



**CITY OF BROCKTON, MASSACHUSETTS**

Basic Financial Statements and  
Required Supplementary Information

June 30, 2013

(With Independent Auditors' Report Thereon)

# CITY OF BROCKTON, MASSACHUSETTS

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## **Independent Auditors' Report**

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brockton, Massachusetts (the City), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



### ***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, as of June 30, 2013, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

### ***Emphasis of Matter***

#### ***Change in Accounting Principle Resulting from the Adoption of a New Accounting Pronouncement***

As described in Note 2(1), effective July 1, 2012, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

U.S. generally accepted accounting principles require that the management's discussion and analysis, budgetary comparison information and the schedules of funding progress and employer contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

**KPMG LLP**

March 27, 2014

# CITY OF BROCKTON, MASSACHUSETTS

## Management's Discussion and Analysis

June 30, 2013

(Unaudited)

As management of the City of Brockton (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2013.

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 2013 by approximately \$174.8 million (net position).

- The City's total net position decreased in fiscal year 2013 by approximately \$26.1 million, or 13.0%. This is primarily due to the recognition of a \$24.7 million increase in the other post employment benefit (OPEB) liability.
- At the end of fiscal year 2013, unassigned fund balance for the general fund was approximately \$23.4 million or 7.4%, of total general fund expenditures.
- The City's total bonded debt decreased by approximately \$10.3 million during fiscal year 2013. This decrease was due to scheduled debt repayments exceeding new debt issuances.

### **Overview of the Financial Statements**

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

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

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

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

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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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(Unaudited)

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

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

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

**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 position 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 \$174.8 million at the close of the most recent fiscal year.

A significant portion of the City's net position reflects its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. This amount increased by approximately \$12.3 million, or 5.4% 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.

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### Management's Discussion and Analysis

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An additional portion of the City's net position (19.9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of a negative \$100.6 million (57.6%) represents unrestricted net deficit.

#### Condensed Statements of Net Position (In thousands)

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 242,303	251,987	42,639	48,115	284,942	300,102
Capital assets	197,285	188,732	183,731	185,409	381,016	374,141
Total assets	\$ 439,588	440,719	226,370	233,524	665,958	674,243
Deferred outflows of resources	\$ 411	563	123	156	534	719
Long-term debt outstanding	\$ 125,026	130,353	104,985	110,715	230,011	241,068
Other liabilities	246,661	216,788	15,069	16,268	261,730	233,056
Total liabilities	\$ 371,687	347,141	120,054	126,983	491,741	474,124
Net position:						
Invested in capital assets	\$ 160,475	148,087	80,067	80,128	240,542	228,215
Restricted	34,824	41,999	—	—	34,824	41,999
Unrestricted	(126,987)	(95,945)	26,372	26,569	(100,615)	(69,376)
Total net position	\$ 68,312	94,141	106,439	106,697	174,751	200,838

### ***Total Net Position***

During fiscal year 2013, the City's net position decreased by about \$26.1 million, or 13.0%. The decrease in net position was due to the recognition of the increase in the City's OPEB net obligation totaling \$24.7 million.

### ***Governmental Activities – Assets***

For governmental activities, current and other assets decreased \$9.7 million, coupled with an increase in capital assets of \$8.5 million, resulting in a decrease in assets of \$1.1 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 \$24.5 million. There was an increase of \$29.9 million in other liabilities and a \$5.3 million decrease in long-term debt outstanding. The increase in other liabilities was primarily due to the recognition of a \$24.7 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 2013 annual required contribution (ARC) was \$39.9 million. Interest on the net OPEB obligation and adjustments to the ARC totaled \$285 thousand. Contributions against the ARC on a pay-as-you-go basis totaled \$15.5 million resulting in an increase in the government-wide net OPEB obligation of \$24.7 million. While the City's net OPEB obligation is \$184.4 million as of June 30, 2013, ultimately, over the next 28 years, the City will



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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 a decrease in net position of \$258 thousand. Current and other assets decreased by \$5.5 million, while capital assets decreased by \$1.7 million, and total assets decreased by \$7.2 million. The decrease in current and other assets was due primarily to the decrease in the recognition of receivables related to the major ongoing investment in and upgrade of the wastewater and water treatment plants. The decrease in capital assets of \$1.7 million is due to depreciation totaling more than the City's continued investment in capital spending that has been funded with borrowings from the Massachusetts Water Pollution Abatement Trust (MWPAT). In 2013, additions to business type activities capital assets totaled \$3.5 million, which is reflected in construction in progress, buildings, machinery and equipment and infrastructure. The work, when completed, will have improved the processing capability and increased the throughput capacity of the plants. The depreciation expense for all business type activities totaled \$6.2 million.

#### ***Business Type Activities – Liabilities***

Business type activities liabilities decreased by \$6.9 million. There was a decrease of \$1.2 million in other liabilities and a decrease of \$5.7 million in long-term debt outstanding. The decrease in other liabilities was the result of a decrease in the warrants and account payable and compensated absences and claims. 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 \$391.9 million for fiscal year 2013. This reflected an increase of \$20.3 million, or 5.5%. Included in this net increase is the City's recognition of \$24.7 million of additional expense across all categories of governments related to the increase in the City's OPEB net obligation.

Total general revenues for governmental activities of \$138.3 million offset total net expenses of \$162.5 million. Major ongoing revenue contributors were the net property tax at \$108.8 million, an increase of \$909 thousand. The remaining categories in total decreased by \$15.6 million, excise taxes at \$6.4 million, and decrease of \$358 thousand; intergovernmental at \$19.3 million, a decrease of \$15.8 million and other totaling \$3.8 million, an increase of \$570 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, excluding transfers, for governmental activities were \$367.2 million. Of this total almost \$229.4 million, or 62.4%, is from operating and capital grants contributions as well as charges for services, which is mainly from state and federal aid. Further, the City received \$19.3 million in intergovernmental aid which is classified as general revenue. An additional 29.6% 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.

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

For fiscal year 2013, the City levied a total of \$111.5 million in gross real estate property taxes against an aggregate fair market assessed value of \$5.5 billion. This levy compared to a maximum allowable levy under the levy limit of \$112.5 million, leaving only a small amount in unused levy capacity without the approval of the voters. However, the levy comprised only 2.0% of the City's aggregate assessed value. With voter approval, the City could levy an additional \$25.6 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 decreased the City's net position by approximately \$258 thousand, or less than 1%.

The water fund incurred a \$1.3 million decrease; the sewer fund contributed a \$201 thousand increase, while the net position for the combination of the nonmajor recreation, refuse and renewable energy funds increased \$864 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 \$352 thousand. In the sewer fund the operating income totaled \$2.9 million. In the water and sewer funds, cash flow from operations of \$458 thousand and \$9.3 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.

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Management's Discussion and Analysis

June 30, 2013

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**Condensed Statement of Changes in Net Position**

(In thousands)

	Governmental activities		Business-type activities		Total	
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charge for services	\$ 13,128	12,872	39,397	42,233	52,525	55,105
Operating grants	208,101	193,836	781	866	208,882	194,702
Capital grants	8,150	370	390	476	8,540	846
General revenues:						
Property taxes	108,794	107,885	—	—	108,794	107,885
Excise taxes	6,416	6,774	—	—	6,416	6,774
Intergovernmental	19,282	35,119	—	—	19,282	35,119
Other	3,372	2,814	—	—	3,372	2,814
Total revenues	<u>367,243</u>	<u>359,670</u>	<u>40,568</u>	<u>43,575</u>	<u>407,811</u>	<u>403,245</u>
Expenses:						
General government	26,807	24,099	—	—	26,807	24,099
Public safety	61,014	63,407	—	—	61,014	63,407
Education	270,552	253,761	—	—	270,552	253,761
Public works	12,190	9,799	—	—	12,190	9,799
Human services	3,788	3,492	—	—	3,788	3,492
Culture and recreation	3,952	3,678	—	—	3,952	3,678
State and county assessments	6,707	6,023	—	—	6,707	6,023
Court judgments	285	161	—	—	285	161
Interest on long-term debt	6,623	7,188	—	—	6,623	7,188
Enterprise accounts:						
Water	—	—	15,442	16,040	15,442	16,040
Sewer	—	—	15,725	14,889	15,725	14,889
Other	—	—	8,453	8,558	8,453	8,558
Total expenses	<u>391,918</u>	<u>371,608</u>	<u>39,620</u>	<u>39,487</u>	<u>431,538</u>	<u>411,095</u>
Excess (deficiency) before transfers	<u>(24,675)</u>	<u>(11,938)</u>	<u>948</u>	<u>4,088</u>	<u>(23,727)</u>	<u>(7,850)</u>
Transfers	<u>415</u>	<u>403</u>	<u>(415)</u>	<u>(403)</u>	<u>—</u>	<u>—</u>
Total transfers	<u>415</u>	<u>403</u>	<u>(415)</u>	<u>(403)</u>	<u>—</u>	<u>—</u>
Change in net position	<u>(24,260)</u>	<u>(11,535)</u>	<u>533</u>	<u>3,685</u>	<u>(23,727)</u>	<u>(7,850)</u>
Net position – beginning of year - restated	<u>92,573</u>	<u>105,676</u>	<u>105,906</u>	<u>103,011</u>	<u>198,479</u>	<u>208,687</u>
Net position – end of year	<u>\$ 68,313</u>	<u>94,141</u>	<u>106,439</u>	<u>106,696</u>	<u>174,752</u>	<u>200,837</u>

**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

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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 2013, the City's governmental funds reported combined fund balances of approximately \$84.5 million, a decrease of approximately \$10.1 million, or 10.6%, in comparison with the prior year. The general fund balance decreased by \$6.2 million, from \$73.6 million to \$67.4 million; the school roof repairs fund deficit increased by \$506 thousand, from a deficit of \$6.5 million to a deficit of \$7.1 million and the combined fund balances for all the other funds decreased by \$3.4 million, from \$27.6 million to \$24.2 million.

In assessing these balances, it is important to note that the "Balance Sheet – Governmental Funds" does not include capital assets or bonded indebtedness. Please refer to the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" and the "Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position." These reconciliations will demonstrate that essentially the City's decrease in fund balances of \$10.1 million, compared to its decrease in net position of \$24.2 million, a difference of \$14.1 million, is explained largely by the following factors:

1. \$596 thousand – the positive effect of revenue accruals.
2. \$8.6 million – the positive effect of the amount by which capital asset additions exceeded depreciation expense.
3. \$141 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. \$26.1 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. \$28 thousand – the positive effect of the amount by which the amortization of deferred losses on refunding and bond issue costs exceeds bond premiums.
7. \$5.1 million – the positive effect of the amount by which the repayment of bond principal are expenditures in the governmental funds but reduce long-term liabilities in the statement of net position.

Of the total of ending fund balances of \$84.5 million, \$12.8 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. \$29.1 million 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. \$6.9 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. \$19.4 million constitutes "assigned to" fund balance, amounts that are

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(Unaudited)

constrained by the City's intent for use for specific purposes, but are considered neither restricted nor committed. \$16.3 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.

