

CITY OF BROCKTON, MASSACHUSETTS

**BASIC FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTARY INFORMATION
AND ADDITIONAL INFORMATION**

JUNE 30, 2018



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**CITY OF BROCKTON, MASSACHUSETTS
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INDEPENDENT AUDITORS' REPORT

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, 2018 (except for the Brockton Contributory Retirement System, which is as of and for the year ended December 31, 2017), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2018 (except for the Brockton Contributory Retirement System, which is as of and for the year ended December 31, 2017), and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

During the fiscal year ended June 30, 2018, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result, the City reported a restatement for a change in accounting principle (see Note 2). Our auditor's opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 4 through 21) and budgetary comparison of the General Fund and certain pension and other post-employment benefits information (located on pages 76 through 82) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements. The water and sewer enterprise funds' budget to actual schedules (additional information) are presented for purposes of additional analysis and are not a required part of the basic financial statements. The additional information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Honorable Mayor and City Council
City of Brockton, Massachusetts

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Brockton, Massachusetts' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Boston, Massachusetts
March 28, 2019

**CITY OF BROCKTON, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018
(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, 2018.

Brockton is a City located in Plymouth County, 20 miles southwest of Boston. The City has a population of approximately 93,810 (2010 federal census) and occupies a land area of 21.4 square miles. Brockton is the population center of a primary metropolitan statistical area of approximately 170,000 persons. Government is by an elected mayor and 11-member City council.

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

Financial Highlights

The liabilities and deferred inflows of the City exceeded its assets and deferred outflows at the close of fiscal year 2018 by approximately \$639.4 million (net position).

- As a result of the implementation of GASB 75, the City restated its beginning net position by \$435.1 million (see Note 2).
- The City's total net position decreased in fiscal year 2018 by approximately \$38.5 million, or 6.4%. This is primarily due to the recognition of increases in the total OPEB liability and net pension liability.
- At the end of fiscal year 2018, unassigned fund balance for the general fund was approximately \$25.7 million, or 6.5%, of total general fund expenditures.
- The City's total bonded debt decreased by approximately \$5.1 million during fiscal year 2018. This decrease was due to scheduled debt repayments exceeding new debt issuances.

Overview of the Financial Statements

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

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

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

CITY OF BROCKTON, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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(UNAUDITED)

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

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

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

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

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

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

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

**CITY OF BROCKTON, MASSACHUSETTS
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JUNE 30, 2018
(UNAUDITED)**

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

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

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

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

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

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

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

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

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities and deferred inflows exceeded assets and deferred outflows by approximately \$639.4 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 \$2.4 million, or 1.0% from the prior fiscal year. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

**CITY OF BROCKTON, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018
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Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt are generally provided from other sources, since the capital assets themselves typically are not used to liquidate these liabilities.

An additional portion of the City's net position, \$55.1 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of a negative \$954.6 million represents an unrestricted net deficit.

Condensed Statements of Net Position (In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and Other Assets	\$ 160,487	\$ 156,397	\$ 45,044	\$ 47,859	\$ 205,531	\$ 204,256
Capital Assets	188,867	191,127	175,981	176,042	364,848	367,169
Total Assets	<u>\$ 349,354</u>	<u>\$ 347,524</u>	<u>\$ 221,025</u>	<u>\$ 223,901</u>	<u>\$ 570,379</u>	<u>\$ 571,425</u>
Deferred Outflows of Resources	<u>\$ 28,926</u>	<u>\$ 35,382</u>	<u>\$ 2,513</u>	<u>\$ 3,141</u>	<u>\$ 31,439</u>	<u>\$ 38,523</u>
Long-term Debt Outstanding	\$ 104,993	\$ 104,485	\$ 78,604	\$ 84,255	\$ 183,597	\$ 188,740
Other Liabilities	996,948	544,178	54,843	42,407	1,051,791	586,585
Total Liabilities	<u>\$ 1,101,941</u>	<u>\$ 648,663</u>	<u>\$ 133,447</u>	<u>\$ 126,662</u>	<u>\$ 1,235,388</u>	<u>\$ 775,325</u>
Deferred Outflows of Resources	<u>\$ 5,451</u>	<u>\$ 461</u>	<u>\$ 424</u>	<u>\$ 41</u>	<u>\$ 5,875</u>	<u>\$ 502</u>
Net Position:						
Invested in Capital Assets	\$ 162,223	\$ 165,321	\$ 97,772	\$ 92,255	\$ 259,995	\$ 257,576
Restricted	55,132	48,794	-	-	55,132	48,794
Unrestricted	(946,467)	(480,333)	(8,105)	8,084	(954,572)	(472,249)
Total Net Position	<u>\$ (729,112)</u>	<u>\$ (266,218)</u>	<u>\$ 89,667</u>	<u>\$ 100,339</u>	<u>\$ (639,445)</u>	<u>\$ (165,879)</u>

Total Net Position

The City's total net position decreased in fiscal year 2018 by approximately \$38.5 million, or 6.4%. This is primarily due to the increase of \$33.9 million in the total OPEB liability, and increase of \$1.7 million in the net pension liability.

Governmental Activities – Assets

For governmental activities, current and other assets increased \$4.1 million, coupled with a decrease in capital assets of \$2.3 million, resulting in an increase in total assets of \$1.8 million. The majority of the increase in current and other assets was the result of an increase in cash. The decrease in the capital assets was the result of depreciation exceeding capital additions during fiscal year 2018.

**CITY OF BROCKTON, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018
(UNAUDITED)**

Governmental Activities – Liabilities

Liabilities increased by \$453.3 million. There was an increase of \$452.8 million in other liabilities and a \$0.5 million increase in long-term debt outstanding. The increase in other liabilities was primarily due to the implementation of GASB Statement No. 75 which brought on the full total OPEB liability as well as the \$2.0 million increase of the Net Pension Liability, while the increase in long-term debt outstanding was due to debt issuances exceeding scheduled debt repayments.

Business Type Activities – Assets

Current and other assets decreased by \$2.8 million, while capital assets decreased by \$61 thousand and total assets decreased by \$2.9 million. The decrease in current and other assets was due primarily as a result of a decrease in customer and intergovernmental receivables. The decrease in the capital assets was the result of depreciation exceeding capital additions during fiscal year 2018.

Business Type Activities – Liabilities

Liabilities increased by \$6.8 million. There was an increase of \$12.4 million in other liabilities and a \$5.7 million decrease in long-term debt outstanding. The increase in other liabilities was primarily due to the implementation of GASB Statement No. 75 which brought on the full total OPEB liability as well as a \$213 thousand decrease of the Net Pension Liability, while 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 \$492.5 million for fiscal year 2018. This reflected an increase of \$16.9 million, or 2.2%. The majority of the increase relates to the recognition of on-behalf payments from the Massachusetts Teachers Retirement System (MTRS) of approximately \$2.7 million, an increase of \$2.9 million in state and county charges, and an increase of \$8 million in the total OPEB liability.

Total general revenues for governmental activities of \$171.6 million offset total net expenses of \$213.4 million. Major ongoing revenue contributors were the net property tax at \$136.7 million, an increase of \$7.5 million. The remaining categories in total increased by \$1.9 million, excise taxes at \$9.8 million, an increase of \$798 thousand, intergovernmental at \$23.1 million, an increase of \$852 thousand and other totaling \$3.5 million, an increase of \$263 thousand.

**CITY OF BROCKTON, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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In assessing the City's revenue adequacy to finance governmental activities, it is important to acknowledge the criticality of payments from outside agencies, especially from state and federal programs. Total revenues, excluding transfers, for governmental activities were \$452.1 million. Of this total almost \$279.1million, or 61.7%, 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 \$23.1 million in intergovernmental aid which is classified as general revenue. An additional 30.2% of the total is derived from the City's property tax. The severe constraints on the City's revenue flexibility to pay for governmental activities is demonstrated by the fact that almost 93.6% of its revenues are obtained from either intergovernmental sources over which the City has no control, or from the property tax, a source whose growth is limited by state law.

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

For fiscal year 2018, the City levied a total of \$137.8 million in gross real estate property taxes against an aggregate fair market assessed value of \$7.2 billion. This levy left only a small amount in unused levy capacity without the approval of the voters. However, the levy comprised only 1.9% of the City's aggregate assessed value. With voter approval, the City could levy an additional \$41.5 million and still remain under the levy ceiling. Accordingly, the taxing capacity exists to substantially improve the City's revenues for financing governmental activities, but converting this potential capacity to real revenues would require voter approval.

Business Type Activities – Statement of Activities

The business-type activities increased the City's net position by approximately \$3.3 million, or 3.8%. The water fund contributed a \$3.5 million increase; the sewer fund contributed a \$530 thousand increase, while the net position for the combination of the nonmajor recreation, refuse, and renewable energy funds decreased \$761 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 generates and sells electricity.

The operations of the water fund and sewer fund are intended to be self-sufficient, but achieving this objective requires the mayor and city council to establish a rate structure adequate to the meet the task. The water and sewer funds are designed to recover the costs of operations of those funds. In the water and sewer funds, cash flow from operations were \$2.0 million and \$9.4 million, respectively. In both of these funds major upgrades to the wastewater and water treatment plants are ongoing and required a major contributions of resources to finance both the construction itself and the impact of construction in increased plant operating costs.

**CITY OF BROCKTON, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018
(UNAUDITED)**

Condensed Statements of Changes in Net Position (In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues:						
Charge for Services	\$ 15,684	\$ 16,257	\$ 44,610	\$ 44,731	\$ 60,294	\$ 60,988
Operating Grants	259,748	256,525	899	931	260,647	257,456
Capital Grants	3,657	3,608	3,123	424	6,780	4,032
General Revenues:						
Property Taxes	136,721	129,269	-	-	136,721	129,269
Excise Taxes	9,753	8,955	-	-	9,753	8,955
Intergovernmental	23,065	22,213	-	-	23,065	22,213
Other	3,517	3,254	-	-	3,517	3,254
Total Revenues	452,145	440,081	48,632	46,086	500,777	486,167
Expenses:						
General Government	27,153	25,039	-	-	27,153	25,039
Public Safety	82,860	77,454	-	-	82,860	77,454
Education	339,502	335,907	-	-	339,502	335,907
Public Works	13,548	12,377	-	-	13,548	12,377
Human Services	4,335	2,998	-	-	4,335	2,998
Culture and Recreation	4,318	3,632	-	-	4,318	3,632
State and County Assessments	15,374	12,501	-	-	15,374	12,501
Court Judgments	165	231	-	-	165	231
Interest on Long-Term Debt	5,223	5,472	-	-	5,223	5,472
Enterprise Accounts:						
Water	-	-	18,582	17,802	18,582	17,802
Sewer	-	-	16,779	15,785	16,779	15,785
Other	-	-	11,413	10,435	11,413	10,435
Total Expenses	492,478	475,611	46,774	44,022	539,252	519,633
Excess (Deficiency) before Transfers	(40,333)	(35,530)	1,858	2,064	(38,475)	(33,466)
Transfers	(1,406)	965	1,406	(965)	-	-
Total Transfers	(1,406)	965	1,406	(965)	-	-
Change in Net Position	(41,739)	(34,565)	3,264	1,099	(38,475)	(33,466)
Net Position - Beginning of Year (As Restated)	(687,373) *	(231,653)	86,403 *	99,240	(600,970)	(132,413)
Net Position - End of Year	\$ (729,112)	\$ (266,218)	\$ 89,667	\$ 100,339	\$ (639,445)	\$ (165,879)

*

Beginning Net Position was restated in fiscal year 2018 as a result of the implementation of GASB Statement No. 75 (see Note 2).

Financial Analysis of the City's Governmental Funds

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

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

**CITY OF BROCKTON, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2018
(UNAUDITED)**

As of the end of the fiscal year 2018, the City's governmental funds reported combined fund balances of approximately \$110.5 million, an increase of approximately \$9.3 million, or 9.2%, in comparison with the prior year. The general fund balance increased by \$3.3 million, from \$80.4 million to \$83.7 million; and the combined fund balances for all the other governmental funds increased by \$6.0 million, from \$20.8 million to \$26.8 million.

In assessing these balances, it is important to note that the "Balance Sheet – Governmental Funds" does not include capital assets or bonded indebtedness. Please refer to the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" and the "Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position." These reconciliations will demonstrate that essentially the City's increase in fund balances of \$9.3 million, compared to its decrease in net position of \$41.7 million, a difference of \$51.0 million, is explained largely by the following factors:

1. \$385 thousand: the negative effect of revenue accruals.
2. \$2.3 million: the negative effect of the amount by which depreciation exceeded capital asset additions.
3. \$ 47.9 million: the negative effect of increases in other liabilities, primarily OPEB and net pension liability, which did not require the use of current resources.
4. \$61 thousand: the positive effect of the amount by which the amortization of bond premiums exceed the issuance of new bond premiums.
5. \$570 thousand: the negative effect of the amount by which the issuance of debt exceeded the repayment of bond principal are expenditures in the governmental funds but increased long-term liabilities in the statement of net position.

