughput capacity of the plants. The depreciation expense for all business type activities totaled \$7.0 million.

Business Type Activities – Liabilities

Liabilities decreased by \$2.4 million. There was an increase of \$15 thousand in other liabilities, an increase of \$1.0 million in the OPEB liability, a decrease of \$600 thousand in net pension liability, and a decrease of \$2.4 million in long-term debt outstanding. The decrease of the long-term debt was the result of yearly-required debt service payments exceeding new issuances.

Governmental Activities – Statement of Activities

Gross expenses for governmental activities were \$475.6 million for fiscal year 2017. This reflected an increase of \$23.5 million, or 5.2%. The majority of the increase relates to the recognition of on-behalf payments from the Massachusetts Teachers Retirement System (MTRS) of approximately \$9.5 million, an increase of \$4 million in state and county charges, and an increase of \$4 million in the other post-employment benefit (OPEB) liability.

Total general revenues for governmental activities of \$164.7 million offset total net expenses of \$199.2 million. Major ongoing revenue contributors were the net property tax at \$129.3 million, an increase of \$4.5 million. The remaining categories in total decreased by \$42 thousand, excise taxes at \$9.0 million, a decrease of \$158 thousand, intergovernmental at \$22.2 million, an increase of \$488 thousand and other totaling \$ 3.3 million, a decrease of \$372 thousand.

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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, excluding transfers, for governmental activities were \$440.1 million. Of this total almost \$276.4 million, or 62.8%, is from operating and capital grants contributions as well as charges for services, which is mainly from state and federal aid. Further, the City received \$22.2 million in intergovernmental aid which is classified as general revenue. An additional 29.4% 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 93% 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 2017, the City levied a total of \$129.6 million in gross real estate property taxes against an aggregate fair market assessed value of \$6.7 billion. This levy left only a small amount in unused levy capacity without the approval of the voters. However, the levy comprised only 2.0% of the City's aggregate assessed value. With voter approval, the City could levy an additional \$34.7 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

The business-type activities increased the City's net position by approximately \$2.1 million, or 2.1%. The water fund incurred a \$656 thousand decrease; the sewer fund contributed a \$2.0 million increase, while the net position for the combination of the non major recreation, refuse, and renewable energy funds decreased \$269 thousand. The non major refuse fund is self-sufficient. The non major 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 generates and sells electricity.

The operations of the water fund and sewer fund are intended to be self-sufficient, but achieving this objective requires the mayor and city council to establish a rate structure adequate to meet the task. The water and sewer funds are designed to recover the costs of operations of those funds, but, as was the case for the water fund for fiscal year 2017, in some year the revenues are not sufficient. In the water fund the operating loss totaled \$208 thousand. In the sewer fund the operating income totaled \$4.4 million. In the water and sewer funds, cash flow from operations were \$3.0 million and \$8.5 million, respectively. In both of these funds major upgrades to the wastewater and water treatment plants are ongoing and required a major contributions of resources to finance both the construction itself and the impact of construction in increased plant operating costs.

CITY OF BROCKTON, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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Condensed Statements of Changes in Net Position (In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program Revenues:						
Charge for Services	\$ 16,257	\$ 16,415	\$ 44,731	\$ 46,726	\$ 60,988	\$ 63,141
Operating Grants	256,525	241,992	931	995	257,456	242,987
Capital Grants	3,608	5,948	424	-	4,032	5,948
General Revenues:					-	
Property Taxes	129,269	124,724	-	-	129,269	124,724
Excise Taxes	8,955	9,113	-	-	8,955	9,113
Intergovernmental	22,213	21,725	-	-	22,213	21,725
Other	3,254	3,626	-	-	3,254	3,626
Total Revenues	440,081	423,543	46,086	47,721	486,167	471,264
Expenses:						
General Government	25,039	26,301	-	-	25,039	26,301
Public Safety	77,454	73,010	-	-	77,454	73,010
Education	335,907	311,721	-	-	335,907	311,721
Public Works	12,377	12,769	-	-	12,377	12,769
Human Services	2,998	4,141	-	-	2,998	4,141
Culture and Recreation	3,632	4,022	-	-	3,632	4,022
State and County Assessments	12,501	8,610	-	-	12,501	8,610
Court Judgments	231	5,682	-	-	231	5,682
Interest on Long-Term Debt	5,472	5,850	-	-	5,472	5,850
Enterprise Accounts:					-	
Water	-	-	17,802	17,978	17,802	17,978
Sewer	-	-	15,785	15,531	15,785	15,531
Other	-	-	10,435	10,613	10,435	10,613
Total Expenses	475,611	452,106	44,022	44,122	519,633	496,228
Excess (Deficiency) before Transfers	(35,530)	(28,563)	2,064	3,599	(33,466)	(24,964)
Transfers	965	105	(965)	(105)	-	-
Total Transfers	965	105	(965)	(105)	-	-
Change in Net Position	(34,565)	(28,458)	1,099	3,494	(33,466)	(24,964)
Net Position - Beginning of Year	(231,653)	(203,195)	99,240	95,746	(132,413)	(107,449)
Net Position - End of Year	\$ (266,218)	\$ (231,653)	\$ 100,339	\$ 99,240	\$ (165,879)	\$ (132,413)

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, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

CITY OF BROCKTON, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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As of the end of the fiscal year 2017, the City's governmental funds reported combined fund balances of approximately \$101.2 million, an increase of approximately \$4.9 million, or 5.1%, in comparison with the prior year. The general fund balance increased by \$5.8 million, from \$74.5 million to \$80.4 million; and the combined fund balances for all the other governmental funds decreased by \$959 thousand, from \$21.8 million to \$20.8 million.

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 Position." These reconciliations will demonstrate that essentially the City's increase in fund balances of \$4.9 million, compared to its decrease in net position of \$34.6 million, a difference of \$39.4 million, is explained largely by the following factors:

1. \$3.6 million: the negative effect of revenue accruals.
2. \$1.4 million: the positive effect of the amount by which capital asset additions exceeded depreciation expense.
3. \$ 45.4 million: the negative effect of increases in other liabilities, primarily OPEB and net pension liability, which did not require the use of current resources.
4. \$144 thousand: the positive effect of the amount by which the amortization of bond premiums exceed the amortization of deferred losses on refunding.
5. \$8.1 million: the positive effect of the amount by which the repayment of bond principal are expenditures in the governmental funds but reduce long-term liabilities in the statement of net position.

Of the total of ending fund balances of \$101.2 million, \$13.4 million constitutes "nonspendable" fund balance, which is not available for spending by the City because fund balance amounts cannot be spent because they are either not in spendable form or they are legally or contractually required to remain intact. \$41.8 million constitutes restricted fund balance, which are amounts the use of which is subject to constraints imposed by external parties, including creditors, grantors, and laws and regulations of other governments, or imposed by City Charter or enabling legislation. \$17.2 million constitutes "committed to" fund balance, amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. For the City, this formal action takes the form of City Council action and approval by the Mayor. \$7.4 million constitutes "assigned to" fund balance, amounts that are constrained by the City's intent for use for specific purposes, but are considered neither restricted nor committed. \$21.4 million constitutes "unassigned" fund balance, amounts in the general fund that are not otherwise constrained for a specific purpose more narrow than the general operations of the City.

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For General Fund Balance

Fund balance is a term commonly used to describe the net position of a governmental fund (the value of assets after deducting liabilities) and serves as a measure of financial resources.

Nonspendable Fund Balance – This category represents constraints on how amounts can be spent. These are the amounts that are not in a spendable form (such as inventory, prepaid expenses, or a long-term portion of loans receivable), or resources which cannot be spent because they are legally or contractually required to be maintained intact (such as the corpus of an endowment fund).

The total fund balance of \$6.4 million consists of the following:

The FY 2017 General Fund Nonspendable fund balance represents the Note Receivable from the Brockton 21st Century Corporation pursuant to an agreement further described in footnote (3) Receivables – (b) Note Receivable in the amount of \$6.4 million. This note receivable is not yet available for spending. The receivable cannot be used for current or future operations.

Restricted Fund Balance – This category represents the amounts constrained to a “specific” purpose. The restrictions would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments, or 2) imposed by law through constitutional provisions, City Charter or enabling legislation. Some limitations are externally enforceable and lie beyond the power of the government to change unilaterally.

The total fund balance of \$22.9 million consists of the following:

The FY 2017 General Fund Restricted Fund balance represents the Health Insurance Trust fund in the amount of \$16.8 million. This amount consists of the Health Insurance Trust Fund balance of \$10.4 million and the amount for the FY 2017 Blue Cross and Blue Shield amount held on deposit to pay claims totaling \$6.4 million. The City of Brockton is self-insured. This Health Insurance Trust Fund is restricted to the payment of health insurance claims by the enabling legislation, as well as for administrative fees to insurers and for the administrative costs in the personnel department for benefit management. The City establishes reserves for claims/events that have transpired, but have not yet been reported to the insurance companies (Incurred but not Reported).

The FY 2017 General Fund Restricted Fund Balance in the amount of \$6.1 million. This amount represents the Chapter 324 Supplemental Reserve. The purpose of the Supplemental Reserve is to ensure fiscal stability as required by Chapter 324 of the Acts of 1990. The value of the reserve must at least equal 1.5% of the “Gross Amount Raised” as reported to the state on the prior year property tax approval filing. This reserve may only be used for unforeseen and extraordinary expenditures.

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Committed Fund Balance – This category represents amounts that are constrained to specific purposes by a government itself, using its highest level of decision-making authority. The committed amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint. For the City, this formal action takes the form of City Council action and approval by the Mayor.

The total fund balance of \$14.6 million consists of the following:

The fund balance includes the Certified Free Cash in the amount \$14.6 million appropriated for the use in the FY 2018 budget. Not infrequently, governments balance their budget by appropriating a portion of existing fund balance to bridge the gap between appropriations and estimated revenues.

Certified Free cash is a term used in Massachusetts to describe the amount of fund balance which is calculated by the state from the balance sheet and certified as being available for appropriation for any legal purpose. It is an unrestricted available fund that indicates positive operating results in relation to the budget. A community's free cash is the amount of unrestricted funds available from the previous fiscal year's general fund operations that can be appropriated upon certification by the Director of Accounts.

Free cash is derived from year-end receipts in excess of estimates and appropriation turn-backs (revenue and expenditures for the year just ended). It is reduced by illegal deficits, overdrawn grant accounts and deficits in other funds. Free cash is generated when actual operations of the fiscal year compare favorably with budgeted revenues and expenditures. It results when actual revenue collections exceed the estimates used for budgeting and actual expenditures and encumbrances (committed funds not yet expended) are less than appropriations. A community will improve its free cash position through prudent financial planning and development of sound financial policies. It can increase free cash by conservatively estimating local receipts and aggressively pursuing the collection of receivables. Consistent generation of positive free cash usually signals sound financial management. Simply put, it results when revenue collections are greater than estimated receipts, and expenditures and encumbrances (committed funds not yet expended) are less than appropriations.

The term committed fund balance will be used to describe the portion of fund balance that represents resources whose use is constrained by limitations that the government imposes upon itself at its highest level of decision making (normally the governing body) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation would need to occur no later than the close of the reporting period.

Assigned Fund Balance – This category represents amounts that a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority. The assigned fund balance category will cover the portion of fund balance that reflects a government's intended use of resources. Such intent would have to be established at either the highest level of decision-making, or by a body (e.g., city council) or an official designated for that purpose.

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The total fund balance of \$7.4 million consists of the following:

The FY 2017 General Fund Assigned Fund Balance amount represents year-end encumbrances in the amount of \$7.4 million for the general fund departments. Encumbrances are committed funds that are not yet expended. Encumbrances are budgetary amounts that are reserved in the next budget year for on-going projects.

Unassigned Fund Balance – This category represents amounts that are available for any purpose; these amounts are reported only in the general fund. The category includes amounts in the general fund that are not otherwise constrained for a specific purpose.

Of course, the general fund, as the principal operating fund of a government may have net resources in excess of what is properly categorized in one of the four categories just already described. If so, the surplus will be presented as unassigned fund balance. A positive amount of unassigned fund balance, however, will never be reported in a governmental fund other than the general fund, because GASB Statement No. 54 prohibits reporting resources in another fund unless they are at least assigned to the purpose of that fund. All the same, funds other than the general fund could report a negative amount of unassigned fund balance should the total of nonspendable fund balance, restricted fund balance, and committed fund balance exceed the total net resources of the fund.

The total fund balance of \$29.1 million consists of the following:

This grouping includes the City's Stabilization fund in the amount of \$5.7 million and the City's undesignated fund balance in the amount of \$23.4 million.

Governments often establish "rainy day funds" or "contingency funds" to provide a financial cushion against unanticipated adverse financial or economic circumstances. The appropriate classification of such resources within fund balance depends on the specific nature of the arrangement. Stabilization funds may be created to save monies and minimize borrowing for capital projects, or other lawful spending purposes.

The City maintains a stabilization account in accordance with MGL Chapter 40 Section 5B that is reported as unassigned fund balance in the general fund. The City may appropriate in any year an amount not exceeding 10% of the amount raised in the preceding fiscal year from real and personal property taxes, or a larger amount as approved by the Department of Revenue. Further, the stabilization account may not exceed 10% of the City's equalized valuation as defined in MGL Chapter 44 Section 1. Funds can be appropriated from by a 2/3 vote, but may be appropriated to a majority vote.

The total fund balance of \$23.4 million consists of the following:

This grouping includes the City's accumulated surplus in the amount of \$23.4 million.

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This is the residual category that includes resources whose use is limited, but not for a purpose narrower than the purpose of the fund. It represents the remaining surplus of net resources after funds have been identified in the four categories above. Under GASB Statement No. 54, there is no requirement that a limitation be narrower than the purpose of the fund. This residual amount would be the source of the next years free cash amount. This government balances its budget by appropriating a portion of existing fund balance to bridge the gap between appropriations and estimated revenues. Free cash is an unrestricted available fund that indicates positive operating results in relation to the budget. This amount would represent the positive operating results used for the next year's budget to bridge the gap between appropriations and estimated revenues.

The general fund is the chief operating fund of the City. Total fund balance was approximately \$80.4 million, an increase of \$5.8 million. This increase in fund balance was largely driven by a surplus of revenues and other financing sources over expenditures and other financing uses.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 7.5% of total general fund expenditures, while total fund balance represents 20.7% of that same amount.

The City's liquidity has declined somewhat since fiscal year 2003. This recent trend toward declining balances, especially for the stabilization and unassigned categories, has occurred because revenues have not grown to compensate for certain heavy cost pressures, especially from health and pension 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 position of the proprietary funds at the end of the current fiscal year totaled approximately \$100.3 million. Changes in net position of the proprietary funds at the end of the current fiscal year totaled an increase of approximately \$1.1 million, or 1.1%.

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 sewer, and refuse enterprise funds have long been self-sufficient financially. This was formerly true for the water fund as well, but in recent years, including fiscal year 2017, that was not the case. 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 2017 operating loss was \$208 thousand, or approximately 1.2% of operating revenues. Nonoperating revenues (expenses) and transfers essentially netted to a negative \$448 thousand, and so net position decreased by \$656 thousand. However, cash flow from operations was positive at \$3.0 million.