#### For General Fund Balance:

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

Previously, the categories for fund balance focused on whether resources were available for appropriation by governments. A variety of external and internal constraints may prevent portions of the fund balance from being available for budgeting. The unreserved fund balance thus referred to resources that did not have any external legal restrictions or constraints. The unreserved fund balance was able to be further categorized as designated and undesignated. A designation was a limitation placed on the use of the fund balance by the government itself for planning purposes or to earmark funds.

GASB Statement No. 54 Fund balance reporting has shifted the focus of fund balance reporting from the availability of fund resources for budgeting to "the extent to which the government is bound to honor constraints on the specific purposes for which amounts in the fund can be spent."

Fund balances will be displayed in the following classifications depicting the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

The total fund balance of \$7.1 million consists of the following:

The FY 2013 General Fund Non-spendable fund balance represents the Note Receivable from the Brockton 21st Century Corporation pursuant to an agreement further described in footnote (3) Receivables – (b) Note Receivable in the amount of \$7.1 million. This note receivable is not yet available for spending. The receivable cannot be used for current or future operations.

In the previous fiscal years, before the implementation of GASB No. 54 Fund Balance, this nonspendable amount was included in the caption Fund Balance "Reserved for". The "Reserved For" classification comprised the following elements:

1. Resources that by their very nature cannot be spent (e.g., prepaid rent).
2. Resources that are not yet available for spending (e.g., long-term portion of loans receivable).
3. Resources externally restricted to a purpose narrower than the fund.

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The first of these elements will always be reported as nonspendable fund balance. The second element normally would be reported as nonspendable fund balance (i.e., unless there was a limitation on how the amounts eventually received could be used, in which case the classification would be restricted, committed, or assigned fund balance, as appropriate). The third element will be reported as restricted fund balance. The note receivable would represent resources that are not yet available for spending.

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

The total fund balance of \$13.7 million consists of the following:

The FY 2013 General Fund Restricted Fund balance represents the Health Insurance Trust fund in the amount of \$13.7 million. This amount consists of the Health Insurance Trust Fund balance of \$6.0 million and the amount for the FY 2013 Blue Cross and Blue Shield amount held on deposit to pay claims totaling \$7.7 million. The City of Brockton is self-insured. This Health Insurance Trust Fund is restricted to the payment of health insurance claims by the enabling legislation, as well as for administrative fees to insurers and for the administrative costs in the personnel department for benefit management.

The City establishes reserves for claims and/or events that have transpired, but have not yet been reported to the insurance companies (2013 Incurred but Not Yet Reported). The City maintains a working deposit with the administrator of its Blue Cross Blue Shield Health Care Plans. At June 30, 2013, that deposit was \$7.7 million, which includes Dental insurance.

In the previous fiscal years, before the implementation of GASB No. 54 Fund Balance, this “restricted” amount was included in the caption Fund Balance “Reserved for”. The “Reserved For” classification comprised the following elements:

1. Resources that by their very nature cannot be spent (e.g., prepaid rent).
2. Resources that are not yet available for spending (e.g., long-term portion of loans receivable).
3. Resources externally restricted to a purpose narrower than the fund.

These elements are reported as “restricted” because there is a limitation on how the amounts eventually received could be used.

The first of these elements will always be reported as nonspendable fund balance. The second element normally would be reported as nonspendable fund balance (i.e., unless there was a limitation on how the amounts eventually received could be used, in which case the classification would be restricted, committed, or assigned fund balance, as appropriate). The third element will be reported as restricted fund balance.

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

The total fund balance of \$5.3 million consists of the following:

The FY 2013 General Fund Committed Fund Balance in the amount of \$5.3 million. This amount represents the Chapter 371 Supplemental Reserve. The Supplemental Reserve to ensure fiscal stability as required by Chapter 324 of the Acts of 1990. The value of the reserve at least or equal to 1.5% of the "Gross Amount Raised" as reported to the state on the prior year property tax approval filing.

This reserve was established as a result of Chapter 324 of the Acts of 1990. It can only be used for unforeseen and extraordinary expenditures.

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

In the previous fiscal years, before the implementation of GASB No. 54 Fund Balance, this "Committed" amount was included in the caption Fund Balance "Unreserved Designated for". The "Unreserved Designated for" classification comprised the following elements:

Designated unreserved fund balance. Currently this category comprises two elements:

1. Limitations that the government places upon itself
2. Tentative management plans

Net resources currently reflected in the first category will be reported in the future as either committed fund balance or as assigned fund balance, depending upon the source of the limitation. The latter will be reported as either assigned fund balance (if management is designated to make such assignments) or unassigned fund balance.

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

The total fund balance of \$17.8 million consists of the following:

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The FY 2013 General Fund Assigned Fund Balance amount represents the end of year reserve for Encumbrances in the amount of \$4.5 million for the general fund departments. Encumbrances are committed funds that are not yet expended. Encumbrances are budgetary amounts that are reserved in the next budget year for on-going projects.

In addition, the assigned fund balance includes the Certified Free Cash in the amount \$13.3 million appropriated for the use in the FY 2014 budget. Not infrequently, governments balance their budget by appropriating a portion of existing fund balance to bridge the gap between appropriations and estimated revenues.

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

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

The portion of fund balance thus appropriated for the following year would properly be classified as assigned fund balance.

In the previous fiscal years, before the implementation of GASB No. 54 Fund Balance, this "restricted" amount was included in the caption Fund Balance "Reserved for". The "Reserved For" classification comprised the following elements:

1. Resources that by their very nature cannot be spent (e.g., prepaid rent).
2. Resources that are not yet available for spending (e.g., long-term portion of loans receivable).
3. Resources externally restricted to a purpose narrower than the fund.

The first of these elements will always be reported as nonspendable fund balance. The second element normally would be reported as nonspendable fund balance (i.e., unless there was a limitation on how the amounts eventually received could be used, in which case the classification would be restricted, committed, or assigned fund balance, as appropriate). The third element will be reported as restricted fund balance.



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In the previous fiscal years, before the implementation of GASB No. 54 Fund Balance, this "Committed" amount was included in the caption Fund Balance "Unreserved Designated for". The "Unreserved Designated for" classification comprised the following elements:

Designated unreserved fund balance. Currently this category comprises two elements:

1. Limitations that the government places upon itself
2. Tentative management plans

Net resources currently reflected in the first category will be reported in the future as either committed fund balance or as assigned fund balance, depending upon the source of the limitation. The latter will be reported as either assigned fund balance (if management is designated to make such assignments) or unassigned fund balance.

**Unassigned fund balance:** This category represents amounts that are available for any purpose; these amounts are reported only in the general fund. Amounts in the general fund that is not otherwise constrained for a specific purpose.

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

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

This grouping includes the City's Stabilization fund in the amount of \$5.7 million and the City's undesignated fund Balance in the amount of \$17.7 million.

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

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

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In the previous fiscal years, before the implementation of GASB No. 54 Fund Balance, this "Unassigned" amount was included in the caption Fund Balance "Unreserved Designated for". The "Unreserved Designated For" classification comprised the following elements:

Designated unreserved fund balance. Currently this category comprises two elements:

1. Limitations that the government places upon itself
2. Tentative management plans

Net resources currently reflected in the first category will be reported in the future as either committed fund balance or as assigned fund balance, depending upon the source of the limitation. The latter will be reported as either assigned fund balance (if management is designated to make such assignments) or unassigned fund balance.

The total fund balance of \$17.7 million consists of the following:

This grouping includes the City's undesignated unreserved fund balance in the amount of \$17.7 million.

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

The general fund is the chief operating fund of the City. Total fund balance was approximately \$67.4 million, a decrease of \$6.2 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 7.4% of total general fund expenditures, while total fund balance represents 26.5% 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, 2013, the total fund deficit was \$7.1 million which will be eliminated in future years with the permanent financing of its short-term debt.

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#### **Proprietary Funds**

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

The net position of the proprietary funds at the end of the current fiscal year totaled approximately \$106.4 million. Changes in net position of the proprietary funds at the end of the current fiscal year totaled a decrease of approximately \$258 thousand, or less than 1%.

The Proprietary Funds of the City are comprised of five (5) enterprise funds: water, sewer, recreation, refuse, and renewable energy. The results for the water and sewer funds are reported separately; the results for the recreation, refuse, and renewable energy funds are combined. The 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 2013 operating loss was \$352 thousand, or 2.4% of operating revenues. Nonoperating revenues (expenses) and transfers essentially netted to a negative \$750 thousand, and so net position decreased by \$1.1 million before the impact of the restatement. Cash flow from operations was \$458 thousand.

For the sewer fund, operating income was \$2.9 million, or 17.5% of operating revenues. However, nonoperating expenses and transfers decreased net position by \$2.2 million and so net position increased by \$740 thousand before the impact of the restatement. The strong operating income was driven by an increase in sewer rates which is meant to recover future costs, which resulted in a strong operating income in fiscal year 2013. Cash flow from operations was \$9.3 million.

For the combined results of the other enterprise funds, the value of net position increased by \$896 thousand before the impact of the restatement, or 10.0%. The operating loss for combined other enterprise funds was \$304 thousand in fiscal year 2013 or 3.7% of operating revenues. With the benefit of net transfers in (general fund subsidy) and the nonoperating revenue of \$1.2 million, the operating loss of \$304 thousand became an \$896 thousand increase in net position before the impact of the restatement.

#### **Budgetary Highlights**

In fiscal year 2013, the original budget called for \$313.8 million in spending. Of this amount \$159.5 million was for Education spending, \$38.6 million was for Public Safety spending, \$68.0 million was for Fringe Benefit spending and \$47.7 million for all other categories.

Resources, including transfers in from other funds of \$8.6 million, totaled \$299.5 million, creating a planned deficit of approximately \$14.3 million. Offsetting this deficit was a contribution from "Free Cash" of \$14.1 million. The remaining total of approximately \$238 thousand was applied to Other Financing Sources/Uses.

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In the final budget, a total of \$315.2 million in spending was authorized, an increase of \$1.4 million. The budgets that made up this amount included the following: the general government budgets were increased by \$427 thousand; the public safety budget by \$223 thousand; the public works budget by \$1.2 million; the culture/recreation budget by \$87 thousand; capital outlay budget by \$162 thousand; the human services budgets were increased by \$48 thousand; and the pension and fringe budgets decreased \$1.157 million. To help finance the additional \$1.4 million in authorized spending, the other financing sources/uses were increased by \$421 thousand.

On an actual basis, resources were higher than the final budget by \$6.5 million. The majority of revenue categories resulted in a positive variance with the exceptions of real and personal property taxes, payments in lieu of taxes, 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 2013, the positive variance was largely driven by the Motor Vehicle Excise Taxes revenue collection activities, Fees revenue collection activities, Licenses and Permits revenues collection activities, and Fines revenue. The increase in the Excise tax revenues were the result of increased collections in the categories of excise taxes 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 activity. The Fines revenue increased as a result of an increase in the City departments fine issuance activity.