Of the total of ending fund balances of \$110.5 million, \$13.5 million constitutes "nonspendable" fund balance, which is not available for spending by the City because fund balance amounts cannot be spent because they are either not in spendable form or they are legally or contractually required to remain intact. \$49.8 million constitutes restricted fund balance, which are amounts the use of which is subject to constraints imposed by external parties, including creditors, grantors, and laws and regulations of other governments, or imposed by City Charter or enabling legislation. \$18.9 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 City Council action and approval by the Mayor. \$8.5 million constitutes "assigned to" fund balance, amounts that are constrained by the City's intent for use for specific purposes, but are considered neither restricted nor committed. \$19.8 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.

**CITY OF BROCKTON, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
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For General Fund Balance

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

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

The total fund balance of \$6.2 million consists of the following:

The FY 2018 General Fund Nonspendable fund balance represents the Note Receivable from the Brockton 21st Century Corporation pursuant to an agreement further described in footnote (3) Receivables – (b) Note Receivable in the amount of \$6.2 million. This note receivable is not yet available for spending. The receivable cannot be used for current or future operations.

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

The total fund balance of \$26.7 million consists of the following:

The FY 2018 General Fund Restricted Fund balance represents the Health Insurance Trust fund in the amount of \$20.5 million. This amount consists of the Health Insurance Trust Fund balance of \$13.4 million and the amount for the FY 2018 Blue Cross and Blue Shield amount held on deposit to pay claims totaling \$7.1 million. The City of Brockton is self-insured. This Health Insurance Trust Fund is restricted to the payment of health insurance claims by the enabling legislation, as well as for administrative fees to insurers and for the administrative costs in the personnel department for benefit management. The City establishes reserves for claims/events that have transpired, but have not yet been reported to the insurance companies (Incurred but not Reported).

The FY 2018 General Fund Restricted Fund Balance in the amount of \$6.3 million. This amount represents the Chapter 324 Supplemental Reserve. The purpose of the Supplemental Reserve is to ensure fiscal stability as required by Chapter 324 of the Acts of 1990. The value of the reserve must at least equal 1.5% of the “Gross Amount Raised” as reported to the state on the prior year property tax approval filing. This reserve may only be used for unforeseen and extraordinary expenditures.

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

The total fund balance of \$16.6 million consists of the following:

The fund balance includes the Certified Free Cash in the amount \$16.6 million appropriated for the use in the FY 2019 budget. Not infrequently, governments balance their budget by appropriating a portion of existing fund balance to bridge the gap between appropriations and estimated revenues.

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

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

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

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

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The total fund balance of \$8.5 million consists of the following:

The FY 2018 General Fund Assigned Fund Balance amount represents year-end encumbrances in the amount of \$8.5 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.

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

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

The total fund balance of \$25.7 million consists of the following:

This grouping includes the City's Stabilization fund in the amount of \$3.4 million and the City's undesignated fund balance in the amount of \$22.3 million.

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

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

The total fund balance of \$22.3 million consists of the following:

This grouping includes the City's accumulated surplus in the amount of \$22.3 million.

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

The general fund is the chief operating fund of the City. Total fund balance was approximately \$83.7 million, an increase of \$3.3 million. This increase in fund balance was largely driven by a surplus of revenues and other financing sources over expenditures and other financing uses.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 6.5% of total general fund expenditures, while total fund balance represents 21.2% of that same amount.

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

Proprietary Funds

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

The net position of the proprietary funds at the end of the current fiscal year totaled approximately \$89.7 million. Changes in net position of the proprietary funds at the end of the current fiscal year totaled an increase of approximately \$3.3 million, or 3.8%.

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

For the water fund, the fiscal year 2018 operating income was \$101 thousand, or approximately 0.6% of operating revenues. Nonoperating revenues (expenses) and transfers netted to a positive \$3.4 million, and so net position increased by \$3.5 million. Cash flow from operations was positive at \$2.0 million.

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For the sewer fund, operating income was \$2.2 million, or 12.3% of operating revenues. However, nonoperating expenses and transfers reduced that amount by \$1.7 million, and so net position increased by \$530 thousand. Cash flow from operations was \$9.4 million.

For the combined results of the other enterprise funds, the value of net position decreased by \$761 thousand. The operating loss for combined other enterprise funds was \$2.8 million in fiscal year 2018 or 32% of operating revenues. With the benefit of net transfers in (general fund subsidy) and the nonoperating revenue of \$2.0 million, the operating loss of \$2.8 million became a \$761 thousand decrease in net position.

Budgetary Highlights

In fiscal year 2018, the original budget called for \$371.2 million in spending. Of this amount \$174.3 million was for Education spending, \$54.3 million was for Public Safety spending, \$82.1 million was for Fringe Benefit spending and \$60.5 million for all other categories.

Resources totaled \$357.8 million, creating a planned deficit of approximately \$13.4 million. Offsetting this deficit was a contribution from "Free Cash" of \$14.6 million. The remaining total of approximately \$1.1 million was applied to Other Available Funds.

In the final budget, a total of \$373.0 million in spending was authorized, an increase of \$1.8 million. The budgets that made up this amount included the following: the general government budget decreased by \$1.0 million; the public safety budget increased by \$977 thousand, the Education budget increased by \$886 thousand, the capital budget increased by \$367 thousand, the human services budget increased by \$23 thousand, the pension and fringe benefits budget increased by \$200 thousand, and the transfers out budget increased by \$300 thousand.

On an actual basis, resources were higher than the final budget by \$4.0 million. The majority of revenue categories resulted in a positive variance with the exceptions of Fines revenue. The City's revenue estimates normally are conservative and actual results typically exceed budget by 1.5% to 2.0%. For fiscal year 2018, the positive variance was largely driven by the Motor Vehicle Excise Taxes, Intergovernmental revenue, and User charges and other revenue.

On the expenditure side, a favorable variance of \$10.9 million was achieved. The City has typically achieved 1% to 2% positive variance on spending. For fiscal year 2018, this positive variance was driven by actual budgetary expenditures less than budgeted expenditures in the public safety, public works, and pension and fringe benefits.

As a result of the revenue and expenditure positive variances, the City's fiscal year 2018 general fund operations estimated to create free cash of approximately \$14.9 million to be used in the FY 2019 budget.

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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, 2018 amounted to approximately \$364.8 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 decrease in the City's investment in capital assets of \$2.3 million for fiscal year 2018 represented a decrease of less than 1%. Capital assets for governmental activities decreased by \$2.3 million, or 1.3%, while capital assets for business-type activities decreased by \$60 thousand, or less than 1%. The decrease in capital assets for business-type activities was primarily caused by the depreciation exceeding capital asset additions. The decrease in capital assets for governmental activities was primarily caused by the depreciation exceeding capital asset additions.

Major capital assets included the following:

	Capital Assets (In Thousands)					
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 7,411	\$ 7,411	\$ 3,245	\$ 3,246	\$ 10,656	\$ 10,657
Construction in Progress	8,706	9,508	4,197	4,263	12,903	13,771
Historical Works of Art	1,809	1,809	-	-	1,809	1,809
Buildings	132,654	135,632	123,410	126,936	256,064	262,568
Land Improvements	7,033	7,489	1,722	1,229	8,755	8,718
Machinery and Equipment	5,693	5,771	7,166	7,106	12,859	12,877
Infrastructure	25,561	23,507	36,242	33,262	61,803	56,769
Total	<u>\$ 188,867</u>	<u>\$ 191,127</u>	<u>\$ 175,982</u>	<u>\$ 176,042</u>	<u>\$ 364,849</u>	<u>\$ 367,169</u>

Long-Term Debt – At the end of the current fiscal year, the City had total bonded debt outstanding of approximately \$183.6 million. The entire amount is backed by the full faith and credit of the City.

	Long-Term Debt (In Thousands)					
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Long-Term Debt, Net of Unamortized Premiums	<u>\$ 104,993</u>	<u>\$ 104,485</u>	<u>\$ 78,604</u>	<u>\$ 84,255</u>	<u>\$ 183,597</u>	<u>\$ 188,740</u>

The overall net decrease is attributable to the following factors:

The City's bonded debt decreased by approximately \$5.1 million or a decrease of 2.7%.

Total long-term debt of the City represents a claim of about 50.3% of the City's total capital assets, and a claim of about 3.0% of the City's total assets. As a percentage of the fair value of taxable property in the City, the long-term debt comprises only 2.6%.

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

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Economic Factors and Next Year's Budgets

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

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

In FY 2015, prior to this opening, the net loss of Brockton's state assistance to charter schools and to out of district school choice schools was about \$4.5 million, or almost 3.0 % of state aid. In FY 2020, per the governor's budget, the net revenue diversion will be about \$14.4 million, or almost 8.0 % of state revenue aid for education for Brockton. This diversion represents an increase of 10 percent over 2019. These dollars for Brockton students are sent directly from the state to the receiving schools. Because the students leave the local Brockton system from many of the more than 20 schools all over the district, not just from a few schools, the process of downsizing budgets to reflect the revenue loss is not simple. It requires significant budget decreases across many programs and schools, with multiple, year – by – year staff reductions. Because the city believes that these recent state budget trends have badly eroded the intended benefits of the "Hancock" decision of the SJC and the resultant education reform act of 1993, the city is actively pursuing the filing of a new equity in education law suit, and has budgeted funds to support the exploring of that possibility. The city has organized a consortium of similarly affected school districts to participate. This effort has gained the attention of public media and the elected officials of the state itself. In the final FY 19 budget, about \$ 3 million in "special assistance", in addition to the chapter 70 education funding, was awarded to Brockton. In FY 20, the governor's budget does not continue this funding, but it does increase the actual chapter 70 by almost \$ 8 million. Therefore, the net, gross increase to the city, before charter school adjustments, will be about \$ 5 million, or about 3 percent. This slightly exceeds inflation, it does represent progress. However, when the effect of charter school assistance is factored in, the picture is less encouraging. Compared to FY 19, the FY 20 assistance net of charter school charges and revenue assistance, is only \$3.8 million. Therefore, because of the charter school diversion, the state's funding for students actually in the Brockton school system, has increased by only about 2 percent, not much better than inflation. While the city is hopeful that the legislature will improve on the governor's recommendations, it is not hopeful that the full promise of the education reform effort will be met for urban districts. Accordingly, the city will continue to exert pressure through the lawsuit and lobbying efforts.

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Since 2008, state assistance for purposes other than for education has experienced particularly steep, continuing declines, in both nominal and real terms. For example, unrestricted state aid was nearly \$28.0 million in FY 2008. For FY 2019, the same categories in the governor's budget, at \$22.6 million, would remain nearly \$5.0 below the FY 2008 dollar amount, or about 19.0%, even without adjusting for inflation. For FY 2020, the same categories in the governor's budget, at \$23.3 million, would remain more than \$4.0 million below the FY2008 amount, or about 17.0%.

During this period, the state has provided municipalities with two new, local option revenue sources: the ability to raise the lodging excise tax from 4% up to 6%, and the ability to add 0.75% to the state meals tax. The City has adopted both measures. Between the two measures the City has realized more than \$1.2 million in on-going, new annual revenues. However, this new revenue falls far short of replacing the loss of funding from unrestricted aid. The state has allowed municipalities to license the sale of both medical and retail marijuana. The city received about \$200 thousand in host community fees for medical marijuana in FY 18. In FY 19, the city engaged in constructing a system of oversight for the retail sale in restricted zones. The city council is the licensing authority. No licenses have been granted at this writing.

Although the property tax levy has provided a predictable, steady source of revenue growth, the state's property taxation law, Proposition 2½, so-called, restricts the ability of the property tax to finance the City's budget. The law imposes an absolute revenue ceiling at 2.5% of the city's fair market value. It also limits the annual increase in that property tax levy to 2.5% per year plus the value of taxation on new investment. In order to levy taxes on the increase in market value other than through new investment, the approval of the voters is required; that is, to exceed the annual levy limit up to the absolute ceiling, it is necessary to hold a referendum. The city's fair market value assessed for FY 19 was \$7,843,495,461, an increase from FY 18 of more than 9 percent. With this value, the maximum allowable levy ceiling with voter approval is \$196,087,386.

The assessed value increase of \$670.5 million grew 9.3% over FY 2017. This increase followed similar increases in value of 7.2%, 9.6 % and 11.7 % for the previous three years. However, because of the working of Proposition 2 ½, the main result of these increases was to reduce the uniform tax rate, not to increase the levy. As stated above, that FY 2019 assessed value would support a maximum levy under the law, with voter approval, at 2.5 % of value, of \$196,087,386. Of this amount, \$143,612,504 may be levied under the law without recourse to the voters.

