KPMG

CITY OF BROCKTON, MASSACHUSETTS

Basic Financial Statements and
Required Supplementary Information

June 30, 2012

(With Independent Auditors' Report Thereon)

CITY OF BROCKTON, MASSACHUSETTS

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KPMG LLP
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Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brockton, Massachusetts (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in accompanying the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brockton, Massachusetts, as of June 30, 2012, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2013, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

U.S. generally accepted accounting principles require that the management's discussion and analysis and required supplementary information, as listed in the accompanying table of contents (collectively referred to as RSI), 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 RSI 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.

KPMG LLP

March 25, 2013

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, 2012.

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 assets of the City exceeded its liabilities at the close of fiscal year 2012 by approximately $200.8 million (net assets).
- The City's total net assets decreased in fiscal year 2012 by approximately $7.8 million, or 3.8%. This is primarily due to the recognition of a $23.3 million increase in the other post employment benefit (OPEB) liability.
- At the end of fiscal year 2012, unassigned fund balance for the general fund was approximately $29.2 million or 9.5%, of total general fund expenditures.
- The City's total bonded debt decreased by approximately $6.4 million during fiscal year 2012. This decrease was due to scheduled debt repayments and debt refunding exceeding new debt issuances.

Overview of the Financial Statements

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

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

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

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

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

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

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

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

The City maintains 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 and school roof repairs fund, which are the City's major governmental funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation.

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

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

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

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

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

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

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

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

Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by approximately $200.8 million at the close of the most recent fiscal year.

A significant portion of the City's net assets reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. This amount increased by approximately $18.7 million, or 8.9% 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. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt are generally provided from other sources, since the capital assets themselves typically are not used to liquidate these liabilities.

An additional portion of the City's net assets (20.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of a negative $69.4 million (34.5%) represents unrestricted net deficit.

Condensed Statement of Net Assets
(In thousands)

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	$ 251,987	245,880	48,114	49,156	300,101	295,036
Capital assets	188,732	169,173	185,410	184,055	374,142	353,228
Total assets	$ 440,719	415,053	233,524	233,211	674,243	648,264
Long-term debt outstanding	$ 129,790	131,393	110,558	115,369	240,348	246,762
Other liabilities	216,788	177,985	16,268	14,831	233,056	192,816
Total liabilities	$ 346,578	309,378	126,826	130,200	473,404	439,578
Net assets:						
Invested in capital assets, net of related debt	$ 148,087	133,985	80,128	75,572	228,215	209,557
Restricted	41,999	50,594	—	—	41,999	50,594
Unrestricted	(95,945)	(78,903)	26,569	27,439	(69,376)	(51,464)
Total net assets	$ 94,141	105,676	106,697	103,011	200,838	208,687

Total Net Assets

During fiscal year 2012, the City's net assets decreased by about $7.8 million, or 3.8%. The decrease in net assets was due to the recognition of the increase in the City's OPEB net obligation totaling $23.3 million.

Governmental Activities – Assets

For governmental activities, current and other assets increased $6.1 million, coupled with an increase in capital assets of $19.6 million, resulting in an increase in assets of $25.7 million. The increase in the capital assets was the result of the ongoing Green Repair replacement of school roofs, windows, and boilers.

Governmental Activities – Liabilities

Governmental activities liabilities increased by $37.2 million. There was an increase of $38.8 million in other liabilities and a $1.6 million decrease in long-term debt outstanding. The increase in other liabilities was primarily due to the recognition of a $23.3 million increase of the OPEB net obligation while the decrease in long-term debt outstanding was due to scheduled debt repayments offset by increases in debt service due to new debt financing.

The City's 2012 annual required contribution (ARC) was $38.1 million. Interest on the net OPEB obligation and adjustments to the ARC totaled $244 thousand. Contributions against the ARC on a pay-as-you-go basis totaled $15.1 million resulting in an increase in the government-wide net OPEB obligation of $23.3 million. While the City's net OPEB obligation is $159.7 million as of June 30, 2012, ultimately, over the next 28 years, the City will recognize the entire OPEB obligation, which is estimated at $504.9 million as of June 30, 2012, the date of the City's most recent actuarial valuation.

Business Type Activities – Assets

For business type activities, there was an increase in net assets of $3.7 million. Current and other assets decreased by $1.0 million, while capital assets increased by $1.4 million, and total assets increased by $313 thousand. The decrease in current and other assets was due primarily to the decrease in the recognition of intergovernmental receivables related to the major ongoing investment in and upgrade of the wastewater and water treatment plant. The increase in capital assets is due to the City's continued investment in capital spending that has been funded with borrowings from the Massachusetts Water Pollution Abatement Trust (MWPAT). In 2012, additions to business type activities capital assets totaled $34.4 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 plant.

Business Type Activities – Liabilities

Business type activities liabilities decreased by $3.4 million. There was an increase of $1.4 million in other liabilities and a decrease of $4.8 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 $371.6 million for fiscal year 2012. This reflected a decrease of $1.6 million, or less than 1.0%. Included in this net decrease is the City's recognition of $23.3 million of additional expense across all category of governments related to the increase in the City's OPEB net obligation.

Total general revenues for governmental activities of $153.0 million offset total net expenses of $164.5 million. Major ongoing revenue contributors were the net property tax at $107.9 million, an increase of $4.7 million. The remaining categories in total increased by $15.5 million, excise taxes at $6.8 million, an increase of $203 thousand; intergovernmental at $35.1 million, an increase of $16.0 million and other totaling $2.8 million, a decrease of $781 thousand.

In assessing the City's revenue adequacy to finance governmental activities, it is important to acknowledge the criticality of payments from outside agencies, especially from state and federal programs. Total revenues for governmental activities were $359.7 million. Of this total almost $193.8 million, or 53.8%, is from operating/capital grants contributions as well as charges for services, which is mainly from state and federal aid. Further, the City received $35.1 million in intergovernmental aid that is classified as general revenue. An additional 30.0% 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 90% 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.

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For fiscal year 2012, the City levied a total of $108.2 million in gross real estate property taxes against an aggregate fair market assessed value of $5.6 billion. This levy compared to a maximum allowable levy under the levy limit of $108.2 million, leaving only a small amount in unused levy capacity without the approval of the voters. However, the levy comprised only 1.9% of the City's aggregate assessed value. With voter approval, the City could levy an additional $32.6 million and still remain under the levy ceiling. Accordingly, the taxing capacity exists to substantially improve the City's revenues for financing governmental activities, but converting this potential capacity to real revenues would require voter approval.

Business Type Activities – Statement of Activities

Business-Type Activities – The business-type activities increased the City's net assets by approximately $3.7 million, or 3.6%.

The water fund incurred a $1.2 million decrease; the Sewer fund contributed $4.0 million of the increase, the net assets for the combination of the nonmajor recreation, refuse and renewable energy funds increased $900 thousand. The nonmajor refuse fund is self-sufficient. The nonmajor recreation and renewable energy funds require a transfer of general fund revenues to support its programs. Most of the recreation fund's revenues derive from the golf course, but those revenues are not sufficient to pay for both the golf course operations and other park and recreation programs. For this reason, a transfer of other revenues is required. The Solar Energy facility has begun to generate and sell electricity.

The operations of the water fund and Sewer fund are self-sufficient. The water and Sewer funds are designed to recover the costs of operations of those funds. In the water fund the operating loss totaled $424 thousand. In the Sewer fund the operating income totaled $6.2 million. In the water and Sewer funds, cash flow from operations of $3.2 million and $9.2 million, respectively. In both of these funds a major upgrade to the wastewater and water treatment plants is ongoing and required a major contribution of resources to finance both the construction itself and the impact of construction in increased plant operating costs.

Condensed Statement of Changes in Net Assets
(In thousands)

	Governmental activities		Business-type activities		Total	
	2012	**2011**	**2012**	**2011**	**2012**	**2011**
Revenues:						
Program revenues:						
Charge for services	$ 12,872	12,635	42,233	40,972	55,105	53,607
Operating grants	193,836	187,357	866	827	194,702	188,184
Capital grants	370	907	476	495	846	1,402
General revenues:						
Property taxes	107,885	103,228	—	—	107,885	103,228
Excise taxes	6,774	6,571	—	—	6,774	6,571
Intergovernmental	35,119	19,068	—	—	35,119	19,068
Other	2,814	3,594	—	—	2,814	3,594
Total revenues	359,670	333,360	43,575	42,294	403,245	375,654
Expenses:						
General government	24,099	18,507	—	—	24,099	18,507
Public safety	63,407	58,323	—	—	63,407	58,323
Education	253,761	258,970	—	—	253,761	258,970
Public works	9,799	16,381	—	—	9,799	16,381
Human services	3,492	4,473	—	—	3,492	4,473
Culture and recreation	3,678	3,459	—	—	3,678	3,459
State and county assessments	6,023	5,659	—	—	6,023	5,659
Court judgments	161	133	—	—	161	133
Interest on long-term debt	7,188	7,301	—	—	7,188	7,301
Enterprise accounts:						
Water	—	—	16,040	15,200	16,040	15,200
Sewer	—	—	14,889	14,533	14,889	14,533
Other	—	—	8,558	9,007	8,558	9,007
Total expenses	371,608	373,206	39,487	38,740	411,095	411,946
Excess (deficiency) before transfers	(11,938)	(39,846)	4,088	3,554	(7,850)	(36,292)
Transfers	403	1,512	(403)	(1,512)	—	—
Total transfers	403	1,512	(403)	(1,512)	—	—
Change in net assets	(11,535)	(38,334)	3,685	2,042	(7,850)	(36,292)
Net assets – beginning of year	105,676	144,010	103,011	100,969	208,687	244,979
Net assets – end of year	$ 94,141	105,676	106,696	103,011	200,837	208,687

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Financial Analysis of the City's Governmental Funds

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

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

As of the end of the fiscal year 2012, the City's governmental funds reported combined fund balances of approximately $94.6 million, a decrease of approximately $9.4 million, or 9.0%, in comparison with the prior year. The general fund balance decreased by $4.2 million, from $77.8 million to $73.6 million, the school roof repairs fund decreased by $6.8 million, from $220 thousand to ($6.6) million and the combined fund balances for all the other funds increased by $1.5 million, from $26.0 million to $27.6 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 Assets." These reconciliations will demonstrate that essentially the City's decrease in fund balances of $9.4 million, compared to its decrease in net assets of $11.5 million, a difference of $2.1 million, is explained largely by the following factors:

1. $900 thousand – the positive effect of revenue accruals.