On the expenditure side, a favorable variance of \$6.6 million was achieved. The City has typically achieved 1% to 2% positive variance on spending. For fiscal year 2013, this positive variance was driven by actual budgetary expenditures less than budgeted expenditures in the general government, public safety, public works, and debt service line items. The reasons for the positive variances in the general government, public safety, public works, and debt service were due to conservative budgeting in these line items.

As a result of the revenue and expenditure positive variances, the City's fiscal year 2013 general fund operations estimated to create free cash of approximately \$13.4 million to be used in the FY 2015 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, 2013 amounted to approximately \$381.0 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 \$6.9 million for fiscal year 2013 represented an increase of 1.8%. Capital assets for governmental activities increased by \$8.6 million, or 4.6%, while capital assets for business-type activities decreased by \$1.7 million, or less than 1%. The decrease in capital assets for business-type activities was primarily caused by the depreciation exceeding the capital asset additions. The increase in capital assets for governmental activities is the result of the school roof, boilers and windows rehab additions exceeding depreciation. In FY 2012 the City started an approximately \$35.8 million Green Repair project to rehab several school roofs, boilers and windows. This project will be completed in FY 2014.

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Major capital assets included the following:

	<b>Capital Assets</b> (In thousands)					
	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Land	\$ 7,411	7,411	3,246	3,246	10,657	10,657
Construction in progress	34,492	23,921	9,725	7,397	44,217	31,318
Historical works of art	1,809	1,809	—	—	1,809	1,809
Buildings	122,068	125,931	134,158	136,297	256,226	262,228
Land improvements	3,848	3,362	379	426	4,227	3,788
Machinery and equipment	4,557	3,351	2,665	3,164	7,222	6,515
Infrastructure	23,100	22,947	33,558	34,879	56,658	57,826
Total	\$ <u>197,285</u>	<u>188,732</u>	<u>183,731</u>	<u>185,409</u>	<u>381,016</u>	<u>374,141</u>

Long-Term Debt – At the end of the current fiscal year, the City had total bonded debt outstanding of approximately \$230.0 million. The entire amount is backed by the full faith and credit of the City.

	<b>Outstanding Debt</b> (In thousands)					
	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
General obligation bonds, net	\$ 125,026	130,353	104,985	110,715	230,011	241,068
Total	\$ <u>125,026</u>	<u>130,353</u>	<u>104,985</u>	<u>110,715</u>	<u>230,011</u>	<u>241,068</u>

The overall net increase is attributable to the following factors:

The City's bonded debt decreased by approximately \$11.1 million or a decrease of 4.6%. This decrease in long-term debt was the result of scheduled principal payments of \$14.3 million. The City's governmental activities did not issue any new debt. The City's business type activities issued a total of \$3.5 million of MWPAT bonds to fund upgrades to the Silver Lake and Avon Reservoir treatment facilities.

Total long-term debt of the City represents a claim of about 60.4% of the City's total capital assets, and a claim of about 52.3% of the City's total assets. As a percentage of the fair value of taxable property in the City, the long-term debt comprises only 4.2%.

The City maintains a "AA-" 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 the first decade of this century, more recently, conditions have become more stable. Nonetheless, a significant and sustained reduction in unrestricted state aid has presented a major obstacle, as that amount of lost revenue has not been

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replaced. During the 2002 to 2008 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 approximately \$11.6 million from nearly \$28.0 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. In FY 2014, the aid to education was increased by more than \$9.0 million while unrestricted state aid was increased slightly over the final FY 2013 level. For FY 2015, the governor's budget would increase aid to education by about \$7.0 million, but it would level fund unrestricted aid. The preliminary budgets in the legislative branch agree in the main on education aid, but would increase unrestricted aid by approximately \$0.5 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 4% up to 6%, and the ability to add 0.75% to the meals tax. The City has adopted both measures. The meals tax provided about \$430 thousand in new revenue in FY 2011, a year of partial implementation, and more than \$820 thousand in FY 2012 and FY 2013. The lodging tax increase added about \$200 thousand in new revenue, so between the two measures, the City has realized more than \$1.0 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 and 2014, it provided only about 30% and 31% of the City's total spending in the general and enterprise funds; state revenue assistance comprised 46% and 47%; the enterprise funds contributed revenues equal to 13% and 12%; other local receipts contributed 6% and 4%; and the remaining 5% and 6% 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 been manifested in the emergence of a local "low tax" advocacy group and in the reluctance of elected officials to levy increases in 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. However, in FY 2014, the full levy as allowed by law was appropriated; so that the loss of revenue was restricted to the one - time loss of \$1.0 million. The City's recreation, and renewable energy enterprise funds are mainly self-supporting through fees, and two of the utility enterprise funds (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 several years, water fee increases have been requested. Capital spending has suffered as a result. Moreover, in FY 2014, the water revenues were insufficient to repay the general fund for costs of the utility which are paid for by the general fund revenues. The shortfall was \$1.6 million, or almost 12% of water revenues.

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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, allowed for some replenishment of those to assist in the FY 2014/FY 2015 budget. During FY 2014, settlement of union contracts with the firefighters required drawing down reserves. The financing in FY 2014 of high snow removal costs will as well. As it is quite likely that the final state revenue budget for FY 2015 will look very much like it did in FY 2014, the City will need to tap into a large portion of the remaining reserves in FY 2015.

Despite recent improvements, unemployment locally remains quite high. The City was also deeply affected by the home mortgage foreclosure crisis. However, the local housing market recently has begun to show signs of price stability. The monthly average median value of a single family home at the end of calendar 2013 was nearing what it had been in late 2007. For the condominium market, the improvement is real but not as dramatic.

The City's overall assessed value declined from FY 2013 to FY 2014 by \$124.1 million, or 2.3%. This trend of small declines should reverse for FY 2015. 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 begun 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 for phase I and further state funding to come for phase II. When both phases have been completed, the project will have cost \$100 million, which represents the largest investment in downtown Brockton in memory. A long vacant downtown parcel nearby is being redeveloped as a supermarket for nearly \$20 million, also with a tax increment financing agreement.

The City has continued to engage with its unions over the issues of wages and benefits, especially health insurance costs. All City and School unions have contracts which were settled and approved through fiscal year 2013. The firefighters union is settled through FY 2016. Bargaining with other unions on this settlement pattern is in progress, but similar settlements cannot be financed on these terms with present recurring revenues without affecting services.

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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, which was projected to have saved more than \$6.0 million per year. 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 plans for Medicare eligible retirees were 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 were 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 2014 levy was \$116.7 million. At just 2.25% of assessed value, the City could have levied \$120.6 million an increase of \$4.0 million which could have been accomplished by referendum. 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 Position

June 30, 2013

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Assets:			
Cash and investments	\$ 99,663,332	22,151,275	121,814,607
Receivables, net:			
Property taxes	15,536,771	—	15,536,771
Intergovernmental	13,494,454	1,198,187	14,692,641
Customer receivables, net	—	18,933,927	18,933,927
Other	110,251	356,103	466,354
Other assets	7,801,805	—	7,801,805
Long-term note receivable	7,136,976	—	7,136,976
Long-term intergovernmental receivable	10,975,956	—	10,975,956
Pension asset	87,583,511	—	87,583,511
Capital assets:			
Nondepreciable	43,712,732	12,971,198	56,683,930
Depreciable, net	<u>153,572,602</u>	<u>170,759,389</u>	<u>324,331,991</u>
Total assets	439,588,390	226,370,079	665,958,469
Deferred outflows of resources	<u>410,563</u>	<u>122,737</u>	<u>533,300</u>
Total assets and deferred outflows	<u>439,998,953</u>	<u>226,492,816</u>	<u>666,491,769</u>
Liabilities:			
Warrants and accounts payable	13,126,022	2,986,717	16,112,739
Accrued liabilities:			
Interest	2,331,739	1,026,302	3,358,041
Payroll and related withholdings	15,089,877	112,010	15,201,887
Tax abatement refunds	4,154,900	—	4,154,900
Bond anticipation note	7,000,000	—	7,000,000
Noncurrent liabilities:			
Due within one year:			
Compensated absences and claims	4,852,315	170,942	5,023,257
Bonds, note and loans payable	5,786,900	6,882,241	12,669,141
Due in more than one year:			
Compensated absences and claims	12,873,292	6,203,965	19,077,257
Unearned revenue	—	3,419,153	3,419,153
Landfill closure and postclosure care costs	2,868,547	1,150,000	4,018,547
Bonds, note and loans payable	119,239,044	98,102,521	217,341,565
Other post employment benefits	<u>184,364,092</u>	<u>—</u>	<u>184,364,092</u>
Total liabilities	<u>371,686,728</u>	<u>120,053,851</u>	<u>491,740,579</u>
Net position:			
Net investment in capital assets	160,474,952	80,066,748	240,541,700
Restricted for:			
Permanent funds:			
Nonexpendable	5,712,160	—	5,712,160
Expendable	723,371	—	723,371
Health claims	13,728,283	—	13,728,283
Federal, state and local grants	14,264,558	—	14,264,558
Other	395,933	—	395,933
Unrestricted	<u>(126,987,032)</u>	<u>26,372,217</u>	<u>(100,614,815)</u>
Total net position	\$ <u>68,312,225</u>	<u>106,438,965</u>	<u>174,751,190</u>

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**

Statement of Activities

Year ended June 30, 2013

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net position		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities:							
General government	\$ 26,807,237	4,522,282	14,736,278	—	(7,548,677)		(7,548,677)
Public safety	61,014,010	2,877,821	5,161,647		(52,974,542)		(52,974,542)
Education	270,551,931	5,193,751	185,250,186	8,150,149	(71,957,845)		(71,957,845)
Public works	12,190,494	156,504	2,410,901	—	(9,623,089)		(9,623,089)
Human services	3,787,940	312,677	351,386	—	(3,123,877)		(3,123,877)
Culture and recreation	3,952,407	65,016	190,337	—	(3,697,054)		(3,697,054)
State and county assessments	6,706,864	—	—	—	(6,706,864)		(6,706,864)
Court judgments	284,677	—	—	—	(284,677)		(284,677)
Interest on long-term debt	6,622,596	—	—	—	(6,622,596)		(6,622,596)
Total governmental activities	391,918,156	13,128,051	208,100,735	8,150,149	(162,539,221)	—	(162,539,221)
Business-type activities:							
Water	15,442,055	14,514,100	271,780	(28,480)		(684,655)	(684,655)
Sewer	15,725,264	16,736,193	302,574	418,403		1,731,906	1,731,906
Other	8,452,758	8,146,687	207,069	—		(99,002)	(99,002)
Total business-type activities	39,620,077	39,396,980	781,423	389,923	—	948,249	948,249
Total primary government	\$ 431,538,233	52,525,031	208,882,158	8,540,072	(162,539,221)	948,249	(161,590,972)
General revenues:							
Property taxes, levied for general purposes, net					\$ 108,793,890	—	108,793,890
Excises					6,415,619	—	6,415,619
Payments in lieu of taxes					151,375	—	151,375
Penalties and interest on taxes					1,820,440	—	1,820,440
Other					144,411	—	144,411
Intergovernmental					19,282,080	—	19,282,080
Investment income					1,255,539	—	1,255,539
Transfers					414,971	(414,971)	—
Total general revenues and transfers					138,278,325	(414,971)	137,863,354
Change in net position					(24,260,896)	533,278	(23,727,618)
Net position, beginning of year					94,140,778	106,697,417	200,838,195
Restatement of net position due to new GASB statement implementation (note 2(l))					(1,567,657)	(791,730)	(2,359,387)
Net position, end of year					\$ 68,312,225	106,438,965	174,751,190