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For the sewer fund, operating income was \$4.4 million, or 23.4% of operating revenues. However, nonoperating expenses and transfers reduced that amount by \$2.4 million, and so net position increased by \$2.0 million. Cash flow from operations was \$8.5 million.

For the combined results of the other enterprise funds, the value of net position decreased by \$269 thousand or 5.5%. The operating loss for combined other enterprise funds was \$1.7 million in fiscal year 2017 or 19.0% of operating revenues. With the benefit of net transfers in (general fund subsidy) and the nonoperating revenue of \$1.4 million, the operating loss of \$1.7 million became a \$269 thousand decrease in net position.

Budgetary Highlights

In fiscal year 2017, the original budget called for \$364.1 million in spending. Of this amount \$178.9 million was for Education spending, \$48.2 million was for Public Safety spending, \$76.5 million was for Fringe Benefit spending and \$60.4 million for all other categories.

Resources totaled \$348.6 million, creating a planned deficit of approximately \$15.5 million. Offsetting this deficit was a contribution from "Free Cash" of \$14.7 million. The remaining total of approximately \$810 thousand was applied to Other Available Funds.

In the final budget, a total of \$364.8 million in spending was authorized, an increase of \$0.7 million. The budgets that made up this amount included the following: the general government budget increased by \$198 thousand; the public safety budget increased by \$151 thousand, the Education budget increased by \$2 thousand, the capital budget increased by \$65 thousand; the public works budget increased by \$87 thousand, the human services budget decreased by \$16 thousand, the culture and recreation budget increased by \$102 thousand, the debt service budget decreased by \$75 thousand, and the transfers out budget increased by \$180 thousand.

On an actual basis, resources were higher than the final budget by \$7.2 million. The majority of revenue categories resulted in a positive variance with the exceptions of Fines revenue. The City's revenue estimates normally are conservative and actual results typically exceed budget by 1.5% to 2.0%. For fiscal year 2017, the positive variance was largely driven by the Real and Personal property taxes collections, Motor Vehicle Excise Taxes, Fees revenue collection activities, Licenses and Permits revenues collection activities, User charges and other revenue. The Real and Personal Property revenue increased as a result of an increase in the City collection activity. The Excise Taxes revenue increased as a result of an increase in the City collection activity. The Fees category increased as a result of the City receiving the yearly fee for the local cable franchise. The Licenses and Permit revenue increased as a result of an increase in the City departments licenses and permits fees activity.

On the expenditure side, a favorable variance of \$9.0 million was achieved. The City has typically achieved 1% to 2% positive variance on spending. For fiscal year 2017, this positive variance was driven by actual budgetary expenditures less than budgeted expenditures in the general government, public safety, education, public works, and pension and fringe benefits. The reasons for the positive variances in the general government, public safety, education, public works, pension, and fringe was due to conservative budgeting in these line items.

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As a result of the revenue and expenditure positive variances, the City's fiscal year 2017 general fund operations estimated to create free cash of approximately \$14.6 million to be used in the FY 2018 budget.

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, 2017 amounted to approximately \$367.2 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 \$194 thousand for fiscal year 2017 represented an increase of less than 1%. Capital assets for governmental activities increased by \$1.4 million, or less than 1%, while capital assets for business-type activities decreased by \$1.2 million, or less than 1%. The decrease in capital assets for business-type activities was primarily caused by the depreciation exceeding capital asset additions. The increase in capital assets for governmental activities is the result of capital asset additions exceeding depreciation.

Major capital assets included the following:

	Capital Assets (In Thousands)					
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 7,411	\$ 7,411	\$ 3,246	\$ 3,246	\$ 10,657	\$ 10,657
Construction in Progress	9,508	6,196	4,263	6,087	13,771	12,283
Historical Works of Art	1,809	1,809	-	-	1,809	1,809
Buildings	139,291	139,663	126,936	127,278	266,227	266,941
Land Improvements	3,830	7,861	1,229	892	5,059	8,753
Machinery and Equipment	5,771	4,513	7,106	7,326	12,877	11,839
Infrastructure	23,507	22,256	33,262	32,437	56,769	54,693
Total	<u>\$ 191,127</u>	<u>\$ 189,709</u>	<u>\$ 176,042</u>	<u>\$ 177,266</u>	<u>\$ 367,169</u>	<u>\$ 366,975</u>

Long-Term Debt – At the end of the current fiscal year, the City had total bonded debt outstanding of approximately \$188.7 million. The entire amount is backed by the full faith and credit of the City.

	Long-Term Debt (In Thousands)					
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Long-Term Debt, Net of Unamortized Premiums	<u>\$ 104,485</u>	<u>\$ 112,741</u>	<u>\$ 84,255</u>	<u>\$ 86,674</u>	<u>\$ 188,740</u>	<u>\$ 199,415</u>

The overall net decrease is attributable to the following factors:

The City's bonded debt decreased by approximately \$10.7 million or a decrease of 5.4%. This decrease in long-term debt was the result of scheduled principal payments of \$15.3 million. In addition, the city's business type activities issued \$5.0 million with the Massachusetts Clean Water Trust (MCWT) to fund water and sewer system improvements.

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During 2017, the City entered into two interim loan agreements for \$1,411,000 (sewer enterprise fund) with the Massachusetts Clean Water Trust (MCWT) to fund various sewer system improvements.

Total long-term debt of the City represents a claim of about 51.4% of the City's total capital assets, and a claim of about 3.0% 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 2.8%.

The City maintains an "AA" rating from Standard and Poor's.

Economic Factors and Next Year's Budgets

In response to recessions, in FY 2003 and FY 2009 the state made significant reductions in state aid. In the years since the recovery from the recession of 2008/2009, the state has increased its assistance to the city in aid to education, but its inflation growth at about 1% per year has lagged the real rate of inflation experienced by the school system. In addition, in FY 2017 the state changed its formula for providing additional aid for low-income students. This change cost the city about \$6 million in aid in that year, and that formula change, with the associated reduction in assistance, has continued in the FY 19 budget proposed by the governor.

Moreover, the statute enacted in 1993, requiring the state to significantly increase its funding to local schools, especially the poorer ones, in response to a decision by the Supreme Judicial Court of the state in the Hancock case, originally filed by Brockton, also enabled the creation of charter schools to be funded by diverting to the charter schools the average cost per pupil of the sending district, directly from the local school's state aid. For many years, the effect of charter school funding on the budgets of the city's local schools was bothersome but manageable. However, that effect has recently grown to be a serious disruption to budget stability for the Brockton schools. This is largely due to the opening in 2016 of a new charter school within the city limits of Brockton.

In FY 2015, prior to this opening, the net loss of Brockton's state assistance to charter schools and to out of district school choice schools was about \$4.5 million, or almost 3.0 % of state aid. In FY 2019, per the governor's budget, the net revenue diversion will be about \$13.1 million, or almost 8.0% of state revenue aid for education for Brockton. These dollars for Brockton students are sent directly from the state to the receiving schools. Because the students leave the local Brockton system from many of the more than 20 schools all over the district, not just from a few schools, the process of downsizing budgets to reflect the revenue loss is not simple. It requires significant budget decreases across many programs and schools, with multiple, year – by – year staff reductions. Because the city believes that these recent state budget trends have badly eroded the intended benefits of the "Hancock" decision of the SJC and the resultant education reform act of 1993, the city is considering filing a new equity in education law suit, and has budgeted funds to support the exploring of that possibility.

Since 2008, state assistance for purposes other than for education has experienced particularly steep, continuing declines, in both nominal and real terms. For example, unrestricted state aid was nearly \$28.0 million in FY 2008. For FY 2019, the same categories in the governor's budget, at \$22.6 million, would remain nearly \$5.0 below the FY 2008 dollar amount, or about 19.0%, even without adjusting for inflation. On an inflation-adjusted basis, the decrease is about double that.

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During this period, the state has provided municipalities with two new, local option revenue sources: the ability to raise the lodging excise tax from 4% up to 6%, and the ability to add 0.75% to the state meals tax. The City has adopted both measures. Between the two measures the City has realized more than \$1.2 million in on-going, new annual revenues. However, this new revenue falls far short of replacing the loss of funding from unrestricted aid.

Although the property tax levy has provided a predictable, steady source of revenue growth, the state's property taxation law, Proposition 2½, so-called, restricts the ability of the property tax to finance the City's budget. The law imposes an absolute revenue ceiling at 2.5% of the city's fair market value. It also limits the annual increase in that property tax levy to 2.5% per year plus the value of taxation on new investment. In order to levy taxes on the increase in market value other than through new investment, the approval of the voters is required; that is, to exceed the annual levy limit up to the absolute ceiling, it is necessary to hold a referendum. The city's fair market, assessed value for FY 2018 was \$7,172,980,786, and so the absolute ceiling is \$179,324,519.

The assessed value increase of \$484,383,397 grew 7.2% over FY 2017. This increase followed similar increases in value of 9.6 % and 11.7 % for the previous two years. However, because of the working of Proposition 2 ½, the main result of these increases was to reduce the uniform tax rate, not to increase the levy. As stated above, that FY 2018 assessed value would support a maximum levy under the law, with voter approval, at 2.5 % of value, of \$179,324,519. Of this amount, \$137,859,951 may be levied under the law without recourse to the voters. This compares to the actual levy of \$137,784,782. For the current fiscal year, the city has nearly appropriated the full levy allowed by law under the levy limit.

In this revenue environment, with current cost pressures, in order to maintain services, in the opinion of the Chief Financial Officer, it is important to fully appropriate the allowable property tax levy, to capture to the extent possible the cost of services through imposing user fees, to be judicious in appropriating balance sheet reserves, and to replenish these reserves when possible. However, many taxpayers and residents have been harmed by the recession and its aftermath effects, and concerns for these constituents have been manifested in the emergence of local "low tax" advocacy and in the reluctance of elected officials to levy increases in taxes or impose some needed fee increases. While the city fully appropriated its levy limit in FY 18, from FY 2016 through FY 2017, the total amount of \$7,834,585 in property taxation allowed to be levied under the law without a voter referendum, in fact was not appropriated. While the benefit of these revenues for those particular years has been foregone, the revenues were not permanently lost; they are available for appropriation in future years, and in fact, they were appropriated in FY 18. However the benefit of adding these revenues to the city's reserves has been permanently lost. In the opinion of the CFO, this would have been a wise strategy and would have created a badly needed increase to reserves of about \$7.8 million. The FY 2019 budget has not been prepared, and so the amount of the FY 19 property tax levy is not known at this writing.

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The City's recreation and renewable energy enterprise funds are partially self-supporting through fees, and two of the utility enterprise funds (sewer, and refuse) are currently fully self-supporting. The water enterprise fund for years was self-supporting. It no longer is self-supporting. No utility fee increases were adopted by the City Council for several years, even though for the many of the past years, water fee increases were requested. As a result, the general fund has had to carry some of the water fund's costs. Capital spending has also suffered as a result. The city council ultimately approved a 10 % increase for January 1, 2016, followed by two additional 10 % increases at the beginning of calendar years 2017 and 2018, with a final increase of 2.5 % scheduled for January 1, 2019. The revenue from these increases will improve matters, but will not allow for the full need for capital budgeting, nor will it allow for full operating self-sufficiency. In FY 2017, the city council did authorize some increases to other departmental fees, licenses, and permits set by ordinance to recover inflation from the decade since the last increase.

The growth rates in these various funding sources have not kept pace with the rates of growth in the cost of the services financed by them. Cost pressures on salaries, employee and retiree benefits, and pensions have continued. In FY 2018, an increase of more than \$4.0 million in pension funding was required to maintain the funding schedule which will result in full funding of the pension liability by 2033. The FY 19 assessment will increase by a further \$1 million on July 1, 2018. A new actuarial valuation of the system has been contracted.

The city in June, 2013 agreed to consortium bargaining for health insurance benefits for active and retired employees, with new plan designs for the period through June, 2017 which resulted in a shifting of some costs to employees/retirees, mainly through increased co-pays. This somewhat moderated the annual rate of growth of health costs. The city in 2017 extended for four more years that consortium, through June, 2021, with a further shifting of costs to employees, this time through the annual deductible, with the expected benefit of continuing to moderate annual increases. In fact, this has been the case with modest increases in actual health costs in FY 18 projected to continue for FY 19.

Inflation recovery increases, plus modest additional increases, in wages and salaries have also raised expenditure levels. Accordingly, maintaining the same level of services in recent years has resulted in drawing down some of the City's reserves. Favorable budget variances from conservative budgeting have allowed the city to extend this strategy through time, but there obviously is a limit to this approach. All municipal employee unions, including police and fire unions, have now settled through FY 2019, but the education unions are in their final year. Financing the settlements for the public safety unions in FY 18 required drawing down the city's reserves. Financing the on-going costs of all of these unions will present a challenge.

Despite recent significant improvements, unemployment locally remains somewhat high compared to that of the state. The City was also deeply affected by the home mortgage foreclosure crisis. However, the local housing market recently has shown healthy price increases. Calendar 2017 represented the fourth straight year of double digit percentage sales price increases for single-family homes. In calendar 2018, that increase moderated a bit but was still over 8.5%. Similar trends have been seen in the multi-family market. For the condominium market, the improvement has been real but not as dramatic; a 7.1 % increase was seen in the latest valuation.

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The Trinity Financial Corp. has completed the redevelopment of an entire City block in the downtown area, comprised of mixed use residential housing, commercial space, and parking. The project blends private risk capital, both debt and equity, with public financing, including some City land for parking and a \$4 million state grant for phase I. For Phase II, further state funding as a grant for parking in the amount of \$10 million has been achieved and appropriated, accompanied by a \$2.0 million city borrowing authorization. The specific plans for this portion are being drafted, but have not yet been completed. When both phases have been completed, the project will have cost about \$100 million, which represents the largest investment in downtown Brockton in memory. Most of the residential apartments already have been leased. In addition, a long vacant downtown parcel nearby was developed as a supermarket for nearly \$20 million, also with a tax increment financing agreement. In July 2015, the city council approved a District Improvement Financing District for the downtown area. Plans for this district are in the preliminary stages of development, with the Phases I and II referenced above expected to be strong drivers.

However, two major developments hoped to be on the horizon have suffered setbacks. The Mayor reached an agreement with the proponents of a gas fired electric generating plant which, when and if finally permitted and built, would have added about \$3.5 million per year in PILOT payments and \$0.5 million per year for purchasing of cooling water. However, the project was controversial politically, and the validity of that settlement was challenged by city council in court over the issue of the mayor's authority to grant the cooling water sale. In the meantime, project's bid for electricity sale through the ISO was too high and not selected. Then, the project ownership was changed, and so the proponents failed to bid on the latest ISO auction. Moreover, the issuance of an air quality permit has been appealed. Those factors required the state's energy facility siting board to temporarily extend the period to begin construction under its award. At this writing, whether or not the project will be constructed appears to be in question. In addition, a proposed casino which had been approved as required by the voters, failed to receive the necessary license from the Massachusetts Gaming Commission, which expressed concern over the potential impact of an Indian gaming facility just south of Brockton in the city of Taunton.

Finally, a jury decision against the city in 2017 for racial discrimination in hiring imposed a \$4 million award on the city. The city will appeal; however, with interest payments, that award could approach \$5 million. That sum if financed from existing revenues would require very deep expenditure budget reductions. However, if needed, with voter approval, that amount of additional revenue could be obtained at a modest cost of about \$175.00 to the average taxpayer.