In this revenue environment, with current cost pressures, in order to maintain services, in the opinion of the Chief Financial Officer, it is important to fully appropriate the allowable property tax levy, to capture to the extent possible the cost of services through imposing user fees, to be judicious in appropriating balance sheet reserves, and to replenish these reserves when possible. However, many taxpayers and residents have been harmed by the recession and its aftermath effects, and concerns for these constituents have been manifested in the emergence of local "low tax" advocacy and in the reluctance of elected officials to levy increases in taxes or impose some needed fee increases. While the city fully appropriated its levy limit in FY 18, from FY 2016 through FY 2017, the total amount of \$7,834,585 in property taxation allowed to be levied under the law without a voter referendum, in fact was not appropriated. While the benefit of these revenues for those particular years has been foregone, the revenues were not permanently lost; they are available for appropriation in future years, and in fact, they were appropriated in FY 18 and have continued to be appropriated in FY19. However the benefit of adding these revenues to the city's reserves has been permanently lost. In the opinion of the CFO, this would have been a wise strategy and would have created a badly needed increase to reserves of about \$7.8 million. The FY 2020 budget has not been prepared, and so the amount of the FY 20 property tax levy is not known at this writing.

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

The growth rates in these various funding sources have not kept pace with the rates of growth in the cost of the services financed by them. Cost pressures on salaries, employee and retiree benefits, and pensions have continued. In FY 2018, an increase of more than \$4.0 million in pension funding was required to maintain the funding schedule which will result in full funding of the pension liability by 2033. The FY 19 assessment was increased by a further \$1 million. It was increased again by about \$2 million for FY 20 to comply with a new valuation. This valuation maintained the same funding target by 2032, but it decreased the annual earnings assumption by 25 basis points from 8.0 % to 7.75 %.

The city in June, 2013 agreed to consortium bargaining for health insurance benefits for active and retired employees, with new plan designs for the period through June, 2017 which resulted in a shifting of some costs to employees/retirees, mainly through increased co-pays. This somewhat moderated the annual rate of growth of health costs. The city in 2017 extended for four more years that consortium, through June, 2021, with a further shifting of costs to employees, this time through the annual deductible, with the expected benefit of continuing to moderate annual increases. In fact, this has been the case with modest increases in actual health costs in FY 19 projected to continue for FY 20.

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

Despite recent significant improvements, unemployment locally remains somewhat high compared to that of the state. The City was also deeply affected by the home mortgage foreclosure crisis. However, the local housing market recently has shown healthy price increases. Calendar 2017 represented the fourth straight year of double digit percentage sales price increases for single-family homes. In calendar 2018, that increase moderated a bit but was still over 8.5%. Similar trends have been seen in the multi-family market. For the condominium market, the improvement has been real but not as dramatic; a 7.1 % increase was seen in the latest valuation. These trends continued into 2019.

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The Trinity Financial Corp. has completed the redevelopment of an entire City block in the downtown area, comprised of mixed use residential housing, commercial space, and parking. The project blends private risk capital, both debt and equity, with public financing, including some City land for parking and a \$4 million state grant for phase I. For Phase II, further state funding as a grant for parking in the amount of \$10 million has been achieved and appropriated, accompanied by a \$2.0 million city borrowing authorization. The city has since replaced Trinity as the garage developer with the Brockton Redevelopment Authority. The garage is under construction and expected to be completed by the end of calendar 2019. The specific plans for this portion are being drafted, but have not yet been completed. When both phases have been completed, the project will have cost about \$100 million, which represents the largest investment in downtown Brockton in memory. Most of the residential apartments already have been leased. In addition, a long vacant downtown parcel nearby was developed as a supermarket for nearly \$20 million, also with a tax increment financing agreement. In July 2015, the city council approved a District Improvement Financing District for the downtown area. Plans for this district are in the preliminary stages of development, with the Phases I and II referenced above expected to be strong drivers. Just recently, the site of a downtown office building which had been destroyed by fire and taken and demolished by the city, was sold to a private developer for about \$2.8 million. The developer plans to construct market rate apartment housing.

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

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

Requests for Information

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

**CITY OF BROCKTON, MASSACHUSETTS
STATEMENT OF NET POSITION
JUNE 30, 2018**

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and Investments	\$ 120,254,114	\$ 19,327,458	\$ 139,581,572
Receivables, Net:			
Property Taxes, Liens, and Excise			
Taxes (Net of \$2,056,046 Allowance)	13,509,912	-	13,509,912
Intergovernmental	9,056,485	1,944,744	11,001,229
Customer Receivables	-	23,415,663	23,415,663
Departmental and Other	1,271,559	356,097	1,627,656
Other Assets	7,254,004	-	7,254,004
Note Receivable	6,160,505	-	6,160,505
Long-Term Intergovernmental Receivable	966,955	-	966,955
Tax Possessions	2,013,613	-	2,013,613
Capital Assets:			
Nondepreciable	17,925,523	7,442,881	25,368,404
Depreciable, Net	170,941,974	168,538,672	339,480,646
Total Assets	<u>349,354,644</u>	<u>221,025,515</u>	<u>570,380,159</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension	<u>28,926,273</u>	<u>2,513,098</u>	<u>31,439,371</u>
Total Deferred Outflows of Resources	<u>28,926,273</u>	<u>2,513,098</u>	<u>31,439,371</u>
LIABILITIES			
Warrants and Accounts Payable	8,398,441	2,976,038	11,374,479
Accrued Liabilities:			
Interest	1,994,641	755,973	2,750,614
Payroll and Related Withholdings	15,616,449	114,844	15,731,293
Tax Abatement Refunds	155,609	-	155,609
Bond Anticipation Notes Payable	6,187,900	-	6,187,900
Noncurrent Liabilities:			
Due Within One Year:			
Compensated Absences, Claims, and Judgements	4,874,054	94,834	4,968,888
Bonds, Note, and Loans Payable	7,194,226	7,461,832	14,656,058
Total OPEB Liability	14,500,427	499,572	14,999,999
Due in More Than One Year:			
Compensated Absences, Claims, and Judgements	20,054,995	5,558,563	25,613,558
Unearned Revenue	-	384,450	384,450
Landfill Closure and Postclosure Care Costs	2,217,864	1,794,000	4,011,864
Bonds, Note, and Loans Payable	97,799,233	71,142,039	168,941,272
Net Pension Liability	207,286,220	18,008,909	225,295,129
Total OPEB Liability	715,661,108	24,656,177	740,317,285
Total Liabilities	<u>1,101,941,167</u>	<u>133,447,231</u>	<u>1,235,388,398</u>
DEFERRED INFLOWS OF RESOURCES			
Pension	4,507,538	391,612	4,899,150
OPEB	<u>943,887</u>	<u>32,519</u>	<u>976,406</u>
Total Deferred Inflows of Resources	5,451,425	424,131	5,875,556
NET POSITION			
Net Investment in Capital Assets	162,223,272	97,772,039	259,995,311
Restricted For:			
Permanent Funds:			
Nonexpendable	7,354,275	-	7,354,275
Expendable	667,119	-	667,119
Statutory Reserve	6,278,385	-	6,278,385
Health Claims	20,450,480	-	20,450,480
Federal, State, and Local Grants	20,231,470	-	20,231,470
Other	150,025	-	150,025
Unrestricted	<u>(946,466,701)</u>	<u>(8,104,788)</u>	<u>(954,571,489)</u>
Total Net Position	<u>\$ (729,111,675)</u>	<u>\$ 89,667,251</u>	<u>\$ (639,444,424)</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF BROCKTON, MASSACHUSETTS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Government Activities:							
General Government	\$ 27,153,230	\$ 6,964,905	\$ 5,474,912	\$ -	\$ (14,713,413)	\$ -	\$ (14,713,413)
Public Safety	82,859,659	2,658,636	2,114,775	-	(78,086,248)	-	(78,086,248)
Education	297,028,332	5,482,785	208,519,377	416,564	(82,609,606)	-	(82,609,606)
Education - MTRS	42,473,146	-	42,473,146	-	-	-	-
Public Works	13,548,370	195,165	488,286	3,240,601	(9,624,318)	-	(9,624,318)
Human Services	4,335,053	349,517	319,141	-	(3,666,395)	-	(3,666,395)
Culture and Recreation	4,317,830	32,983	358,351	-	(3,926,496)	-	(3,926,496)
State and County Assessments	15,374,078	-	-	-	(15,374,078)	-	(15,374,078)
Court Judgments	164,687	-	-	-	(164,687)	-	(164,687)
Interest on Long-Term Debt	5,223,138	-	-	-	(5,223,138)	-	(5,223,138)
Total Governmental Activities	492,477,523	15,683,991	259,747,988	3,657,165	(213,388,379)	-	(213,388,379)
Business-Type Activities:							
Water	18,582,162	18,198,556	265,423	2,599,617	-	2,481,434	2,481,434
Sewer	16,778,742	17,773,445	436,738	-	-	1,431,441	1,431,441
Other	11,412,781	8,637,458	197,003	523,092	-	(2,055,228)	(2,055,228)
Total Business-Type Activities	46,773,685	44,609,459	899,164	3,122,709	-	1,857,647	1,857,647
Total Primary Government	\$ 539,251,208	\$ 60,293,450	\$ 260,647,152	\$ 6,779,874	(213,388,379)	1,857,647	(211,530,732)
General Revenues:							
Property Taxes, Levied for General Purposes, Net					\$ 136,720,972	\$ -	\$ 136,720,972
Excises					9,752,606	-	9,752,606
Payments in Lieu of Taxes					162,764	-	162,764
Penalties and Interest on Taxes					1,943,675	-	1,943,675
Other					200,106	-	200,106
Unrestricted Grants and Contributions					23,064,832	-	23,064,832
Investment Income					1,210,876	-	1,210,876
Transfers, Net					(1,406,480)	1,406,480	-
Total General Revenues and Transfers					171,649,351	1,406,480	173,055,831
Change in Net Position					(41,739,028)	3,264,127	(38,474,901)
Net Position - Beginning of Year (As Restated)					(687,372,647)	86,403,124	(600,969,523)
Net Position - End of Year					\$ (729,111,675)	\$ 89,667,251	\$ (639,444,424)

See accompanying Notes to Basic Financial Statements.

**CITY OF BROCKTON, MASSACHUSETTS
BALANCE SHEET — GOVERNMENTAL FUNDS
JUNE 30, 2018**

	General	Other Governmental	Total
ASSETS			
Cash and Investments	\$ 91,789,244	\$ 28,464,869	\$ 120,254,113
Receivables, Net:			
Property Taxes (Net of \$786,990 Allowance)	8,219,424	-	8,219,424
Motor Vehicle Excise (Net of \$1,269,056 Allowance)	1,829,653	-	1,829,653
Tax Liens	3,460,834	-	3,460,834
Intergovernmental	1,408,277	7,648,208	9,056,485
Departmental and Other	56,025	1,215,534	1,271,559
Total Receivables	14,974,213	8,863,742	23,837,955
 Note Receivable	 6,160,505	 -	 6,160,505
Long-Term Intergovernmental Receivable	966,955	-	966,955
Tax Possessions	2,013,613	-	2,013,613
Deposits with Health Claims Agent	7,118,200	-	7,118,200
Total Assets	\$ 123,022,730	\$ 37,328,611	\$ 160,351,341
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
LIABILITIES			
Warrants and Accounts Payable	\$ 5,639,087	\$ 2,759,352	\$ 8,398,439
Accrued Liabilities:			
Tax Abatement Refunds	155,609	-	155,609
Payroll and Related Withholdings	14,043,643	1,572,806	15,616,449
Health Claims Payable	2,775,000	-	2,775,000
Bond Anticipation Notes Payable	-	6,187,900	6,187,900
Total Liabilities	22,613,339	10,520,058	33,133,397
 DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	16,725,524	-	16,725,524
 FUND BALANCES			
Nonspendable	6,160,505	7,354,275	13,514,780
Restricted	26,728,865	23,049,670	49,778,535
Committed	16,614,138	2,243,399	18,857,537
Assigned	8,507,022	-	8,507,022
Unassigned	25,673,337	(5,838,791)	19,834,546
Total Fund Balances	83,683,867	26,808,553	110,492,420
 Total Liabilities Fund Balances	\$ 123,022,730	\$ 37,328,611	\$ 160,351,341