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**

Balance Sheet – Governmental Funds

June 30, 2013

<b>Assets</b>	<b>General</b>	<b>School roof repairs</b>	<b>Other governmental</b>	<b>Total</b>
Cash and investments	\$ 77,885,814	—	21,777,517	99,663,331
Receivables, net:				
Property taxes	6,714,730	—	—	6,714,730
Motor vehicle excise	2,150,050	—	—	2,150,050
Departmental and other	21,175	—	89,076	110,251
Tax liens	6,671,990	—	—	6,671,990
Intergovernmental	2,820,398	2,220,537	8,453,519	13,494,454
Total receivables	18,378,343	2,220,537	8,542,595	29,141,475
Due from other funds	1,860,611			1,860,611
Long-term note receivable	7,136,976	—	—	7,136,976
Long-term intergovernmental receivable	10,975,956	—	—	10,975,956
Deposit with health claims agent	7,666,000	—	—	7,666,000
Total assets	<u>\$ 123,903,700</u>	<u>2,220,537</u>	<u>30,320,112</u>	<u>156,444,349</u>
<b>Liabilities and Fund Balances</b>				
Warrants and accounts payable	\$ 8,358,449	420,695	4,346,877	13,126,021
Accrued liabilities:				
Tax abatement refunds	4,154,900	—	—	4,154,900
Payroll and related withholdings	13,293,696	—	1,796,181	15,089,877
Due to other funds	—	1,860,611	—	1,860,611
Health claims payable	3,217,548	—	—	3,217,548
Bond anticipation note payable	—	7,000,000	—	7,000,000
Deferred revenue	27,445,958	—	—	27,445,958
Total liabilities	<u>56,470,551</u>	<u>9,281,306</u>	<u>6,143,058</u>	<u>71,894,915</u>
Fund balances (deficits):				
Nonspendable	7,136,976	—	5,712,160	12,849,136
Restricted	13,728,283	—	15,383,861	29,112,144
Committed	5,281,676	—	1,579,313	6,860,989
Assigned	17,839,539	—	1,579,631	19,419,170
Unassigned	23,446,675	(7,060,769)	(77,911)	16,307,995
Total fund balances	<u>67,433,149</u>	<u>(7,060,769)</u>	<u>24,177,054</u>	<u>84,549,434</u>
Total liabilities and fund balances	<u>\$ 123,903,700</u>	<u>2,220,537</u>	<u>30,320,112</u>	<u>156,444,349</u>

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**

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

June 30, 2013

Total fund balance – governmental funds	\$ 84,549,434
Amounts reported for governmental activities in the statements of net position are different because:	
Capital assets used in governmental activities are not financial resource and therefore are not reported in the fund	197,285,334
Revenue is recorded on an accrual basis	27,445,959
Pension asset is not a financial resource and therefore not reported in the fund	87,583,511
Other costs are capitalized in the government-wide statement	135,805
Deferred outflows of resource	410,563
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	(94,805,000)
Other general obligation bonds	(29,012,800)
Bond premium	(1,208,144)
Other post employment benefit	(184,364,092)
Accrued interest on bonds	(2,331,739)
Landfill and postclosure care cost	(2,868,547)
Compensated absences and claim	(14,508,059)
	<u>(329,098,381)</u>
Net position of governmental activities	\$ <u><u>68,312,225</u></u>

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**

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

Year ended June 30, 2013

	<u>General</u>	<u>School roof repairs</u>	<u>Other governmental</u>	<u>Total</u>
Revenues:				
Real and personal property taxes, net	\$ 108,095,820	—	—	108,095,820
Motor vehicle and other excise	6,241,961	—	—	6,241,961
Penalties and interest on taxes	1,820,440	—	—	1,820,440
Payments in lieu of taxes	151,375	—	—	151,375
User charges and other revenue	3,981,809	—	4,910,422	8,892,231
Fees	1,789,834	—	4,890,382	6,680,216
Licenses and permits	2,189,111	—	—	2,189,111
Intergovernmental	171,988,015	8,150,149	40,158,200	220,296,364
Fines	941,258	—	275,366	1,216,624
Investment income	535,692	—	719,847	1,255,539
Contributions	11,408,990	—	667,457	12,076,447
<b>Total revenues</b>	<u>309,144,305</u>	<u>8,150,149</u>	<u>51,621,674</u>	<u>368,916,128</u>
Expenditures:				
Current:				
General government	11,499,911	—	9,552,270	21,052,181
Public safety	37,162,162	—	4,132,521	41,294,683
Education	159,453,711	—	35,063,348	194,517,059
Public works	7,412,507	—	663,437	8,075,944
Human services	2,401,695	—	305,961	2,707,656
Culture and recreation	2,474,247	—	78,212	2,552,459
State and county assessments	6,706,864	—	—	6,706,864
Pension and fringe benefits	78,237,000	—	—	78,237,000
Court judgments	284,677	—	—	284,677
Capital outlay	1,255,801	8,656,663	2,284,691	12,197,155
Debt service	11,816,651	—	27,919	11,844,570
<b>Total expenditures</b>	<u>318,705,226</u>	<u>8,656,663</u>	<u>52,108,359</u>	<u>379,470,248</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(9,560,921)</u>	<u>(506,514)</u>	<u>(486,685)</u>	<u>(10,554,120)</u>
Other financing sources (uses):				
Operating transfers in	8,054,999	—	854,237	8,909,236
Operating transfers out	(4,733,167)	—	(3,761,098)	(8,494,265)
Other	64,648	—	—	64,648
<b>Total other financing sources (uses)</b>	<u>3,386,480</u>	<u>—</u>	<u>(2,906,861)</u>	<u>479,619</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses</b>	<u>(6,174,441)</u>	<u>(506,514)</u>	<u>(3,393,546)</u>	<u>(10,074,501)</u>
Fund balance, beginning of year	73,607,590	(6,554,255)	27,570,600	94,623,935
<b>Fund balance, end of year</b>	<u>\$ 67,433,149</u>	<u>(7,060,769)</u>	<u>24,177,054</u>	<u>84,549,434</u>

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**

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

Year ended June 30, 2013

Net change in fund balances – total governmental funds	\$ (10,074,501)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital additions as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives.	
Capital additions of \$16,924,198 exceeded depreciation expense of \$8,371,001.	8,553,197
Accrual basis revenues can result in more or (less) revenues reported in the statement of activities depending upon timing of billings and collections.	596,044
Collection of long-term intergovernmental receivable that is recorded as revenue in the governmental funds.	(2,597,546)
Repayments of bond principal are expenditures in the governmental funds but reduce long-term liabilities in the statement of net position.	5,146,750
Amortization of bond premiums \$180,929 add to net position while the amortization of deferred outflows \$152,656 decrease net position. The amount by which the amortization of bond premiums exceeds the amortization of deferred outflows increases net position.	28,273
Amortization of the pension asset in the statement of activities is not included in the operating statement of the governmental funds.	140,869
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 decrease in interest payable \$46,952, a decrease in landfill liability \$167,408, increase in compensated absences and claims \$1,556,923 and increase in other postemployment benefit liabilities \$24,711,419.	<u>(26,053,982)</u>
Change in net position of governmental activities	<u><u>\$ (24,260,896)</u></u>

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**

Statement of Net Position – Proprietary Funds

June 30, 2013

Assets	Enterprise funds			Total
	Water	Sewer	Other	
<b>Current assets:</b>				
Cash and cash equivalents	\$ 5,305,601	12,255,677	4,589,997	22,151,275
Customer receivables, net	6,661,573	8,361,918	3,910,436	18,933,927
Intergovernmental receivable	1,203,188	(5,001)	—	1,198,187
Other	306,149	49,954	—	356,103
<b>Total current assets</b>	<b>13,476,511</b>	<b>20,662,548</b>	<b>8,500,433</b>	<b>42,639,492</b>
<b>Noncurrent assets:</b>				
<b>Capital assets:</b>				
Nondepreciable	12,019,156	741,370	210,672	12,971,198
Depreciable, net	40,721,467	124,695,318	5,342,604	170,759,389
<b>Total noncurrent assets</b>	<b>52,740,623</b>	<b>125,436,688</b>	<b>5,553,276</b>	<b>183,730,587</b>
<b>Total assets</b>	<b>66,217,134</b>	<b>146,099,236</b>	<b>14,053,709</b>	<b>226,370,079</b>
Deferred outflows of resources	73,425	49,312	—	122,737
<b>Total assets and deferred outflows</b>	<b>66,290,559</b>	<b>146,148,548</b>	<b>14,053,709</b>	<b>226,492,816</b>
<b>Liabilities</b>				
<b>Current liabilities:</b>				
Warrants and accounts payable	1,256,885	1,034,042	695,790	2,986,717
Accrued expenses	253,934	860,846	23,532	1,138,312
Compensated absences and claims	98,446	36,293	36,203	170,942
Bonds, notes, and loans payable	1,622,239	5,110,002	150,000	6,882,241
<b>Total current liabilities</b>	<b>3,231,504</b>	<b>7,041,183</b>	<b>905,525</b>	<b>11,178,212</b>
<b>Noncurrent liabilities:</b>				
Compensated absences and claims	1,287,375	2,532,434	2,384,156	6,203,965
Unearned revenue	2,128,963	1,290,190	—	3,419,153
Landfill and postclosure care costs	—	1,150,000	—	1,150,000
Bonds	25,639,657	71,459,013	1,003,851	98,102,521
<b>Total noncurrent liabilities</b>	<b>29,055,995</b>	<b>76,431,637</b>	<b>3,388,007</b>	<b>108,875,639</b>
<b>Total liabilities</b>	<b>32,287,499</b>	<b>83,472,820</b>	<b>4,293,532</b>	<b>120,053,851</b>
<b>Net Position</b>				
Net investment in capital assets	26,755,339	48,911,984	4,399,425	80,066,748
Unrestricted	7,247,721	13,763,744	5,360,752	26,372,217
<b>Total net position</b>	<b>\$ 34,003,060</b>	<b>62,675,728</b>	<b>9,760,177</b>	<b>106,438,965</b>