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 POSITION
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	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 117,450,452	\$ 19,883,441	\$ 137,333,893
Receivables, Net:	18,728,205		
Property Taxes, Liens, and Excise			
Taxes (Net of \$1,910,222 Allowance)	13,045,899	-	13,045,899
Intergovernmental	7,897,698	2,528,901	10,426,599
Customer Receivables	-	25,090,297	25,090,297
Departmental and Other	890,317	356,097	1,246,414
Other Assets	6,580,123	-	6,580,123
Long-Term Note Receivable	6,380,418	-	6,380,418
Long-Term Intergovernmental Receivable	1,933,911	-	1,933,911
Tax Possessions	2,218,160	-	2,218,160
Capital Assets:			
Nondepreciable	18,728,205	7,508,818	26,237,023
Depreciable, Net	172,398,966	168,533,761	340,932,727
Total Assets	<u>366,252,354</u>	<u>223,901,315</u>	<u>571,425,464</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	35,382,491	3,140,838	38,523,329
Total Deferred Outflows of Resources	<u>35,382,491</u>	<u>3,140,838</u>	<u>38,523,329</u>
Total Assets and Deferred Outflows	<u>\$ 401,634,845</u>	<u>\$ 227,042,153</u>	<u>\$ 609,948,793</u>
LIABILITIES			
Warrants and Accounts Payable	\$ 8,393,809	\$ 2,511,579	\$ 10,905,388
Accrued Liabilities:			
Interest	2,085,424	811,184	2,896,608
Payroll and Related Withholdings	14,849,687	114,844	14,964,531
Tax Abatement Refunds	248,500	-	248,500
Bond Anticipation Notes Payable	11,748,000	-	11,748,000
Noncurrent Liabilities:			
Due Within One Year:			
Compensated Absences, Claims, and Judgements	4,615,595	96,514	4,712,109
Bonds, Note, and Loans Payable	6,071,696	7,588,004	13,659,700
Due in More Than One Year:			
Compensated Absences, Claims, and Judgements	18,414,433	5,972,017	24,386,450
Unearned Revenue	-	2,839,547	2,839,547
Landfill Closure and Postclosure Care Costs	2,301,587	1,748,000	4,049,587
Bonds, Note, and Loans Payable	98,413,044	76,666,973	175,080,017
Net Pension Liability	205,283,784	18,222,655	223,506,439
Other Post Employment Benefits	276,237,807	10,091,086	286,328,893
Total Liabilities	<u>648,663,366</u>	<u>126,662,403</u>	<u>775,325,769</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	461,043	40,926	501,969
NET POSITION			
Net Investment in Capital Assets	159,784,431	92,254,615	252,039,046
Restricted For:			
Permanent Funds:			
Nonexpendable	6,991,781	-	6,991,781
Expendable	632,854	-	632,854
Statutory Reserve	6,032,738	-	6,032,738
Health Claims	16,830,179	-	16,830,179
Federal, State, and Local Grants	18,067,290	-	18,067,290
Other	238,617	-	238,617
Unrestricted	(474,795,659)	8,084,209	(466,711,450)
Total Net Position	<u>\$ (266,217,769)</u>	<u>\$ 100,338,824</u>	<u>\$ (165,878,945)</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF BROCKTON, MASSACHUSETTS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Government Activities:							
General Government	\$ 25,039,213	\$ 7,143,183	\$ 3,649,241	\$ -	\$ (14,246,789)	\$ -	\$ (14,246,789)
Public Safety	77,454,614	2,631,945	1,924,352	-	(72,898,317)	-	(72,898,317)
Education	296,127,776	5,957,480	208,793,607	2,030,129	(79,346,560)	-	(79,346,560)
Education - MTRS	39,779,276	-	39,779,276	-	-	-	-
Public Works	12,376,996	112,065	712,943	1,577,796	(9,974,192)	-	(9,974,192)
Human Services	2,998,225	342,168	1,411,476	-	(1,244,581)	-	(1,244,581)
Culture and Recreation	3,631,632	70,053	164,010	-	(3,397,569)	-	(3,397,569)
State and County Assessments	12,501,117	-	-	-	(12,501,117)	-	(12,501,117)
Court Judgments	230,691	-	-	-	(230,691)	-	(230,691)
Interest on Long-Term Debt	5,471,706	-	90,393	-	(5,381,313)	-	(5,381,313)
Total Governmental Activities	475,611,246	16,256,894	256,525,298	3,607,925	(199,221,129)	-	(199,221,129)
Business-Type Activities:							
Water	17,801,863	17,095,477	254,556	-	-	(451,830)	(451,830)
Sewer	15,785,039	18,863,868	478,543	-	-	3,557,372	3,557,372
Other	10,434,876	8,772,031	197,540	423,606	-	(1,041,699)	(1,041,699)
Total Business-Type Activities	44,021,778	44,731,376	930,639	423,606	-	2,063,843	2,063,843
Total Primary Government	<u>\$ 519,633,024</u>	<u>\$ 60,988,270</u>	<u>\$ 257,455,937</u>	<u>\$ 4,031,531</u>	(199,221,129)	2,063,843	(197,157,286)
General Revenues:							
Property Taxes, Levied for General Purposes, Net					\$ 129,269,196	\$ -	\$ 129,269,196
Excises					8,955,193	-	8,955,193
Payments in Lieu of Taxes					168,014	-	168,014
Penalties and Interest on Taxes					1,857,405	-	1,857,405
Other					259,948	-	259,948
Unrestricted Grants and Contributions					22,212,931	-	22,212,931
Investment Income					968,130	-	968,130
Transfers, Net					965,109	(965,109)	-
Total General Revenues and Transfers					164,655,926	(965,109)	163,690,817
Change in Net Position					(34,565,203)	1,098,734	(33,466,469)
Net Position - Beginning of Year					(231,652,566)	99,240,090	(132,412,476)
Net Position - End of Year					<u>\$ (266,217,769)</u>	<u>\$ 100,338,824</u>	<u>\$ (165,878,945)</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF BROCKTON, MASSACHUSETTS
BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2017**

	General	Other Governmental	Total
ASSETS			
Cash and Investments	\$ 87,616,671	\$ 29,833,781	\$ 117,450,452
Receivables, Net:			
Property Taxes (Net of \$682,753 Allowance)	7,062,492	-	7,062,492
Motor Vehicle Excise (Net of \$1,227,469 Allowance)	1,806,001	-	1,806,001
Tax Liens	4,177,406	-	4,177,406
Intergovernmental	1,928,697	5,969,001	7,897,698
Departmental and Other	28,720	861,597	890,317
Total Receivables	15,003,316	6,830,598	21,833,914
Long-Term Note Receivable	6,380,418	-	6,380,418
Long-Term Intergovernmental Receivable	1,933,911	-	1,933,911
Tax Possessions	2,218,159	-	2,218,159
Deposits with Health Claims Agent	6,444,320	-	6,444,320
Total Assets	<u>\$ 119,596,795</u>	<u>\$ 36,664,379</u>	<u>\$ 156,261,174</u>
LIABILITIES, DEFERRED OUTFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Warrants and Accounts Payable	\$ 5,661,618	\$ 2,732,191	\$ 8,393,809
Accrued Liabilities:			
Tax Abatement Refunds	248,500	-	248,500
Payroll and Related Withholdings	13,507,488	1,342,199	14,849,687
Health Claims Payable	2,700,000	-	2,700,000
Bond Anticipation Notes Payable	-	11,748,000	11,748,000
Total Liabilities	22,117,606	15,822,390	37,939,996
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	17,110,387	-	17,110,387
FUND BALANCES			
Nonspendable	6,380,418	6,991,781	13,372,199
Restricted	22,862,917	18,939,817	41,802,734
Committed	14,581,067	2,600,389	17,181,456
Assigned	7,424,990	-	7,424,990
Unassigned	29,119,410	(7,689,998)	21,429,412
Total Fund Balances	80,368,802	20,841,989	101,210,791
Total Liabilities Fund Balances	<u>\$ 119,596,795</u>	<u>\$ 36,664,379</u>	<u>\$ 156,261,174</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF BROCKTON, MASSACHUSETTS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2017**

Total Fund Balance - Governmental Funds	\$ 101,210,791
Amounts Reported for Governmental Activities in the Statements of Net Position are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and, Therefore, Are Not Reported in the Funds	191,127,171
Other Assets Are Not Available to Pay for Current Period Expenditures and, Therefore, are Reported as Deferred Inflows of Resources in the Governmental Funds	17,110,387
Inventory Capitalized in the Government-Wide Statements as Other Assets	135,804
Deferred Outflows of Resources - Pension	35,382,491
Deferred Inflows of Resources - Pension	(461,043)
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	(84,890,000)
Other General Obligation Bonds	(18,329,000)
Unamortized Bond Premiums	(1,265,740)
Other Post Employment Benefits	(276,237,807)
Net Pension Liability	(205,283,784)
Accrued Interest on Bonds	(2,085,424)
Landfill and Postclosure Care Costs	(2,301,587)
Compensated Absences, Claims, and Judgments	(20,330,028)
Subtotal	<u>(610,723,370)</u>
Net Position of Governmental Activities	<u>\$ (266,217,769)</u>

**CITY OF BROCKTON, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE — GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2017**

	General	Other Governmental	Total
Revenues:			
Real and Personal Property Taxes, Net	\$ 130,119,403	\$ -	\$ 130,119,403
Motor Vehicle and Other Excise	9,001,593	-	9,001,593
Penalties and Interest on Taxes	1,857,405	-	1,857,405
Payments in Lieu of Taxes	168,014	-	168,014
User Charges and Other Revenue	1,601,679	1,466,557	3,068,236
Fees	2,076,233	6,816,539	8,892,772
Licenses and Permits	3,751,890	-	3,751,890
Intergovernmental	202,569,131	42,232,910	244,802,041
Intergovernmental (MTRS On Behalf of Contribution)	39,779,276	-	39,779,276
Fines	250,211	494,698	744,909
Investment Income	407,373	560,757	968,130
Contributions	-	442,810	442,810
Total Revenues	<u>391,582,208</u>	<u>52,014,271</u>	<u>443,596,479</u>
Expenditures:			
Current:			
General Government	14,346,354	2,177,884	16,524,238
Public Safety	46,428,629	1,864,421	48,293,050
Education	178,433,251	37,182,332	215,615,583
Public Works	6,980,589	215,566	7,196,155
Human Services	2,460,712	425,727	2,886,439
Culture and Recreation	2,211,949	194,491	2,406,440
State and County Assessments	12,501,117	-	12,501,117
Pension and Fringe Benefits	70,016,919	-	70,016,919
Pension (MTRS On Behalf of Payment)	39,779,276	-	39,779,276
Court Judgments	230,691	-	230,691
Capital Outlay	873,756	9,680,034	10,553,790
Debt Service	13,622,592	162,604	13,785,196
Total Expenditures	<u>387,885,835</u>	<u>51,903,059</u>	<u>439,788,894</u>
Excess of Revenues Over Expenditures	<u>3,696,373</u>	<u>111,212</u>	<u>3,807,585</u>
Other Financing Sources (Uses):			
Operating Transfers In	4,028,491	415,149	4,443,640
Operating Transfers Out	(1,902,386)	(1,576,145)	(3,478,531)
Premiums from Issuance of Bond Anticipation Notes	-	90,393	90,393
Total Other Financing Sources (Uses)	<u>2,126,105</u>	<u>(1,070,603)</u>	<u>1,055,502</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>5,822,478</u>	<u>(959,391)</u>	<u>4,863,087</u>
Fund Balance - Beginning of Year	<u>74,546,324</u>	<u>21,801,380</u>	<u>96,347,704</u>
Fund Balance - End of Year	<u>\$ 80,368,802</u>	<u>\$ 20,841,989</u>	<u>\$ 101,210,791</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, 2017**

Net Change in Fund Balances - Governmental Funds	\$ 4,863,087
Amounts Reported for Governmental Activities in the Statements 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 of \$11,032,231 exceeded Depreciation Expense of \$9,614,193.	1,418,038
Accrual Basis Revenues Can Result in More (Less) Revenues Reported in the Statement of Activities Depending Upon Timing of Billings and Collections.	(3,605,937)
Repayments of Bond Principal are Expenditures in the Governmental Funds but Reduce Long-Term Liabilities in the Statement of Net Position.	8,060,000
Amortization of Bond Premiums \$196,412 Add to Net Position, Amortization of Deferred Outflows - Loss on Refunding \$52,624 Decrease Net Position	143,788
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 \$109,702, a Decrease in Landfill Liability \$172,506, Decrease in Compensated Absences and Claims \$788,728, Increase in Other Postemployment Benefit Liabilities \$29,571,850, and Increase in Net Pension Liability Related Activity of \$16,943,265 (Change in Net Pension Liability \$2,258,186 Less Recognition of Change in Deferred Outflows and Inflows \$14,685,079).	(45,444,179)
Change in Net Position of Governmental Activities	<u>\$ (34,565,203)</u>

CITY OF BROCKTON, MASSACHUSETTS
STATEMENT OF NET POSITION — PROPRIETARY FUNDS
JUNE 30, 2017

ASSETS	Enterprise Funds			Total
	Water	Sewer	Other	
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 5,302,506	\$ 10,088,115	\$ 4,492,820	\$ 19,883,441
Customer Receivables, Net	8,216,075	12,387,619	4,486,603	25,090,297
Intergovernmental Receivable	877,950	1,390,951	260,000	2,528,901
Other	306,146	49,951	-	356,097
Total Current Assets	<u>14,702,677</u>	<u>23,916,636</u>	<u>9,239,423</u>	<u>47,858,736</u>
NONCURRENT ASSETS				
Capital Assets:				
Nondepreciable	5,668,082	1,695,078	145,658	7,508,818
Depreciable, Net	44,917,742	117,347,273	6,268,746	168,533,761
Total Noncurrent Assets	<u>50,585,824</u>	<u>119,042,351</u>	<u>6,414,404</u>	<u>176,042,579</u>
Total Assets	65,288,501	142,958,987	15,653,827	223,901,315
DEFERRED OUTFLOWS OF RESOURCES				
Pension	<u>1,570,419</u>	<u>608,938</u>	<u>961,481</u>	<u>3,140,838</u>
Total Assets and Deferred Outflows of Resources	<u>66,858,920</u>	<u>143,567,925</u>	<u>16,615,308</u>	<u>227,042,153</u>
LIABILITIES				
CURRENT LIABILITIES				
Warrants and Accounts Payable	1,372,115	470,269	669,195	2,511,579
Accrued Expenses	254,622	630,850	40,556	926,028
Compensated Absences and Claims	51,507	19,395	25,612	96,514
Bonds, Note, and Loans Payable	1,939,539	5,547,805	100,660	7,588,004
Total Current Liabilities	<u>3,617,783</u>	<u>6,668,319</u>	<u>836,023</u>	<u>11,122,125</u>
NONCURRENT LIABILITIES				
Compensated Absences and Claims	1,201,966	2,458,167	2,311,884	5,972,017
Unearned Revenue	2,748,792	90,755	-	2,839,547
Landfill Closure and Postclosure Care Costs	-	1,748,000	-	1,748,000
Other Post Employment Benefits	5,189,426	2,246,584	2,655,076	10,091,086
Net Pension Liability	9,111,327	3,532,964	5,578,364	18,222,655
Bonds, Note, and Loans Payable	22,814,359	53,252,064	600,550	76,666,973
Total Noncurrent Liabilities	<u>41,065,870</u>	<u>63,328,534</u>	<u>11,145,874</u>	<u>115,540,278</u>
Total Liabilities	<u>44,683,653</u>	<u>69,996,853</u>	<u>11,981,897</u>	<u>126,662,403</u>
DEFERRED INFLOWS OF RESOURCES				
Pension	<u>26,338</u>	<u>10,213</u>	<u>4,375</u>	<u>40,926</u>
NET POSITION				
Net Investment in Capital Assets	25,979,199	60,562,232	5,713,184	92,254,615
Unrestricted	(3,830,270)	12,998,627	(1,084,148)	8,084,209
Total Net Position	<u>\$ 22,148,929</u>	<u>\$ 73,560,859</u>	<u>\$ 4,629,036</u>	<u>\$ 100,338,824</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF BROCKTON, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION — PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017**