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, 2018**

Total Fund Balance - Governmental Funds	\$ 110,492,420
Amounts Reported for Governmental Activities in the Statements of Net Position are Different Because:	
Capital Assets Used in Governmental Activities Are Not Financial Resources and, Therefore, Are Not Reported in the Funds	188,867,497
Other Assets Are Not Available to Pay for Current Period Expenditures and, Therefore, are Reported as Deferred Inflows of Resources in the Governmental Funds	16,725,524
Inventory Capitalized in the Government-Wide Statements as Other Assets	135,804
Deferred Outflows of Resources - Pension	28,926,273
Deferred Inflows of Resources - Pension	(4,507,538)
Deferred Inflows of Resources - OPEB	(943,887)
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	(83,115,000)
Other General Obligation Bonds	(20,674,000)
Unamortized Bond Premiums	(1,204,459)
Total OPEB Liability	(730,161,535)
Net Pension Liability	(207,286,220)
Accrued Interest on Bonds	(1,994,641)
Landfill and Postclosure Care Costs	(2,217,864)
Compensated Absences, Claims, and Judgments	(22,154,049)
Subtotal	<u>(1,068,807,768)</u>
Net Position of Governmental Activities	<u>\$ (729,111,675)</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, 2018**

	General	Other Governmental	Total
Revenues:			
Real and Personal Property Taxes, Net	\$ 136,189,836	\$ -	\$ 136,189,836
Motor Vehicle and Other Excise	11,521,431	-	11,521,431
Penalties and Interest on Taxes	1,943,675	-	1,943,675
Payments in Lieu of Taxes	162,764	-	162,764
User Charges and Other Revenue	1,525,804	1,842,435	3,368,239
Fees	2,003,354	7,133,375	9,136,729
Licenses and Permits	3,513,222	-	3,513,222
Intergovernmental	198,440,180	43,116,467	241,556,647
Intergovernmental (MTRS On Behalf of Contribution)	42,473,146	-	42,473,146
Fines	226,495	562,013	788,508
Investment Income	551,356	659,520	1,210,876
Contributions	-	664,765	664,765
Total Revenues	398,551,263	53,978,575	452,529,838
Expenditures:			
Current:			
General Government	15,047,020	3,801,329	18,848,349
Public Safety	51,063,242	2,034,130	53,097,372
Education	175,050,927	38,205,085	213,256,012
Public Works	8,107,485	471,816	8,579,301
Human Services	2,478,062	456,997	2,935,059
Culture and Recreation	2,298,800	142,829	2,441,629
State and County Assessments	15,374,078	-	15,374,078
Pension and Fringe Benefits	71,640,827	-	71,640,827
Pension (MTRS On Behalf of Payment)	42,473,146	-	42,473,146
Court Judgments	164,687	-	164,687
Capital Outlay	793,883	7,432,184	8,226,067
Debt Service	11,208,901	177,185	11,386,086
Total Expenditures	395,701,058	52,721,555	448,422,613
Excess of Revenues Over Expenditures	2,850,205	1,257,020	4,107,225
Other Financing Sources (Uses):			
Operating Transfers In	3,731,701	407,679	4,139,380
Operating Transfers Out	(3,266,841)	(2,279,019)	(5,545,860)
Proceeds from Issuance of Bonds and Notes Payable	-	6,485,000	6,485,000
Premiums from Issuance of Bonds and Notes Payable	-	95,884	95,884
Total Other Financing Sources (Uses)	464,860	4,709,544	5,174,404
Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	3,315,065	5,966,564	9,281,629
Fund Balance - Beginning of Year	80,368,802	20,841,989	101,210,791
Fund Balance - End of Year	\$ 83,683,867	\$ 26,808,553	\$ 110,492,420

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, 2018**

Net Change in Fund Balances - Governmental Funds	\$ 9,281,629
Amounts Reported for Governmental Activities in the Statements of Activities are Different Because:	
Governmental Funds Report Capital Additions as Expenditures. In the Statement of Activities, the Cost of Those Assets is Depreciated Over Their Estimated Useful Lives. Capital Additions of \$7,744,059 exceeded Depreciation Expense of \$10,003,733.	(2,259,674)
Accrual Basis Revenues Can Result in More (Less) Revenues Reported in the Statement of Activities Depending Upon Timing of Billings and Collections.	(384,863)
Issuance of Bonds	(6,485,000)
Repayments of Bond Principal are Expenditures in the Governmental Funds but Reduce Long-Term Liabilities in the Statement of Net Position.	5,915,000
Amortization of Bond Premiums \$157,165 Add to Net Position, Capitalized Bond Premium \$95,884 Decrease Net Position	61,281
Some Expenses Reported in the Statement of Activities Do Not Require the Use of Current Financial Resources and, Therefore, Are Not Reported as Expenditures in the Governmental Funds. This Amount Represents the Difference Between a Decrease in Interest Payable \$90,783, a Decrease in Landfill Liability \$83,722, Increase in Compensated Absences and Claims \$1,824,020, Increase in Total OPEB Liability Related Activity of \$33,712,737 (Change in Total OPEB Liability \$32,768,850 Plus Change in Deferred Inflows \$943,887), and Increase in Net Pension Liability Related Activity of \$16,943,265 (Change in Net Pension Liability \$2,002,436 Less Recognition of Change in Deferred Outflows and Inflows \$10,503,163).	<u>(47,867,401)</u>
Change in Net Position of Governmental Activities	<u><u>\$ (41,739,028)</u></u>

See accompanying Notes to Basic Financial Statements.

CITY OF BROCKTON, MASSACHUSETTS
STATEMENT OF NET POSITION — PROPRIETARY FUNDS
JUNE 30, 2018

ASSETS	Enterprise Funds			Total
	Water	Sewer	Other	
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 4,494,115	\$ 10,560,479	\$ 4,272,864	\$ 19,327,458
Customer Receivables, Net	8,855,096	10,165,010	4,395,557	23,415,663
Intergovernmental Receivable	685,368	811,284	448,092	1,944,744
Other	306,146	49,951	-	356,097
Total Current Assets	<u>14,340,725</u>	<u>21,586,724</u>	<u>9,116,513</u>	<u>45,043,962</u>
NONCURRENT ASSETS				
Capital Assets:				
Nondepreciable	5,706,242	1,562,142	174,497	7,442,881
Depreciable, Net	44,459,640	117,480,631	6,598,401	168,538,672
Total Noncurrent Assets	<u>50,165,882</u>	<u>119,042,773</u>	<u>6,772,898</u>	<u>175,981,553</u>
Total Assets	64,506,607	140,629,497	15,889,411	221,025,515
DEFERRED OUTFLOWS OF RESOURCES				
Pension	1,256,549	487,234	769,315	2,513,098
Total Assets and Deferred Outflows of Resources	<u>65,763,156</u>	<u>141,116,731</u>	<u>16,658,726</u>	<u>223,538,613</u>
LIABILITIES				
CURRENT LIABILITIES				
Warrants and Accounts Payable	726,613	995,117	1,254,308	2,976,038
Accrued Expenses	261,767	566,668	42,382	870,817
Compensated Absences and Claims	51,406	16,939	26,489	94,834
Total OPEB Liability - Due within One Year	281,235	88,677	129,660	499,572
Bonds, Note, and Loans Payable	1,828,345	5,532,937	100,550	7,461,832
Total Current Liabilities	<u>3,149,366</u>	<u>7,200,338</u>	<u>1,553,389</u>	<u>11,903,093</u>
NONCURRENT LIABILITIES				
Compensated Absences and Claims	1,073,023	2,208,398	2,277,142	5,558,563
Unearned Revenue	149,175	235,275	-	384,450
Landfill Closure and Postclosure Care Costs	-	1,794,000	-	1,794,000
Total OPEB Liability	13,880,226	4,376,630	6,399,321	24,656,177
Net Pension Liability	9,004,455	3,491,529	5,512,927	18,008,909
Bonds, Note, and Loans Payable	20,986,014	49,656,025	500,000	71,142,039
Total Noncurrent Liabilities	<u>45,092,893</u>	<u>61,761,855</u>	<u>14,689,390</u>	<u>121,544,138</u>
Total Liabilities	<u>48,242,259</u>	<u>68,962,193</u>	<u>16,242,779</u>	<u>133,447,231</u>
DEFERRED INFLOWS OF RESOURCES				
Pension	195,806	75,925	119,881	391,612
OPEB	18,307	5,772	8,440	32,519
Total Deferred Inflows	<u>214,113</u>	<u>81,697</u>	<u>128,321</u>	<u>424,131</u>
NET POSITION				
Net Investment in Capital Assets	27,476,578	64,123,113	6,172,348	97,772,039
Unrestricted	(10,169,794)	7,949,728	(5,884,722)	(8,104,788)
Total Net Position	<u>\$ 17,306,784</u>	<u>\$ 72,072,841</u>	<u>\$ 287,626</u>	<u>\$ 89,667,251</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF BROCKTON, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION — PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018**

	Enterprise Funds			Total
	Water	Sewer	Other	
Operating Revenues:				
Charges	\$ 17,695,611	\$ 17,579,666	\$ 8,252,156	\$ 43,527,433
Fees	502,945	193,779	376,969	1,073,693
Other	-	-	8,333	8,333
Total Operating Revenues	<u>18,198,556</u>	<u>17,773,445</u>	<u>8,637,458</u>	<u>44,609,459</u>
Operating Expenses:				
Salaries and Benefits	5,312,527	2,205,009	3,249,361	10,766,897
Utilities	573,800	1,564,631	110,044	2,248,475
Repairs and Maintenance	811,786	2,142,910	388,917	3,343,613
Contractual Services	8,834,262	4,817,059	7,006,158	20,657,479
Other Supplies and Expenses	416,458	317,117	182,141	915,716
Depreciation	2,148,320	4,542,925	476,820	7,168,065
Total Operating Expenses	<u>18,097,153</u>	<u>15,589,651</u>	<u>11,413,441</u>	<u>45,100,245</u>
Total Operating Income (Loss)	<u>101,403</u>	<u>2,183,794</u>	<u>(2,775,983)</u>	<u>(490,786)</u>
Nonoperating Revenue (Expense):				
Interest Income	252,863	236,628	197,003	686,494
Interest Expense	(485,009)	(1,189,091)	660	(1,673,440)
Debt Subsidies	12,560	200,110	-	212,670
Total Nonoperating Revenue (Expense)	<u>(219,586)</u>	<u>(752,353)</u>	<u>197,663</u>	<u>(774,276)</u>
Income (Loss) Before Capital Contributions and Transfers	<u>(118,183)</u>	<u>1,431,441</u>	<u>(2,578,320)</u>	<u>(1,265,062)</u>
Capital Contributions	2,599,617	-	523,092	3,122,709
Transfers In	1,652,699	66,300	1,294,709	3,013,708
Transfers Out	(639,794)	(967,434)	-	(1,607,228)
Total Capital Contributions and Transfers, Net	<u>3,612,522</u>	<u>(901,134)</u>	<u>1,817,801</u>	<u>4,529,189</u>
Change in Net Position	3,494,339	530,307	(760,519)	3,264,127
Net Position - Beginning of Year (As Restated)	13,812,445	71,542,534	1,048,145	86,403,124
Net Position - End of Year	<u>\$ 17,306,784</u>	<u>\$ 72,072,841</u>	<u>\$ 287,626</u>	<u>\$ 89,667,251</u>

See accompanying Notes to Basic Financial Statements.