2. $19.6 million – the positive effect of the amount by which capital assets was increased, net of depreciation expense.

3. $900 thousand – the amortization effect of the pension asset in the statement of activities, which is not included in the operating statement of the governmental funds.

4. $22.3 million – the negative effect of increases in other liabilities, primarily OPEBs, which did not require the use of current resources.

5. $2.6 million – the negative effect of the collection of the long-term intergovernmental receivable that is recorded as revenue in the governmental funds.

6. $450 thousand – the negative effect of the amount by which the amortization of deferred losses on refundings and bond issue costs exceed bond premiums.

7. $1.9 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 assets.

Of the total of ending fund balances of $94.6 million, $12.5 million constitutes "nonspendable" fund balance, which is not available for spending by the City because this fund balance amount cannot be spent because they are either not in spendable form or they are legally or contractually required to remain intact. $33.3 million

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constitutes "restricted for" 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. $7.0 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 statutes, which are passed by the City Council and approved by the Mayor. $19.1 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. $22.7 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.

The general fund is the chief operating fund of the City. Total fund balance was approximately $73.6 million, a decrease of $4.2 million. This decrease in fund balance was largely driven by a deficiency 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 9.5% of total general fund expenditures, while total fund balance represents 24.0% 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, unreserved, and undesignated 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.

The school roof repairs fund accounts for the rehabilitation of several school roofs, boilers and windows related to the Massachusetts School Building Assistance Bureau Green Repair Program. At June 30, 2012, the total fund balance was ($6.6) million which will be eliminated in future years with the permanent financing of its short–term debt.

Proprietary Funds

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

The net assets of the proprietary funds at the end of the current fiscal year totaled approximately $106.7 million. Changes in net assets of the proprietary funds at the end of the current fiscal year totaled an increase of approximately $3.7 million, or 3.6%.

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

For the water fund, the fiscal year 2012 operating loss was $424 thousand, or 2.8% of operating revenues. Nonoperating revenues (expenses) and transfers essentially netted to a negative $758 thousand, and so net assets decreased by $1.2 million. Cash flow from operations was $3.2 million.

For the Sewer fund, operating income was $6.2 million, or 33.2% of operating revenues. However, nonoperating expenses and transfers decreased net assets by $2.2 million. The aggressive construction schedule for the upgrade of the wastewater treatment plant increased capital assets, but it also increased long-term debt and interest expense, which basically nets to a zero effect on the Sewer fund's net assets. The strong operating income was driven by an increase in sewer rates in the middle of 2008. This sewer rate increase has a full year effect in fiscal year 2012. Further, the rate increase is meant to recover future costs, which resulted in a strong operating income in fiscal year 2012. Cash flow from operations was $9.2 million.

For the combined results of the other enterprise funds, the value of net assets increased by $900 thousand, or 10.7%. The operating loss for combined other enterprise funds was $211 thousand loss in fiscal year 2012 or 2.5% of operating revenues. With the benefit of net transfers in (general fund subsidy) and the nonoperating revenue of $1.1 million, the operating loss of $211 thousand was reduced down to a $900 thousand increase in net assets.

Budgetary Highlights

In fiscal year 2012, the original budget called for $299.3 million in spending. Of this amount $155.2 million was for Education spending, $39.8 million was for Public Safety spending, $55.5 million was for Fringe Benefit spending and $48.8 million for all other categories.

Resources, including transfers in from other funds of $700 thousand, totaled $282.5 million, creating a planned deficit of approximately $16.8 million. Offsetting this deficit was a contribution from "Free Cash" of $16.9 million. The remaining total of approximately ($150) thousand was applied to Other Financing Sources/Uses.

In the final budget, a total of $300 million in spending was authorized, an increase of $600 thousand. The budgets that made up this amount included the following: the general government budgets were increased by $123 thousand; the public safety budget by $320 thousand; and Human services budgets were increased by $174 thousand. To help finance the additional $600 thousand in authorized spending, the other financing sources/uses were increased by $1.0 million.

On an actual basis, resources were higher than the final budget by $6.4 million. The majority of revenue categories resulted in a positive variance with the exceptions of payments in lieu of taxes, user charges and other revenues, and investment income. The City's revenue estimates normally are conservative and actual results typically exceed budget by 1.5% to 2.0%. For fiscal year 2012, the positive variance was largely driven by Real Estate, Personal Property, Excise taxes, Fees, Licenses and Permits revenues, and Intergovernmental revenues. The increase in the Real Estate and Excise taxes were the result of increased collections in the categories of personal property, real estate, and tax title revenues. The 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.

On the expenditure side, a favorable variance of $5.4 million was achieved. The City has typically achieved 1 to 2% positive variance on spending. For fiscal year 2012, this positive variance was driven by actual budgetary expenditures less than budgeted expenditures in the general government, public safety, debt service and pension and fringe benefit line items. The reasons for the positive variances in the general government, public safety and pension and fringe benefit were due to conservative budgeting in these line items.

As a result of the revenue and expenditure positive variances, the City's fiscal year 2012 general fund operations estimated to create free cash of approximately $11.7 million to be used in the FY 2013 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, 2012 amounted to approximately $374.1 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 $20.9 million for fiscal year 2012 represented an increase of 5.9%. Capital assets for governmental activities increased by $19.6 million, or 11.5%, while capital assets for business-type activities increased by $1.4 million, or less than 1%. The increase in capital assets for business-type activities was primarily caused by construction in progress, both in water and sewer enterprise funds, but especially for the project to upgrade the water and sewer treatment plants. The increase in capital assets for governmental activities is the result of capital additions exceeding depreciation. With the completion of construction activities for two schools in FY 2012, the City has started an approximately $35.8 million Green Repair project to rehab several school roofs, boilers and windows.

Major capital assets included the following:

Capital Assets
(In thousands)

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 7,411	7,411	3,246	3,246	10,657	10,657
Construction in progress	23,921	3,247	7,397	28,064	31,318	31,311
Historical works of art	1,809	1,809	—	—	1,809	1,809
Buildings	125,931	128,659	136,297	112,970	262,228	241,629
Land improvements	3,362	2,199	426	473	3,788	2,672
Machinery and equipment	3,351	3,732	3,164	3,096	6,515	6,828
Infrastructure	22,947	22,116	34,879	36,206	57,826	58,322
Total	$ 188,732	169,173	185,409	184,055	374,141	353,228

Long-Term Debt – At the end of the current fiscal year, the City had total bonded debt outstanding of approximately $240.3 million. The entire amount is backed by the full faith and credit of the City.

Outstanding Debt
(In thousands)

		Governmental activities		Business-type activities		Total	
		2012	2011	2012	2011	2012	2011
General obligation bonds, net	$	129,790	131,393	110,558	115,369	240,348	246,762
Total	$	129,790	131,393	110,558	115,369	240,348	246,762

The overall net increase is attributable to the following factors:

The City's bonded debt decreased by approximately $6.4 million or less than 2.5%. The decrease was attributable to scheduled repayments and an advanced refunding exceeding new issuances. The City issued a total of new debt totaling $14.2 million. This consisted of loans totaling $1.2 million to fund the City's Brockton High School Stadium Rehab, $5.3 million of advanced refunding of FY 2002 $15,616,000 General Obligation bonds, $1.6 million to fund the City's Parking Garage Rehab, $5.9 million of MWPAT bonds to fund replacement of water meters and upgrades to the Silver Lake and Avon Reservoir treatment facilities. This increase in long-term debt was offset by principal payments and the advanced refunding of debt during the current fiscal year totaling $20.9 million.

Total long-term debt of the City represents a claim of about 64.2% of the City's total capital assets, and a claim of about 35.6% 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 4.3%.

The City maintains an "A" (stable outlook) rating from Standard and Poor's and an "Aa3" rating from Moody's for general obligation debt.

Economic Factors and Next Year's Budgets

While the economic circumstances confronting the City had deteriorated considerably over recent fiscal years, more recently, conditions have become more stable. During the earlier period, revenue assistance from the state declined in both nominal and real terms. This was initially true even for aid to education, although in the later years this trend was reversed. However, for revenue assistance other than for education, the decline was particularly steep. For example, the City's unrestricted state aid was reduced by about $11.6 million from nearly $28 million in FY 2008 to nearly $16.4 million in FY 2012, a reduction of about 41%. The governor's FY 2013 proposal at first increased by about 6% aid to education and held other revenue assistance about level, but ultimately the state provided a "one-time" distribution of additional unrestricted state aid of about $1.3 million.

During this period, the state has provided municipalities with two new, local option revenue sources: the ability to raise the lodging excise tax from four percent up to six percent, and the ability to add 0.75% to the meals tax. The City has adopted both measures. The meals tax provided about $430 in new revenue in FY 2011, a year of partial implementation, and $820 thousand in FY 2012, a full year. The lodging tax increase added about

$200 thousand in new revenue, so between the two measures, the City expects more than $1 million in on-going, new revenues.

Although the property tax levy has provided a predictable, steady source of revenue growth, the City's property values in combination with the state's property tax limitation law, Proposition 2½, so-called, limit the ability of the property tax to finance the City's budget. In FY 2013, it provided only about 30% of the City's total spending in the general and enterprise funds. State revenue assistance comprised 46%. The enterprise funds contributed revenues equal to 13%; other local receipts contributed 6%, and the remaining 5% was provided by appropriating balance sheet reserves.

In this revenue environment, with current cost pressures, it is important to fully appropriate the allowable property tax levy, to re-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 manifested in the attitude of elected officials to levy taxes or impose fee increases. In FY 2013, contrary to the recommendation of the mayor and chief financial officer, the City Council did not appropriate the full property tax levy allowed by law; the amount of $1.0 million was not levied rather than appropriated to the City's stabilization fund. The City's recreation, and renewable energy enterprise funds are mainly self-supporting through fees, and the utility enterprise funds (water, sewer, and refuse) are currently fully self supporting. However, no utility fee increases have been adopted by the City Council for several years, even though for the past two years, water fee increases have been requested. Capital spending has suffered as a result.