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**

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

Year ended June 30, 2013

	<b>Enterprise funds</b>			<b>Total</b>
	<b>Water</b>	<b>Sewer</b>	<b>Other</b>	
Operating revenues:				
Charges for services	\$ 14,031,089	16,350,259	7,909,173	38,290,521
Fees	481,308	385,934	230,212	1,097,454
Other	1,703	—	7,302	9,005
<b>Total operating revenues</b>	<b>14,514,100</b>	<b>16,736,193</b>	<b>8,146,687</b>	<b>39,396,980</b>
Operating expenses:				
Salaries and benefits	3,846,301	1,698,441	1,698,271	7,243,013
Utilities	748,222	1,472,860	82,486	2,303,568
Repairs and maintenance	605,585	1,254,021	326,230	2,185,836
Contractual services	7,535,383	4,713,417	5,756,295	18,005,095
Other supplies and expenses	528,771	350,237	281,305	1,160,313
Depreciation	1,602,110	4,314,569	306,332	6,223,011
<b>Total operating expenses</b>	<b>14,866,372</b>	<b>13,803,545</b>	<b>8,450,919</b>	<b>37,120,836</b>
<b>Operating income (loss)</b>	<b>(352,272)</b>	<b>2,932,648</b>	<b>(304,232)</b>	<b>2,276,144</b>
Nonoperating revenue (expense):				
Interest income	271,780	302,574	207,069	781,423
Interest expense	(575,683)	(1,921,719)	(1,839)	(2,499,241)
Debt subsidies	(28,480)	418,403	—	389,923
<b>Total nonoperating (expenses) revenue</b>	<b>(332,383)</b>	<b>(1,200,742)</b>	<b>205,230</b>	<b>(1,327,895)</b>
<b>Income (loss) before transfers</b>	<b>(684,655)</b>	<b>1,731,906</b>	<b>(99,002)</b>	<b>948,249</b>
Transfers in	405,348	128,850	774,146	1,308,344
Transfers out	(822,897)	(1,121,248)	220,830	(1,723,315)
<b>Total transfers in (out)</b>	<b>(417,549)</b>	<b>(992,398)</b>	<b>994,976</b>	<b>(414,971)</b>
<b>Change in net position</b>	<b>(1,102,204)</b>	<b>739,508</b>	<b>895,974</b>	<b>533,278</b>
Total net position, beginning of year	35,326,759	62,474,757	8,895,901	106,697,417
Restatement of net position (note 2(l))	(221,495)	(538,537)	(31,698)	(791,730)
<b>Total net position, end of year</b>	<b>\$ 34,003,060</b>	<b>62,675,728</b>	<b>9,760,177</b>	<b>106,438,965</b>

See accompanying notes to basic financial statements.



**CITY OF BROCKTON, MASSACHUSETTS**

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2013

	<b>Enterprise funds</b>			<b>Total</b>
	<b>Water</b>	<b>Sewer</b>	<b>Other</b>	
Cash flows from operations:				
Cash received from customers	\$ 14,858,515	18,660,574	8,193,787	41,712,876
Cash paid to employees	(4,293,268)	(1,840,018)	(1,961,093)	(8,094,379)
Cash paid to vendors	<u>(10,107,598)</u>	<u>(7,541,210)</u>	<u>(6,283,105)</u>	<u>(23,931,913)</u>
Net cash provided by (used in) operations	<u>457,649</u>	<u>9,279,346</u>	<u>(50,411)</u>	<u>9,686,584</u>
Cash flows from noncapital financing activities:				
Transfers	<u>(417,549)</u>	<u>(992,398)</u>	994,976	<u>(414,971)</u>
Net cash provided by (used in) noncapital financing activities	<u>(417,549)</u>	<u>(992,398)</u>	994,976	<u>(414,971)</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(3,942,243)	(290,657)	(311,094)	(4,543,994)
Interest paid on debt	(547,301)	(2,075,538)	(7,819)	(2,630,658)
Debt issued	7,586,111	—	—	7,586,111
Repayment of long-term debt	(4,041,342)	(4,956,905)	(150,000)	(9,148,247)
Debt subsidies	<u>(28,480)</u>	<u>418,403</u>	—	<u>389,923</u>
Net cash used in capital and related financing activities	<u>(973,255)</u>	<u>(6,904,697)</u>	<u>(468,913)</u>	<u>(8,346,865)</u>
Cash flows from investing activity:				
Interest income	<u>271,780</u>	<u>302,574</u>	<u>207,069</u>	<u>781,423</u>
Net cash provided by investing activity	<u>271,780</u>	<u>302,574</u>	<u>207,069</u>	<u>781,423</u>
Increase (decrease) in cash and cash equivalents	(661,375)	1,684,825	682,721	1,706,171
Cash and cash equivalents, beginning of year	<u>5,966,976</u>	<u>10,570,852</u>	<u>3,907,276</u>	<u>20,445,104</u>
Cash and cash equivalents, end of year	\$ <u><u>5,305,601</u></u>	<u><u>12,255,677</u></u>	<u><u>4,589,997</u></u>	<u><u>22,151,275</u></u>
Reconciliation of operating income (loss) to net cash provided by (used in) operations:				
Operating income (loss)	\$ (352,272)	2,932,648	(304,232)	2,276,144
Reconciliation of operating income (loss) to net cash provided by (used in) operations:				
Depreciation expense	1,602,109	4,314,569	306,332	6,223,010
Changes in operating assets and liabilities:				
Accounts receivable	344,418	1,924,382	41,620	2,310,420
Warrants and accounts payable	(766,095)	241,158	166,774	(358,163)
Other assets and liabilities	<u>(370,511)</u>	<u>(133,411)</u>	<u>(260,905)</u>	<u>(764,827)</u>
Net cash provided by (used in) operations	\$ <u><u>457,649</u></u>	<u><u>9,279,346</u></u>	<u><u>(50,411)</u></u>	<u><u>9,686,584</u></u>

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**

Statement of Net Position – Fiduciary Funds

June 30, 2013

(Except for Pension Trust, which is as of December 31, 2012)

<b>Assets</b>	<b>Pension trust fund</b>	<b>Agency funds</b>
	<u>                    </u>	<u>                    </u>
Cash and cash equivalents	\$ 2,520,060	384,246
Receivables:		
Interest and dividends	922,271	—
Receivable for securities sold	111,843	—
Contributions from employers	555,942	—
Other	<u>119,098</u>	<u>163,729</u>
Total receivables	<u>1,709,154</u>	<u>163,729</u>
Investments, at fair value:		
Short-term:		
Domestic	9,519,938	—
Fixed income:		
Domestic	89,844,486	—
International	22,073,368	—
Equities:		
Domestic	100,898,631	—
International	56,384,441	—
Multi-asset	14,004,681	—
Real estate	21,421,835	—
Alternative	<u>20,720,284</u>	<u>          </u>
Total investments	<u>334,867,664</u>	<u>          </u>
Total assets	<u>339,096,878</u>	<u>547,975</u>
<b>Liabilities</b>		
Payable for securities purchased	297,978	
Accounts payable and other liabilities	<u>545,505</u>	<u>547,975</u>
Total liabilities	843,483	<u>\$ 547,975</u>
<b>Net Position</b>		
Held in trust for pension benefits	<u>\$ 338,253,395</u>	

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**

Statement of Changes in Net Position – Fiduciary Funds

Year ended December 31, 2012

	<b><u>Pension trust fund</u></b>
Additions:	
Contributions:	
Employers	\$ 16,639,167
Employees	7,228,502
Other	19,500
Total contributions	<u>23,887,169</u>
Investment income:	
Net depreciation in fair value of investments	32,478,472
Investment income	6,308,346
Total investment income	<u>38,786,818</u>
Less investment expenses	<u>2,794,518</u>
Net investment income	35,992,300
Intergovernmental	<u>950,634</u>
Total additions	<u>60,830,103</u>
Deductions:	
Benefits	34,983,460
Member refunds and transfers to other systems, net	978,775
Administrative expenses	585,140
Total deductions	<u>36,547,375</u>
Change in net position	24,282,728
Net position, beginning of year	<u>313,970,667</u>
Net position, end of year	<u>\$ 338,253,395</u>

See accompanying notes to basic financial statements.

# CITY OF BROCKTON, MASSACHUSETTS

## Notes to Basic Financial Statements

June 30, 2013

### (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 2013:

<u>Joint venture and address</u>	<u>Purpose</u>	<u>Annual assessment</u>
Brockton Area Transit Authority 45 School Street Brockton, MA 02301	To provide public transportation	\$ 2,000,246
Southeastern Regional School District 250 Foundry Street South Easton, MA 02375	To provide educational services	2,741,715

### (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

## CITY OF BROCKTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2013

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, 2013, except for the System, which is presented as of and for the year ended December 31, 2012.

**Government-Wide Statements**

The statement of net position and the statement of activities display information about the primary government (the City). These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other 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.

## CITY OF BROCKTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2013

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

## CITY OF BROCKTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2013

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 position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

**(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 position but

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statements of net position and in the respective funds.

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

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

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

**(h) Net Position and Fund Balance**

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

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

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

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

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

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

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



## CITY OF BROCKTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2013

*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 \$5.7 million at June 30, 2013 and is classified as unassigned.

**(i) Net Position**

Net position represents the difference between assets, deferred outflows and liabilities. Net investment in capital assets 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 position is 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 position are available.

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

In the government-wide and proprietary fund financial statements, bond discounts/premiums are capitalized and amortized over the term of the related bonds. Such amounts are presented as part of the bond, notes and mortgages payable in the accompanying statements of net position.

## CITY OF BROCKTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2013

Gains/Losses on resulting from the refunding of debt are also capitalized and amortized over the term of the related bonds using the straight-line method. Such amounts are presented as deferred inflows/outflows of resources in the accompanying statements of net position. Bond issuance costs, except the amount representing prepaid insurance, if any, are expensed as incurred.

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

**(k) Use of Estimates**

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

**(l) Implementation of New GASB Statements**

During fiscal 2013, the City implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which resulted in the recognition of certain amounts as deferred inflows/outflows rather than assets/liabilities and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which resulted in the restatement of net position as of July 1, 2012 to reflect the write-off of the balance of unamortized bond issue costs at that date.

**(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.

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

**(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:	
2014	\$ 172,137
2015	183,007
2016	194,564
2017	206,850
2018	219,913
2019 – 2022	<u>6,160,505</u>
Total	<u>\$ 7,136,976</u>

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. Fiscal year 2013 was the first year that the cash payments had not been sufficient to satisfy the principal amounts. The available hotel/motel tax has been applied to principal and interest payments due.

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.

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

**(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, 2013, under MSBA’s contract assistance program, the City was due funds totaling \$13,573,502.