**CITY OF BROCKTON, MASSACHUSETTS
STATEMENT OF CASH FLOWS — PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018**

	Enterprise Funds			Total
	Water	Sewer	Other	
CASH FLOWS FROM OPERATIONS				
Cash Received from Customers	\$ 17,729,899	\$ 20,140,574	\$ 8,540,412	\$ 46,410,885
Cash Paid to Employees	(4,404,102)	(2,113,841)	(2,733,112)	(9,251,055)
Cash Paid to Vendors	(11,281,808)	(8,613,478)	(7,106,747)	(27,002,033)
Net Cash Provided (Used) by Operations	<u>2,043,989</u>	<u>9,413,255</u>	<u>(1,299,447)</u>	<u>10,157,797</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers In	1,652,699	66,300	1,294,709	3,013,708
Transfers Out	(639,794)	(967,434)	-	(1,607,228)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>1,012,905</u>	<u>(901,134)</u>	<u>1,294,709</u>	<u>1,406,480</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and Construction of Capital Assets	(1,728,378)	(4,191,982)	(835,314)	(6,755,674)
Interest Paid on Debt	(483,792)	(1,129,994)	-	(1,613,786)
Loan Proceeds Received	-	2,943,117	-	2,943,117
Capital Contributions	-	-	523,092	523,092
Repayment of Long-Term Debt	(1,905,978)	(5,897,526)	(100,000)	(7,903,504)
Net Cash Used by Capital and Related Financing Activities	<u>(4,118,148)</u>	<u>(8,276,385)</u>	<u>(412,222)</u>	<u>(12,806,755)</u>
CASH FLOWS FROM INVESTING ACTIVITY				
Interest Income	<u>252,863</u>	<u>236,628</u>	<u>197,003</u>	<u>686,494</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS				
	(808,391)	472,364	(219,957)	(555,984)
Cash and Cash Equivalents - Beginning of Year	<u>5,302,506</u>	<u>10,088,115</u>	<u>4,492,820</u>	<u>19,883,441</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 4,494,115</u>	<u>\$ 10,560,479</u>	<u>\$ 4,272,863</u>	<u>\$ 19,327,457</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATIONS:				
Operating Income (Loss)	\$ 101,403	\$ 2,183,794	\$ (2,775,983)	\$ (490,786)
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operations:				
Depreciation Expense	2,148,320	4,542,925	476,820	7,168,065
Change in Net Pension Liability	(106,872)	(41,437)	(65,437)	(213,746)
Change in Deferred Outflows - Pension	169,468	121,704	192,166	483,338
Change in Deferred Inflows - Pension	313,870	65,712	115,506	495,088
Change in Total OPEB Liability	635,551	200,398	293,014	1,128,963
Change in Deferred Inflows - OPEB	18,307	5,772	8,440	32,519
Changes in Operating Assets and Liabilities:				
Accounts Receivable	(468,657)	2,222,609	(97,046)	1,656,906
Warrants and Accounts Payable	(638,357)	219,483	586,938	168,064
Other Assets and Liabilities	(129,044)	(107,705)	(33,865)	(270,614)
Net Cash Provided (Used) by Operations	<u>\$ 2,043,989</u>	<u>\$ 9,413,255</u>	<u>\$ (1,299,447)</u>	<u>\$ 10,157,797</u>
NONCASH ACTIVITIES				
Intergovernmental Debt Subsidies (MCWT)	<u>\$ 34,778</u>	<u>\$ 250,558</u>	<u>\$ -</u>	<u>\$ 285,336</u>

See accompanying Notes to Basic Financial Statements.

CITY OF BROCKTON, MASSACHUSETTS
STATEMENT OF NET POSITION — FIDUCIARY FUNDS
JUNE 30, 2018
(EXCEPT FOR PENSION TRUST, WHICH IS AS OF DECEMBER 31, 2017)

ASSETS	<u>Pension Trust Fund</u>	<u>Agency Funds</u>
CASH AND CASH EQUIVALENTS	\$ 12,026,636	\$ 356,192
RECEIVABLES		
Interest and Dividends	160,568	-
Member Deductions	18,662	-
Other	150,840	304,342
Total Receivables	<u>330,070</u>	<u>304,342</u>
OTHER ASSETS	916	-
INVESTMENTS		
Fixed Income Mutual Funds	94,785,857	-
Equities and Equity Mutual Funds	241,348,196	-
Real Estate Funds	25,823,832	-
Private Equity Funds	31,522,659	-
Structured Credit Funds	12,261,625	-
Total Investments	<u>405,742,169</u>	<u>-</u>
Total Assets	<u>\$ 418,099,791</u>	<u>\$ 660,534</u>
LIABILITIES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES	\$ 21,149	\$ 660,534
Total Liabilities	<u>21,149</u>	<u>\$ 660,534</u>
NET POSITION RESTRICTED FOR PENSION BENEFITS	<u>\$ 418,078,642</u>	

See accompanying Notes to Basic Financial Statements.

**CITY OF BROCKTON, MASSACHUSETTS
STATEMENT OF CHANGES IN NET POSITION — FIDUCIARY FUNDS
YEAR ENDED DECEMBER 31, 2017**

	Pension Trust Fund
ADDITIONS	
Contributions:	
Employers	\$ 25,014,425
Plan Members	9,184,633
Total Contributions	34,199,058
Investment Income:	
Net Appreciation in Fair Value of Investments	46,384,062
Interest and Dividends	10,943,739
Total Investment Income	57,327,801
Less: Investment Expenses	(2,241,521)
Net Investment Income	55,086,280
Total Additions	89,285,338
DEDUCTIONS	
Retirement Benefits and Refunds	41,835,507
Administration	785,306
Total Deductions	42,620,813
Change in Net Position	46,664,525
Net Position - Beginning of Year	371,414,117
NET POSITION - END OF YEAR	\$ 418,078,642

See accompanying Notes to Basic Financial Statements.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 FINANCIAL STATEMENT PRESENTATION

The City of Brockton (the City) is governed by an elected mayor, who has general supervision of and control over the City's boards, commissions, officers, and departments. The legislative body of the City is the City Council, which consists of eleven elected members serving two-year terms. U.S. generally accepted accounting principles (GAAP) requires that the accompanying basic financial statements present the City of Brockton (the primary government) and its component units. Component units are included in the City's reporting entity if their operational and financial relationships with the City are significant. Pursuant to this criteria, the City of Brockton Retirement System (the System) has been identified as a component unit. The System was established under the authority of Chapter 32 of the Massachusetts General Laws (MGL), as amended, and is an independent contributory retirement system available to employees of the City. The powers of the System are vested in the Retirement Board. The System has been included in the City's fiduciary funds as a pension trust fund for reporting purposes. A complete set of financial statements of the System for the fiscal year ended December 31, 2017 can be obtained by contacting the Brockton Retirement Board at 1322 Belmont Street, Suite 101, Brockton, MA 02301.

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

The City has entered into joint ventures with other municipalities to pool resources and share the costs, risks, and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specified service recipients. The following is a list of the City's joint ventures, their purpose, the address where the joint venture financial statements are available, and the annual assessment paid by the City in 2018:

<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	\$ 2,375,900
Southeastern Regional School District 250 Foundry Street South Easton, MA 02375	To Provide Public Transportation	\$ 3,730,029

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City have been prepared in conformity with GAAP as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial principles. The most significant of the City's accounting policies are described below.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Presentation

The financial condition and results of operations of the City are presented as of and for the year ended June 30, 2018, except for the System, which is presented as of and for the year ended December 31, 2017.

Government-Wide Statements

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

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

Fund Financial Statements

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

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

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The City reports the following major governmental fund:

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

The City reports the following major enterprise funds:

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

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

Additionally, the City reports the following fund types:

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

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

Measurement Focus, Basis of Accounting

Government-Wide, Proprietary, and Fiduciary Fund Financial Statements

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

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Governmental Funds Financial Statements

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

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

Cash and Cash Equivalents

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

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

Investments

The City's investments are carried at fair value and amortized cost. The City also invests in the Massachusetts Municipal Depository Trust (MMDT), which is an external investment pool and is not SEC registered. This fund is state regulated and is valued at current share price. See Note 5 for discussion of the System's investments.

Allowance for Uncollectible Accounts

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

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

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

Deferred Outflows of Resources

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

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

Deferred Inflows of Resources

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

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

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

Pensions

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

Other Postemployment Liability

In addition to providing pension benefits, and as more fully described in Note 12, the City provides health, dental and life insurance coverage for current and future retirees and their spouses.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets

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

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

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

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

Net Position and Fund Balance

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

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

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

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

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

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

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

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

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

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

Bond Discounts, Premiums, Reacquisition Costs, and Issuance Costs

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

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Use of Estimates

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

Implementation of New Accounting Principles

For the year ending June 30, 2018, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

The implementation of GASB Statement No. 75 resulted in, among other things, the recognition of the total OPEB liability in the Statement of Net Position, as well as deferred inflows related to OPEB activities. As a result, the City has restated its 2018 beginning net position to reflect the implementation of the Statement. The cumulative effect of the change in accounting principle is as follows:

	Governmental Activities	Business-Type Activities	Business -Type Activities		
			Water	Sewer	Other
Net Position, June 30, 2017, as Previously Reported	\$ (266,217,769)	\$ 100,338,824	\$ 22,148,929	\$ 73,560,859	\$ 4,629,036
Cumulative Affect of Implementation of GASB No. 75	(421,154,878)	(13,935,700)	(8,336,484)	(2,018,325)	(3,580,891)
Net Position, June 30, 2017, as Restated	<u>\$ (687,372,647)</u>	<u>\$ 86,403,124</u>	<u>\$ 13,812,445</u>	<u>\$ 71,542,534</u>	<u>\$ 1,048,145</u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 RECEIVABLES

Property Taxes

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

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

Note Receivable

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

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

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

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

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

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 3 RECEIVABLES (CONTINUED)

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

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

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

Subsequent Event

In January 2019, the Corporation defaulted on the note agreement and, as a result, the City voted to terminate the note and take ownership of the baseball stadium and conference center, including its operations.

Long-Term Receivable (Intergovernmental)

The City participates in the Commonwealth's school building assistance program, which is administered by the Massachusetts School Building Authority (MSBA). The MSBA provides financial assistance (80% of total eligible costs) to the City to build and/or renovate schools. As of June 30, 2018, under MSBA's contract assistance program, the City was due funds totaling \$1,933,910.

In the General Fund, the receivable is offset by unavailable (deferred inflows of resources) revenue because the revenue does not meet the revenue recognition criteria. The following is a schedule of the remaining pay down as of June 30, 2018 through 2020:

<u>Year Ending June 30.</u>	<u>Amount</u>
2019	\$ 966,955
2020	966,955
Total	<u>\$ 1,933,910</u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Increases	Decreases	
Government Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 7,410,698	\$ -	\$ -	\$ 7,410,698
Construction in Progress	9,507,993	1,286,434	(2,089,116)	8,705,311
Historical Works of Art	1,809,514	-	-	1,809,514
Total Capital Assets, Not Being Depreciated	18,728,205	1,286,434	(2,089,116)	17,925,523
Capital Assets, Being Depreciated:				
Buildings	240,304,105	2,894,236	-	243,198,341
Land Improvements	15,762,488	54,725	-	15,817,213
Machinery and Equipment	30,468,669	1,231,610	-	31,700,279
Infrastructure	106,271,142	4,366,170	-	110,637,312
Total Capital Assets, Being Depreciated	392,806,404	8,546,741	-	401,353,145
Less: Accumulated Depreciation For:				
Buildings	104,673,082	5,870,657	-	110,543,739
Land Improvements	8,272,776	511,737	-	8,784,513
Machinery and Equipment	24,698,001	1,309,244	-	26,007,245
Infrastructure	82,763,579	2,312,095	-	85,075,674
Total Accumulated Depreciation	220,407,438	10,003,733	-	230,411,171
Total Capital Assets, Being Depreciated, Net	172,398,966	(1,456,992)	-	170,941,974
Governmental Capital Assets, Net	<u>\$ 191,127,171</u>	<u>\$ (170,558)</u>	<u>\$ (2,089,116)</u>	<u>\$ 188,867,497</u>

Depreciation expense was charged to governmental functions as follows:

Government Activities:	
General Government	\$ 753,657
Public Safety	1,177,595
Education	5,544,170
Public Works	2,167,411
Human Services	97,806
Culture and Recreation	263,094
Total Depreciation Expense - Government Activities	<u>\$ 10,003,733</u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 CAPITAL ASSETS (CONTINUED)

Business-type activity for the year ended June 30, 2018 was as follows:

	Business-Type Activities			Ending Balance
	Beginning Balance	Increases	Decreases	
Water:				
Capital Assets, Not Being Depreciated:				
Land	\$ 2,929,492	\$ -	\$ -	\$ 2,929,492
Construction in Progress	2,738,590	75,349	(37,189)	2,776,750
Total Capital Assets, Not Being Depreciated	5,668,082	75,349	(37,189)	5,706,242
Capital Assets, Being Depreciated:				
Buildings	30,663,139	47,240	-	30,710,379
Land Improvements	105,700	-	-	105,700
Machinery and Equipment	17,269,043	65,462	-	17,334,505
Infrastructure	35,444,742	1,577,516	-	37,022,258
Total Capital Assets, Being Depreciated	83,482,624	1,690,218	-	85,172,842
Less: Accumulated Depreciation For:				
Buildings	6,864,016	755,399	-	7,619,415
Land Improvements	105,700	-	-	105,700
Machinery and Equipment	12,658,037	751,573	-	13,409,610
Infrastructure	18,937,129	641,348	-	19,578,477
Total Accumulated Depreciation	38,564,882	2,148,320	-	40,713,202
Total Capital Assets, Being Depreciated, Net	44,917,742	(458,102)	-	44,459,640
Water Capital Assets, Net	50,585,824	(382,753)	(37,189)	50,165,882
Sewer:				
Capital Assets, Not Being Depreciated:				
Land	186,327	-	-	186,327
Construction in Progress	1,508,751	21,795	(154,731)	1,375,815
Total Capital Assets, Not Being Depreciated	1,695,078	21,795	(154,731)	1,562,142
Capital Assets, Being Depreciated:				
Buildings	144,054,552	781,121	-	144,835,673
Land Improvements	258,000	31,473	-	289,473
Machinery and Equipment	44,904,453	1,008,744	-	45,913,197
Infrastructure	39,656,398	2,854,945	-	42,511,343
Total Capital Assets, Being Depreciated	228,873,403	4,676,283	-	233,549,686
Less: Accumulated Depreciation For:				
Buildings	41,225,489	3,587,820	-	44,813,309
Land Improvements	258,000	393	-	258,393
Machinery and Equipment	43,221,885	312,290	-	43,534,175
Infrastructure	26,820,756	642,422	-	27,463,178
Total Accumulated Depreciation	111,526,130	4,542,925	-	116,069,055
Total Capital Assets, Being Depreciated, Net	117,347,273	133,358	-	117,480,631
Sewer Capital Assets, Net	119,042,351	155,153	(154,731)	119,042,773