The growth rates in the funding sources other than the property tax have not been as reliable. The heavy reliance on state aid has become problematic in a period when almost all of the increase in state assistance has been restricted to education. This is especially pronounced when unrestricted state aid has been reduced. In the meantime, recent cost pressures on employee and retiree benefits and pensions have continued, and modest inflation recovery 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, including an unexpected surplus in snow removal costs in FY 2012, have allowed for some replenishment of those to assist in the FY 2014 budget. The governor's proposal for FY 2014 would result in substantial increases to both aid to education and unrestricted state aid. However, this proposal relies on a substantial restructuring and increasing of the state's income tax, somewhat offset by a reduction in the sales tax, and so the state aid proposal may not survive in its current form. It is quite likely that the final state revenue budget for FY 2014 will look very much like it did in FY 2013. This would mean an increase in aid to education and level funding or only a modest increase to unrestricted state aid. In that case, the City will need to tap into a portion of the remaining reserves in order to maintain services in FY 2014.

Despite recent improvements, unemployment nationally and locally remains quite high. The City also has been deeply affected by the home mortgage foreclosure crisis. However, the local housing market recently has begun to show signs of price stability. Nonetheless, the monthly average median value of a single family home in calendar 2012 was lower than it had been since calendar 2002. For the condominium market, the comparable year would have been calendar 2000. However, in from calendar 2011 through calendar 2012, the average monthly median decreased by about 2%, mostly from the first six months, with stability in the last six. For condominiums, the average monthly median price remained flat from 2011 to 2012.

(Continued)

The City's overall assessed value declined from FY 2012 to FY 2013 by $148.4 million, or 2.6%. However, there has been some significant activity in recent years. The Bernardi Auto Group has redeveloped a large parcel off Route 24 to create two separate dealerships, a Hyundai and a Honda, with an investment of $24 million. This project was granted a substantial Tax Incentive Financing agreement, but in future years it will provide healthy growth in property tax revenue. The Cerberus private equity fund in December 2010 closed on the acquisition of the Good Samaritan Medical Center as part of its acquisition of the Caritas Catholic hospital chain. This ownership has converted the property from tax exempt to taxable. In addition, the ownership is making substantial, on-going improvements to the facility. The revenues will be a significant addition to the City's tax levy of about $1.3 million. As expected, the hospital has challenged the City's assessment, but the City has increased its reserve for abatements to protect against losing that challenge. The City's valuation was the result of the independent work of an expert consultant, and the City is confident in the value developed by the consultant. In the past few months, the Trinity Financial Corp. has proposed the redevelopment of an entire City block in the downtown area. The project will be developed in two phases and will be 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. When both phases have been completed, the project will have cost $100 million, which represents the largest investment in downtown Brockton in memory.

The City has continued to engage with its unions over the issues of wages and benefits, especially health insurance costs. All City unions had contracts which were settled and approved for fiscal years 2008 through 2010. The terms of the settlements varied with each union, but contained similar elements. Base wages were increased by 7% over the three year period, but certain other increases were also granted, including for education. These terms varied by union. Depending on these factors, an employee's total compensation increase could range from 10 to 15%; the average was about 12.5%. One of the major objectives achieved by the City was the agreement to increase the employee contribution to the indemnity health insurance plan from 25% to 30%. The City also obtained the agreement that the City will not reimburse any portion of the Medicare Part B cost when eligible employees retire and enroll in Medicare. The City and its unions are currently engaged in bargaining for the fiscal years subsequent to FY 2010. Considerable progress has been made toward new settlements for FY 2011 through FY 2013, but the deals are not final at this writing.

The School Department had settled contracts for both certified and noncertified staff covering fiscal years 2009, 2010, and 2011. These contracts settled on the following pattern: 2% in FY 2009, 3% FY 2010, and 3% at the start of FY 2011 and a further 2% at mid-year. Then, prior to FY 2011, the school committee and some of the unions, including the largest, the teachers' union, modified the FY 2011 pattern and extended the contracts through FY 2013, in order to avoid layoffs in FY 2011. The new pattern called for 3% in FY 2011, a 2%/1.5% split in FY 2012, and a 0.5%/1.5% split in FY 2013. The school committee also recently executed a one year contract with its teachers for FY 2014 for a 2% salary increase. The parties also agreed to a modification of teacher evaluations to allow the district to continue to qualify for federal grant funding.

In February 2012, the mayor requested that the City Council approve a local option statute, which would have removed the issue of health insurance benefit plan design from collective bargaining for all City and school workers and retirees by either joining the state's Group Insurance Commission plans or adopting new City plan designs with similar benefits. Although substantial savings were projected for this step, the initiative was opposed by union members and retirees, who pledged in public to engage in good faith bargaining over plan design. The City Council unanimously voted to not accept the statute. Subsequently, the City and all of its school and municipal unions engaged in prolonged and substantive bargaining under a separate provision of state law which permits the union and retirees to bargain as a coalition of interests on proportionately weighted vote. With this process, the coalition of all employees/retirees and the City reached agreement on new plan designs with significantly increased co-payments. However, unlike the GIC plans, the new City plans do not contain annual deductibles. The plans for active employees and retirees who are not eligible for Medicare are effective on July 1, 2013, and the plan for Medicare eligible retirees was effective on January 1, 2013. The coalition and the plans are in effect for four years. The plans are expected to save an estimated $4.7 million annually in costs to the City, based on cost of the plans in effect on July 1, 2012, which are being replaced. The retiree plans also significantly reduced the City's OPEB estimate.

The adverse impact of costs rising more rapidly than revenues could be avoided by a voter referendum to override the provisions of the property tax limitation statute, Proposition 2½. Even with the recent property valuation decreases, the City enjoys override capacity and could increase its levy. The FY 2013 assessed valuation of the City would support a maximum levy of just over $137.1 million at 2.5% of assessed value. The actual FY 2013 levy was $111.5 million, and an additional $1.0 million of allowed levy wasn't appropriated. At 2.25% of assessed value, the City could levy $123.4 million. The tax increase on the average resident with a single family home would be about $30 per year for every million in increased levy. While the City's voters have twice declined to approve overrides in City referendum elections, the capacity for them to do so exists. If needed, a significant amount of additional revenue could be obtained at a modest cost 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 Assets

June 30, 2012

	Governmental activities	Business-type activities	Total
Assets:			
Cash and investments	$ 104,663,288	20,445,104	125,108,392
Receivables, net:			
Property taxes	12,403,683	—	12,403,683
Intergovernmental	14,902,465	5,281,801	20,184,266
Customer receivables, net	—	21,244,347	21,244,347
Other	2,455,285	351,104	2,806,389
Other assets	9,247,463	791,730	10,039,193
Long-term note receivable	7,298,888	—	7,298,888
Long-term intergovernmental receivable	13,573,502	—	13,573,502
Pension asset	87,442,640	—	87,442,640
Capital assets:			
Nondepreciable	33,140,403	10,643,332	43,783,735
Depreciable, net	155,591,673	174,766,270	330,357,943
Total assets	440,719,290	233,523,688	674,242,978
Liabilities:			
Warrants and accounts payable	14,738,119	3,364,837	18,102,956
Accrued liabilities:			
Interest	2,378,267	1,089,887	3,468,154
Payroll and related withholdings	11,752,966	98,892	11,851,858
Tax abatement refunds	1,772,750	—	1,772,750
Bond anticipation note	7,000,000	—	7,000,000
Noncurrent liabilities:			
Due within one year:			
Compensated absences and claims	4,983,512	162,964	5,146,476
Bonds, note and loans payable	5,146,750	6,476,372	11,623,122
Due in more than one year:			
Compensated absences and claims	11,448,142	7,076,427	18,524,569
Unearned revenue	25,724	3,347,975	3,373,699
Landfill closure and postclosure care costs	3,035,955	1,127,000	4,162,955
Bonds, note and loans payable	124,643,654	104,081,922	228,725,576
Other post employment benefits	159,652,673	—	159,652,673
Total liabilities	346,578,512	126,826,276	473,404,788
Net assets (deficits):			
Invested in capital assets, net of related debt	148,086,672	80,128,108	228,214,780
Restricted for:			
Permanent funds:			
Nonexpendable	5,246,543	—	5,246,543
Expendable	723,788	—	723,788
Health claims	16,623,612	—	16,623,612
Federal, state and local grants	15,891,504	—	15,891,504
Other	3,513,330	—	3,513,330
Unrestricted	(95,944,671)	26,569,309	(69,375,362)
Total net assets	$ 94,140,778	106,697,417	200,838,195

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2012

		Program revenues			Net (expense) revenue and changes in net assets		
Functions/programs	**Expenses**	**Charges for services**	**Operating grants and contributions**	**Capital grants and contributions**	**Governmental activities**	**Business-type activities**	**Total**
Governmental activities:							
General government	$ 24,098,874	4,595,642	9,510,917	369,933	(9,622,382)	—	(9,622,382)
Public safety	63,406,872	2,650,948	4,012,397	—	(56,743,527)	—	(56,743,527)
Education	253,761,408	5,123,643	176,818,129	—	(71,819,636)	—	(71,819,636)
Public works	9,798,583	152,076	2,919,088	—	(6,727,419)	—	(6,727,419)
Human services	3,492,110	296,666	372,056	—	(2,823,388)	—	(2,823,388)
Culture and recreation	3,677,746	53,159	203,960	—	(3,420,627)	—	(3,420,627)
State and county assessments	6,022,609	—	—	—	(6,022,609)	—	(6,022,609)
Court judgments	161,056	—	—	—	(161,056)	—	(161,056)
Interest on long-term debt	7,188,023	—	—	—	(7,188,023)	—	(7,188,023)
Total governmental activities	371,607,281	12,872,134	193,836,547	369,933	(164,528,667)	—	(164,528,667)
Business-type activities:							
Water	16,039,531	15,052,600	304,297	43,348	—	(639,286)	(639,286)
Sewer	14,888,644	18,841,823	349,424	432,842	—	4,735,445	4,735,445
Other	8,558,206	8,338,690	212,684	—	—	(6,832)	(6,832)
Total business-type activities	39,486,381	42,233,113	866,405	476,190	—	4,089,327	4,089,327
Total primary government	$ 411,093,662	55,105,247	194,702,952	846,123	(164,528,667)	4,089,327	(160,439,340)
General revenues:							
Property taxes, levied for general purposes, net					$ 107,884,742	—	107,884,742
Excises					6,773,668	—	6,773,668
Payments in lieu of taxes					188,881	—	188,881
Penalties and interest on taxes					1,694,109	—	1,694,109
Other					234,889	—	234,889
Intergovernmental					35,118,890	—	35,118,890
Investment income					695,636	—	695,636
Transfers					402,768	(402,768)	—
Total general revenues and transfers					152,993,583	(402,768)	152,590,815
Change in net assets					(11,535,084)	3,686,559	(7,848,525)
Net assets, beginning of year					105,675,862	103,010,858	208,686,720
Net assets, end of year					$ 94,140,778	106,697,417	200,838,195