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, 2013 through 2018, and in five-year increments thereafter:

Fiscal year:	
2014	\$ 2,597,546
2015	2,597,546
2016	2,597,546
2017	2,597,546
2018	1,061,106
2019 – 2023	<u>2,122,212</u>
Total	<u>\$ 13,573,502</u>

**(d) Intergovernmental Receivables**

**Massachusetts Water Pollution Abatement Trust (MWPAT)**

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

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, 2013, the City has recorded receivables in its Water and Sewer funds for approximately \$1.2 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, 2013, the City incurred costs of \$2.2 million for which reimbursements have not been received. That amount is recorded as an intergovernmental receivable in the Other Governmental Funds.

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

**(4) Capital Assets**

Capital asset activity for the year ended June 30, 2013 was as follows:

***Primary Government***

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 7,410,698	—	—	7,410,698
Construction in progress	23,920,191	10,688,858	116,529	34,492,520
Historical works of art	1,809,514	—	—	1,809,514
Total capital assets, not being depreciated	<u>33,140,403</u>	<u>10,688,858</u>	<u>116,529</u>	<u>43,712,732</u>
Capital assets, being depreciated:				
Buildings	203,819,694	440,407	—	204,260,101
Land improvements	9,573,410	777,694	—	10,351,104
Machinery and equipment	22,590,961	2,190,929	—	24,781,890
Infrastructure	92,805,189	2,942,900	—	95,748,089
Total capital assets, being depreciated	<u>328,789,254</u>	<u>6,351,930</u>	<u>—</u>	<u>335,141,184</u>
Less accumulated depreciation for:				
Buildings	77,888,374	4,304,197	—	82,192,571
Land improvements	6,211,419	291,496	—	6,502,915
Machinery and equipment	19,239,573	985,148	—	20,224,721
Infrastructure	69,858,215	2,790,160	—	72,648,375
Total accumulated depreciation	<u>173,197,581</u>	<u>8,371,001</u>	<u>—</u>	<u>181,568,582</u>
Total capital assets, being depreciated, net	<u>155,591,673</u>	<u>(2,019,071)</u>	<u>—</u>	<u>153,572,602</u>
Governmental capital assets, net	<u>\$ 188,732,076</u>	<u>8,669,787</u>	<u>116,529</u>	<u>197,285,334</u>

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

Depreciation expense was charged to governmental functions as follows:

Governmental activities:		
General government	\$	283,559
Public safety		1,056,970
Public works		2,565,013
Education		4,102,538
Human services		94,289
Culture and recreation		<u>268,632</u>
Total depreciation expense – governmental activities	\$	<u><u>8,371,001</u></u>

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Water:				
Capital assets, not being depreciated:				
Land	\$ 2,929,492	—	—	2,929,492
Construction in progress	<u>6,983,968</u>	<u>3,914,160</u>	<u>1,808,464</u>	<u>9,089,664</u>
Total capital assets, not being depreciated	<u>9,913,460</u>	<u>3,914,160</u>	<u>1,808,464</u>	<u>12,019,156</u>
Capital assets, being depreciated:				
Buildings	25,966,781	1,808,464	—	27,775,245
Land improvements	105,700	—	—	105,700
Machinery and equipment	10,560,947	28,083	—	10,589,030
Infrastructure	<u>32,395,539</u>	<u>—</u>	<u>—</u>	<u>32,395,539</u>
Total capital assets, being depreciated	<u>69,028,967</u>	<u>1,836,547</u>	<u>—</u>	<u>70,865,514</u>
Less accumulated depreciation for:				
Buildings	3,446,869	657,273	—	4,104,142
Land improvements	103,551	860	—	104,411
Machinery and equipment	9,023,599	374,456	—	9,398,055
Infrastructure	<u>15,967,919</u>	<u>569,520</u>	<u>—</u>	<u>16,537,439</u>
Total accumulated depreciation	<u>28,541,938</u>	<u>1,602,109</u>	<u>—</u>	<u>30,144,047</u>
Total capital assets being depreciated, net	<u>40,487,029</u>	<u>234,438</u>	<u>—</u>	<u>40,721,467</u>
Water capital assets, net	<u>50,400,489</u>	<u>4,148,598</u>	<u>1,808,464</u>	<u>52,740,623</u>

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Sewer:				
Capital assets, not being depreciated:				
Land	\$ 186,327	—	—	186,327
Construction in progress	<u>380,061</u>	<u>264,892</u>	<u>89,910</u>	<u>555,043</u>
Total capital assets, not being depreciated	<u>566,388</u>	<u>264,892</u>	<u>89,910</u>	<u>741,370</u>
Capital assets, being depreciated:				
Buildings	137,264,488	115,675	—	137,380,163
Land improvements	258,000	—	—	258,000
Machinery and equipment	43,238,154	—	—	43,238,154
Infrastructure	<u>38,056,640</u>	<u>—</u>	<u>—</u>	<u>38,056,640</u>
Total capital assets, being depreciated	<u>218,817,282</u>	<u>115,675</u>	<u>—</u>	<u>218,932,957</u>
Less accumulated depreciation for:				
Buildings	23,826,073	3,432,346	—	27,258,419
Land improvements	258,000	—	—	258,000
Machinery and equipment	42,072,635	245,330	—	42,317,965
Infrastructure	<u>23,766,362</u>	<u>636,893</u>	<u>—</u>	<u>24,403,255</u>
Total accumulated depreciation	<u>89,923,070</u>	<u>4,314,569</u>	<u>—</u>	<u>94,237,639</u>
Total capital assets being depreciated, net	<u>128,894,212</u>	<u>(4,198,894)</u>	<u>—</u>	<u>124,695,318</u>
Sewer capital assets, net	<u>129,460,600</u>	<u>(3,934,002)</u>	<u>89,910</u>	<u>125,436,688</u>
Other:				
Capital assets, not being depreciated:				
Land	130,359	—	—	130,359
Construction in progress	<u>33,125</u>	<u>47,188</u>	<u>—</u>	<u>80,313</u>
Total capital assets, not being depreciated	<u>163,484</u>	<u>47,188</u>	<u>—</u>	<u>210,672</u>
Capital assets, being depreciated:				
Buildings	862,298	43,577	—	905,875
Land improvements	32,459,301	—	—	32,459,301
Machinery and equipment	2,680,016	220,329	—	2,900,345
Infrastructure	<u>6,865,192</u>	<u>—</u>	<u>—</u>	<u>6,865,192</u>
Total capital assets, being depreciated	<u>42,866,807</u>	<u>263,906</u>	<u>—</u>	<u>43,130,713</u>



**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Less accumulated depreciation for:				
Buildings	\$ 522,569	18,271	—	540,840
Land improvements	32,035,719	46,175	—	32,081,894
Machinery and equipment	2,219,245	126,957	—	2,346,202
Infrastructure	<u>2,704,245</u>	<u>114,928</u>	<u>—</u>	<u>2,819,173</u>
Total accumulated depreciation	<u>37,481,778</u>	<u>306,331</u>	<u>—</u>	<u>37,788,109</u>
Total capital assets being depreciated, net	<u>5,385,029</u>	<u>(42,425)</u>	<u>—</u>	<u>5,342,604</u>
Other capital assets, net	<u>5,548,513</u>	<u>4,763</u>	<u>—</u>	<u>5,553,276</u>
Business-type activities capital assets, net	<u>\$ 185,409,602</u>	<u>219,359</u>	<u>1,898,374</u>	<u>183,730,587</u>

**(5) Deposits and Investments**

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

**(a) Custodial Credit Risk**

Custodial credit risk is the risk that in the event of bank failure, the City’s deposits may not be returned. The City carries deposits that are insured by 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, 2013, the City’s bank balances of uninsured and uncollateralized deposits totaled \$113,952,968 that exceeded the \$250,000 FDIC limit. 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.

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

**(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, 2013 for the primary government and December 31, 2012 for the retirement system (in thousands):

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
Retirement system:					
Short-term investment fund \$	9,520	9,520	—	—	—
U.S. Treasury notes and bonds	8,576	—	3,560	1,428	3,588
U.S. agencies	6,291	250	2,770	695	2,576
Municipal bonds	959	—	—	240	719
Corporate bonds	63,340	498	17,147	31,417	14,278
Convertible bonds	1,028	—	226	—	802
Pooled funds – domestic	7,500	—	7,500	—	—
Pooled funds – international	22,073	—	22,073	—	—
Asset backed:					
CMOs	2,103	—	564	286	1,253
Other	48	—	—	—	48
Subtotal	<u>121,438</u>	<u>10,268</u>	<u>53,840</u>	<u>34,066</u>	<u>23,264</u>
City:					
U.S. Treasury notes and bonds	627	102	298	227	—
U.S. agencies	2,243	473	1,345	425	—
Corporate bonds	1,130	—	426	105	—
MMDT	12,950	12,950	—	—	—
Subtotal	<u>16,950</u>	<u>13,525</u>	<u>2,069</u>	<u>757</u>	<u>—</u>
Total	<u>\$ 138,388</u>	<u>23,793</u>	<u>55,909</u>	<u>34,823</u>	<u>23,264</u>

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, 2012 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.

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

The City's fixed-income investments as of June 30, 2013 for the primary government and December 31, 2012 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):

<u>Investment type</u>	<u>Fair value</u>	<u>AAA to A</u>	<u>BBB to B</u>	<u>CCC</u>	<u>Not rated</u>
Retirement system:					
Short-term investment fund \$	9,520	—	—	—	9,520
U.S. agencies	6,291	6,291	—	—	—
Municipal bonds	959	959	—	—	—
Corporate bonds	63,340	22,143	39,605	803	789
Convertible bonds	1,028	152	876	—	—
Pooled funds – domestic	7,500	—	—	—	7,500
Pooled funds – international	22,073	—	—	—	22,073
Asset backed:					
CMO's	2,103	705	—	—	1,398
Other	48	48	—	—	—
Subtotal	<u>112,862</u>	<u>30,298</u>	<u>40,481</u>	<u>803</u>	<u>41,280</u>
City:					
U.S. agencies	2,243	2,243	—	—	—
Corporate Bonds	1,130	418	—	—	112
MMDT	12,950	—	—	—	12,950
Subtotal	<u>16,323</u>	<u>2,661</u>	<u>—</u>	<u>—</u>	<u>13,062</u>
Total	<u>\$ 129,185</u>	<u>32,959</u>	<u>40,481</u>	<u>803</u>	<u>54,342</u>

In addition to the above schedule, the City and the System have \$626,819 and \$8,576,476, 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 exceed 5% of the System's investments as of December 31, 2012. Additionally, the City has no investments in a single issuer, at fair value, that exceed 5% of the City's net position as of June 30, 2013.

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

## CITY OF BROCKTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2013

hedging is permitted for defensive purposes. Currency hedging shall be effected through the use of forward currency contracts. At December 31, 2012, 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 \$22,073,368 and \$56,384,441 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 position value.