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 CAPITAL ASSETS (CONTINUED)

	Business-Type Activities			Ending Balance
	Beginning Balance	Increases	Decreases	
Other:				
Capital Assets, Not Being Depreciated:				
Land	\$ 130,359	\$ -	\$ -	\$ 130,359
Construction in Progress	15,299	28,839	-	44,138
Total Capital Assets, Not Being Depreciated	145,658	28,839	-	174,497
Capital Assets, Being Depreciated:				
Buildings	905,875	-	-	905,875
Land Improvements	33,554,730	597,475	-	34,152,205
Machinery and Equipment	4,206,271	209,000	-	4,415,271
Infrastructure	6,957,831	-	-	6,957,831
Total Capital Assets, Being Depreciated	45,624,707	806,475	-	46,431,182
Less: Accumulated Depreciation For:				
Buildings	598,606	11,816	-	610,422
Land Improvements	32,325,946	135,131	-	32,461,077
Machinery and Equipment	3,284,831	268,651	-	3,553,482
Infrastructure	3,146,578	61,222	-	3,207,800
Total Accumulated Depreciation	39,355,961	476,820	-	39,832,781
Total Capital Assets, Being Depreciated, Net	6,268,746	329,655	-	6,598,401
Other Capital Assets, Net	6,414,404	358,494	-	6,772,898
Business-Type Activities Capital Assets, Net	<u>\$ 176,042,579</u>	<u>\$ 130,894</u>	<u>\$ (191,920)</u>	<u>\$ 175,981,553</u>

NOTE 5 DEPOSITS AND INVESTMENTS

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

Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the City's deposits may not be returned. The City carries deposits that are insured by Federal Deposit Insurance Corporation (FDIC) insurance or collateralized with securities held by the City or the City's agent in the City's name. The City also carries deposits that are not collateralized and are uninsured. As of June 30, 2018, the City's bank balances of uninsured and uncollateralized deposits totaled \$128,778,898. The carrying amount of the City's deposits totaled \$124,713,997 at June 30, 2018.

The System's bank balances of uninsured and uncollateralized deposits totaled \$11,468,608. The carrying amount of the System's deposits totaled \$11,226,760 at December 31, 2017.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Policy

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

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

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

Interest Rate Risk

The following is a listing of the City's fixed-income investments and related maturity schedule (in years) as of June 30, 2018 for the primary government and December 31, 2017 for the Retirement System:

<u>Investment Type</u>	<u>Total Amount</u>	<u>Less Than 1 Year</u>	<u>1 - 5 Years</u>	<u>6 - 10 Years</u>
Retirement System:				
Fixed Income Mutual Funds	\$ 94,785,857	\$ 94,785,857	\$ -	\$ -
Money Market Mutual Funds	799,876	799,876	-	-
Subtotal	<u>95,585,733</u>	<u>95,585,733</u>	-	-
City:				
U.S. Treasury Notes and Bonds	1,164,557	50,154	733,669	380,734
U.S. Agencies	1,182,136	164,890	778,452	238,794
Corporate Bonds	830,568	185,497	473,824	171,247
Money Market Mutual Funds	106,001	106,001	-	-
MMDT	5,713,811	5,713,811	-	-
Subtotal	<u>8,997,073</u>	<u>6,220,353</u>	<u>1,985,945</u>	<u>790,775</u>
Total	<u>\$ 104,582,806</u>	<u>\$ 101,806,086</u>	<u>\$ 1,985,945</u>	<u>\$ 790,775</u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

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

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

Credit Risk

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

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

The City's fixed-income investments as of June 30, 2018 for the primary government and December 31, 2017 for the Retirement System were rated by Standard & Poor's and/or an equivalent nationally recognized statistical rating organization, and the ratings are presented below using the Standard and Poor's rating scale:

Investment Type	Total Amount	AAA to A	BBB to B	Not Rated
Retirement System:				
Fixed Income Mutual Funds	\$ 94,785,857	\$ -	\$ -	\$ 94,785,857
Money Market Mutual Funds	799,876	-	-	799,876
Subtotal	95,585,733	-	-	95,585,733
City:				
U.S. Agencies	1,182,136	1,182,136	-	-
Corporate Bonds	830,568	685,405	145,163	-
Money Market Mutual Funds	106,001	-	-	106,001
MMDT	5,713,811	-	-	5,713,811
Subtotal	7,832,516	1,867,541	145,163	5,819,812
Total	\$ 103,418,249	\$ 1,867,541	\$ 145,163	\$ 101,405,545

In addition to the above schedule, the City has \$1,164,557 invested in U.S. government securities, which are not included above as they are explicitly guaranteed by the U.S. government.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

Concentration Risk

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

The System does not have a policy for concentration of credit risk. As of December 31, 2017, the System was not exposed to concentration of credit risk.

The City adheres to the provisions of M.G.L. c. 32, sec 23(2) when managing concentration risk. As of June 30, 2018, the City was not exposed to concentration of credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Only the Retirement System is statutorily allowed to invest in foreign currency securities.

The System's policy for foreign currency risk is to diversify the foreign countries and currencies within its pooled international investment portfolio. As of December 31, 2017, the System had indirect exposure to foreign currency risk for certain pooled equity investments in the amount of approximately \$24,800,000.

Fair Value Measurements

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

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

The City has the following recurring fair value measurements as of June 30, 2018 and December 31, 2017 for the Retirement System:

Investment Type	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 2)
Retirement System:				
Common Stock	\$ 10,464	\$ 10,464	\$ -	\$ -
Money Market Mutual Funds	799,876	799,876	-	-
Equity Mutual Funds	241,337,732	241,337,732	-	-
Fixed Income Mutual Funds	94,785,857	94,785,857	-	-
Total Investments by Fair Value Level	336,933,929	336,933,929	-	-
Investments Measured at the Net Asset Value (NAV):				
Real Estate Funds	25,823,832			
Private Equity Funds	31,522,659			
Structured Credit Funds	12,261,625			
Total Investments Measured at the NAV	69,608,116			
Subtotal - System	406,542,045			
City:				
Money Market Mutual Funds	106,001	106,001	-	-
Equities	3,415,635	3,415,635	-	-
Corporate Bonds	830,568	-	830,568	-
Fixed Income Mutual Funds	1,061,751	1,061,751	-	-
Equity Mutual Funds	1,749,368	1,749,368	-	-
U.S. Treasuries	1,164,497	1,164,497	-	-
U.S. Agencies	1,182,136	-	1,182,136	-
Total Investments by Fair Value Level	9,509,956	7,497,252	2,012,704	-
Investments Measured at Amortized Cost:				
MMDT	5,713,811			
Subtotal - City	15,223,767			
Total	\$ 421,765,812			

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

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

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 DEPOSITS AND INVESTMENTS (CONTINUED)

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

	<u>Total Amount</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency</u>	<u>Redemption Notice Period</u>
Retirement System:				
Real Estate Funds ⁽¹⁾	\$ 25,823,832	\$ 988,674	N/A ⁽¹⁾	N/A ⁽¹⁾
Private Equity Funds ⁽²⁾	31,522,659	5,223,083	N/A ⁽²⁾	N/A ⁽²⁾
Structured Credit Funds ⁽³⁾	12,261,625	-	Annually	65 Days
Total Investments Measured at the NAV	<u>\$ 69,608,116</u>			

- (1) Real Estate Funds – This type includes 6 real estate funds which invest primarily in U.S. commercial real estate and value added opportunities. The values of the investments in this type have been determined using the NAV per share (or its equivalent) of the System’s ownership interest in partners’ capital. There is one investment with an approximate value of \$16,500,000 for which the investment can be redeemed annually, with a redemption notice period of 65 days. The remaining investments can never be redeemed with the funds. Distributions from each of these funds will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 1 to 6 years.
- (2) Private Equity Funds – This type includes 15 equity funds that consist primarily of limited partnership interests in corporate finance and venture capital funds. Corporate finance investments may include leveraged buy-out, industry consolidation, growth or fundamental business change, acquisitions, refinancing and recapitalization, mezzanine investments and distressed and turnaround strategies. Venture capital investments include start-up companies and companies developing new business solutions and technologies. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the System’s ownership interest in partners’ capital. There are two investments with an approximate value of \$13,500,000 for which the investment can be redeemed annually, with a redemption notice period of 65 days. The remaining investments can never be redeemed with the funds. Distributions from each of these funds will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 1 to 9 years.
- (3) Structured Credit Funds – This type includes 1 fund that invests in a portfolio comprised of collateralized debt obligations (“CDO’s”) and other structured credit investments. The fair values of the investments in this type have been determined using the NAV per share (or its equivalent) of the System’s ownership interest in partners’ capital.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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

General Information

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

Membership in the System was as follows at December 31, 2017:

Active Members	1,815
Inactive Members	500
Retirees and Beneficiaries Currently Receiving Benefits	<u>1,289</u>
Total	<u><u>3,604</u></u>

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

Benefits Provided

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

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

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

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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

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

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

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

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

Contributions

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

For the year ended December 31, 2017, active member contributions totaled \$9,184,633 and employer contributions totaled \$25,014,425. Contributions to the System from the City were \$20,364,307 for the year ended June 30, 2018.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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

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

The components of the net pension liability of the System at December 31, 2017, were as follows:

Total Pension Liability	\$ 659,285,373
Plan Fiduciary Net Position	<u>(418,078,642)</u>
Net Pension Liability	<u>\$ 241,206,731</u>
 Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	 <u>63.41%</u>

At June 30, 2018, the City reported a liability of \$225,295,129 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2017, the City's proportion was 93.40333 percent, which compared to the 93.03000 percent proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the City recognized pension expense of \$36,634,138. At June 30, 2018, the City reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	\$ -	\$ 4,541,289
Changes in Assumptions	21,811,091	-
Differences Between Expected and Actual Experience	8,580,366	-
Changes in Proportion	<u>1,047,914</u>	<u>357,861</u>
Total	<u>\$ 31,439,371</u>	<u>\$ 4,899,150</u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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

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

<u>Year Ending June 30</u>	<u>Amount</u>
2019	\$ 13,872,453
2020	10,551,144
2021	517,152
2022	160,245
2023	1,439,227
Total	<u>\$ 26,540,221</u>

Actuarial Assumptions

The total pension liability was determined using the January 1, 2018 actuarial valuation. The following actuarial methods and assumptions apply to all periods included in the measurement.

Methods:

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

Assumptions:

Inflation	3.00%
Salary Increases	Based on years of service, ranging from 7.00% at 0 years of service decreasing to 3.75% after 9 years of service
Investment Rate of Return	7.75%, net of investment expenses
Cost of Living Adjustments	3.0% of the first \$12,000 annually
Mortality	Healthy Retiree - RP-2000 Mortality Table projected generationally with Scale BB for males and females Disabled Retiree - RP-2000 Mortality Table set forward two years for all disabled members
Retirement Rates	General Employees - 1.0% and 1.5% for males and females, respectively, beginning at age 50 ranging to 30.0% and 20.0% for males and females, respectively, ending at age 69 Police and Fire - 1.0% beginning at age 45 ranging to 100.0% at age 65

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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

Investment Policy and Rates of Return

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

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

The System’s annual money-weighted rate of return on pension plan investments, net of investment expenses, was 15.05%. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested, measured monthly.