	Enterprise Funds			Total
	Water	Sewer	Other	
Operating Revenues:				
Charges	\$ 16,536,646	\$ 18,611,176	\$ 8,502,384	\$ 43,650,206
Fees	558,831	252,692	263,453	1,074,976
Other	-	-	6,194	6,194
Total Operating Revenues	<u>17,095,477</u>	<u>18,863,868</u>	<u>8,772,031</u>	<u>44,731,376</u>
Operating Expenses:				
Salaries and Benefits	5,055,211	2,583,173	2,841,098	10,479,482
Utilities	622,230	1,384,758	203,211	2,210,199
Repairs and Maintenance	818,961	1,136,912	281,926	2,237,799
Contractual Services	8,217,161	4,640,803	6,431,901	19,289,865
Other Supplies and Expenses	459,015	306,019	249,864	1,014,898
Depreciation	2,130,455	4,399,139	427,536	6,957,130
Total Operating Expenses	<u>17,303,033</u>	<u>14,450,804</u>	<u>10,435,536</u>	<u>42,189,373</u>
Total Operating Income (Loss)	<u>(207,556)</u>	<u>4,413,064</u>	<u>(1,663,505)</u>	<u>2,542,003</u>
Nonoperating Revenue (Expense):				
Interest Income	241,102	254,653	197,540	693,295
Interest Expense	(498,830)	(1,334,235)	660	(1,832,405)
Debt Subsidies	13,454	223,890	-	237,344
Total Nonoperating Revenue (Expense)	<u>(244,274)</u>	<u>(855,692)</u>	<u>198,200</u>	<u>(901,766)</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(451,830)</u>	<u>3,557,372</u>	<u>(1,465,305)</u>	<u>1,640,237</u>
Capital Contributions	-	-	423,606	423,606
Transfers In	475,360	105,500	1,050,595	1,631,455
Transfers Out	(679,195)	(1,639,513)	(277,856)	(2,596,564)
Total Capital Contributions and Transfers, Net	<u>(203,835)</u>	<u>(1,534,013)</u>	<u>1,196,345</u>	<u>(541,503)</u>
Change in Net Position	<u>(655,665)</u>	<u>2,023,359</u>	<u>(268,960)</u>	<u>1,098,734</u>
Net Position - Beginning of Year	22,804,594	71,537,500	4,897,996	99,240,090
Net Position - End of Year	<u>\$ 22,148,929</u>	<u>\$ 73,560,859</u>	<u>\$ 4,629,036</u>	<u>\$ 100,338,824</u>

See accompanying Notes to Basic Financial Statements.

CITY OF BROCKTON, MASSACHUSETTS
STATEMENT OF CASH FLOWS — PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2017

	Enterprise Funds			
	Water	Sewer	Other	Total
CASH FLOWS FROM OPERATIONS				
Cash Received from Customers	\$ 17,050,606	\$ 18,883,561	\$ 8,391,871	\$ 44,326,038
Cash Paid to Employees	(4,313,387)	(2,331,867)	(2,206,352)	(8,851,606)
Cash Paid to Vendors	(9,750,698)	(8,054,199)	(7,174,821)	(24,979,718)
Net Cash Provided (Used) by Operations	2,986,521	8,497,495	(989,302)	10,494,714
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers In	475,360	105,500	1,050,595	1,631,455
Transfers Out	(679,195)	(1,639,514)	(277,856)	(2,596,565)
Net Cash Provided (Used) by Noncapital Financing Activities	(203,835)	(1,534,014)	772,739	(965,110)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	(3,245,551)	(1,917,690)	(570,251)	(5,733,492)
Interest Paid on Debt	(475,530)	(1,217,186)	-	(1,692,716)
Loan Proceeds Received	2,989,048	1,322,186	-	4,311,234
Capital Contributions	-	-	423,606	423,606
Repayment of Long-Term Debt	(1,734,567)	(5,353,528)	(100,000)	(7,188,095)
Net Cash Used by Capital and Related Financing Activities	(2,466,600)	(7,166,218)	(246,645)	(9,879,463)
CASH FLOWS FROM INVESTING ACTIVITY				
Interest Income	241,102	254,653	197,540	693,295
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	557,188	51,916	(265,668)	343,436
Cash and Cash Equivalents - Beginning of Year	4,745,318	10,036,199	4,758,488	19,540,005
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 5,302,506</u>	<u>\$ 10,088,115</u>	<u>\$ 4,492,820</u>	<u>\$ 19,883,441</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATIONS:				
Operating Income (Loss)	\$ (207,556)	\$ 4,413,064	\$ (1,663,505)	\$ 2,542,003
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operations:				
Depreciation Expense	2,130,455	4,399,139	427,536	6,957,130
Net Pension Liability	500,759	92,417	376,538	969,714
Other Post Employment Benefits	533,410	229,316	309,079	1,071,805
Changes in Operating Assets and Liabilities:				
Accounts Receivable	(44,871)	(25,306)	(380,160)	(450,337)
Warrants and Accounts Payable	330,788	(594,463)	(1,494)	(265,169)
Other Assets and Liabilities	(256,464)	(16,672)	(57,296)	(330,432)
Net Cash Provided (Used) by Operations	<u>\$ 2,986,521</u>	<u>\$ 8,497,495</u>	<u>\$ (989,302)</u>	<u>\$ 10,494,714</u>
NONCASH ACTIVITIES				
Intergovernmental Debt Subsidies (MCWT)	<u>\$ 35,248</u>	<u>\$ 297,841</u>	<u>\$ -</u>	<u>\$ 333,089</u>

See accompanying Notes to Basic Financial Statements.

CITY OF BROCKTON, MASSACHUSETTS
STATEMENT OF NET POSITION — FIDUCIARY FUNDS
JUNE 30, 2017
(EXCEPT FOR PENSION TRUST, WHICH IS AS OF DECEMBER 31, 2016)

	Pension Trust Fund	Agency Funds
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 10,023,589	\$ 515,831
RECEIVABLES		
Interest and Dividends	160,568	-
Member Deductions	48,082	-
Other	160,171	163,345
Total Receivables	368,821	163,345
OTHER ASSETS	916	-
INVESTMENTS		
Fixed Income Mutual Funds	87,525,412	-
Equities and Equity Mutual Funds	212,541,651	-
Real Estate Funds	28,598,963	-
Private Equity Funds	21,628,733	-
Structured Credit Funds	11,000,002	-
Total Investments	361,294,761	-
Total Assets	<u>\$ 371,688,087</u>	<u>\$ 679,176</u>
LIABILITIES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES	\$ 273,970	\$ 679,176
Total Liabilities	<u>273,970</u>	<u>\$ 679,176</u>
NET POSITION RESTRICTED FOR PENSION BENEFITS	<u>\$ 371,414,117</u>	

See accompanying Notes to Basic Financial Statements.

CITY OF BROCKTON, MASSACHUSETTS
STATEMENT OF CHANGES IN NET POSITION — FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2016

	<u>Pension Trust Fund</u>
ADDITIONS	
Contributions:	
Employers	\$ 20,072,463
Plan Members	8,825,940
Other	<u>284,236</u>
Total Contributions	29,182,639
Investment Income:	
Net Appreciation in Fair Value of Investments	26,025,731
Interest and Dividends	<u>6,872,865</u>
Total Investment Income	32,898,596
Less: Investment Expenses	<u>(2,426,128)</u>
Net Investment Income	30,472,468
Intergovernmental	482,615
Other	<u>26,460</u>
Total Additions	<u>60,164,182</u>
DEDUCTIONS	
Retirement Benefits and Refunds	39,288,216
Reimbursements and Transfers to Other System	1,160,193
Administration	<u>779,411</u>
Total Deductions	<u>41,227,820</u>
Change in Net Position	18,936,362
Net Position - Beginning of Year	352,477,755
NET POSITION - END OF YEAR	<u><u>\$ 371,414,117</u></u>

See accompanying Notes to Basic Financial Statements.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 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, 2016 can be obtained by contacting the Brockton Retirement Board at 1322 Belmont Street, Suite 101, Brockton, MA 02301.

The Brockton Redevelopment Authority and the Brockton Educational Foundation both meet the definition of a component unit; however, their operations are immaterial and, accordingly, are not included in the financial statements of the City.

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 2017:

Joint Venture and Address	Purpose	Annual Assessment
Brockton Area Transit Authority 45 School Street Brockton, MA 02301	To Provide Public Transportation	\$ 2,306,345
Southeastern Regional School District 250 Foundry Street South Easton, MA 02375	To Provide Public Transportation	\$ 3,531,517

NOTE 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 most significant of the City's accounting policies are described below.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The financial condition and results of operations of the City are presented as of and for the year ended June 30, 2017, except for the System, which is presented as of and for the year ended December 31, 2016.

Government-Wide Statements

The statement of net position 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 non-exchange 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 non-major 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 revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. Non-exchange 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.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Funds 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 non-grant 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 expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing 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, both are restricted and unrestricted net position 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.

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 respective balance sheets and statements of net position.

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.

Investments

The City's investments are carried at fair value and amortized cost. The City also 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. See Note 5 for discussion of the System's investments.

Allowance for Uncollectible Accounts

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

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements as compensated absences and claims, 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.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditure) until that time.

Deferred outflows of resources related to pensions are reported in the government-wide and proprietary funds statements of net position.

Deferred Inflows of Resources

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Unavailable revenue is reported in the governmental funds balance sheet.

Unavailable revenue represents billed receivables that do not meet the availability criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting.

Deferred inflows of resources related to pension is reported in the government-wide and proprietary funds statements of net position.

Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, net asset value (NAV), or amortized cost.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 position 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 position and in the respective funds.

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 estimated 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:

Building	40 – 50 Years
Land Improvements	20 Years
Machinery and Equipment	5 – 20 Years
Infrastructure	15 – 100 Years

Net Position and Fund Balance

Net position represents the residual difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources. In the Government-wide and Proprietary Funds Financial Statements, net position is reported in the following categories:

Net Investment in Capital Assets – Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted – The portion of net position which is subject to constraints imposed by external parties, including: creditors, grantors, and laws and regulations of other governments, or constraints imposed by City Charter or enabling legislation. Nonexpendable amounts are required to remain intact under such constraints.

Unrestricted – Remaining net position not considered invested in capital assets or restricted.

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

For purposes of net position classification, when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

In the Governmental Fund Financial Statements, fund balance is reported in the following categories:

Nonspendable – Amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to remain intact.

Restricted – Amounts the use of which is subject to constraints imposed by external parties, including creditors, grantors, and laws and regulations of other governments, or imposed by City Charter or enabling legislation.

Committed – Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. For the City, this formal action is achieved by the City Council and approved by the Mayor.

Assigned – Amounts that are constrained by the City's intent for use for specific purposes, but are considered neither restricted nor committed.

Unassigned – Amounts in the general fund that are not otherwise constrained for a specific purpose more narrow than the general operations of the City.

For purposes of fund balance classification, when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. When unrestricted resources are used, committed resources are used first, followed by assigned and unassigned resources, respectively.

Bond Discounts, Premiums, Reacquisition Costs, and Issuance Costs

In the government-wide and proprietary funds financial statements, bond discounts/premiums are capitalized and amortized over the term of the related bonds. Such amounts are presented as part of the bond, notes and mortgages payable in the accompanying statements of net position. Gains/Losses resulting from the refunding of debt are also capitalized and amortized over the term of the related bonds using the straight-line method. Such amounts are presented as deferred inflows/outflows of resources in the accompanying statements of net position. Bond issuance costs, except the amount representing prepaid insurance, if any, are expensed as incurred.

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

Implementation of New Accounting Principles

For the year ending June 30, 2017, the City implemented the following pronouncements issued by the GASB:

- GASB Statement No. 74, *Financial reporting for Postemployment Benefit Plans other Than Pension Plans*
- GASB Statement No. 77, *Tax Abatement Disclosures*
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
- GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*

The implementation of GASB Statement No. 77 resulted in additional disclosures regarding tax abatement agreements.

The implementation of GASB Statement No. 74, 78, and 82 had no reporting impact for the City.

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 RECEIVABLES

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.

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 who 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 year 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:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 219,913
2019	233,800
2020	248,564
2021	264,261
2022	5,413,880
Total	<u>\$ 6,380,418</u>

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 RECEIVABLES (CONTINUED)

The Note provides that in the event that the project revenues are insufficient to fully satisfy both principal and interest payments due for a particular a year, the City will look to the amount of the hotel motel excise tax receipts of the previous year for a mechanism to provide a credit (available hotel/motel tax) to apply to the shortfall. Specifically, the Agreement specifies that the amount of loan repayment shortfall should be treated as having been paid up to the amount of the available hotel/motel tax. This amount is defined as ninety percent of the hotel/motel tax receipts of the prior fiscal year up to and including the first \$500,000 and fifty percent of the amount above \$500,000. It has been the City's practice to apply cash loan repayments from the Corporation first to principal amounts due and then to interest amounts due. The available hotel/motel tax subsidy is then applied.

For fiscal years 2014, 2015, 2016 and 2017, cash payments were not sufficient to satisfy the principal amounts. The available hotel/motel tax has been applied to principal and interest payments due.

The 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.

Long-Term Receivable (Intergovernmental)

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 (80% of total costs) to the City to build and/or renovate schools. As of June 30, 2017, under MSBA's contract assistance program, the City was due funds totaling \$2,900,865.