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

**(c) Membership**

The City's membership in the System consisted of the following at January 1, 2013, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	\$	1,274
Terminated plan members entitled to but not receiving benefits		383
Active plan members		1,717
Total membership	\$	3,374

**(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
2013	\$ 15,476,710	(6,975,802)	6,589,821	15,090,729	15,476,710	385,981	87,583,511
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

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.

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

*(e) Legally Required Reserve Accounts*

The balances in the System's legally required reserves at December 31, 2012 are as follows:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity Savings Fund	\$ 79,203,300	Active members' contribution balance
Annuity Reserve Fund	26,953,475	Retired members' contribution account
Military Service Credit	100,975	Members' contribution account while on military leave
Pension Reserve Fund	234,071,861	Amounts to fund future retirement benefits
Pension Fund	<u>(2,076,216)</u>	Remaining net assets
Total	\$ <u><u>338,253,395</u></u>	

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

*(f) Funded Status and Funding Progress*

The funded status of the City's pension plan administered by the System as of January 1, 2013, the most recent actuarial valuation date, is as follows (in thousands):

Actuarially accrued liability (AAL)	\$ 519,018
Actuarial value of plan assets	<u>332,881</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u><u>186,137</u></u>
Funded ratio (actuarial value of plan assets/AAL)	64.1%
Covered payroll (active plan members)	\$ 76,378
UAAL as a percentage of covered payroll	243.7%

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, 2013 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 3.75% 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, 2013 was 20 years.

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

**(7) Long-Term Obligations**

The following is a summary of changes in long-term obligations for the year ended June 30, 2013:

<u>General long-term obligations</u>	<u>Maturing through year ended June 30</u>	<u>Interest percentage range</u>	<u>Outstanding beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding end of year</u>
Governmental activities:						
General:						
Taxable	2027	(4.75% – 6.45%)	\$ 96,145,000	—	1,340,000	94,805,000
General obligation	2022	(3.00% – 6.75%)	<u>32,819,550</u>	<u>—</u>	<u>3,806,750</u>	<u>29,012,800</u>
Subtotal			<u>\$ 128,964,550</u>	<u>—</u>	<u>5,146,750</u>	123,817,800
Add (deduct):						
Unamortized bond premium						<u>1,208,144</u>
Total governmental activities bonded debt, net						<u>125,025,944</u>

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

<u>General long-term obligations</u>	<u>Maturing through year ended June 30</u>	<u>Interest percentage range</u>	<u>Outstanding beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding end of year</u>
Business-type activities:						
Water	2028	(3.00% – 7.75%)	\$ 27,704,362	3,507,498	4,041,342	27,170,518
Sewer	2028	(2.00% – 6.75%)	80,684,299	—	4,956,905	75,727,394
Other	2019	(3.80% – 6.00%)	1,300,000	—	150,000	1,150,000
Subtotal			<u>\$ 109,688,661</u>	<u>3,507,498</u>	<u>9,148,247</u>	104,047,912
Add (deduct):						
Unamortized bond premium						<u>936,850</u>
Total business-type activities bonded debt, net						<u>104,984,762</u>
Total bonded debt, net						<u>\$ 230,010,706</u>
Other long-term obligations:						
Self-insured benefit plans:						
Governmental activities			\$ 6,411,698	1,187,229	771,762	6,827,165
Business-type activities:						
Water			1,466,768	3,381	463,417	1,006,732
Sewer			2,601,084	286	162,689	2,438,681
Other			2,544,623	2,029	259,286	2,287,366
Compensated absences, net:						
Governmental activities			10,019,956	881,960	3,474	10,898,442
Business-type activities:						
Water			360,740	18,349	—	379,089
Sewer			124,055	5,991	—	130,046
Other			142,121	2,491	11,619	132,993
Landfill closure and postclosure care costs:						
Governmental activities			3,035,955	—	167,408	2,868,547
Business-type activities:						
Sewer			1,127,000	23,000	—	1,150,000
Other post employment benefits						
Governmental activities			<u>159,652,673</u>	<u>46,269,687</u>	<u>21,558,268</u>	<u>184,364,092</u>
Total other long-term obligations			<u>\$ 187,486,673</u>	<u>48,394,403</u>	<u>23,397,923</u>	<u>212,483,153</u>

During 2013, the City issued \$2,510,186 of Massachusetts Water Pollution Abatement Trust (MWPAT) bonds for the Water fund. The issued bonds consist of the following:

On May 22, 2013, the City issued \$1,049,308 and \$1,460,878 in Massachusetts Water Pollution Abatement Trust (MWPAT) bonds. The bonds funded Water System Improvement Projects. Interest on the bonds will be payable semiannually on July 15 and January 15, commencing on July 15, 2013. The interest rates are 2% are due serially through January 15, 2033.

On April 3, 2013, the City entered into an interim financing agreement for a total of \$997,312 Massachusetts Water Pollution Abatement Trust (MWPAT) bonds. The initial loan amount totals



**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

\$1,068,489 less principal forgiveness totaling \$71,177. The interim bond will fund \$997,312 in Water System Improvement Program. The funds will be used to make improvements to the Water Enterprise system Silver Lake Surge control system. Interest on the bonds will be payable semiannually on July 15 and January 15, commencing on July 15, 2014. The interest rates are 2% are due serially through January 15, 2034.

***Maturity of Bond Indebtedness***

Bond indebtedness outstanding at June 30, 2013 matures as follows:

	<b>Governmental activities</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year ending June 30:			
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	5,631,875	4,998,955	10,630,830
2019 – 2023	34,770,000	19,860,268	54,630,268
2024 – 2028	55,260,000	8,353,915	63,613,915
2029 – 2032	1,260,000	102,000	1,362,000
	<u>\$ 123,817,800</u>	<u>56,803,553</u>	<u>180,621,353</u>

	<b>Business-type activities</b>			
	<b>Water</b>		<b>Sewer</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
Year ending June 30:				
2014	\$ 1,622,239	585,675	5,110,002	1,869,855
2015	1,685,610	575,911	5,219,136	1,725,710
2016	1,710,096	534,159	5,242,081	1,578,070
2017	1,738,625	486,924	5,359,041	1,418,027
2018	1,763,451	440,893	5,346,533	1,266,141
2019 – 2023	8,250,516	1,566,352	27,037,262	4,183,909
2024 – 2028	8,061,473	655,476	20,372,525	992,033
2029 – 2033	2,338,508	133,300	2,040,814	54,820
	<u>\$ 27,170,518</u>	<u>4,978,690</u>	<u>75,727,394</u>	<u>13,088,565</u>

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

	<b>Business-type activities</b>			
	<b>Other</b>		<b>Total</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Principal</b>	<b>Interest</b>
Year ending June 30:				
2014	\$ 150,000	1,500	6,882,241	2,457,030
2015	100,000	—	7,004,746	2,301,621
2016	100,000	—	7,052,177	2,112,229
2017	100,000	—	7,197,666	1,904,951
2018	100,000	—	7,209,984	1,707,034
2019 – 2023	500,000	—	35,787,778	5,750,261
2024 – 2028	100,000	—	28,533,998	1,647,509
2029 – 2033	—	—	4,379,322	188,120
	<u>\$ 1,150,000</u>	<u>1,500</u>	<u>104,047,912</u>	<u>18,068,755</u>

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 \$341,935 and \$2,674,450 of Water and Sewer principal and interest subsidies, respectively, from MWPAT over the remaining life of the loans as follows:

	<b>Business-type activities</b>					
	<b>Water</b>		<b>Sewer</b>		<b>Total</b>	
	<b>Principal subsidy</b>	<b>Interest subsidy</b>	<b>Principal subsidy</b>	<b>Interest subsidy</b>	<b>Principal subsidy</b>	<b>Interest subsidy</b>
Year ending June 30:						
2014	\$ 18,036	20,990	112,321	288,388	130,357	309,378
2015	19,393	18,256	113,993	268,598	133,386	286,854
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	22,218	12,560	50,448	200,110	72,666	212,670
2019 – 2023	125,055	33,547	131,517	708,565	256,572	742,112
2024 – 2028	—	—	137,785	47,558	137,785	47,558
Total	<u>\$ 226,952</u>	<u>114,983</u>	<u>691,898</u>	<u>1,982,552</u>	<u>918,850</u>	<u>2,097,535</u>

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

As of June 30, 2013, the City may issue approximately \$278.3 million of additional general-obligation debt under the normal debt limit. The City has approximately \$212.0 million of debt exempt from the debt limit.

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

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As of June 30, 2013, the City has total authorized unissued debt of \$78.0 million. The remaining authorized unissued debt is intended to finance the following:

School construction/furnishings	\$ 20,425,973
School refunding	950,000
Refunding	2,430,000
Pension funding	47,710,000
Water projects	5,278,677
Sewer projects	220,779
Economic development	<u>1,000,000</u>
	<u>\$ 78,015,429</u>

**(8) Landfill Closure and Postclosure Care Costs**

State and Federal laws and regulations require that the City place a final cover on its landfill sites and perform certain maintenance and monitoring functions at the landfill sites for a minimum of thirty years after closure. In addition to operating expenses related to current activities of the landfill sites, an expense 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, 2013:

	<u>Governmental activities</u>	<u>Business-type activities (Sewer fund)</u>
Closure and postclosure care costs	\$ 2,868,547	1,150,000
Percentage usage (filled)	100.00%	50.00%

It is estimated that an additional \$1,150,000 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.

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

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, 2013. 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, 2013 was as follows:

	<b>Outstanding as of June 30, 2012</b>	<b>Additions</b>	<b>Reductions</b>	<b>Outstanding as of June 30, 2013</b>
Bond anticipation notes payable:				
Governmental activities:				
School roof repairs fund:				
School construction	\$ 7,000,000	7,000,000	7,000,000	7,000,000

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

**(10) Operating Transfers and Interfund Balances**

Operating transfers and their purposes during the year ended June 30, 2013 were as follows:

	Governmental funds		Enterprise funds		
	General	Other	Water	Sewer	Other
Water receipts – in lieu of taxes	\$ 589,449	—	(589,449)	—	—
Sewer receipts – in lieu of taxes	1,121,248	—	—	(1,121,248)	—
Other Enterprise receipts – in lieu of taxes	(220,830)	—	—	—	220,830
General fund revenue – recreation subsidy	(500,000)	—	—	—	500,000
General fund revenue – Sewer, renewable energy and recreation debt service costs	(223,150)	—	—	70,150	153,000
Capital Projects Funds - transfer to fund					
General Fund Debt Service	1,974,670	(1,974,670)	—	—	—
General fund revenue - to fund contract agreements	(295,100)	—	171,900	58,700	64,500
Special revenue fund – Fund Capital Purchase	321,700	(321,700)	—	—	—
Parking authority reserve – parking authority	293,061	(293,061)	—	—	—
Parking meter fees – parking authority	255,943	(255,943)	—	—	—
Weights and Measures – Personal Services	48,826	(48,826)	—	—	—
Cemetery – services	40,000	(40,000)	—	—	—
Transfer of Ambulance Fees to Special Revenue	(125,445)	125,445	—	—	—
Transfer of Ambulance Fees - Personal Services	197,445	(197,445)	—	—	—
Special revenue fund - Licensing Fees	9,673	(9,673)	—	—	—
Special revenue fund - Reimburse General Fund	231,160	(231,160)	—	—	—
Trust fund - Transfer for Capital	—	(56,646)	—	—	56,646
General Fund revenue - Transfer of cable agreement reimbursement to Special Revenue Fund	(396,818)	396,818	—	—	—
<b>Total</b>	<b>\$ 3,321,832</b>	<b>(2,906,861)</b>	<b>(417,549)</b>	<b>(992,398)</b>	<b>994,976</b>

At June 30, 2013 the School Roof Repairs Fund owes the General Fund \$1,860,611.