The long-term expected rate of return on pension plan investments was determined using a best-estimate ranges of expected future nominal rates of return (expected return, net of investment expense and inflation) developed for each major asset class using an econometric model that forecasts a variety of economic environments and then calculates asset class returns based on functional relationships between the economic variables and the asset classes. Best estimates of arithmetic rates of return for each major asset class included in the System’s target asset allocation as of December 31, 2017 are summarized on the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	21 %	6.16 %
Global Equity	41 %	7.30 %
Domestic Fixed Income	16 %	3.93 %
International Fixed Income	6 %	6.25 %
Real Estate	4 %	4.80 %
Alternatives	9 %	8.82 %
Other	3 %	3.96 %

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from employers will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

The following presents the net pension liability of the System calculated using the rate of 7.75%, as well as what the System's net pension liability would be if it calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Net Pension Liability	\$ 312,931,493	\$ 241,206,731	\$ 180,140,751

The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what City's proportionate share of the net pension liability would be calculated using a discount rate that is 1-percentage point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Net Pension Liability	\$ 292,288,448	\$ 225,295,129	\$ 168,257,468

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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

Legally Required Reserve Accounts

The balances in the System’s legally required reserves at December 31, 2017 are as follows:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity Savings Fund	\$ 96,020,986	Active members' contribution balance
Annuity Reserve Fund	26,915,744	Retired members' contribution account
Military Service Credit Fund	102,708	Amounts appropriated to fund military service time
Pension Reserve Fund	269,049,465	Amounts appropriated to fund future retirement
Pension Fund	25,989,739	Remaining net position
Total	<u>\$ 418,078,642</u>	

NOTE 7 RETIREMENT SYSTEM - MTRS

Plan Description

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

Benefits Provided

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

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

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 RETIREMENT SYSTEM – MTRS (CONTINUED)

Contributions

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

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

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

Since the City does not contribute directly to MTRS, the City does not report a proportionate share of the net pension liability of the MTRS at June 30, 2018. The Commonwealth's net pension liability associated with the City was \$406,936,492.

The MTRS' net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017.

For the year ended June 30, 2018, the City recognized pension expense of \$42,473,146 associated with MTRS and revenue of the same amount for support provided by the Commonwealth.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 RETIREMENT SYSTEM – MTRS (CONTINUED)

Actuarial assumptions

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

Investment Rate of Return	7.5%
Salary Increases	Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service.
Mortality Rates	Pre-retirement reflects RP-2014 White Collar Employees Table projected generationally with Scale MP-2016 (gender distinct). Post-retirement - reflects RP-2014 White Collar Healthy Annuitant Table projected generationally with Scale MP-2016 (gender distinct) Disability - assumed to be in accordance with the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2014 set forward four years.
Other	3.5% interest rate credited to the annuity savings fund and 3.0% cost of living increase per year.

Rates of Return

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global Equity	40 %	5.0 %
Core Fixed Income	12 %	1.1 %
Hedge Funds	- %	3.6 %
Private Equity	11 %	6.6 %
Real Estate	10 %	3.6 %
Value Added Fixed Income	10 %	3.8 %
Portfolio Completion Strategies	13 %	3.6 %
Timber/Natural Resources	4 %	3.2 %
Totals	<u>100 %</u>	

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 RETIREMENT SYSTEM – MTRS (CONTINUED)

Discount Rate

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

Pension Plan Fiduciary Net Position

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

NOTE 8 LONG-TERM OBLIGATIONS

The following is a summary of changes in long-term obligations for the year ended June 30, 2018:

General Long-Term Obligations	Maturing Through Year Ended June 30	Interest Percentage Range	Outstanding Beginning of Year	Additions	Reductions	Outstanding End of Year	Current Portion
Governmental Activities:							
General:							
Taxable	2028	(4.75% - 6.45%)	\$ 84,890,000	\$ 1,600,000	\$ 3,375,000	\$ 83,115,000	\$ 4,140,000
General Obligation	2038	(3.00% - 6.75%)	18,329,000	4,885,000	2,540,000	20,674,000	2,933,000
Subtotal			103,219,000	6,485,000	5,915,000	103,789,000	7,073,000
Add (Deduct):							
Unamortized Bond Premium			1,265,740	95,884	157,165	1,204,459	121,226
Total Governmental Activities Debt, Net			<u>\$ 104,484,740</u>	<u>\$ 6,580,884</u>	<u>\$ 6,072,165</u>	<u>\$ 104,993,459</u>	<u>\$ 7,194,226</u>

During 2018, the City issued \$4,885,000 in General Obligation Bonds and \$1,600,000 in Taxable Bonds. The proceeds from the General Obligation Bonds were used to retire \$4,645,100 in BAN's that were outstanding at June 30, 2017. The remaining proceeds from both issuances were used for garage construction.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

General Long-Term Obligations	Maturing Through Year Ended June 30	Interest Percentage Range	Outstanding Beginning of Year	Additions	Reductions	Outstanding End of Year	Current Portion
Business-Type Activities:							
Water	2038	(4.75% - 6.45%)	\$ 24,626,935	\$ -	\$ 1,928,195	\$ 22,698,740	\$ 1,817,002
Sewer	2038	(3.00% - 6.75%)	57,776,256	-	5,470,975	52,305,281	5,456,524
Other	2024	(3.00% - 6.75%)	700,000	-	100,000	600,000	100,000
Subtotal			<u>83,103,191</u>	-	<u>7,499,170</u>	<u>75,604,021</u>	<u>7,373,526</u>
Add (Deduct):							
Unamortized Bond Premium			674,786	-	88,834	585,952	88,306
MCWT Interim Loans	2019	0.9%	<u>477,000</u>	<u>1,936,898</u>	<u>-</u>	<u>2,413,898</u>	<u>-</u>
Total Business-Type Activities Debt, Net			<u>84,254,977</u>	<u>1,936,898</u>	<u>7,588,004</u>	<u>78,603,871</u>	<u>7,461,832</u>
Total Debt, Net			<u>\$ 188,739,717</u>	<u>\$ 8,517,782</u>	<u>\$ 13,660,169</u>	<u>\$ 183,597,330</u>	<u>\$ 14,656,058</u>
Other Long-Term Obligations:							
Self-Insured Benefit Claims:							
Governmental Activities			\$ 5,509,392	\$ 675,963	\$ -	\$ 6,185,355	\$ 2,775,000
Business-Type Activities:							
Water			910,090	-	128,365	781,725	-
Sewer			2,348,259	-	235,849	2,112,410	-
Other			2,166,750	-	39,716	2,127,034	-
Compensated Absences, Net:							
Governmental Activities			12,770,636	1,223,058	-	13,993,694	2,099,054
Business-Type Activities:							
Water			343,383	-	679	342,704	51,406
Sewer			129,303	-	16,376	112,927	16,939
Other			170,746	5,851	-	176,597	26,489
Court Judgments:							
Governmental Activities			4,750,000	-	-	4,750,000	-
Landfill Closure and Postclosure Care Costs:							
Governmental Activities			2,301,587	-	83,723	2,217,864	-
Business-Type Activities:							
Sewer			<u>1,748,000</u>	<u>46,000</u>	<u>-</u>	<u>1,794,000</u>	<u>-</u>
Total Other Long-Term Obligations			<u>\$ 33,148,146</u>	<u>\$ 1,950,872</u>	<u>\$ 504,708</u>	<u>\$ 34,594,310</u>	<u>\$ 4,968,888</u>

During 2018, the City entered into an interim loan agreement (Sewer Enterprise Fund) with the MCWT to fund sewer system improvements. Interim note bears no interest and the loan is anticipated to be permanently financed in 2019. Amounts accrued and considered issued under new and existing interim loans during 2018 totaled \$1,936,898 in the sewer enterprise fund.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

Maturity of Bond Indebtedness

Bond indebtedness outstanding at June 30, 2018 matures as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 7,073,000	\$ 5,122,647	\$ 12,195,647
2020	7,771,000	4,768,665	12,539,665
2021	7,345,000	4,359,885	11,704,885
2022	7,770,000	3,962,471	11,732,471
2023	8,570,000	3,547,494	12,117,494
2024 - 2028	58,845,000	9,616,109	68,461,109
2029 - 2033	4,665,000	743,056	5,408,056
2034 - 2038	1,750,000	114,150	1,864,150
Total	<u>\$ 103,789,000</u>	<u>\$ 32,234,477</u>	<u>\$ 136,023,477</u>

<u>Year Ending June 30</u>	<u>Business-Type Activities</u>			
	<u>Water</u>		<u>Sewer</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 1,817,002	\$ 464,547	\$ 5,456,524	\$ 1,177,138
2020	1,845,838	416,741	5,479,722	1,032,833
2021	1,787,971	372,671	5,507,543	889,060
2022	1,825,776	336,358	5,607,131	745,852
2023	1,854,616	296,929	5,642,980	598,624
2024 - 2028	9,063,337	928,627	21,117,050	1,182,697
2029 - 2033	3,415,653	304,585	2,869,838	167,724
2034 - 2038	1,088,547	50,306	624,493	28,438
Total	<u>\$ 22,698,740</u>	<u>\$ 3,170,764</u>	<u>\$ 52,305,281</u>	<u>\$ 5,822,366</u>

<u>Year Ending June 30</u>	<u>Business-Type Activities (Continued)</u>			
	<u>Other</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 100,000	\$ -	\$ 7,373,526	\$ 1,641,685
2020	100,000	-	7,425,560	1,449,574
2021	100,000	-	7,395,514	1,261,731
2022	100,000	-	7,532,907	1,082,210
2023	100,000	-	7,597,596	895,553
2024 - 2028	100,000	-	30,280,387	2,111,324
2029 - 2033	-	-	6,285,491	472,309
2034 - 2038	-	-	1,713,040	78,744
Total	<u>\$ 600,000</u>	<u>\$ -</u>	<u>\$ 75,604,021</u>	<u>\$ 8,993,130</u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 LONG-TERM OBLIGATIONS (CONTINUED)

The City has entered into loan agreements with the MCWT to finance certain water and wastewater related capital improvements. Since the City is legally obligated for the total debt amounts, the full liability has been recorded in the Water and Sewer enterprise funds in the accompanying basic financial statements. The City expects to receive \$158,602 and \$1,025,424 of Water and Sewer principal and interest subsidies, respectively, from MCWT over the remaining life of the loans as follows:

Year Ending June 30	Business-Type Activities					
	Water		Sewer		Total	
	Principal Subsidy	Interest Subsidy	Principal Subsidy	Interest Subsidy	Principal Subsidy	Interest Subsidy
2019	\$ 22,129	\$ 12,654	\$ 51,661	\$ 182,914	\$ 73,790	\$ 195,568
2020	24,869	7,167	26,095	164,552	50,964	171,719
2021	25,400	6,021	9,129	148,994	34,529	155,015
2022	52,657	7,705	10,513	124,801	63,170	132,506
2023	-	-	34,119	87,303	34,119	87,303
2024 - 2025	-	-	137,785	47,558	137,785	47,558
Total	<u>\$ 125,055</u>	<u>\$ 33,547</u>	<u>\$ 269,302</u>	<u>\$ 756,122</u>	<u>\$ 394,357</u>	<u>\$ 789,669</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, 2018, the City may issue approximately \$282.1 million of additional general-obligation debt under the normal debt limit. The City has approximately \$160.0 million of debt exempt from the debt limit.

As of June 30, 2018, the City has total authorized unissued debt of \$79.0 million, which is intended to finance the following:

School Construction/Furnishings	\$ 14,790,325
Pension Funding	47,710,000
Various Departments	1,711,000
Water Projects	9,696,217
Sewer Projects	4,138,844
Economic Development	1,000,000
Total	<u>\$ 79,046,386</u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 9 LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and Federal laws and regulations require that the City place a final cover on its landfill sites and perform certain maintenance and monitoring functions at the landfill sites for a minimum of thirty years after closure. In addition to operating expenses related to current activities of the landfill sites, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfills no longer accept waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfills used during the year. The estimated liability for landfill closure and postclosure care costs is based on the percent used (filled) of the landfills and is as follows at June 30, 2018:

	Governmental Activities	Business-Type Activities Sewer Fund
Closure and Postclosure Care Costs	\$ 2,217,864	\$ 1,794,000
Percentage Used (Filled)	100.00 %	78.00 %

It is estimated that an additional \$506,000 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the Sewer fund landfill is currently expected to be filled to capacity (the year 2029).