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Balance Sheet – Governmental Funds

June 30, 2012

Assets	General	School Roof Repairs	Other Governmental	Total
Cash and investments	$ 78,586,173	—	26,077,115	104,663,288
Receivables, net:				
Property taxes	7,047,582	—	—	7,047,582
Motor vehicle excise	2,253,325	—	—	2,253,325
Departmental and other	18,815	—	183,145	201,960
Tax liens	5,356,101	—	—	5,356,101
Intergovernmental	2,841,444	7,498,872	4,562,149	14,902,465
Total receivables	17,517,267	7,498,872	4,745,294	29,761,433
Due from other funds	2,675,606	—	—	2,675,606
Long-term note receivable	7,298,888	—	—	7,298,888
Long-term intergovernmental receivable	13,573,502	—	—	13,573,502
Deposit with health claims agent	7,544,000	—	—	7,544,000
Total assets	$ 127,195,436	7,498,872	30,822,409	165,516,717
Liabilities and Fund Balances				
Warrants and accounts payable	$ 7,193,534	4,377,521	3,167,064	14,738,119
Accrued liabilities:				
Tax abatement refunds	1,772,750	—	—	1,772,750
Payroll and related withholdings	11,693,945	—	59,021	11,752,966
Due to other funds	—	2,675,606	—	2,675,606
Health claims payable	3,480,518	—	—	3,480,518
Bond anticipation note payable	—	7,000,000	—	7,000,000
Deferred revenue	29,447,099	—	25,724	29,472,823
Total liabilities	53,587,846	14,053,127	3,251,809	70,892,782
Fund balances (deficits):				
Nonspendable	7,298,888	—	5,246,543	12,545,431
Restricted	13,143,093	—	20,128,622	33,271,715
Committed	5,019,582	—	1,973,508	6,993,090
Assigned	18,913,861	15,033	221,927	19,150,821
Unassigned	29,232,166	(6,569,288)	—	22,662,878
Total fund balances	73,607,590	(6,554,255)	27,570,600	94,623,935
Total liabilities and fund balances	$ 127,195,436	7,498,872	30,822,409	165,516,717

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

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

June 30, 2012

Total fund balance – governmental funds	$	94,623,935
Amounts reported for governmental activities in the statements of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		188,732,076
Revenue is recorded on an accrual basis		29,447,099
Bond issuance costs are capitalized in the government-wide statements		1,567,658
Pension asset is not a financial resource and therefore not reported in the funds		87,442,640
Other costs are capitalized in the government-wide statements		135,805
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		(96,145,000)
Other general obligation bonds		(32,819,550)
Bond premiums		(1,389,073)
Deferred bond gains (losses)		563,219
Other post employment benefits		(159,652,673)
Accrued interest on bonds		(2,378,267)
Landfill and postclosure care costs		(3,035,955)
Compensated absences and claims		(12,951,136)
		(307,808,435)
Net assets of governmental activities	$	94,140,778

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

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

Year ended June 30, 2012

	General	School Roof Repairs	Other Governmental	Total
Revenues:				
Real and personal property taxes, net	$ 106,728,051	—	—	106,728,051
Motor vehicle and other excise	6,729,299	—	—	6,729,299
Penalties and interest on taxes	1,694,109	—	—	1,694,109
Payments in lieu of taxes	188,881	—	—	188,881
User charges and other revenue	3,989,410	—	4,712,440	8,701,850
Fees	1,780,971	—	4,646,040	6,427,011
Licenses and permits	2,044,967	—	—	2,044,967
Intergovernmental	163,524,900	15,265,775	33,309,796	212,100,471
Fines	808,373	—	257,914	1,066,287
Investment income	345,421	—	350,215	695,636
Contributions	14,195,703	—	609,096	14,804,799
Total revenues	302,030,085	15,265,775	43,885,501	361,181,361
Expenditures:				
Current:				
General government	11,303,185	—	4,146,699	15,449,884
Public safety	37,337,236	—	1,815,982	39,153,218
Education	153,505,472	444,929	34,396,998	188,347,399
Public works	5,595,546	—	691,317	6,286,863
Human services	2,194,788	—	311,509	2,506,297
Culture and recreation	2,087,123	—	109,131	2,196,254
State and county assessments	6,022,609	—	—	6,022,609
Pension and fringe benefits	76,903,470	—	—	76,903,470
Court judgments	161,056	—	—	161,056
Capital outlay	582,058	21,594,911	3,564,771	25,741,740
Debt service	11,267,156	—	6,384	11,273,540
Total expenditures	306,959,699	22,039,840	45,042,791	374,042,330
Excess (deficiency) of revenues over expenditures	(4,929,614)	(6,774,065)	(1,157,290)	(12,860,969)
Other financing sources (uses):				
Operating transfers in	8,150,910	—	4,117,377	12,268,287
Operating transfers out	(7,632,656)	—	(4,233,584)	(11,866,240)
Other	212,368	—	—	212,368
Bond proceeds	—	—	2,800,000	2,800,000
Bonds premium	284,565	—	—	284,565
Payments to refunding bond escrow agent	(4,646,815)	—	—	(4,646,815)
Issuance of refunding bonds	4,362,250	—	—	4,362,250
Total other financing sources (uses)	730,622	—	2,683,793	3,414,415
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(4,198,992)	(6,774,065)	1,526,503	(9,446,554)
Fund balance, beginning of year	77,806,582	219,810	26,044,097	104,070,489
Fund balance, end of year	$ 73,607,590	(6,554,255)	27,570,600	94,623,935

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, 2012

Net change in fund balances – total governmental funds	$	(9,446,554)
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital additions as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives. Depreciation expense ($8,194,622) exceeded capital additions ($27,753,378).		19,558,756
Accrual basis revenues can result in more or (less) revenues reported in the statement of activities depending upon timing of billings and collections.		868,229
Collection of long-term intergovernmental receivable that is recorded as revenue in the governmental funds.		(2,597,547)
Repayments of bond principal are expenditures in the governmental funds but reduce long-term liabilities in the statement of net assets.		1,915,400
Amortization of bond premiums ($213,589) add to net assets while the amortization of deferred losses on refunding ($152,657) and bond issue costs ($140,912) decrease net assets. This is the amount by which the amortization of deferred losses on refundings and bond issue costs exceed bond premiums.		(453,526)
Amortization of the pension asset in the statement of activities is not included in the operating statement of the governmental funds.		905,998
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 an increase in interest payable ($8,008), a decrease in landfill liability ($142,026), decrease in accrued claims ($695,095) and decrease in compensated absences ($204,073) and increase in other postemployment benefit liabilities ($23,319,026).		(22,285,840)
Change in net assets of governmental activities	$	(11,535,084)

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Net Assets – Proprietary Funds

June 30, 2012

Assets		Enterprise funds Water	Sewer	Other	Total
Current assets:					
Cash and cash equivalents	$	5,966,976	10,570,852	3,907,276	20,445,104
Customer receivables, net		7,005,991	10,286,300	3,952,056	21,244,347
Intergovernmental receivable		5,281,801	—	—	5,281,801
Other		306,150	44,954	—	351,104
Total current assets		18,560,918	20,902,106	7,859,332	47,322,356
Noncurrent assets:					
Other		221,495	538,537	31,698	791,730
Capital assets:					
Nondepreciable		9,913,460	566,388	163,484	10,643,332
Depreciable, net		40,487,029	128,894,212	5,385,029	174,766,270
Total noncurrent assets		50,621,984	129,999,137	5,580,211	186,201,332
Total assets		69,182,902	150,901,243	13,439,543	233,523,688
Liabilities					
Current liabilities:					
Warrants and accounts payable		2,025,199	807,719	531,919	3,364,837
Accrued expenses		233,408	934,902	20,469	1,188,779
Compensated absences and claims		92,313	35,108	35,543	162,964
Bonds, notes, and loans payable		1,369,467	4,956,905	150,000	6,476,372
Total current liabilities		3,720,387	6,734,634	737,931	11,192,952
Noncurrent liabilities:					
Compensated absences and claims		1,735,195	2,690,031	2,651,201	7,076,427
Unearned revenue		2,057,786	1,290,189	—	3,347,975
Landfill and postclosure care costs		—	1,127,000	—	1,127,000
Bonds		26,342,777	76,584,634	1,154,511	104,081,922
Total noncurrent liabilities		30,135,758	81,691,854	3,805,712	115,633,324
Total liabilities		33,856,145	88,426,488	4,543,643	126,826,276
Net Assets					
Invested in capital assets, net of related debt		27,970,046	47,914,060	4,244,002	80,128,108
Unrestricted		7,356,713	14,560,697	4,651,899	26,569,309
Total net assets	$	35,326,759	62,474,757	8,895,901	106,697,417

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

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

Year ended June 30, 2012

	Enterprise funds			
	Water	Sewer	Other	Total
Operating revenues:				
Charges for services	$ 14,588,841	18,498,239	8,090,909	41,177,989
Fees	463,759	343,584	242,571	1,049,914
Other	—	—	5,210	5,210
Total operating revenues	15,052,600	18,841,823	8,338,690	42,233,113
Operating expenses:				
Salaries and benefits	4,553,216	1,433,669	1,568,671	7,555,556
Utilities	891,726	1,643,290	70,672	2,605,688
Repairs and maintenance	711,193	1,200,152	266,921	2,178,266
Contractual services	7,135,645	4,023,638	6,148,374	17,307,657
Other supplies and expenses	613,391	325,525	214,575	1,153,491
Depreciation	1,571,773	3,966,501	280,469	5,818,743
Total operating expenses	15,476,944	12,592,775	8,549,682	36,619,401
Operating income (loss)	(424,344)	6,249,048	(210,992)	5,613,712
Nonoperating revenue (expense):				
Interest income	304,297	349,424	212,684	866,405
Interest expense	(562,587)	(2,295,869)	(8,524)	(2,866,980)
Debt subsidies	43,348	432,842	—	476,190
Total nonoperating (expenses) revenue	(214,942)	(1,513,603)	204,160	(1,524,385)
Income (loss) before transfers	(639,286)	4,735,445	(6,832)	4,089,327
Transfers in	—	—	863,669	863,669
Transfers out	(543,135)	(723,302)	—	(1,266,437)
Total transfers in (out)	(543,135)	(723,302)	863,669	(402,768)
Change in net assets	(1,182,421)	4,012,143	856,837	3,686,559
Total net assets, beginning of year	36,509,180	58,462,614	8,039,064	103,010,858
Total net assets, end of year	$ 35,326,759	62,474,757	8,895,901	106,697,417