In the General Fund, the receivable is offset by unavailable (deferred inflows of resources) revenue because the revenue does not meet the revenue recognition criteria. The following is a schedule of the remaining pay down as of June 30, 2017 through 2020:

<u>Year Ending June 30,</u>	<u>Amount</u>
2018	\$ 966,955
2019	966,955
2020	966,955
Total	<u>\$ 2,900,865</u>

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2017 was as follows:

	Primary Government		
	Beginning Balance	Increases	Decreases
Government Activities:			
Capital Assets, Not Being Depreciated:			
Land	\$ 7,410,698	\$ -	\$ -
Construction in Progress	6,196,066	3,440,518	(128,591)
Historical Works of Art	1,809,514	-	-
Total Capital Assets, Not Being Depreciated	15,416,278	3,440,518	(128,591)
Capital Assets, Being Depreciated:			
Buildings	238,572,809	140,668	-
Land Improvements	15,621,820	1,731,296	-
Machinery and Equipment	27,971,219	2,497,450	-
Infrastructure	102,920,252	3,350,890	-
Total Capital Assets, Being Depreciated	385,086,100	7,720,304	-
Less: Accumulated Depreciation For:			
Buildings	98,910,252	512,343	-
Land Improvements	7,760,433	5,762,830	-
Machinery and Equipment	23,458,444	1,239,557	-
Infrastructure	80,664,116	2,099,463	-
Total Accumulated Depreciation	210,793,245	9,614,193	-
Total Capital Assets, Being Depreciated, Net	174,292,855	(1,893,889)	-
Governmental Capital Assets, Net	<u>\$ 189,709,133</u>	<u>\$ 1,546,629</u>	<u>\$ (128,591)</u>

Depreciation expense was charged to governmental functions as follows:

Government Activities:	
General Government	\$ 679,404
Public Safety	1,172,579
Education	5,491,061
Public Works	1,915,662
Human Services	92,393
Culture and Recreation	263,094
Total Depreciation Expense - Government Activities	<u>\$ 9,614,193</u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 4 CAPITAL ASSETS (CONTINUED)

Business-type activity for the year ended June 30, 2017 was as follows:

	Business-Type Activities			
	Beginning Balance	Increases	Decreases	Ending Balance
Water:				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,929,492	\$ -	\$ -	\$ 2,929,492
Construction in Progress	2,847,751	2,525,800	(2,634,961)	2,738,590
Total Capital Assets, Not Being Depreciated	5,777,243	2,525,800	(2,634,961)	5,668,082
Capital Assets, Being Depreciated:				
Buildings	27,819,581	2,843,558	-	30,663,139
Land Improvements	105,700	-	-	105,700
Machinery and Equipment	17,158,792	110,251	-	17,269,043
Infrastructure	35,043,839	400,903	-	35,444,742
Total Capital Assets, Being Depreciated	80,127,912	3,354,712	-	83,482,624
Less: Accumulated Depreciation For:				
Buildings	6,145,443	718,573	-	6,864,016
Land Improvements	105,700	-	-	105,700
Machinery and Equipment	11,866,782	791,255	-	12,658,037
Infrastructure	18,316,502	620,627	-	18,937,129
Total Accumulated Depreciation	36,434,427	2,130,455	-	38,564,882
Total Capital Assets, Being Depreciated, Net	43,693,485	1,224,257	-	44,917,742
Water Capital Assets, Net	49,470,728	3,750,057	(2,634,961)	50,585,824
Sewer:				
Capital Assets, Not Being Depreciated:				
Land	\$ 186,327	\$ -	\$ -	\$ 186,327
Construction in Progress	3,223,882	149,664	(1,864,795)	1,508,751
Total Capital Assets, Not Being Depreciated	3,410,209	149,664	(1,864,795)	1,695,078
Capital Assets, Being Depreciated:				
Buildings	142,969,328	1,085,224	-	144,054,552
Land Improvements	258,000	-	-	258,000
Machinery and Equipment	43,956,614	947,839	-	44,904,453
Infrastructure	38,056,640	1,599,758	-	39,656,398
Total Capital Assets, Being Depreciated	225,240,582	3,632,821	-	228,873,403
Less: Accumulated Depreciation For:				
Buildings	37,684,186	3,541,303	-	41,225,489
Land Improvements	258,000	-	-	258,000
Machinery and Equipment	42,964,983	256,902	-	43,221,885
Infrastructure	26,219,822	600,934	-	26,820,756
Total Accumulated Depreciation	107,126,991	4,399,139	-	111,526,130
Total Capital Assets, Being Depreciated, Net	118,113,591	(766,318)	-	117,347,273
Sewer Capital Assets, Net	121,523,800	(616,654)	(1,864,795)	119,042,351

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 CAPITAL ASSETS (CONTINUED)

	Business-Type Activities			Ending Balance
	Beginning Balance	Increases	Decreases	
Other:				
Capital Assets, Not Being Depreciated:				
Land	\$ 130,359	\$ -	\$ -	\$ 130,359
Construction in Progress	15,299	-	-	15,299
Total Capital Assets, Not Being Depreciated	145,658	-	-	145,658
Capital Assets, Being Depreciated:				
Buildings	905,875	-	-	905,875
Land Improvements	33,130,398	424,332	-	33,554,730
Machinery and Equipment	3,952,525	145,919	-	4,098,444
Infrastructure	7,065,658	-	-	7,065,658
Total Capital Assets, Being Depreciated	45,054,456	570,251	-	45,624,707
Less: Accumulated Depreciation For:				
Buildings	586,789	11,817	-	598,606
Land Improvements	32,238,480	87,466	-	32,325,946
Machinery and Equipment	3,017,800	267,031	-	3,284,831
Infrastructure	3,085,356	61,222	-	3,146,578
Total Accumulated Depreciation	38,928,425	427,536	-	39,355,961
Total Capital Assets, Being Depreciated, Net	6,126,031	142,715	-	6,268,746
Other Capital Assets, Net	6,271,689	142,715	-	6,414,404
Business-Type Activities Capital Assets, Net	<u>\$ 177,266,217</u>	<u>\$ 3,276,118</u>	<u>\$ (4,499,756)</u>	<u>\$ 176,042,579</u>

NOTE 5 DEPOSITS AND INVESTMENTS

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

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 Federal Deposit Insurance Corporation (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, 2017, the City's bank balances of uninsured and uncollateralized deposits totaled \$121,097,091. The carrying amount of the City's deposits totaled \$118,027,160 at June 30, 2017.

All of the System's deposits are fully insured. The carrying amount of the System's deposits totaled \$10,023,589 at December 31, 2016.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Policy

The municipal finance laws of the Commonwealth authorize the City to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. treasury or agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool – the Massachusetts Municipal Depository Trust (MMDT). The Treasurer also has expanded investment powers as it relates to certain trust funds (as defined by the Commonwealth), permanent funds, and fiduciary funds.

The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of pool shares.

Deposits and investments made by the System are governed by Chapter 32 of the MGL. The System engages investment managers that adhere to MGL c. 32, sec 23(3), the "Prudent Person" rule, which permits (among other things) the investment in corporate bonds, equities, private equity, and real estate investments.

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, 2017 for the primary government and December 31, 2016 for the Retirement System:

<u>Investment Type</u>	<u>Total Amount</u>	<u>Less Than 1 Year</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>
Retirement System:				
Fixed Income Mutual Funds	\$ 87,525,412	\$ 87,525,412	\$ -	\$ -
City:				
U.S. Treasury Notes and Bonds	1,637,855	-	1,121,189	516,666
U.S. Agencies	1,109,784	-	931,521	178,263
Corporate Bonds	654,592	77,556	527,272	49,764
Mutual Bond Funds	990,086	990,086	-	-
Money Market Mutual Funds	215,779	215,779	-	-
MMDT	9,701,857	9,701,857	-	-
Subtotal	14,309,953	10,985,278	2,579,982	744,693
Total	\$ 101,835,365	\$ 98,510,690	\$ 2,579,982	\$ 744,693

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

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 the portfolio.

The System's policy for interest rate risk of debt securities is to use diversification to minimize the exposure to interest rate risks in the aggregate investment portfolio.

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 System's policy for credit risk of debt securities is to use diversification to minimize the exposure to credit risks in the aggregate investment portfolio and primarily invest in fixed income securities that are rated investment grade or better.

The City's fixed-income investments as of June 30, 2017 for the primary government and December 31, 2016 for the Retirement System were rated by Standard & Poor's and/or an equivalent nationally recognized statistical rating organization, and the ratings are presented below using the Standard and Poor's rating scale:

Investment Type	Total Amount	AAA to A	BAA	Not Rated
Retirement System:				
Fixed Income Mutual Funds	\$ 87,525,412	\$ -	\$ -	\$ 87,525,412
City:				
U.S. Agencies	1,109,784	1,109,784	-	-
Corporate Bonds	654,592	539,666	114,926	-
Mutual Bond Funds	990,086	-	-	990,086
Money Market Mutual Funds	215,779	-	-	215,779
MMDT	9,701,857	-	-	9,701,857
Subtotal	12,672,098	1,649,450	114,926	10,907,722
Total	\$ 100,197,510	\$ 1,649,450	\$ 114,926	\$ 98,433,134

In addition to the above schedule, the City has \$1,637,855 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
JUNE 30, 2017**

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the investments in a single issuer.

The System does not have a policy for concentration of credit risk. As of December 31, 2016, the System was not exposed to concentration of credit risk.

The City adheres to the provisions of M.G.L. c. 32, sec 23(2) when managing concentration risk. As of June 30, 2017, the City was not exposed to concentration of credit risk.

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.

The System's policy for foreign currency risk is to diversify the foreign countries and currencies within its pooled international investment portfolio. As of December 31, 2016, the System had indirect exposure to foreign currency risk for certain pooled equity investments in the amount of approximately \$61,700,000.

Fair Value Measurements

The System and the City categorize its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

The City has the following recurring fair value measurements as of June 30, 2017 and December 31, 2016 for the Retirement System:

Investment Type	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 2)
Retirement System:				
Common Stock	\$ 7,718	\$ 7,718	\$ -	\$ -
Equity Mutual Funds	212,533,933	212,533,933	-	-
Fixed Income Mutual Funds	87,525,412	87,525,412	-	-
Total Investments by Fair Value Level	300,067,063	300,067,063	-	-
Investments Measured at the Net Asset Value (NAV):				
Real Estate Funds	28,598,963			
Private Equity Funds	21,628,733			
Structured Credit Funds	11,000,002			
Total Investments Measured at the NAV	61,227,698			
Subtotal - System	361,294,761			
City:				
Money Market Mutual Funds	215,779	215,779	-	-
Equities	3,779,804	3,779,804	-	-
Corporate Bonds	654,592	-	654,592	-
Fixed Income Mutual Funds	990,086	990,086	-	-
Equity Mutual Funds	1,732,907	1,732,907	-	-
U.S. Treasuries	1,637,855	1,637,855	-	-
U.S. Agencies	1,109,784	-	1,109,784	-
Total Investments by Fair Value Level	10,120,807	8,356,431	1,764,376	-
Investments Measured at Amortized Cost:				
MMDT	9,701,857			
Subtotal - City	19,822,664			
Total	\$ 381,117,425			

Investments classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

Investments classified in Level 2 are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

The valuation method for investments measure at the net asset value (NAV) per share or its equivalent) is presented on the following table:

	Total Amount	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Retirement System:				
Real Estate Funds ⁽¹⁾	\$ 28,598,963	\$ 988,674	N/A ⁽¹⁾	N/A ⁽¹⁾
Private Equity Funds ⁽²⁾	21,628,733	6,173,083	N/A ⁽²⁾	N/A ⁽²⁾
Structured Credit Funds ⁽³⁾	11,000,002	-	Annually	65 Days
Total Investments Measured at the NAV	<u>\$ 61,227,698</u>			

- (1) Real Estate Funds – This type includes 8 real estate funds which invest primarily in U.S. commercial real estate and value added opportunities. The values of the investments in this type have been determined using the NAV per share (or its equivalent) of the System's ownership interest in partners' capital. There is one investment with an approximate value of \$15,600,000 for which the investment can be redeemed annually, with a redemption notice period of 65 days. The remaining investments can never be redeemed with the funds. Distributions from each of these funds will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 1 to 7 years.
- (2) Private Equity Funds – This type includes 15 equity funds that consist primarily of limited partnership interests in corporate finance and venture capital funds. Corporate finance investments may include leveraged buy-out, industry consolidation, growth or fundamental business change, acquisitions, refinancing and recapitalization, mezzanine investments and distressed and turnaround strategies. Venture capital investments include start-up companies and companies developing new business solutions and technologies. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the System's ownership interest in partners' capital. There is one investment with an approximate value of \$4,000,000 for which the investment can be redeemed annually, with a redemption notice period of 65 days. The remaining investments can never be redeemed with the funds. Distributions from each of these funds will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 1 to 10 years.
- (3) Structured Credit Funds – This type includes 1 fund that invests in a portfolio comprised of collateralized debt obligations ("CDO's") and other structured credit investments. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the System's ownership interest in partners' capital.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 6 PENSION PLAN – BROCKTON CONTRIBUTORY RETIREMENT SYSTEM (SYSTEM)

General Information

The City contributes to the System, a cost-sharing multiple-employer defined benefit pension plan administered by the Brockton Contributory Board. Substantially all employees of the City are members of the System, except for public school teachers and certain administrators who are members of the Massachusetts Teachers Retirement System.

Membership in the System was as follows at December 31, 2016:

Active Members	1,908
Inactive Members	449
Retirees and Beneficiaries Currently Receiving Benefits	1,281
Total	<u>3,638</u>

As indicated in Note 1, the System is reported as a pension trust fund in these financial statements. The System issues a separately audited financial statement and a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. These reports may be obtained by contacting the System located at 1322 Belmont Street, Suite 101, Brockton, Massachusetts 02301.

Benefits Provided

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The plan provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012. For persons who became members on or after April 2, 2012, average salary is the average annual rate of regular compensation received during the five consecutive years that produce the highest average, or, if greater, during the last five years (whether or not consecutive) preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

There are three classes of membership in the plan; Group 1, Group 2 and Group 4. Group 1 consists of general employees which includes clerical and administrative positions. Group 2 consists of positions that have been specified as hazardous. Lastly, Group 4 consists of police officers, firefighters, and other hazardous positions.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of 20 years of service or upon reaching the age of 55 with 10 years of service if hired after 1978 and if classified in groups 1 or 2. A person who became a member on or after April 2, 2012 is eligible for a superannuation retirement allowance upon reaching the age of 60 with 10 years of service if in group 1, 50 years of age with 10 years of service if in group 2, and 55 years of age if hired prior to 1978 or if classified in group 4. Normal retirement for most employees occurs at age 65 (except for certain hazardous duty and public safety positions, whose normal retirement is at age 55).

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

**NOTE 6 PENSION PLAN – BROCKTON CONTRIBUTORY RETIREMENT SYSTEM (SYSTEM)
(CONTINUED)**

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

When a member's retirement becomes effective, their deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth of Massachusetts' state law during those years are borne by the Commonwealth and are deposited into the Pension Fund. Cost-of-living adjustments granted after 1997 must be approved by the System and all costs are borne by the System.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent on several factors, including whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veterans' status, and group classification.

Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Contributions

Chapter 32 of MGL governs the contributions of plan members and the employers. Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. Members hired in 1979 or subsequent contribute an additional 2% of regular compensation in excess of \$30,000. The City is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on annual covered payroll.

For the year ended December 31, 2016, active member contributions totaled \$8,825,940 and employer contributions totaled \$20,072,463. Contributions to the System from the City were \$18,673,463 for the year ended June 30, 2017.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

**NOTE 6 PENSION PLAN – BROCKTON CONTRIBUTORY RETIREMENT SYSTEM (SYSTEM)
(CONTINUED)**

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and
Deferred Inflows of Resources Related to Pensions***

The components of the net pension liability of the System at December 31, 2016, were as follows:

Total Pension Liability	\$ 611,666,125
Plan Fiduciary Net Position	<u>(371,414,117)</u>
Net Pension Liability	<u><u>\$ 240,252,008</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	<u><u>60.72%</u></u>

At June 30, 2017, the City reported a liability of \$223,506,439 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016 for which update procedures were used to roll forward the total pension liability to the measurement date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2016, the City's proportion was 93.03000 percent, which compared to the 93.02878 percent proportion measured as of December 31, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$36,586,391. At June 30, 2017, the City reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$ 23,392,203	\$ -
Changes in Assumptions	7,674,157	-
Differences Between Expected and Actual Experience	6,755,854	
Changes in Proportion	701,115	501,969
Total	<u><u>\$ 38,523,329</u></u>	<u><u>\$ 501,969</u></u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

**NOTE 6 PENSION PLAN – BROCKTON CONTRIBUTORY RETIREMENT SYSTEM (SYSTEM)
(CONTINUED)**

The amount reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2018	\$ 13,658,097
2019	13,658,098
2020	10,349,574
2021	355,399
2022	192
Total	<u>\$ 38,021,360</u>

Actuarial Assumptions

The following actuarial methods and assumptions apply to all periods included in the measurement.