**(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 position over time.

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

## CITY OF BROCKTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2013

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, 2013, the valuation date, the plan members contribute 10% to 25% of the monthly premium cost, depending on the plan in which they are enrolled. The City contributes the balance of the premium cost.

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

**(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, 2013, 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, 2013:

Annual Required Contribution (ARC)	\$ 39,883,580
Interest on net OPEB obligation	6,386,107
Adjustment to ARC	<u>(6,100,719)</u>
Annual OPEB cost	40,168,968
Contributions made	<u>(15,457,549)</u>
Change in net OPEB obligation	24,711,419
Net OPEB obligation – beginning of year	<u>159,652,673</u>
Net OPEB obligation – end of year	<u><u>\$ 184,364,092</u></u>

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

	<u>Annual OPEB cost</u>	<u>Percentage of OPEB cost contributed</u>	<u>Net OPEB obligation</u>
Fiscal year ended:			
2013	\$ 40,168,968	38.48%	\$ 184,364,092

The City's net OPEB obligation as of June 30, 2013 is recorded on the government-wide statement of net position.

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

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

The funded status of the plan as of June 30, 2013, based on an actuarial valuation as of June 30, 2012, was as follows (in thousands):

Actuarially accrued liability (AAL)	\$	504,888
Actuarial value of plan assets		—
Unfunded actuarial accrued liability (UAAL)	\$	<u>504,888</u>
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.

In the June 30, 2013 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, 2013 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.



**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

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 75% of the City's employees participate in preferred provider Health Care Plans.

Both employees and the City contribute to the Health Care Plans based upon a percentage formula, 75% City and 25% employee. The retirees' contribution rate is 25%, except for those retirees who were 65 or older as of July 1, 2003 and whose annual household income was \$22,340 or less for a single person over 65 years of age, or \$30,260 for a two person household with one person over 65 years of age. For these retirees, the contribution rates is 15% for BCBS Medex II. The 15% rate was established through a Home Rule Petition voted and approved by the City Council and the Massachusetts General Court. Stop loss insurance is carried on the Health Care Plans for claims in excess of \$325,000 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, 2013, that deposit was \$5.6 million, which includes Dental insurance. The financial arrangement with Harvard Pilgrim is monthly level funding of \$1.4 million with quarterly adjustments if necessary.

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

Liabilities for self-insured claims are reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Changes in the self-insurance liability for the years ended June 30, 2013 and 2012 were as follows:

	<b>Workers' compensation plan</b>	<b>Health care plans</b>	<b>Total</b>
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
Provision for losses/change in estimate	707,512	46,909,989	47,617,501
Payments for claims	(914,461)	(47,167,269)	(48,081,730)
Balance at June 30, 2013	\$ <u>9,267,772</u>	<u>3,292,172</u>	<u>12,559,944</u>

## CITY OF BROCKTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2013

The liability for claims and judgments consists of governmental and business-type activities in the amount of approximately \$6,827,165 and \$5,732,779, 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 2013. Fixed and variable charges are recorded in the major Water fund when incurred, which totaled \$5.9 million in fiscal year 2013.

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

As of June 30, 2013, based on the current fixed annual charge, the City expects to pay \$101.8 million for its Firm Commitment as follows:

	<u>Amount</u>
Fiscal year:	
2014	\$ 5,912,044
2015	5,962,288
2016	6,171,638
2017	6,380,988
2018	6,598,712
2019 – 2023	34,082,180
2024 – 2028	34,082,180
2029	2,594,034
	<u>\$ 101,784,064</u>

**(14) Fund Deficits**

The following funds had deficit fund balances at June 30, 2013:

School Roof Repairs Fund	\$ 7,060,769
Other governmental funds:	
Special revenue:	
Education Grants	151,867
General Government Grants	363
Federal and state law enforcement	136,812
Total	<u>\$ 7,349,811</u>

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2013

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, 2013 are as follows:

	<u>General</u>	<u>School Roof Repairs</u>	<u>Other Governmental</u>
Fund balances			
Nonspendable:			
Permanent fund principal	\$ —	—	5,712,160
Notes receivable	7,136,976	—	—
	<u>7,136,976</u>	<u>—</u>	<u>5,712,160</u>
Restricted for:			
General government	13,728,283	—	1,869,038
Human services	—	—	271,015
Public safety	—	—	5,687,885
Public works	—	—	1,289,622
Culture/recreation	—	—	526,910
Education	—	—	5,739,391
	<u>13,728,283</u>	<u>—</u>	<u>15,383,861</u>
Committed to:			
General government	5,281,676	—	—
Human services	—	—	646,200
Public safety	—	—	933,113
	<u>5,281,676</u>	<u>—</u>	<u>1,579,313</u>
Assigned to:			
General government	14,294,883	—	—
Human services	21,965	—	3,000
Public safety	167,088	—	387,850
Public works	23,758	—	—
Culture/recreation	68,300	—	—
Education	3,263,545	—	1,188,781
	<u>17,839,539</u>	<u>—</u>	<u>1,579,631</u>
Unassigned	<u>23,446,675</u>	<u>(7,060,769)</u>	<u>(77,911)</u>
Total fund balances	\$ <u>67,433,149</u>	<u>(7,060,769)</u>	<u>24,177,054</u>

**CITY OF BROCKTON, MASSACHUSETTS**

Budgetary Comparison Schedule – General Fund  
Required Supplementary Information

June 30, 2013

(Unaudited)

	<u>Budgeted amounts</u>		<u>Actual amounts (budgetary basis)</u>	<u>Variance with final budget positive (negative)</u>
	<u>Original</u>	<u>Final</u>		
Resources (inflows):				
Real and personal property taxes, net	\$ 108,552,613	108,552,613	107,810,164	(742,449)
Motor vehicle and other excise	5,620,000	5,620,000	6,241,961	621,961
Penalties and interest on taxes	1,450,000	1,450,000	1,820,440	370,440
Payments in lieu of taxes	190,000	190,000	151,375	(38,625)
User charges and other revenue	2,802,932	2,802,932	4,046,458	1,243,526
Fees	900,000	900,000	1,789,834	889,834
Licenses and permits	1,025,000	1,025,000	2,189,111	1,164,111
Intergovernmental	169,943,245	169,943,245	171,988,015	2,044,770
Fines	150,000	150,000	941,258	791,258
Investment income	175,000	175,000	129,055	(45,945)
Transfers in	8,654,668	10,106,381	10,337,541	231,160
	<u>299,463,458</u>	<u>300,915,171</u>	<u>307,445,212</u>	<u>6,530,041</u>
Amounts available for appropriation				
Charges to appropriations (outflows):				
Current:				
General government	15,278,557	15,706,002	11,680,002	4,026,000
Public safety	38,561,190	38,783,763	37,221,054	1,562,709
Education	159,487,644	159,487,644	159,406,948	80,696
Public works	6,792,445	8,033,345	7,059,628	973,717
Human services	2,433,224	2,481,174	2,399,715	81,459
Culture and recreation	2,164,279	2,251,629	2,081,718	169,911
State and county assessments	6,061,305	6,061,305	6,706,864	(645,559)
Pension and fringe benefits	67,968,415	66,811,665	66,792,675	18,990
Court judgment	204,100	204,100	284,677	(80,577)
Capital outlay	1,244,768	1,406,468	1,255,801	150,667
Debt service	12,662,769	12,662,769	12,039,801	622,968
Transfers out	914,000	1,334,545	1,731,363	(396,818)
	<u>313,772,696</u>	<u>315,224,409</u>	<u>308,660,246</u>	<u>6,564,163</u>
Total charges to appropriations				
Excess (deficiency) of resources over charges to appropriations	<u>(14,309,238)</u>	<u>(14,309,238)</u>	<u>\$ (1,215,034)</u>	<u>13,094,204</u>
Other budget items:				
Free cash	14,071,332	14,071,332		
Other available funds	237,906	237,906		
	<u>14,309,238</u>	<u>14,309,238</u>		
Total other budget items				
Net budget	<u>\$ —</u>	<u>—</u>		

See notes to required supplementary information.

See accompanying independent auditors' report.

# CITY OF BROCKTON, MASSACHUSETTS

## Notes to Required Supplementary Information

June 30, 2013

### (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 2013, the City had no expenditures in excess of budgeted appropriations.

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Required Supplementary Information

June 30, 2013

**(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	\$ 307,445,212
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	221,007
Contributions for health claims are not reported as a budgetary resource	11,408,990
Stabilization fund earnings	406,637
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(10,337,541)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	<u><u>\$ 309,144,305</u></u>

Budgetary outflows and GAAP expenditures:

Actual amounts (budgetary basis) “total charges to appropriation” from the budgetary comparison schedule	\$ 308,660,246
Differences – budget to GAAP:	
Enterprise fund related budgetary expenditures are recorded as reductions to transfers for GAAP purposes	(2,849,543)
Health claims expenditures and accruals are not reported as charges to appropriations on a budgetary basis	14,304,319
Adjustments for expenditures, encumbrances, and accruals, net	321,567
Transfers to other funds are outflows of budgetary appropriations but are not expenditures for financial reporting purposes	<u>(1,731,363)</u>
Total expenditures as reported on the statements of revenues, expenditures and changes in fund balances	<u><u>\$ 318,705,226</u></u>

**CITY OF BROCKTON, MASSACHUSETTS**

Schedules of Funding Progress and Contributions from Employers

June 30, 2013

(Unaudited)

(Dollar amounts in thousands)

**Schedules of Funding Progress  
Pension**

<b>Actuarial valuation date</b>	<b>Actuarial value of assets (a)</b>	<b>Actuarial accrued liability (b)</b>	<b>Unfunded (b-a)</b>	<b>Funded ratio (a/b)</b>	<b>Covered payroll (c)</b>	<b>Percentage Covered ((b-a)/c)</b>
January 1, 2013	\$ 332,881	519,018	186,137	64.1%	\$ 76,378	243.7%
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
<b>Other Post Employment Benefits</b>						
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**

<b>Year ended December 31:</b>	<b>Annual required contribution</b>	<b>Percentage contributed</b>
2012	\$ 15,477	100%
2011	12,732	100
2010	10,342	100
2009	9,709	100

See accompanying independent auditors' report.