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2012

	Enterprise funds			
	Water	**Sewer**	**Other**	**Total**
Cash flows from operations:				
Cash received from customers	$ 14,871,072	18,214,228	8,251,523	41,336,823
Cash paid to employees	(4,372,448)	(1,773,274)	(1,817,843)	(7,963,565)
Cash paid to vendors	(7,283,445)	(7,220,502)	(6,821,703)	(21,325,650)
Net cash provided by (used in) operations	3,215,179	9,220,452	(388,023)	12,047,608
Cash flows from noncapital financing activities:				
Transfers	(543,135)	(723,302)	863,669	(402,768)
Net cash provided by (used in) noncapital financing activities	(543,135)	(723,302)	863,669	(402,768)
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(5,577,478)	(1,337,541)	(258,714)	(7,173,733)
Interest paid on debt	(553,977)	(2,332,140)	(3,613)	(2,889,730)
Debt issued	6,794,972	1,809,347	—	8,604,319
Repayment of long-term debt	(5,636,192)	(6,019,993)	(150,000)	(11,806,185)
Debt subsidies	43,348	432,842	—	476,190
Net cash used in capital and related financing activities	(4,929,327)	(7,447,485)	(412,327)	(12,789,139)
Cash flows from investing activity:				
Interest income	304,297	349,424	212,684	866,405
Net cash provided by investing activity	304,297	349,424	212,684	866,405
Increase (decrease) in cash and cash equivalents	(1,952,986)	1,399,089	276,003	(277,894)
Cash and cash equivalents, beginning of year	7,919,962	9,171,763	3,631,273	20,722,998
Cash and cash equivalents, end of year	$ 5,966,976	10,570,852	3,907,276	20,445,104
Reconciliation of operating income (loss) to net cash provided by (used in) operations:				
Operating income (loss)	$ (424,344)	6,249,048	(210,992)	5,613,712
Reconciliation of operating income (loss) to net cash provided by (used in) operations:				
Depreciation expense	1,571,773	3,966,501	280,469	5,818,743
Changes in operating assets and liabilities:				
Accounts receivable	(181,528)	(627,594)	(87,167)	(896,289)
Warrants and accounts payable	560,458	(129,985)	(119,073)	311,400
Other assets and liabilities	1,688,820	(237,518)	(251,260)	1,200,042
Net cash provided by (used in) operations	$ 3,215,179	9,220,452	(388,023)	12,047,608

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Net Assets – Fiduciary Funds

June 30, 2012

(Except for Pension Trust, which is as of December 31, 2011)

Assets	**Pension trust fund**	**Agency funds**
Cash and cash equivalents	$ 2,137,714	522,531
Receivables:		
Interest and dividends	900,740	—
Receivable for securities sold	44,177	—
Contributions from employers	505,872	—
Other	49,679	216,411
Total receivables	1,500,468	216,411
Investments, at fair value:		
Short-term:		
Domestic	3,193,822	—
Fixed income:		
Domestic	85,318,412	—
International	20,403,505	—
Equities:		
Domestic	101,807,701	—
International	50,932,057	—
Multi-asset	12,679,867	—
Real estate	18,755,888	—
Alternative	17,621,174	—
Total investments	310,712,426	—
Total assets	314,350,608	738,942
Liabilities		
Payable for securities purchased	132,364	—
Accounts payable and other liabilities	247,577	738,942
Total liabilities	379,941	$ 738,942
Net Assets		
Held in trust for pension benefits	$ 313,970,667	

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Changes in Net Assets – Fiduciary Funds

Year ended December 31, 2011

		Pension trust fund
Additions:		
Contributions:		
Employers	$	13,743,334
Employees		7,093,365
Other		5,000
Total contributions		20,841,699
Investment income:		
Net depreciation in fair value of investments		(6,377,702)
Investment income		6,433,384
Total investment income		55,682
Less investment expenses		3,032,452
Net investment income		(2,976,770)
Intergovernmental		294,477
Total additions		18,159,406
Deductions:		
Benefits		34,255,058
Member refunds and transfers to other systems, net		1,255,447
Administrative expenses		578,218
Total deductions		36,088,723
Change in net assets		(17,929,317)
Net assets, beginning of year		331,899,984
Net assets, end of year	$	313,970,667

See accompanying notes to basic financial statements.

(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, 2011 can be obtained by contacting the Brockton Retirement Board at 15 Christy's Drive, Brockton, MA 02301.

The Brockton Redevelopment Authority and the Brockton Educational Foundation both meet the definition of a component unit; however, their operations are not significant 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 2012:

Joint venture and address	Purpose		Annual assessment
Brockton Area Transit Authority 45 School Street Brockton, MA 02301	To provide public transportation	$	1,954,295
Southeastern Regional School District 250 Foundry Street South Easton, MA 02375	To provide educational services		2,702,679

(Continued)

(2) Summary of Significant Accounting Policies

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

(a) Basis of Presentation

The financial condition and results of operations of the City are presented as of and for the year ended June 30, 2012, except for the System, which is presented as of and for the year ended December 31, 2011.

Government-Wide Statements

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

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

Fund Financial Statements

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major governmental fund:

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

School Roof Repairs – This fund accounts for the rehabilitation of several school roofs, boilers and windows related to the Massachusetts School Building Assistance Bureau Green Repair program.

The City reports the following major enterprise funds:

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

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

Additionally, the City reports the following fund types:

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

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

(b) Measurement Focus, Basis of Accounting

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

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

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

(c) Deferred Revenue

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

(d) Cash and Cash Equivalents

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

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

(e) Investment Valuation

The City's investments are carried at fair value. The City 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.

(f) Compensated Absences

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

(g) Capital Assets

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

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:

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

(h) Net Assets and Fund Balance

In the Government-wide and Proprietary Fund Financial Statements, net assets are reported in the following categories:

Invested in capital assets, net of related debt: Capital assets, net of accumulated depreciation, and outstanding principal balances of debt attributable to the acquisition, construction, or improvement of those assets.

Restricted: Net assets 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. Nonexpendable amounts are required to remain intact under such constraints.

Unrestricted: Remaining net assets not considered invested in capital assets, net of related debt or restricted.

For purposes of net asset 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 takes the form of statutes, which are passed 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.

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 or added to the stabilization account by 2/3 vote of City Council. The balance of the stabilization accounts was $7,721,213 at June 30, 2012 and is classified as unassigned.

(i) Net Assets

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

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

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

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

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

(k) Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

(3) Receivables

(a) Property Taxes

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

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

(b) Note Receivable

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

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

The facilities are leased by the Corporation to a private third party 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:

Fiscal year:		
2013	$	161,912
2014		172,137
2015		183,007
2016		194,564
2017		206,850
2018 – 2022		6,380,418
Total	$	7,298,888

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. Through FY 2012, the available hotel/motel tax has been applied exclusively to interest payments due, as the cash payments had always been sufficient to satisfy the principal amounts.

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

(c) Long-Term Receivable

The City participates in the Commonwealth's school building assistance program, which is administered by the Massachusetts School Building Authority (MSBA). The MSBA provides financial assistance (90% of total costs) to the City to build and/or renovate schools. As of June 30, 2012, under MSBA's contract assistance program, the City was due funds totaling $16,171,048.

In the General Fund, the receivable is offset by deferred revenue because the revenue is not considered available. The following is a schedule of the five-year paydown as of June 30, 2012 through 2017, and in five-year increments thereafter:

Fiscal year:		
2013	$	2,597,546
2014		2,597,546
2015		2,597,546
2016		2,597,546
2017		2,597,546
2018 – 2022		3,183,318
Total	$	16,171,048

(d) Intergovernmental Receivables

Massachusetts Water Pollution Abatement Trust (MWPAT)

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

The City annually enters into loan agreements with MWPAT for the purposes of upgrading water and sewer infrastructure. The City records the entire amount of the loan at inception; however, the proceeds from the loan are not received until such time the work is performed. As of June 30, 2012, the City has recorded receivables in its water and Sewer funds for approximately $5.3 million, representing the amount of loan proceeds not yet received from the MWPAT.

Massachusetts School Building Authority (MSBA)

In order to help fund the replacement of school roofs and school repairs, the City has entered into an agreement where the MSBA will fund 80% of eligible costs of the school construction under the Green Repair Program. The City works on a cost-reimbursement basis and as of June 30, 2012, the City incurred costs of $7.5 million for which reimbursements have not been received. That amount is recorded as an intergovernmental receivable in the Other Governmental Funds.