Methods:

Actuarial Cost Method	Entry age normal cost
Asset Valuation Method	Fair value

Assumptions:

Inflation	3.00%
Salary Increases	Based on years of service, ranging from 7.00% at 0 years of service decreasing to 3.75% after 9 years of service
Investment Rate of Return	8.0%, net of investment expenses
Cost of Living Adjustments	3.0% of the first \$12,000 annually
Mortality	Healthy Retiree - RP-2000 Mortality Table projected generationally with Scale BB for males and females Disabled Retiree - RP-2000 Mortality Table set forward two years for all disabled members
Retirement Rates	General Employees - 1.0% and 1.5% for males and females, respectively, beginning at age 50 ranging to 30.0% and 20.0% for males and females, respectively, ending at age 69 Police and Fire - 1.0% beginning at age 45 ranging to 100.0% at age 65

The actuarial assumptions used in the January 1, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2015 to December 31, 2015.

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

**NOTE 6 PENSION PLAN – BROCKTON CONTRIBUTORY RETIREMENT SYSTEM (SYSTEM)
(CONTINUED)**

Investment Policy and Rates of Return

The Board has the authority for establishing and amending investment policy decisions. Based on the investment objectives and constraints of the System, and based on an annual review of the asset allocation and asset classes, the Board will specify a long-term target allocation for each class of permissible assets. These targets will be expressed as a percentage of the total portfolio, and will have ranges surrounding them, allowing for the portfolio to maintain policy through market fluctuations.

The long-term target allocations are intended as strategic goals. Thus, it is permissible for the overall System's asset allocation to deviate from the long-term target, as would likely occur during manager transitions, asset class restructurings, and other temporary changes in the System. Surplus cash flows are utilized to maintain the asset management structure. Should these cash flows not be sufficient to reallocate the plan according to policy, the transfer of assets may occur between managers. At least annually, the Board reevaluates the portfolio weightings by asset class and adjustments are made accordingly.

The System's annual money-weighted rate of return on pension plan investments, net of investment expenses, was 8.80%. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested, measured monthly.

The long-term expected rate of return on pension plan investments was determined using a best-estimate ranges of expected future nominal rates of return (expected return, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variables and the asset classes. Best estimates of arithmetic rates of return for each major asset class included in the System's target asset allocation as of December 31, 2016 are summarized on the following table:

Asset Class:	Target Allocation	Long-Term Expected Real Rate of Return
Equity	55 %	8.46 %
Fixed Income	36 %	1.83 %
Alternative	9 %	7.92 %

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

**NOTE 6 PENSION PLAN – BROCKTON CONTRIBUTORY RETIREMENT SYSTEM (SYSTEM)
(CONTINUED)**

Discount Rate

The discount rate used to measure the total pension liability was 8.00 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the System calculated using the rate of 8.00%, as well as what the System's net pension liability would be if it calculated using a discount rate that is 1-percentage-point lower (7.00%) or 1-percentage-point higher (9.00%) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net Pension Liability	\$ 303,279,321	\$ 240,252,008	\$ 186,489,666

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 8.00 percent, as well as what City's proportionate share of the net pension liability would be calculated using a discount rate that is 1-percentage point lower (7.00 percent) or 1-percentage-point higher (9.00 percent) than the current rate:

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Net Pension Liability	\$ 282,140,747	\$ 223,506,439	\$ 173,491,333

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

**NOTE 6 PENSION PLAN – BROCKTON CONTRIBUTORY RETIREMENT SYSTEM (SYSTEM)
(CONTINUED)**

Legally Required Reserve Accounts

The balances in the System's legally required reserves at December 31, 2016 are as follows:

Description	Amount	Purpose
Annuity Savings Fund	\$ 94,177,922	Active members' contribution balance
Annuity Reserve Fund	25,196,028	Retired members' contribution account
Military Service Credit Fund	107,734	Amounts appropriated to fund military service time
Pension Reserve Fund	240,816,055	Amounts appropriated to fund future retirement
Pension Fund	11,113,378	Remaining net position
Total	<u>\$ 371,411,117</u>	

NOTE 7 RETIREMENT SYSTEM - MTRS

Plan Description

Public school teachers and certain administrators are provided with pensions through the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Massachusetts Teachers' Retirement Board. The MTRS is part of the Commonwealth of Massachusetts' (Commonwealth) reporting entity and does not issue a stand-alone audited financial report. The MTRS is reported as a Pension Trust Fund in the Commonwealth's audited financial statements that can be obtained at <http://www.mass.gov/osc/publications-and-reports/financial-reports/cafr-reports.html>.

Benefits Provided

The MTRS provides retirement, disability, survivor and death benefits to members and their beneficiaries. Massachusetts General Laws (MGL) establishes uniform benefit requirements. These requirements provide for superannuation retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. For employees hired after April 1, 2012, retirement allowances are calculated on the basis of the last five years or any five consecutive years, whichever is greater in terms of compensation. Benefit payments are based upon a member's age, length of creditable service, and group creditable service, and group classification. The authority for amending these provisions rests with the Legislature.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of creditable service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. Most employees who joined the system after April 1, 2012 cannot retire prior to age 60.

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 RETIREMENT SYSTEM – MTRS (CONTINUED)

Contributions

The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Member contributions for MTRS vary depending on the most recent date of membership, ranging from 5-11% of regular compensation. Members hired in 1979 or subsequent contribute an additional 2% of regular compensation in excess of \$30,000.

The Commonwealth is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers. Therefore, the City is considered to be in a special funding situation as defined by GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and the Commonwealth is a nonemployer contributing entity in MTRS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

Since the City does not contribute directly to MTRS, the City does not report a proportionate share of the net pension liability of the MTRS at June 30, 2017. The Commonwealth's net pension liability associated with the City was \$389,967,839.

The MTRS' net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016.

For the year ended June 30, 2017, the City recognized pension expense of \$39,779,276 associated with MTRS and revenue of the same amount for support provided by the Commonwealth.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 RETIREMENT SYSTEM – MTRS (CONTINUED)

Actuarial assumptions

The following actuarial methods and assumptions apply to all periods included in the measurement.

Investment Rate of Return	7.5%
Salary Increases	Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
Mortality Rates	Pre-retirement reflects RP-2014 Employees Table projected generationally with Scale BB and a base year of 2014 (gender distinct). Post-retirement - reflects RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2014 (gender distinct). Disability - assumed to be in accordance with the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2014 set forward four years.
Other	3.5% interest rate credited to the annuity savings fund and 3.0% cost of living increase per year.

Rates of Return

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40 %	6.9 %
Core Fixed Income	13 %	1.6 %
Hedge Funds	10 %	8.7 %
Private Equity	10 %	4.6 %
Real Estate	10 %	4.8 %
Value Added Fixed Income	9 %	4.0 %
Portfolio Completion Strategies	4 %	3.6 %
Timber/Natural Resources	4 %	5.4 %
Totals	100 %	

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 7 RETIREMENT SYSTEM – MTRS (CONTINUED)

Discount Rate

The discount rate used to measure the MTRS' total pension liability was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Pension plan fiduciary net position

Detailed information about the MTRS' fiduciary net position is available in the Commonwealth's audited financial statements.

NOTE 8 LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended June 30, 2017:

General Long-Term Obligations	Maturing Through Year Ended June 30	Interest Percentage Range	Outstanding Beginning of Year	Additions	Reductions	Outstanding End of Year	Current Portion
Governmental Activities:							
General:							
Taxable	2028	(4.75% - 6.45%)	\$ 88,190,000	\$ -	\$ 3,300,000	\$ 84,890,000	\$ 3,375,000
General Obligation	2036	(3.00% - 6.75%)	23,089,000	-	4,760,000	18,329,000	2,540,000
Subtotal			111,279,000	-	8,060,000	103,219,000	5,915,000
Add (Deduct):							
Unamortized Bond Premium			1,462,152	-	196,412	1,265,740	156,696
Total Governmental Activities Debt, Net			<u>\$ 112,741,152</u>	<u>\$ -</u>	<u>\$ 8,256,412</u>	<u>\$ 104,484,740</u>	<u>\$ 6,071,696</u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

General Long-Term Obligations	Maturing Through Year Ended June 30	Interest Percentage Range	Outstanding Beginning of Year	Additions	Reductions	Outstanding End of Year	Current Portion
Business-Type Activities:							
Water	2038	(4.75% - 6.45%)	\$ 22,743,499	\$ 3,639,796	\$ 1,756,360	\$ 24,626,935	\$ 1,928,196
Sewer	2038	(3.00% - 6.75%)	61,847,041	1,356,694	5,427,479	57,776,256	5,470,974
Other	2024	(3.00% - 6.75%)	800,000	-	100,000	700,000	100,000
Subtotal			85,390,540	4,996,490	7,283,839	83,103,191	7,499,170
Add (Deduct):							
Unamortized Bond Premium			763,620	-	88,834	674,786	88,834
MCWT Interim Loans	2018	0.9%	520,024	477,000	520,024	477,000	-
Total Business-Type Activities Debt, Net			86,674,184	5,473,490	7,892,697	84,254,977	7,588,004
Total Debt, Net			<u>\$ 199,415,336</u>	<u>\$ 5,473,490</u>	<u>\$ 16,149,109</u>	<u>\$ 188,739,717</u>	<u>\$ 13,659,700</u>
Other Long-Term Obligations:							
Self-Insured Benefit Claims:							
Governmental Activities			\$ 7,383,344	\$ 868,819	\$ 2,742,771	\$ 5,509,392	\$ 2,700,000
Business-Type Activities:							
Water			1,194,785	-	284,695	910,090	-
Sewer			2,417,033	-	68,774	2,348,259	-
Other			2,266,430	-	99,680	2,166,750	-
Compensated Absences, Net:							
Governmental Activities			12,034,701	735,935	-	12,770,636	1,915,595
Business-Type Activities:							
Water			315,152	28,231	-	343,383	51,507
Sewer			122,200	7,103	-	129,303	19,395
Other			128,362	42,384	-	170,746	25,612
Court Judgments:							
Governmental Activities			4,750,000	-	-	4,750,000	-
Landfill Closure and Postclosure Care Costs:							
Governmental Activities			2,474,093	-	172,506	2,301,587	-
Business-Type Activities:							
Sewer			1,702,000	46,000	-	1,748,000	-
Other Post Employment Benefits:							
Governmental Activities			246,665,957	41,905,890	12,334,040	276,237,807	-
Business-Type Activities:							
Water			4,656,016	755,888	222,478	5,189,426	-
Sewer			2,017,268	324,961	95,645	2,246,584	-
Other			2,345,997	437,991	128,912	2,655,076	-
Net Pension Liability:							
Governmental Activities			203,025,598	19,409,140	17,150,954	205,283,784	-
Business-Type Activities:							
Water			9,392,639	479,917	761,229	9,111,327	-
Sewer			3,793,185	34,949	295,170	3,532,964	-
Other			5,599,454	444,969	466,059	5,578,364	-
Total Other Long-Term Obligations			<u>\$ 512,284,214</u>	<u>\$ 65,522,177</u>	<u>\$ 34,822,913</u>	<u>\$ 542,963,478</u>	<u>\$ 4,712,109</u>

During 2017, the City permanently financed an interim loan of \$1,356,694 (Sewer Enterprise Fund) and two interim loans totaling \$3,639,796 (Water Enterprise Fund) with the Massachusetts Clean Water Trust (MCWT) to fund sewer and water improvements, respectively.

During 2017, the City entered into two interim loan agreements for \$1,411,000 (Sewer Enterprise Fund) with the MCWT to fund various sewer system improvements. Interim interest rates are .09% and the loan is anticipated to be permanently financed in 2018. Amounts accrued and considered issued during 2017 totaled \$477,000 in the sewer enterprise fund.

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

Maturity of Bond Indebtedness

Bond indebtedness outstanding at June 30, 2017 matures as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 5,915,000	\$ 5,204,749	\$ 11,119,749
2019	6,598,000	4,898,642	11,496,642
2020	7,296,000	4,549,784	11,845,784
2021	6,900,000	4,160,003	11,060,003
2022 - 2026	46,095,000	14,378,605	60,473,605
2027 - 2031	28,955,000	2,088,093	31,043,093
2032 - 2036	1,460,000	114,975	1,574,975
Total	<u>\$ 103,219,000</u>	<u>\$ 35,394,851</u>	<u>\$ 138,613,851</u>

<u>Year Ending June 30</u>	<u>Business-Type Activities</u>			
	<u>Water</u>		<u>Sewer</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 1,928,196	\$ 495,464	\$ 5,470,974	\$ 1,318,704
2019	1,817,002	464,547	5,456,524	1,177,138
2020	1,845,838	416,741	5,479,722	1,032,833
2021	1,787,971	372,671	5,507,543	889,060
2022 - 2026	9,088,919	1,300,113	27,772,736	2,314,480
2027 - 2031	5,659,992	485,394	7,121,921	345,130
2032 - 2038	2,499,017	131,298	966,836	63,725
Total	<u>\$ 24,626,935</u>	<u>\$ 3,666,228</u>	<u>\$ 57,776,256</u>	<u>\$ 7,141,070</u>

<u>Year Ending June 30</u>	<u>Business-Type Activities (Continued)</u>			
	<u>Other</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 100,000	\$ -	\$ 7,499,170	\$ 1,814,168
2019	100,000	-	7,373,526	1,641,685
2020	100,000	-	7,425,560	1,449,574
2021	100,000	-	7,395,514	1,261,731
2022 - 2026	300,000	-	37,161,655	3,614,593
2027 - 2031	-	-	12,781,913	830,524
2032 - 2038	-	-	3,465,853	195,023
Total	<u>\$ 700,000</u>	<u>\$ -</u>	<u>\$ 83,103,191</u>	<u>\$ 10,807,298</u>

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

The City has entered into loan agreements with the MCWT 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 enterprise funds in the accompanying basic financial statements. The City expects to receive \$193,380 and \$1,275,983 of Water and Sewer principal and interest subsidies, respectively, from MCWT over the remaining life of the loans as follows:

Year Ending June 30	Business-Type Activities					
	Water		Sewer		Total	
	Principal Subsidy	Interest Subsidy	Principal Subsidy	Interest Subsidy	Principal Subsidy	Interest Subsidy
2018	\$ 22,218	\$ 12,560	\$ 50,448	\$ 200,110	\$ 72,666	\$ 212,670
2019	22,129	12,654	51,661	182,914	73,790	195,568
2020	24,869	7,167	26,095	164,552	50,964	171,719
2021	25,400	6,021	9,129	148,994	34,529	155,015
2022 - 2025	52,657	7,705	182,417	259,663	235,074	267,368
Total	<u>\$ 147,273</u>	<u>\$ 46,107</u>	<u>\$ 319,750</u>	<u>\$ 956,233</u>	<u>\$ 467,023</u>	<u>\$ 1,002,340</u>

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, 2017, the City may issue approximately \$280.8 million of additional general-obligation debt under the normal debt limit. The City has approximately \$171.1 million of debt exempt from the debt limit.

As of June 30, 2017, the City has total authorized unissued debt of \$82.9 million, which is intended to finance the following:

School Construction/Furnishings	\$ 15,146,790
Pension Funding	47,710,000
Various Departments	1,475,000
Water Projects	10,196,217
Sewer Projects	7,416,086
Economic Development	1,000,000
Total	<u>\$ 82,944,093</u>

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 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 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 used (filled) of the landfills and is as follows at June 30, 2017:

	Governmental Activities	Business-Type Activities Sewer Fund
Closure and Postclosure Care Costs	\$ 2,301,587	\$ 1,748,000
Percentage Used (Filled)	100.00 %	76.00 %

It is estimated that an additional \$552,000 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 2029).

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 was closed and the City began to incur postclosure care costs.

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, 2017. 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.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 10 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.

Short-term debt activity for the year ended June 30, 2017 was as follows:

	Outstanding as of June 30 2016	Additions	Reductions	Outstanding as of June 30 2017
Bond Anticipation Notes Payable:				
Governmental Activities:				
Various Capital Project Funds:				
Brookfield School Repairs	\$ 772,300	\$ 1,112,300	\$ 772,300	\$ 1,112,300
Ashfield School Repairs	718,000	788,000	718,000	788,000
Gilmore School Repairs	568,600	1,288,600	568,600	1,288,600
Barrett Russel School Repairs	415,100	415,100	415,100	415,100
Fire Truck Purchase	925,000	1,043,000	925,000	1,043,000
Police Cruisers Purchase	310,000	310,000	310,000	310,000
Voting Machine Purchase	185,000	185,000	185,000	185,000
Sander Trust Purchase	180,000	180,000	180,000	180,000
Box Truck Purchase	78,000	78,000	78,000	78,000
Bobcat Purchase	47,000	47,000	47,000	47,000
Transit Van Purchase	27,000	27,000	27,000	27,000
Copier/Printer	14,000	14,000	14,000	14,000
Energy Conversation	2,360,000	2,360,000	2,360,000	2,360,000
School Master Plan	-	900,000	-	900,000
Street Lighting System Improvements	-	3,000,000	-	3,000,000
Total Departments	<u>\$ 6,600,000</u>	<u>\$ 11,748,000</u>	<u>\$ 6,600,000</u>	<u>\$ 11,748,000</u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11 OPERATING TRANSFERS

Operating transfers and their purposes during the year ended June 30, 2017 were as follows:

	Governmental Funds		Enterprise Funds		
	General	Other	Water	Sewer	Other
Water Receipts - in Lieu of Taxes	\$ 679,195	\$ -	\$ (679,195)	\$ -	\$ -
Sewer Receipts - in Lieu of Taxes	1,514,103	-	-	(1,514,103)	-
Other Enterprise Receipts - in Lieu of Taxes	277,856	-	-	-	(277,856)
General Fund Revenue - Recreation Subsidy	(927,287)	-	-	-	927,287
General Fund Revenue - Sewer, Renewable Energy, and Recreation - Debt Service Costs	(467,850)	-	262,350	105,500	100,000
Sewer Enterprise - Debt Service Costs	-	-	125,410	(125,410)	-
Recreation - Transfer of Capital Expenditures	-	(18,808)	-	-	18,808
Recreation - Contract Expenditures	(4,500)	-	-	-	4,500
Water - Contract Expenditures	(87,600)	-	87,600	-	-
Parking Authority Reserve - Parking Authority	786,561	(786,561)	-	-	-
Parking Fines	227,977	(227,977)	-	-	-
Weights and Measures - Personal Services	41,500	(41,500)	-	-	-
Transfer of Ambulance Fees	501,299	(501,299)	-	-	-
General Fund Revenue - Transfer of Cable Agreement	-	-	-	-	-
Reimbursement to Special Revenue Fund	(415,149)	415,149	-	-	-
Total	<u>\$ 2,126,105</u>	<u>\$ (1,160,996)</u>	<u>\$ (203,835)</u>	<u>\$ (1,534,013)</u>	<u>\$ 772,739</u>

NOTE 12 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. Accordingly, actuarially required contributions are recognized 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. 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 position 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, 2016, the valuation date, 3,147 retirees, and 3,000 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.

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 12 OTHER POSTEMPLOYMENT BENEFIT (OPEB) DISCLOSURES (CONTINUED)

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-retirement and post-retirement death benefits, as well as medical and prescription drug coverage.

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, 2016, 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.

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, 2017, 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, 2016:

Annual Required Contribution (ARC)	\$ 44,863,639
Interest on Net OPEB Obligation	10,227,410
Adjustment to ARC	(11,666,319)
Annual OPEB Cost	<u>43,424,730</u>
Contributions Made	(12,781,075)
Change in Net OPEB Obligation	<u>30,643,655</u>
Net OPEB Obligation - Beginning of Year	<u>255,685,238</u>
Net OPEB Obligation - End of Year	<u>\$ 286,328,893</u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 12 OTHER POSTEMPLOYMENT BENEFIT (OPEB) DISCLOSURES (CONTINUED)

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>Year Ending June 30</u>	<u>Annual OPEB Cost</u>	<u>Percentage of OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2017	\$ 43,424,730	29.43%	\$ 286,328,893
2016	41,213,436	35.86	255,685,238
2015	37,477,528	34.33	229,249,521

Funded Status and Funding Progress

The funded status of the plan as of June 30, 2017, based on an actuarial valuation as of June 30, 2016, was as follows (in thousands):

Actuarially Accrued Liability (AAL)	\$ 495,514
Actuarial Value of Plan Assets	-
Unfunded Actuarial Accrued Liability (UALL)	<u>\$ 495,514</u>
Funded Ratio (Actuarial Value of Plan Assets/AAL)	- %
Covered Payroll (Active Plan Members)	\$ 201,104
UAAL as a Percentage of Covered Payroll	246.4 %

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 City 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.

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.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 12 OTHER POSTEMPLOYMENT BENEFIT (OPEB) DISCLOSURES (CONTINUED)

In the June 30, 2016 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return and an annual health care cost trend rate of 7.5%, reduced by decrements to an ultimate rate of 4.5% after 6 years, and the RP-2014 mortality table. The City's unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis assuming 3.0% increases. The remaining amortization period at June 30, 2016 was thirty years.

NOTE 13 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 \$200,000 for Buildings and Property per incident and \$250,000 for incidents related to flood, windstorm, and earthquake. Vehicle damage and loss is insured to \$1,000,000 with a deductible of \$1,000.

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 75% 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. 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 \$22,340 or less for a single person over 65 years of age, or \$30,260 for a two person household with one person over 65 years of age. For these retirees, the contribution rate is 10% for BCBS Medex II. The 10% rate was 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 \$350,000 per covered person. The City maintains a working deposit with the administrator of its Blue Cross Blue Shield Health Care Plans. At June 30, 2017, that deposit was \$6,444,320, which includes Dental insurance. The financial arrangement with Harvard Pilgrim is monthly level funding of \$1,330,000 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. Claims settlements have not exceeded insurance covered in any of the past three years.

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 13 RISK MANAGEMENT (CONTINUED)

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, 2017 and 2016 were as follows:

	Workers' Compensation Plan	Health Care Plans	Total
Balance - June 30, 2015	\$ 10,367,191	\$ 2,781,134	\$ 13,148,325
Provision for Losses/Change in Estimate	947,843	48,077,098	49,024,941
Payments for Claims	<u>(1,170,936)</u>	<u>(47,740,738)</u>	<u>(48,911,674)</u>
Balance - June 30, 2016	10,144,098	3,117,494	13,261,592
Provision for Losses/Change in Estimate	868,819	57,491,786	58,360,605
Payments for Claims	<u>(2,778,426)</u>	<u>(57,909,280)</u>	<u>(60,687,706)</u>
Balance - June 30, 2017	<u>\$ 8,234,491</u>	<u>\$ 2,700,000</u>	<u>\$ 10,934,491</u>

The liability for claims consists of governmental and business-type activities in the amount of \$5,509,392 and \$5,425,099, respectively.

NOTE 14 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 2028 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.

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 COMMITMENTS (CONTINUED)

At the time that the contract was enacted the schedule for the City's fixed purchase commitment resembled the projected growth in water demand for the City, but the schedule somewhat exceeded this curve, especially in years three to eight. In recent years, water conservation measures and lack of economic growth have resulted in a demand curve, which is significantly less than that assumed in the fixed commitment table. As a result, the increased cost of financing the fixed commitment has fallen almost exclusively more heavily on current users, rather than on new water consumption, as was anticipated when the contract was executed. 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 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 2013. Fixed and variable charges are recorded in the major Water fund when incurred, which totaled \$6.3 million in fiscal year 2017.

As of June 30, 2017, based on the current fixed annual charge, the City expects to pay \$77.4 million for its Firm Commitment as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2018	\$ 6,598,712
2019	6,816,436
2020	6,816,436
2021	6,816,416
2022	6,816,436
2022 - 2026	34,082,180
2027 - 2029	9,410,470
Total	<u>\$ 77,357,086</u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 15 CONTINGENCIES

The City is engaged in various matters of routine litigation. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable.

During fiscal year 2018, a judgment totaling approximately \$4,750,000 (which includes interest) was entered against the City for damages incurred by the plaintiff in relation to a discrimination lawsuit. The City has filed a notice of appeal regarding a portion (approximately \$4,300,000) of the settlement. This judgment has been accrued for in the accompanying government-wide financial statements.

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) through June 30, 2017, these programs are still subject to financial and compliance audits by federal agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

NOTE 16 FUND DEFICITS

The following funds had deficit fund balances at June 30, 2017:

	Total	Funding Source
Capital Projects:		
School Repairs - MSBA Accelerated Program	\$ 3,097,788	Long-Term Debt/State Grants
Energy Improvements	1,509,662	Long-Term Debt
Fire Truck	1,043,593	Long-Term Debt
Street Light Improvements	767,166	Long-Term Debt
Department Vehicle	623,051	Long-Term Debt
Various Capital Projects	359,207	Long-Term Debt/Available Funds
Special Revenue:		
Public Safety Grants	124,877	State/Federal Grants
Education Grants	161,021	State/Federal Grants
Public Works Grants	3,633	State/Federal Grants
Total	<u>\$ 7,689,998</u>	

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 17 FUND BALANCE CLASSIFICATION DETAILS

The components of fund balances for the City's governmental funds as of June 30, 2017 are as follows:

	General	Other Governmental	Total
Nonspendable:			
Permanent Fund Principal	\$ -	\$ 6,991,781	\$ 6,991,781
Notes Receivable	6,380,418	-	6,380,418
Subtotal	6,380,418	6,991,781	13,372,199
Restricted For:			
General Government	22,862,917	3,818,531	26,681,448
Human Services	-	230,155	230,155
Public Safety	-	1,380,281	1,380,281
Public Works	-	973,950	973,950
Culture/Recreation	-	774,996	774,996
Education	-	11,761,904	11,761,904
Subtotal	22,862,917	18,939,817	41,802,734
Committed To:			
General Government	14,581,067	-	14,581,067
Human Services	-	581,880	581,880
Public Safety	-	2,018,509	2,018,509
Subtotal	14,581,067	2,600,389	17,181,456
Assigned To:			
General Government	1,842,348	-	1,842,348
Human Services	14,504	-	14,504
Public Safety	205,709	-	205,709
Public Works	731,281	-	731,281
Culture/Recreation	7,033	-	7,033
Education	4,624,115	-	4,624,115
Subtotal	7,424,990	-	7,424,990
Unassigned	29,119,410	(7,689,998)	21,429,412
Total Fund Balances	<u>\$ 80,368,802</u>	<u>\$ 20,841,989</u>	<u>\$ 101,210,791</u>

The City maintains a stabilization account in accordance with MGL Chapter 40 Section 5B that is reported as unassigned fund balance in the general fund. The City may appropriate in any year an amount not exceeding 10% of the amount raised in the preceding fiscal year from real and personal property taxes, or a larger amount as approved by the Department of Revenue. Further, the stabilization account may not exceed 10% of the City's equalized valuation as defined in MGL Chapter 44 Section 1. Funds can be appropriated from the stabilization account by 2/3 vote of City Council, but only a simple majority to appropriate money into the fund. The balance of the stabilization accounts was \$5.7 million at June 30, 2017.

Pursuant to Chapter 324 of the Acts of 1990, the City maintains a separate reserve for unforeseen and extraordinary expenditures. The purpose of the reserve is to ensure fiscal stability and must be maintained at a minimum balance of 1.5% of the gross amount raised on the prior year approved property tax filing. The balance of the reserve at June 30, 2017, totaled \$6.0 million, and is reported as restricted in the general fund.

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 18 TAX ABATEMENTS

The City enters into property tax abatement agreements with local businesses under the Massachusetts Economic Development Incentive Program (EDIP). The EDIP gives companies state and local tax incentives in order to foster job creation and stimulate business growth throughout the City.

The City negotiates property tax abatement agreements on an individual basis. As of June 30, 2017, the City had tax abatement agreements with 17 entities, 16 of which received abatements in fiscal year 2017. The City's policy is to disclose individual tax abatement agreements in which the amount abated exceeded 10% of the total abatements made by the City in any given fiscal year. In fiscal year 2017, taxes abated under these agreements totaled \$711,393.

- 540 Westgate Drive – A 50 percent property tax abatement to a company related to redevelopment and expansion of the property for expanded restaurant and retail opportunities and a new cinema. The expansion is expected to result in the creation of additional jobs for residents of Brockton. The total abatement for fiscal year 2017 amounted to \$238,815.
- 160 Pleasant St - A 100 percent property tax abatement to a company related to the renovation and expansion of a supermarket, and a condominium unit. The expansion is expected to result in the creation of additional jobs for residents of Brockton. The total abatement for fiscal year 2017 amounted to \$118,584.
- 309 Battles St. – A 100 percent property tax abatement to a company related to the purchase and redevelopment of an abandoned building. The redevelopment is expected to result in the creation of additional jobs for residents of Brockton. The total abatement for fiscal year 2017 amounted to \$118,607.

NOTE 19 FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which is required to be implemented during fiscal year 2018. Management is evaluating the Statement's future impact the basic financial statements.

Statement No. 81, *Irrevocable Split-Interest Agreements*, which is required to be implemented during fiscal year 2017. Management is evaluating the Statement's future impact on the basic financial statements.

Statement No. 83, *Certain Retirement Obligations*, which is required to be implemented during fiscal year 2019. Management is evaluating the Statement's future impact on the basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 19 FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS (CONTINUED)

Statement No. 84, *Fiduciary Activities*, which is required to be implemented during fiscal year 2020. Management is evaluating the Statement's future impact on the basic financial statements.

Statement No. 85, *Omnibus 2017*, which is required to be implemented during fiscal year 2018. Management is evaluating the Statement's future impact on the basic financial statements.