(4) Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

Primary Government

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 7,410,698	—	—	7,410,698
Construction in progress	3,247,188	23,172,289	2,499,286	23,920,191
Historical works of art	1,809,514	—	—	1,809,514
Total capital assets, not being depreciated	12,467,400	23,172,289	2,499,286	33,140,403
Capital assets, being depreciated:				
Buildings	202,258,952	1,560,742	—	203,819,694
Land improvements	8,160,828	1,412,582	—	9,573,410
Machinery and equipment	21,997,863	593,098	—	22,590,961
Infrastructure	89,291,236	3,513,953	—	92,805,189
Total capital assets, being depreciated	321,708,879	7,080,375	—	328,789,254
Less accumulated depreciation for:				
Buildings	73,600,376	4,287,998	—	77,888,374
Land improvements	5,962,132	249,287	—	6,211,419
Machinery and equipment	18,265,126	974,447	—	19,239,573
Infrastructure	67,175,325	2,682,890	—	69,858,215
Total accumulated depreciation	165,002,959	8,194,622	—	173,197,581
Total capital assets, being depreciated, net	156,705,920	(1,114,247)	—	155,591,673
Governmental capital assets, net	$ 169,173,320	22,058,042	2,499,286	188,732,076

Depreciation expense was charged to governmental functions as follows:

Governmental activities:		
General government	$	225,077
Public safety		1,056,083
Public works		2,443,603
Education		4,108,820
Human services		92,407
Culture and recreation		268,632
Total depreciation expense – governmental activities	$	8,194,622

		Beginning balance	Increases	Decreases	Ending balance
Business-type activities:					
Water:					
Capital assets, not being depreciated:					
Land	$	2,929,492	—	—	2,929,492
Construction in progress		1,406,490	5,577,478	—	6,983,968
Total capital assets, not being depreciated		4,335,982	5,577,478	—	9,913,460
Capital assets, being depreciated:					
Buildings		25,966,781	—	—	25,966,781
Land improvements		105,700	—	—	105,700
Machinery and equipment		10,560,947	—	—	10,560,947
Infrastructure		32,395,539	—	—	32,395,539
Total capital assets, being depreciated		69,028,967	—	—	69,028,967
Less accumulated depreciation for:					
Buildings		2,812,201	634,668	—	3,446,869
Land improvements		102,691	860	—	103,551
Machinery and equipment		8,656,874	366,725	—	9,023,599
Infrastructure		15,398,399	569,520	—	15,967,919
Total accumulated depreciation		26,970,165	1,571,773	—	28,541,938
Total capital assets being depreciated, net		42,058,802	(1,571,773)	—	40,487,029
Water capital assets, net		46,394,784	4,005,705	—	50,400,489

(Continued)

	Beginning balance	Increases	Decreases	Ending balance
Sewer:				
Capital assets, not being depreciated:				
Land	$ 186,327	—	—	186,327
Construction in progress	26,624,415	911,945	27,156,299	380,061
Total capital assets, not being depreciated	26,810,742	911,945	27,156,299	566,388
Capital assets, being depreciated:				
Buildings	110,191,940	27,072,548	—	137,264,488
Land improvements	258,000	—	—	258,000
Machinery and equipment	42,728,807	509,347	—	43,238,154
Infrastructure	38,056,640	—	—	38,056,640
Total capital assets, being depreciated	191,235,387	27,581,895	—	218,817,282
Less accumulated depreciation for:				
Buildings	20,733,580	3,092,493	—	23,826,073
Land improvements	258,000	—	—	258,000
Machinery and equipment	41,840,901	231,734	—	42,072,635
Infrastructure	23,124,088	642,274	—	23,766,362
Total accumulated depreciation	85,956,569	3,966,501	—	89,923,070
Total capital assets being depreciated, net	105,278,818	23,615,394	—	128,894,212
Sewer capital assets, net	132,089,560	24,527,339	27,156,299	129,460,600
Other:				
Capital assets, not being depreciated:				
Land	130,359	—	—	130,359
Construction in progress	32,350	33,125	32,350	33,125
Total capital assets, not being depreciated	162,709	33,125	32,350	163,484
Capital assets, being depreciated:				
Buildings	862,298	—	—	862,298
Land improvements	32,459,301	—	—	32,459,301
Machinery and equipment	2,422,077	257,939	—	2,680,016
Infrastructure	6,865,192	—	—	6,865,192
Total capital assets, being depreciated	42,608,868	257,939	—	42,866,807

		Beginning balance	Increases	Decreases	Ending balance
Less accumulated depreciation for:					
Buildings	$	504,842	17,727	—	522,569
Land improvements		31,989,544	46,175	—	32,035,719
Machinery and equipment		2,117,606	101,639	—	2,219,245
Infrastructure		2,589,317	114,928	—	2,704,245
Total accumulated depreciation		37,201,309	280,469	—	37,481,778
Total capital assets being depreciated, net		5,407,559	(22,530)	—	5,385,029
Other capital assets, net		5,570,268	10,595	32,350	5,548,513
Business-type activities capital assets, net	$	184,054,612	28,543,639	27,188,649	185,409,602

(5) Deposits and Investments

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

(a) Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned. The City carries deposits that are insured by 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, 2012, the City's bank balances of uninsured and uncollateralized deposits totaled $114,796,208. All of the System's deposits are fully insured by FDIC insurance or collateralized with securities held by the System or the System's agent in the System's name.

(b) Investment Policy

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

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

(c) Interest Rate Risk

The following is a listing of the City's fixed-income investments and related maturity schedule (in years) as of June 30, 2012 for the primary government and December 31, 2010 for the retirement system (in thousands):

Investment type		Fair value	Less than 1	1 – 5	6 – 10	More than 10
Retirement system:						
Short-term investment fund	$	3,194	3,194	—	—	—
U.S. Treasury notes and bonds		14,056	2,778	5,315	2,425	3,538
U.S. agencies		4,572	—	4,572	—	—
Municipal bonds		912	—	—	233	679
Corporate bonds		55,880	788	12,510	28,343	14,239
Pooled funds – domestic		6,909	—	6,909	—	—
Pooled funds – international		20,404	—	20,404	—	—
Asset backed:						
CMOs		2,932	—	—	—	2,932
Other		57	—	—	—	57
Subtotal		108,916	6,760	49,710	31,001	21,445
City:						
U.S. Treasury notes and bonds		674	50	210	414	—
U.S. agencies		1,807	115	1,322	370	—
Corporate bonds		986	—	328	658	—
MMDT		11,276	11,276	—	—	—
Subtotal		14,743	11,441	1,860	1,442	—
Total	$	123,659	18,201	51,570	32,443	21,445

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

The asset backed investments held by the System as of December 31, 2011 are highly sensitive to changes in interest rates.

(d) Credit Risk

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

The City's fixed-income investments as of June 30, 2012 for the primary government and December 31, 2011 for the retirement system were rated by Standard & Poor's and/or an equivalent national rating organization, and the ratings are presented below using the Standard and Poor's rating scale (in thousands):

Investment type		Fair value	AAA to A	BBB to B	CCC	Not rated
Retirement system:						
Short-term investment fund	$	3,194	—	—	—	3,194
U.S. agencies		4,572	4,572	—	—	—
Municipal bonds		912	912	—	—	—
Corporate bonds		55,880	21,089	34,626	165	—
Pooled funds – domestic		6,909	—	—	—	6,909
Pooled funds – international		20,404	—	—	—	20,404
Asset backed:						
CMO's		2,932	1,708	1,224	—	—
Other		57	57	—	—	—
Subtotal		94,860	28,338	35,850	165	30,507
City:						
U.S. agencies		1,807	1,807	—	—	—
Corporate Bonds		986	344	—	—	642
MMDT		11,275	—	—	—	11,275
Subtotal		14,068	2,151	—	—	11,917
Total	$	108,928	30,489	35,850	165	42,424

In addition to the above schedule, the City and the System have $675,160 and $14,055,664, respectively, invested in U.S. government securities, which are not included above as they are explicitly guaranteed by the U.S. government.

(e) *Concentration Risk*

The System has no investments in a single issuer, at fair value, that exceeds 5% of the System's investments as of December 31, 2011. Additionally, the City has no investments in a single issuer, at fair value, that exceeds 5% of the City's net assets as of June 30, 2012.

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

(f) *Foreign Currency Risk*

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Only the retirement system is statutorily allowed to invest in foreign currency securities. Similar to the investments in domestic equities, the City employs, or encourages its investment advisor to employ, diversification, asset allocation, and quality strategies. Currency hedging is permitted for defensive purposes. Currency hedging shall be effected through the use of forward currency contracts. At December 31, 2011, there were no open forward currency contracts.

Risk of loss arises from changes in currency exchange rates. Although the System does not have investments denominated in foreign currencies, the System's exposure to fluctuations in foreign currency for investments denominated in U.S. dollars includes $20,403,505 and $50,932,057 in international pooled fixed income and equity funds, respectively.

(6) Retirement System

(a) Plan Description

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

(b) Basis of Accounting

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

Investments of the System are stated as follows:

(a) Domestic and international bonds and equity securities are stated a quoted market value.

(b) Real estate funds are stated at appraised value or partner's account value, whichever is more readily determinable.

(c) Venture capital funds are stated at fair value.

(d) Domestic and international pooled funds are stated a net asset value.

(c) Membership

The City's membership in the System consisted of the following at January 1, 2011, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	$	1,278
Terminated plan members entitled to but not receiving benefits		396
Active plan members		1,623
Total membership	$	3,297

(d) Contributions

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

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

Fiscal year ending	Annual required contribution	Interest on net pension asset	Amortization of net pension asset	Pension cost	Actual contribution	Change in net pension asset	Net pension asset
2012	$ 12,731,589	(6,922,931)	6,027,905	11,836,563	12,742,561	905,998	87,442,640
2011	10,341,798	(6,847,556)	5,962,274	9,456,516	10,398,711	942,195	86,536,642
2010	9,980,937	(7,170,986)	11,213,865	14,023,816	9,980,937	(4,042,879)	85,594,447

The System's Retirement Board, the City Council and the Mayor approved the option for local funding of cost-of-living adjustments. The System's funding schedule has been updated to reflect the increased liabilities resulting from the adoption of this option. These cost-of-living adjustments will be awarded automatically each year, except in years in which the Retirement Board determines that such an adjustment would substantially impair the funding schedule.

(e) Legally Required Reserve Accounts

The balances in the System's legally required reserves at December 31, 2011 are as follows:

Description	Amount	Purpose
Annuity Savings Fund	$ 75,441,270	Active members' contribution balance
Annuity Reserve Fund	27,705,953	Retired members' contribution account
Military Service Credit	95,776	Members' contribution account while on military leave
Pension Reserve Fund	200,206,744	Amounts to fund future retirement benefits
Pension Fund	10,520,924	Remaining net assets
Total	$ 313,970,667	

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

(f) Funded Status and Funding Progress

The funded status of the City's pension plan administered by the System as of January 1, 2011, the most recent actuarial valuation date, is as follows (in thousands):

Actuarially accrued liability (AAL)	$	492,457
Actuarial value of plan assets		355,849
Unfunded actuarial accrued liability (UAAL)	$	136,608
Funded ratio (actuarial value of plan assets/AAL)		72.3%
Covered payroll (active plan members)	$	74,417
UAAL as a percentage of covered payroll		183.6%

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

In the January 1, 2011 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions included an 8.0% investment rate of return, projected salary increases of 4.75% and cost-of-living adjustments of 3.0% up to $12,000 annually. The actuarial value of assets was determined using a 5 year smoothing of the fair value of investments. The System's unfunded actuarial accrued liability is being amortized as a level percentage of pay on an open basis. The remaining amortization period at January 1, 2011 was 19 years.