Statement No. 86, *Certain Debt Extinguishment Issues*, which is required to be implemented during fiscal year 2018. Management is evaluating the Statement's future impact on the basic financial statements.

Statement No. 87, *Leases*, which is required to be implemented during fiscal year 2021. Management is evaluating the Statement's future impact on the basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS
BUDGETARY COMPARISON SCHEDULE — GENERAL FUND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017
(UNAUDITED)

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Real and Personal Property Taxes, Net	\$ 126,800,526	\$ 126,800,526	\$ 129,300,826	\$ 2,500,300
Motor Vehicle and Other Excise	7,636,900	7,636,900	8,495,365	858,465
Penalties and Interest on Taxes	1,801,100	1,801,100	1,857,405	56,305
Payments in Lieu of Taxes	154,600	154,600	168,014	13,414
User Charges and Other Revenue	1,174,700	1,174,700	1,601,679	426,979
Fees	582,300	582,300	1,661,084	1,078,784
Licenses and Permits	2,866,801	2,866,801	3,751,890	885,089
Intergovernmental	201,282,553	201,282,553	202,569,131	1,286,578
Fines	352,500	352,500	250,211	(102,289)
Investment Income	150,700	150,700	223,565	72,865
Transfers In	5,792,295	6,486,460	6,658,916	172,456
Amounts Available for Appropriation	<u>348,594,975</u>	<u>349,289,140</u>	<u>356,538,086</u>	<u>7,248,946</u>
Charges to Appropriations (Outflows):				
Current:				
General Government	15,218,388	15,416,631	14,012,014	1,404,617
Public Safety	48,214,929	48,366,090	46,500,345	1,865,745
Education	178,947,280	178,949,370	177,850,379	1,098,991
Public Works	8,139,065	8,226,065	7,386,792	839,273
Human Services	2,706,287	2,690,087	2,474,349	215,738
Culture and Recreation	2,651,668	2,753,626	2,210,077	543,549
State and County Assessments	12,165,210	12,165,210	12,501,117	(335,907)
Pension and Fringe Benefits	76,464,110	76,464,110	73,225,004	3,239,106
Court Judgments	150,000	150,000	230,691	(80,691)
Capital Outlay	1,219,718	1,284,631	1,230,454	54,177
Debt Service	14,317,776	14,242,776	14,089,942	152,834
Transfers Out	3,869,737	4,049,737	4,049,737	-
Total Charges to Appropriations	<u>364,064,168</u>	<u>364,758,333</u>	<u>355,760,901</u>	<u>8,997,432</u>
Excess (Deficiency) of Resources Over Charges to Appropriations	<u>(15,469,193)</u>	<u>(15,469,193)</u>	<u>\$ 777,185</u>	<u>\$ 16,246,378</u>
Other Budget Items:				
Free Cash	14,659,623	14,659,623		
Other Available Funds	<u>809,570</u>	<u>809,570</u>		
Total Other Budget Items	<u>15,469,193</u>	<u>15,469,193</u>		
Net Budget	<u>\$ -</u>	<u>\$ -</u>		

See accompanying Independent Auditors' Report.

CITY OF BROCKTON, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017
(UNAUDITED)

Schedule of Changes in Employer Net Pension Liability and Related Ratios
Brockton Contributory Retirement System ⁽¹⁾

	2017	2016	2015
Total Pension Liability:			
Service Cost	\$ 13,252,326	\$ 11,641,512	\$ 10,817,393
Interest	46,791,714	44,359,746	41,739,197
Differences Between Expected and Actual Experience	-	11,431,816	-
Changes in Assumptions	-	-	17,356,197
Benefit Payments, Including Refunds of Member Contributions	(39,288,216)	(38,024,658)	(37,937,119)
Net Change in Total Pension Liability	20,755,824	29,408,416	31,975,668
Total Pension Liability - Beginning	590,910,301	561,501,885	529,526,217
Total Pension Liability - Ending ^(a)	<u>\$ 611,666,125</u>	<u>\$ 590,910,301</u>	<u>\$ 561,501,885</u>
Plan Fiduciary Net Position:			
Contributions - Employer	\$ 20,072,463	\$ 19,247,619	\$ 19,332,315
Contributions - Member	8,825,940	8,302,780	8,467,701
Net Investment Income	30,472,468	(7,554,439)	15,837,436
Benefit Payments, Including Refunds of Member Contributions	(39,288,216)	(38,024,658)	(37,937,119)
Other, Net	(366,882)	(798,475)	(406,376)
Administrative Expense	(779,411)	(686,453)	(677,927)
Net Change in Plan Fiduciary Net Position	18,936,362	(19,513,626)	4,616,030
Plan Fiduciary Net Position - Beginning	352,477,755	371,991,381	367,375,351
Plan Fiduciary Net Position - Ending ^(b)	<u>\$ 371,414,117</u>	<u>\$ 352,477,755</u>	<u>\$ 371,991,381</u>
Net Pension Liability - Ending ^{(a) (b)}	<u>\$ 240,252,008</u>	<u>\$ 238,432,546</u>	<u>\$ 189,510,504</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	60.72%	59.65%	66.25%
Covered Payroll	\$ 93,327,963	\$ 89,738,426	\$ 76,707,094
Net Pension Liability as a Percentage of Covered Payroll	257.43%	265.70%	247.06%

⁽¹⁾ Data is being accumulated annually to present 10 years of the reported information.

**CITY OF BROCKTON, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017
(UNAUDITED)**

**Schedule of Employer Contributions (In Thousands)
Brockton Contributory Retirement System**

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Actuarially Determined Contribution	\$ 20,072	\$ 19,290	\$ 19,290	\$ 17,239	\$ 16,597	\$ 13,788	\$ 11,517	\$ 11,117	\$ 10,958	\$ 10,607
Contributions in Relation to the Actuarially Determined Contribution	20,072	19,248	19,332	17,283	16,639	13,834	11,618	11,117	10,946	10,607
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ 42</u>	<u>\$ (42)</u>	<u>\$ (44)</u>	<u>\$ (42)</u>	<u>\$ (46)</u>	<u>\$ (101)</u>	<u>\$ -</u>	<u>\$ 12</u>	<u>\$ -</u>
Covered Payroll	\$ 93,328	\$ 89,738	\$ 76,707	\$ 76,378	\$ 74,417	\$ 74,417	\$ 75,433	\$ 74,357	\$ 74,357	\$ 72,260
Contributions as a Percentage of Covered Payroll	21.51%	21.45%	25.20%	22.63%	22.36%	18.59%	15.40%	14.95%	14.72%	14.68%

See accompanying Independent Auditors' Report.

CITY OF BROCKTON, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017
(UNAUDITED)

Schedule of Investment Returns
Brockton Contributory Retirement System⁽¹⁾

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual Money-Weighted Rate of Return, Net of Investment Income	8.80%	-2.06%	4.38%

⁽¹⁾ Data is being accumulated annually to present 10 years of the reported information.

Schedule of City's Proportionate Share of the Net Pension Liability
Brockton Contributory Retirement System ⁽¹⁾⁽²⁾

	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's Proportion of the Net Pension Liability	93.03000%	93.02878%	93.50853%
City's Proportionate Share of the			
Net Pension Liability	223,506,439	221,810,876	177,208,481
City's Covered Payroll	86,823,004	72,465,192	69,675,322
City's Proportionate Share of the			
Net Pension Liability as a Percentage			
of its Covered Payroll	257.4%	306.1%	254.3%
Plan Fiduciary Net Position as a Percentage			
of the Total Pension Liability	60.72%	59.65%	66.25%

⁽¹⁾ Data is being accumulated annually to present 10 years of the reported information.

⁽²⁾ Amounts presented were determined as of December 31 of the applicable fiscal year.

**CITY OF BROCKTON, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017
(UNAUDITED)**

**Schedule of City Contributions (In Thousands)
Brockton Contributory Retirement System**

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Actuarially Determined Contribution	\$ 18,673	\$ 17,945	\$ 18,038	\$ 16,075	\$ 15,477	\$ 12,732	\$ 10,342	\$ 9,709	\$ 9,742	\$ 9,470
Contributions in Relation to the Actuarially Determined Contribution	18,673	17,945	18,038	16,075	15,477	12,732	10,342	9,709	9,742	9,470
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 86,823	\$ 72,465	\$ 69,675	\$ 71,795	\$ 69,952	\$ 69,952	\$ 70,907	\$ 74,356	\$ 69,896	\$ 67,924
Contributions as a Percentage of Covered Payroll	21.51%	24.76%	25.89%	22.39%	22.13%	18.20%	14.59%	13.06%	13.94%	13.94%

See accompanying Independent Auditors' Report.

CITY OF BROCKTON, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017
(UNAUDITED)

Schedule of Special Funding Amounts of the Net Pension Liability
Massachusetts Teachers' Retirement System ⁽¹⁾⁽²⁾

	2017	2016	2015
City's Share of Net Pension Liability	\$ 389,967,839	\$ 372,391,598	\$ 293,063,758
Commonwealth's Share of the City's Net Pension Liability	389,967,839	372,391,598	293,063,758
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Expense and Revenue Recognized for the Commonwealth's Support	\$ 39,779,276	\$ 30,204,273	\$ 20,360,546
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	52.73%	55.38%	61.64%

⁽¹⁾ Data is being accumulated annually to present 10 years of the reported information.

⁽²⁾ Amounts presented were determined as of June 30 of the prior year.

**CITY OF BROCKTON, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017
(UNAUDITED)**

**Schedules of Funding Progress
Other Post-Employment Benefits (In Thousands)**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Unfunded (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Percentage Covered (B-A/C)
June 30, 2016	\$ -	\$ 495,514	\$ 495,514	- %	\$ 201,104	246.4 %
June 30, 2014	-	416,955	416,955	-	190,904	218.4
June 30, 2012	-	504,888	504,888	-	173,404	291.2

See accompanying Independent Auditors' Report.

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017
(UNAUDITED)

NOTE 1 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, as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget), as opposed to an assignment of fund balance (GAAP).

NOTE 2 EXPENDITURES IN EXCESS OF BUDGET

In fiscal year 2017, expenditures and encumbrances and continuing appropriations exceeded budgeted amounts for State and County Assessments (\$335,907), and Court Judgments (\$80,691).

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017
(UNAUDITED)

**NOTE 3 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	\$ 356,538,086
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	1,739,955
Stabilization Fund Earnings	183,807
MTRS On-Behalf Payments	39,779,276
Transfers from Other Funds are Inflows of Budgetary Resources But Are Not Revenues for Financial Reporting Purposes	<u>(6,658,916)</u>
Total Revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances	<u><u>\$ 391,582,208</u></u>

Budgetary Outflows and GAAP Revenues:

Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule	\$ 355,760,901
Differences - Budget to GAAP:	
Enterprise Fund Related Budgetary Expenditures are Recorded as Reductions to Transfers for GAAP Purposes	(2,630,425)
Health Claims Expenditures and Accruals Are Not reported as Charges to Appropriations on a Budgetary Basis	(456,357)
Adjustments for Expenditures, Encumbrances, and Accruals, Net	(517,823)
MTRS On-Behalf Payments	39,779,276
Transfers to Other Funds are Outflows of Budgetary Appropriations But Are Not Expenditures for Financial Reporting Purposes	<u>(4,049,737)</u>
Total Expenditures as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances	<u><u>\$ 387,885,835</u></u>

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017
(UNAUDITED)

NOTE 4 SCHEDULE OF EMPLOYER CONTRIBUTIONS

The following methods and assumptions were used to determine the most recent actuarially determined contribution rates:

Valuation Date	January 1, 2016
Methods:	
Actuarial Cost Method	Entry Age Normal Cost
Asset Valuation Method	Fair Value
Assumptions:	
Inflation	3.00%
Salary Increases	Based on years of service, ranging from 7.00% at 0 years of service decreasing to 3.75% after 9 years of service
Investment Rate of Return	8.0%, net of investment expenses
Cost of Living Adjustments	3.0% of the first \$12,000 annually
Mortality	Healthy Retiree - RP-2000 Mortality Table projected generationally with Scale BB for males and females Disabled Retiree - RP-2000 Mortality Table set forward two years for all disabled members
Retirement Rates	General Employees - 1.0% and 1.5% for males and females, respectively, beginning at age 50 ranging to 30.0% and 20.0% for males and females, respectively, ending at age 69 Police and Fire - 1.0% beginning at age 45 ranging to 100.0% at age 65

CITY OF BROCKTON, MASSACHUSETTS
BUDGETARY COMPARISON SCHEDULE — WATER ENTERPRISE FUND
ADDITIONAL INFORMATION
YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources:				
Charges for Services	\$ 16,844,443	\$ 16,919,443	\$ 16,523,980	\$ (395,463)
Departmental Charges and Fees	770,309	770,309	664,683	(105,626)
Miscellaneous	35,248	35,248	35,248	-
Amounts Available for Appropriation	17,650,000	17,725,000	17,223,911	(501,089)
Charges to Appropriations:				
Salaries and Benefits	3,008,969	3,096,569	2,889,559	207,010
Ordinary Maintenance	10,920,330	10,995,330	10,755,440	239,890
Debt Service	2,193,462	2,193,462	1,855,372	338,090
Total Charges to Appropriations	16,122,761	16,285,361	15,500,371	784,990
Excess (Deficiency) of Resources Over Charges to Appropriations	1,527,239	1,439,639	1,723,540	283,901
Other Financing Sources (Uses):				
Certified Retained Earnings	539,904	539,904	539,904	-
Other Financing Sources	-	-	359,888	359,888
Transfers In	-	87,600	87,600	-
Transfers Out	(2,067,143)	(2,067,143)	(2,067,143)	-
Total Other Financing Sources (Uses)	(1,527,239)	(1,439,639)	(1,079,751)	359,888
Net Changes in Fund Balance	\$ -	\$ -	\$ 643,789	\$ 643,789

See accompanying Independent Auditors' Report.

CITY OF BROCKTON, MASSACHUSETTS
BUDGETARY COMPARISON SCHEDULE — SEWER ENTERPRISE FUND
ADDITIONAL INFORMATION
YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources:				
Charges for Services	\$ 17,293,761	\$ 17,293,761	\$ 18,585,870	\$ 1,292,109
Departmental Charges and Fees	408,398	408,398	463,135	54,737
Miscellaneous	297,841	297,841	297,841	-
Amounts Available for Appropriation	18,000,000	18,000,000	19,346,846	1,346,846
Charges to Appropriations:				
Salaries and Benefits	1,641,528	1,641,528	1,493,269	148,259
Ordinary Maintenance	8,587,833	8,587,833	8,119,479	468,354
Debt Service	7,094,319	7,094,319	6,896,371	197,948
Capital Outlay	383,432	383,432	371,126	12,306
Total Charges to Appropriations	17,707,112	17,707,112	16,880,245	826,867
Excess (Deficiency) of Resources Over Charges to Appropriations	292,888	292,888	2,466,601	2,173,713
Other Financing Sources (Uses):				
Certified Retained Earnings	2,051,057	2,051,057	2,051,057	-
Transfers Out	(2,343,945)	(2,343,945)	(2,343,945)	-
Total Other Financing Sources (Uses)	(292,888)	(292,888)	(292,888)	-
Net Changes in Fund Balance	\$ -	\$ -	\$ 2,173,713	\$ 2,173,713

See accompanying Independent Auditors' Report.