(7) Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2012:

General long-term obligations	Maturing through year ended June 30	Interest percentage range	Outstanding beginning of year	Additions	Reductions	Outstanding end of year
Governmental activities:						
General:						
Taxable	2027	(4.75% – 6.45%)	$ 97,100,000	—	955,000	96,145,000
General obligation	2022	(3.00% – 6.75%)	33,779,950	7,162,250	8,122,650	32,819,550
Subtotal			$ 130,879,950	7,162,250	9,077,650	128,964,550
Add (deduct):						
Unamortized bond premium						$ 1,389,073
Unamortized deferred amounts on refundings						(563,219)
Total governmental activities bonded debt, net						129,790,404

General long-term obligations	Maturing through year ended June 30	Interest percentage range	Outstanding beginning of year	Additions	Reductions	Outstanding end of year
Business-type activities:						
Water	2028	(3.00% – 7.75%)	$ 27,350,718	5,989,836	5,636,192	27,704,362
Sewer	2028	(2.00% – 6.75%)	85,706,542	997,750	6,019,993	80,684,299
Other	2019	(3.80% – 6.00%)	1,450,000	—	150,000	1,300,000
Subtotal			$ 114,507,260	6,987,586	11,806,185	109,688,661
Add (deduct):						
Unamortized bond premium						1,025,521
Unamortized deferred amounts on refundings						(155,888)
Total business-type activities bonded debt, net						110,558,294
Total bonded debt, net						$ 240,348,698
Other long-term obligations:						
Self-insured benefit plans:						
Governmental activities			$ 7,932,309	34,050,292	35,570,903	6,411,698
Business-type activities:						
Water			1,280,365	643,247	456,844	1,466,768
Sewer			2,973,067	—	371,983	2,601,084
Other			2,811,414	61,060	327,851	2,544,623
Compensated absences, net:						
Governmental activities			10,224,029	198,293	402,366	10,019,956
Business-type activities:						
Water			364,295	—	3,555	360,740
Sewer			90,543	33,512	—	124,055
Other			126,590	15,531	—	142,121
Landfill closure and postclosure care costs:						
Governmental activities			3,177,981	—	142,026	3,035,955
Business-type activities:						
Sewer			1,081,000	46,000	—	1,127,000
Other post employment benefits						
Governmental activities			136,333,647	43,594,368	20,275,342	159,652,673
Total other long-term obligations			$ 166,395,240	78,642,303	57,550,870	187,486,673

During 2012, the City issued $5,989,836 of Massachusetts Water Pollution Abatement Trust (MWPAT) bonds for the Water fund.

On November 3, 2011, the City issued a total of $6,560,000 General Obligation Municipal Purpose Bonds. The bonds funded $1,200,000 in High School Stadium Renovations and $5,360,000 in Refunding Bonds, of which $997,750 relates to the Sewer fund. The refunding bonds will be used to advanced refund a portion of the City's $15,616,000 General Obligation Municipal Purpose Loan of 2002 Bonds. Interest on the bonds will be payable semiannually on June 15 and December 15, commencing on June 15, 2012. The interest rates range from 2% to 5% and are due serially through June 15, 2022.

On November 17, 2011, the City entered into a Loan Guarantee Assistance Program for a total of $1,600,000. The bonds funded $1,600,000 in Parking Garage Renovations. Interest on the bonds will be payable semiannually on February 1 and August 1, commencing on February 1, 2012.

Maturity of Bond Indebtedness

Bond indebtedness outstanding at June 30, 2012 matures as follows:

	Governmental activities		
	Principal	**Interest**	**Total**
Year ending June 30:			
2013	$ 5,146,750	6,527,787	11,674,537
2014	5,786,900	6,308,416	12,095,316
2015	6,336,650	6,048,222	12,384,872
2016	6,999,375	5,739,636	12,739,011
2017	7,773,000	5,392,141	13,165,141
2018 – 2022	32,551,875	21,639,424	54,191,299
2023 – 2027	49,480,000	11,149,573	60,629,573
2028 – 2031	14,890,000	526,142	15,416,142
	$ 128,964,550	63,331,341	192,295,891

	Business-type activities			
	Water		Sewer	
	Principal	**Interest**	**Principal**	**Interest**
Year ending June 30:				
2013	$ 1,369,467	582,345	4,956,905	2,050,087
2014	1,632,204	606,893	5,110,001	1,869,855
2015	1,655,367	562,016	5,219,136	1,725,710
2016	1,679,110	516,690	5,242,081	1,578,070
2017	1,706,880	470,050	5,359,041	1,418,027
2018 – 2022	8,170,087	1,696,037	26,880,355	4,898,178
2023 – 2027	7,908,959	769,094	24,836,302	1,492,692
2028 – 2032	3,582,288	154,443	3,080,478	106,033
	$ 27,704,362	5,357,568	80,684,299	15,138,652

	Business-type activities			
	Other		Total	
	Principal	Interest	Principal	Interest
Year ending June 30:				
2013	$ 150,000	3,000	6,476,372	2,635,432
2014	150,000	1,500	6,892,205	2,478,248
2015	100,000	—	6,974,503	2,287,726
2016	100,000	—	7,021,191	2,094,760
2017	100,000	—	7,165,921	1,888,077
2018 – 2022	500,000	—	35,550,442	6,594,215
2023 – 2027	200,000	—	32,945,261	2,261,786
2028 – 2032	—	—	6,662,761	260,476
	$ 1,300,000	4,500	109,688,656	20,500,720

The City has entered into loan agreements with the Massachusetts Water Pollution Abatement Trust (MWPAT) to finance certain water and wastewater related capital improvements. Since the City is legally obligated for the total debt amounts, the full liability has been recorded in the Water and Sewer funds in the accompanying basic financial statements. The City expects to receive $384,630 and $3,092,953 of Water and Sewer principal and interest subsidies, respectively, from MWPAT over the remaining life of the loans as follows:

	Business-type activities					
	Water		Sewer		Total	
	Principal subsidy	Interest subsidy	Principal subsidy	Interest subsidy	Principal subsidy	Interest subsidy
Year ending June 30:						
2013	$ 15,397	27,299	85,474	332,939	100,871	360,238
2014	18,036	20,990	112,321	288,388	130,357	309,378
2015	19,393	18,256	113,993	268,688	133,386	286,944
2016	20,456	16,176	71,883	245,443	92,339	261,619
2017	21,794	13,454	73,951	223,890	95,745	237,344
2018 – 2022	120,220	43,894	147,846	821,372	268,066	865,266
2023 – 2027	27,053	2,212	171,904	134,861	198,957	137,073
Total	$ 242,349	142,281	777,372	2,315,581	1,019,721	2,457,862

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, 2012, the City may issue approximately $298.2 million of additional general-obligation debt under the normal debt limit. The City has approximately $219.5 million of debt exempt from the debt limit.

(Continued)

As of June 30, 2012, the City has total authorized unissued debt of $90.6 million. The remaining authorized unissued debt is intended to finance the following:

School construction/furnishings	$	33,854,460
School refunding		95,000
Refunding		2,430,000
Pension funding		47,710,000
Water projects		5,278,677
Sewer projects		220,779
Economic development		1,000,000
	$	90,588,916

(8) Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require that the City place a final cover on its landfill sites and perform certain maintenance and monitoring functions at the landfill sites for a minimum of thirty years after closure. In addition to operating expenses related to current activities of the landfill sites, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfills no longer accept waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfills used during the year. The estimated liability for landfill closure and postclosure care costs is based on the percent usage (filled) of the landfills and is as follows at June 30, 2012:

		Governmental activities	Business-type activities (Sewer fund)
Closure and postclosure care costs	$	3,055,955	1,127,000
Percentage usage (filled)		100.00%	49.00%

It is estimated that an additional $1,173,000 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the Sewer fund landfill is currently expected to be filled to capacity (the year 2047).

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

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, 2012. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

(9) Temporary Borrowings

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

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

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

Short-term debt activity for the year ended June 30, 2012 was as follows:

	Outstanding as of June 30, 2011	Additions	Reductions	Outstanding as of June 30, 2012
Bond anticipation notes payable:				
Governmental activities:				
School roof repairs fund:				
School construction	$ 896,000	7,000,000	896,000	7,000,000

(10) Operating Transfers and Interfund Balances

Operating transfers and their purposes during the year ended June 30, 2012 were as follows:

	Governmental funds		Enterprise funds			Fiduciary Funds
	General	Other	Water	Sewer	Other	Agency
Water receipts – in lieu of taxes	$ 543,135	—	(543,135)	—	—	—
Sewer receipts – in lieu of taxes	795,966	—	—	(795,966)	—	—
Other Enterprise receipts – in lieu of taxes	(222,710)	—	—	—	222,710	—
General fund revenue – recreation subsidy	(487,346)	—	—	—	487,346	—
General fund revenue – recreation debt service costs	(226,278)	—	—	72,665	153,613	—
General fund revenue – grant match	(244,192)	244,192	—	—	—	—
Special revenue fund – council on aging	54,969	(54,969)	—	—	—	—
Special revenue fund – grant	36,452	(36,452)	—	—	—	—
Parking authority reserve – parking authority	276,668	(276,668)	—	—	—	—
Parking meter fees – parking authority	285,160	(285,160)	—	—	—	—
Weights and Measures – services	56,436	(56,436)	—	—	—	—
Cemetery – services	14,000	(14,000)	—	—	—	—
Transfer to Police Agency	—	(720)	—	—	—	720
General fund revenue – Transfer of cable agreement reimbursement to Special Revenue Fund	(364,006)	364,006	—	—		—
Total	$ 518,254	(116,207)	(543,135)	(723,301)	863,669	720

At June 30, 2012 the School Roof Repairs Fund owes the General Fund $2,675,606.

(11) Other Postemployment Benefit (OPEB) Disclosures

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions,* requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. 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 assets over time.

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

As of June 30, 2012, the valuation date, 2,913 retirees and 2,936 active members meet the eligibility requirements as put forth in Chapter 32B of MGL. The City sponsors and participates in a single employer defined benefit OPEB plan. The OPEB plan is administered by the City and does not issue a stand-alone financial report.

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

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

(a) Funding Policy

Employer and employee contribution rates are governed by the respective collective bargaining agreements. The City currently funds the plan on a pay-as-you-go basis. The City and plan members share the cost of benefits. As of June 30, 2012, 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.

(b) Annual OPEB Cost and Net OPEB Obligation

The City's annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liability over a period of thirty years. The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2012, 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, 2012:

Annual Required Contribution (ARC)	$	38,141,022
Interest on net OPEB obligation		5,453,346
Adjustment to ARC		(5,209,642)
Annual OPEB cost		38,384,726
Contributions made		(15,065,700)
Change in net OPEB obligation		23,319,026
Net OPEB obligation – beginning of year		136,333,647
Net OPEB obligation – end of year	$	159,652,673

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

		Annual OPEB cost	Percentage of OPEB cost contributed		Net OPEB obligation
Fiscal year ended:					
2012	$	38,384,726	39.25%	$	159,652,673

The City's net OPEB obligation as of June 30, 2012 is recorded on the government-wide statement of net assets.

(c) Funded Status and Funding Progress

The funded status of the plan as of June 30, 2012, based on an actuarial valuation as of June 30, 2011, was as follows (in thousands):

Actuarially accrued liability (AAL)	$	504,888
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	$	504,888
Funded ratio (actuarial value of plan assets/AAL)		—%
Covered payroll (active plan members)	$	173,404
UAAL as a percentage of covered payroll		291.2%

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

(d) Actuarial Methods and Assumptions

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

(Continued)

In the June 30, 2012 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.25% investment rate of return and an annual health care cost trend rate of 7.5%, reduced by decrements to an ultimate rate of 5% after 5 years. The City's unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis assuming 4.5% increases. The remaining amortization period at June 30, 2012 was thirty years.

(12) Risk Management

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

Buildings and property are insured against fire, theft, and natural disaster to the extent that losses exceed a deductible of $100,000 per incident. Vehicle damage and loss is insured to $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 60% of the City's employees participate in preferred provider Health Care Plans.

Both employees and the City contribute to the Health Care Plans based upon a percentage formula, 75% (City) and 25% (employee), with the exception of Blue Cross Blue Shield Master Medical, which is 70% City and 30% employee. The retirees' contribution rate is 25%, except for those retirees who were 65 or older as of July 1, 2003 and whose annual household income was $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 rates are 15% for Blue Cross Blue Shield (BCBS) Master Medical, BCBS Master Medical Carve Out A&B, BCBS Medex III, and BCBS Choice and 10% for HMO Blue, Harvard Pilgrim Healthcare, and Harvard Pilgrim Enhanced. The 15% and 10% rates were established through a Home Rule Petition voted and approved by the City Council and the Massachusetts General Court. Stop loss insurance is carried on the Health Care Plans for claims in excess of $300,000 per covered person and $2,000,000 maximum per covered person. The City maintains a working deposit with the administrator of its Blue Cross Blue Shield Health Care Plans. At June 30, 2012, that deposit was $250,000, which includes Dental insurance. The financial arrangement with Harvard Pilgrim is monthly level funding of $1,375,000 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.

 (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, 2012 and 2011 were as follows:

		Workers' compensation plan	Health care plans	Total
Balance at June 30, 2010	$	10,639,972	3,917,922	14,557,894
Provision for losses/change in estimate		839,993	36,289,863	37,129,856
Payments for claims		(876,273)	(35,814,323)	(36,690,596)
Balance at June 30, 2011		10,603,692	4,393,462	14,997,154
Provision for losses/change in estimate		(293,444)	34,971,899	34,678,455
Payments for claims		(835,527)	(35,815,909)	(36,651,436)
Balance at June 30, 2012	$	9,474,721	3,549,452	13,024,173

The liability for claims and judgments consists of governmental and business-type activities in the amount of approximately $6,411,698 and $6,612,475, respectively.

(13) Commitments

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

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

The Agreement expires in 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.

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 2012. Fixed and variable charges are recorded in the major Water fund when incurred, which totaled $5.4 million in fiscal year 2012.

As of June 30, 2012, based on the current fixed annual charge, the City expects to pay $107.6 million for its Firm Commitment as follows:

		Amount
Fiscal year:		
2013	$	5,861,800
2014		5,912,044
2015		5,962,288
2016		6,171,638
2017		6,380,988
2018 – 2022		33,864,456
2023 – 2027		34,082,180
2028 – 2029		9,410,470
	$	107,645,864

(14) Fund Deficits

The following funds had deficit fund balances at June 30, 2012:

School Roof Repairs Fund	$	6,569,288
Other governmental funds:		
Special revenue:		
Federal and state law enforcement		5,866
Total	$	6,575,154

The School Roof Repairs Fund deficit will be eliminated with the permanent financing of the School Rehabilitation Bond Anticipation Note. The Special Revenue deficits will be eliminated upon satisfactory completion of federal and state audits.

(15) Fund Balance Classification Details

The components of fund balance for the City's governmental funds as of June 30, 2012 are as follows:

	General	School Roof Repairs	Other Governmental
Fund balances			
Nonspendable:			
Permanent fund principal	$ —	—	5,246,543
Notes receivable	7,298,888	—	—
	7,298,888	—	5,246,543
Restricted for:			
General government	13,143,093	—	1,707,444
Human services	—	—	215,171
Public safety	—	—	3,278,784
Public works	—	—	4,718,672
Culture/recreation	—	—	494,834
Education	—	—	9,713,717
	13,143,093	—	20,128,622
Committed to:			
General government	5,019,582	—	—
Human services	—	—	687,383
Public safety	—	—	1,286,125
	5,019,582	—	1,973,508
Assigned to:			
General government	14,985,386	—	57,896
Human services	17,679	—	25,573
Public safety	57,206	—	35
Public works	370,692	—	15,126
Culture/recreation	453,899	—	127
Education	3,028,999	15,033	123,170
	18,913,861	15,033	221,927
Unassigned	29,232,166	(6,569,288)	—
Total fund balances	$ 73,607,590	(6,554,255)	27,570,600

CITY OF BROCKTON, MASSACHUSETTS

Budgetary Comparison Schedule – General Fund
Required Supplementary Information

June 30, 2012

(Unaudited)

		Budgeted amounts			Actual amounts (budgetary basis)	Variance with final budget positive (negative)
		Original	Final			
Resources (inflows):						
Real and personal property taxes, net	$	103,574,374	103,574,374		106,746,331	3,171,957
Motor vehicle and other excise		5,335,000	5,335,000		6,200,707	865,707
Penalties and interest on taxes		1,325,000	1,325,000		1,694,109	369,109
Payments in lieu of taxes		285,000	285,000		188,881	(96,119)
User charges and other revenue		6,317,506	6,317,506		3,989,410	(2,328,096)
Fees		385,000	385,000		1,780,971	1,395,971
Licenses and permits		1,275,000	1,275,000		2,044,967	769,967
Intergovernmental		162,669,580	162,669,580		163,524,900	855,320
Fines		410,000	410,000		808,373	398,373
Investment income		290,000	290,000		209,360	(80,640)
Transfers in		668,716	1,300,588		2,345,670	1,045,082
Amounts available for appropriation		282,535,176	283,167,048		289,533,679	6,366,631
Charges to appropriations (outflows):						
Current:						
General government		14,373,132	14,496,654		12,247,152	2,249,502
Public safety		39,832,601	40,152,951		37,442,406	2,710,545
Education		155,243,153	155,243,153		155,467,626	(224,473)
Public works		7,337,668	6,337,668		5,926,703	410,965
Human services		2,263,188	2,437,188		2,216,982	220,206
Culture and recreation		2,069,988	2,069,988		2,462,149	(392,161)
State and county assessments		6,089,353	6,089,353		6,022,609	66,744
Pension and fringe benefits		55,460,294	55,460,294		55,041,042	419,252
Court judgment		204,100	204,100		94,379	109,721
Capital outlay		50,034	50,034		582,058	(532,024)
Debt service		12,387,738	12,387,738		11,267,156	1,120,582
Transfers out		4,022,836	5,036,836		5,814,784	(777,948)
Total charges to appropriations		299,334,085	299,965,957		294,585,046	5,380,911
Excess (deficiency) of resources over charges to appropriations		(16,798,909)	(16,798,909)	$	(5,051,367)	11,747,542
Other budget items:						
Free cash		16,948,909	16,948,909			
Other available funds		(150,000)	(150,000)			
Total other budget items		16,798,909	16,798,909			
Net budget	$	—	—			

See notes to required supplementary information.

See accompanying independent auditors' report.

(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, except for real estate and personal property taxes, which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).

(b) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP).

(2) Expenditures in Excess of Budget

In fiscal year 2012, the City had no expenditures in excess of budgeted appropriations.

(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	$	289,533,679
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		511,587
Contributions for health claims are not reported as a budgetary resource		14,195,703
Stabilization fund earnings		134,786
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes		(2,345,670)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	$	302,030,085
Budgetary outflows and GAAP expenditures:		
Actual amounts (budgetary basis) "total charges to appropriation" from the budgetary comparison schedule	$	294,585,046
Differences – budget to GAAP:		
Enterprise fund related budgetary expenditures are recorded as reductions to transfers for GAAP purposes		(2,562,176)
Health claims expenditures and accruals are not reported as charges to appropriations on a budgetary basis		23,685,581
Adjustments for expenditures, encumbrances, and accruals, net		(2,933,968)
Transfers to other funds are outflows of budgetary appropriations but are not expenditures for financial reporting purposes		(5,814,784)
Total expenditures as reported on the statements of revenues, expenditures and changes in fund balances	$	306,959,699

CITY OF BROCKTON, MASSACHUSETTS

Schedules of Funding Progress and Contributions from Employers

June 30, 2012

(Unaudited)

(Dollar amounts in thousands)

Schedules of Funding Progress

Pension

Actuarial valuation date		Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded (b-a)	Funded ratio (a/b)		Covered payroll (c)	((b-a)/c)
January 1, 2011	$	355,849	492,457	136,608	72.3%	$	74,417	183.6%
January 1, 2010		351,526	453,213	101,687	77.6	$	70,882	143.5
January 1, 2008		377,647	410,270	32,623	92.0	$	69,345	47.0
Other Post Employment Benefits								
June 30, 2012	$	—	504,888	504,888	—%	$	173,404	291.2%
June 30, 2010		—	693,570	693,570	—	$	171,103	405.4
June 30, 2008		—	635,224	635,224	—	$	147,088	431.9

Schedule of Contributions from City – Pension

		Annual required contribution	Percentage contributed
Year ended December 31:			
2011	$	12,732	100%
2010		10,342	100
2009		9,709	100

See accompanying independent auditors' report.