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

The 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, 2018. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 10 TEMPORARY BORROWINGS

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

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

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

Short-term debt activity for the year ended June 30, 2018 was as follows:

	Outstanding as of June 30 2017	Additions	Reductions	Outstanding as of June 30 2018
Bond Anticipation Notes Payable:				
Governmental Activities:				
Various Capital Project Funds:				
Brookfield School Repairs	\$ 1,112,300	\$ 1,062,300	\$ 1,112,300	\$ 1,062,300
Ashfield School Repairs	788,000	688,000	788,000	688,000
Gilmore School Repairs	1,288,600	1,038,600	1,288,600	1,038,600
Barrett Russel School Repairs	415,100	-	415,100	-
Fire Truck Purchase	1,043,000	-	1,043,000	-
Police Cruisers Purchase	310,000	-	310,000	-
Voting Machine Purchase	185,000	-	185,000	-
Sander Trust Purchase	180,000	-	180,000	-
Box Truck Purchase	78,000	-	78,000	-
Bobcat Purchase	47,000	-	47,000	-
Transit Van Purchase	27,000	-	27,000	-
Copier/Printer	14,000	-	14,000	-
Energy Conversation	2,360,000	-	2,360,000	-
School Master Plan	900,000	500,000	900,000	500,000
Street Lighting System Improvements	3,000,000	2,500,000	3,000,000	2,500,000
Elevator Repairs	-	335,000	-	335,000
Energy Conversation	-	64,000	-	64,000
Total Departments	<u>\$ 11,748,000</u>	<u>\$ 6,187,900</u>	<u>\$ 11,748,000</u>	<u>\$ 6,187,900</u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 OPERATING TRANSFERS

Operating transfers and their purposes during the year ended June 30, 2018 were as follows:

	Governmental Funds		Enterprise Funds		
	General	Other	Water	Sewer	Other
Water Receipts - in Lieu of Taxes	\$ 639,794	\$ -	\$ (639,794)	\$ -	\$ -
General Fund Revenue - Water Subsidy	(1,275,303)	-	1,275,303	-	-
Sewer Receipts - in Lieu of Taxes	841,888	-	-	(841,888)	-
General Fund Revenue - Recreation Subsidy	(1,165,709)	-	-	-	1,165,709
General Fund Revenue - Sewer, Renewable Energy, and Recreation - Debt Service Costs	(418,150)	-	251,850	66,300	100,000
Sewer Enterprise - Debt Service Costs	-	-	125,546	(125,546)	-
Recreation - Transfer of Capital Expenditures	(29,000)	-	-	-	29,000
Parking Authority Reserve - Parking Authority	698,175	(698,175)	-	-	-
Planning 40R - Planning Department Budget	103,000	(103,000)	-	-	-
Parking Fines	293,918	(293,918)	-	-	-
Weights and Measures - Personal Services	33,545	(33,545)	-	-	-
Grave Liners - Cemetary Costs	254,381	(254,381)	-	-	-
Transfer of Ambulance Fees	807,500	(807,500)	-	-	-
Various Special Revenue Fund - General Fund Budget	88,500	(88,500)	-	-	-
General Fund Revenue - Transfer of Cable Agreement Reimbursement to Special Revenue Fund	(407,679)	407,679	-	-	-
Total	<u>\$ 464,860</u>	<u>\$ (1,871,340)</u>	<u>\$ 1,012,905</u>	<u>\$ (901,134)</u>	<u>\$ 1,294,709</u>

NOTE 12 OTHER POSTEMPLOYMENT BENEFIT DISCLOSURES (OPEB)

Plan Description

The City provides health, dental and life insurance benefits, in accordance with state statute and City ordinance, to participating retirees and their beneficiaries (hereinafter referred to as the "Plan") as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to the plan design and contributions rates must be accomplished through the collective bargaining process. The Plan does not issue a stand-alone financial report and no assets have been placed in a trust that meets the criteria in paragraph 4 of Statement 75.

Benefits Provided

The City provides health, dent and life insurance coverage for its retirees and their survivors. The contribution requirements of Plan members and the City are governed by the respective collective bargaining agreements. 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. The City currently funds the plan on a pay-as-you-go basis. The cost of administering the Plan are paid by the City.

Employees Covered by Benefit Terms

At June 30, 2018, the following employees were covered by benefit terms.

Active Members	2,992
Retirees and Beneficiaries	<u>2,141</u>
Total	<u><u>5,133</u></u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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

Total OPEB Liability

The City's total OPEB liability of \$755,317,284 was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017 for which updated procedures were used to roll forward the total OPEB liability to the measurement date.

Actuarial Assumptions

The total OPEB liability in the July 1, 2017 actuarial valuation and other inputs, applied to all periods included in the measurement, unless otherwise specified.

Discount Rate	2.98% (Municipal Bond Index Rate at June 30, 2018)
Healthcare/Medical Cost Inflation Rate	8.0% decreasing a half percent annually for 2 years to an ultimate level of 5.0% per year.
Inflation Rate	3% Annually
Mortality	RP-2014 Mortality Table with MP-2016 Projection.
Retirement Rates	Non-Teachers - 1.0% and 1.5% for males and females, respectively, beginning at age 50 ranging to 40.0% and 15.0% for males and females, respectively, ending at age 69 Teachers - 0.0% and 1.0% for males and females, respectively, beginning at age 50 ranging to 40.0% and 50.0% for males and females, respectively, ending at age 69 Public Safety - 1.0% beginning at age 45 ranging to 100.0% at age 65

Changes in Total OPEB Liability

	Total OPEB Liability
Balances at June 30, 2017	<u>\$ 721,419,471</u>
Changes for the year:	
Service Cost	28,647,015
Interest	21,275,694
Service Cost	(1,084,896)
Benefit Payments	<u>(14,940,000)</u>
Net Changes	<u>33,897,813</u>
Balances at June 30, 2018	<u><u>\$ 755,317,284</u></u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate.

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.98%) or 1 percentage-point higher (3.98%) than the current rate:

	1% Decrease (1.98%)	Current Discount Rate (2.98%)	1% Increase (3.98%)
Total OPEB Liability	\$ 879,149,909	\$ 755,317,284	\$ 631,484,660

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates.

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1 percentage-point lower or 1-percentage-point higher than the current healthcare trend rates:

	1% Decrease	Current Trend Rates	1% Increase
Total OPEB Liability	\$ 613,401,977	\$ 755,317,284	\$ 927,871,887

OPEB Expense and Deferred Outflows and Inflows of Resources

For the year ended June 30, 2018, the City recognized OPEB expense of \$49,814,219. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Experience	\$ -	\$ 976,406
Total	\$ -	\$ 976,406

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

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

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

Year Ending June 30	Amount
2019	\$ (108,490)
2020	(108,490)
2021	(108,490)
2022	(108,490)
2023	(108,490)
2024-2027	(433,956)
Total	\$ (976,406)

NOTE 13 RISK MANAGEMENT

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

Buildings and property are insured against fire, theft, and natural disaster to the extent that losses exceed a deductible of \$200,000 for Buildings and Property per incident and \$250,000 for incidents related to flood, windstorm, and earthquake. Vehicle damage and loss is insured to \$1,000,000 with a deductible of \$1,000.

The City is self-insured for workers' compensation and unemployment claims. The City is also self-insured for those employees participating in the City's Health Care Plans (Health Care Plans). Approximately 75% of the City's employees participate in preferred provider Health Care Plans.

Both employees and the City contribute to the Health Care Plans based upon a percentage formula, 75% City, and 25% employee. The retirees' contribution rate is 25%, except for those retirees who were 65 or older as of July 1, 2003 and whose annual household income was \$22,340 or less for a single person over 65 years of age, or \$30,260 for a two person household with one person over 65 years of age. For these retirees, the contribution rate is 10% for BCBS Medex II. The 10% rate was established through a Home Rule Petition voted and approved by the City Council and the Massachusetts General Court. Stop loss insurance is carried on the Health Care Plans for claims in excess of \$350,000 per covered person. The City maintains a working deposit with the administrator of its Blue Cross Blue Shield Health Care Plans. At June 30, 2018, that deposit was \$7,118,200, which includes Dental insurance. The financial arrangement with Harvard Pilgrim is monthly level funding of \$1,330,000 with quarterly adjustments if necessary.

The City is insured for other types of general liability; however, Chapter 258 of the MGL limits the City's liability to a maximum of \$100,000 per claim in all matters except actions relating to federal/civil rights, eminent domain, and breach of contract. Claims settlements have not exceeded insurance covered in any of the past three years.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 13 RISK MANAGEMENT (CONTINUED)

Liabilities for self-insured claims are reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Changes in the self-insurance liability for the years ended June 30, 2018 and 2017 were as follows:

	Workers' Compensation Plan	Health Care Plans	Total
Balance - June 30, 2016	\$ 10,144,098	\$ 3,117,494	\$ 13,261,592
Provision for Losses/Change in Estimate	868,819	57,491,786	58,360,605
Payments for Claims	<u>(2,778,426)</u>	<u>(57,909,280)</u>	<u>(60,687,706)</u>
Balance - June 30, 2017	8,234,491	2,700,000	10,934,491
Provision for Losses/Change in Estimate	2,126,084	54,213,143	56,339,227
Payments for Claims	<u>(1,929,051)</u>	<u>(54,138,143)</u>	<u>(56,067,194)</u>
Balance - June 30, 2018	<u><u>\$ 8,431,524</u></u>	<u><u>\$ 2,775,000</u></u>	<u><u>\$ 11,206,524</u></u>

The liability for claims consists of governmental and business-type activities in the amount of \$6,185,355 and \$5,021,169 respectively.

NOTE 14 COMMITMENTS

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

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

The Agreement expires in 2028 unless extended, renewed, or terminated. This Agreement may be renewed for up to 30 additional years in five-year renewal terms.

Aquaria makes available to the City a minimum of the Firm Commitment of water on a daily and yearly average basis. The Firm Commitment begins at 1.9 MGD and increases over the 20 years to 4.07 MGD. On September 1, 2018, the City amended the agreement to extend when the required minimum MGD was increased to 4.07, as a result the future commitments under the agreement were adjusted.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 14 COMMITMENTS (CONTINUED)

At the time that the contract was enacted the schedule for the City’s fixed purchase commitment resembled the projected growth in water demand for the City, but the schedule somewhat exceeded this curve, especially in years three to eight. In recent years, water conservation measures and lack of economic growth have resulted in a demand curve, which is significantly less than that assumed in the fixed commitment table. As a result, the increased cost of financing the fixed commitment has fallen almost exclusively more heavily on current users, rather than on new water consumption, as was anticipated when the contract was executed. In the event that other water purchase contracts are executed, the City has the right to offset its fixed commitment to a minimum of 2.0 MGD with the volume commitment of other long-term purchasers or the right to reduce by about 50%, on a gallon for gallon basis, its fixed price for its fixed volume commitment.

The rate charged to the City for the Firm Commitment is a fixed annual charge of \$167,480 per year per 0.1 MGD of the City’s Firm Commitment; this charge is incurred regardless of whether the City takes the water. In addition, the City incurs an additional charge of \$1.23 per 1,000 gallons for water actually delivered. For example, with a firm commitment of 2.0 MGD plus actual usage of 1.0 MGD for an entire year, the City would pay nearly \$3.8 million. The financial obligation is primarily attached to the fixed price component. The rate structure is permitted to escalate with the Producer Price Index for Finished Goods, excluding food after three years of water delivery. Accordingly, escalation will begin, in the fourth year of the contract, which is at the end of 2013. Fixed and variable charges are recorded in the major Water fund when incurred, which totaled \$7.1 million in fiscal year 2018.

As of June 30, 2018, based on the current fixed annual charge, the City expects to pay \$70.1 million for its Firm Commitment as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2019	\$ 6,380,988
2020	6,598,712
2021	6,816,436
2022	6,816,416
2023	6,816,436
2024 - 2028	34,082,180
2029	2,594,034
Total	<u><u>\$ 70,105,202</u></u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 15 CONTINGENCIES

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

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

The City participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) through June 30, 2018, these programs are still subject to financial and compliance audits by federal agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

NOTE 16 FUND DEFICITS

The following funds had deficit fund balances at June 30, 2018:

	<u>Total</u>	<u>Funding Source</u>
Capital Projects:		
School Repairs	\$ 2,490,760	Long-Term Debt
Street Light Improvements	2,490,786	Long-Term Debt
Municipal and School Facilities	371,080	Long-Term Debt
Energy Improvements	64,000	Long-Term Debt
Various Capital Projects	39,780	Long-Term Debt
Special Revenue:		
Public Works Grants	232,204	State/Federal Grants
Education Grants	132,175	State/Federal Grants
Public Safety Grants	18,006	State/Federal Grants
Total	<u>\$ 5,838,791</u>	

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 17 FUND BALANCE CLASSIFICATION DETAILS

The components of fund balances for the City's governmental funds as of June 30, 2018 are as follows:

	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
Nonspendable:			
Permanent Fund Principal	\$ -	\$ 7,354,275	\$ 7,354,275
Notes Receivable	6,160,505	-	6,160,505
Subtotal	<u>6,160,505</u>	<u>7,354,275</u>	<u>13,514,780</u>
Restricted For:			
General Government	26,728,865	3,724,987	30,453,852
Human Services	-	231,786	231,786
Public Safety	-	1,710,482	1,710,482
Public Works	-	3,429,559	3,429,559
Culture/Recreation	-	885,145	885,145
Education	-	13,067,711	13,067,711
Subtotal	<u>26,728,865</u>	<u>23,049,670</u>	<u>49,778,535</u>
Committed To:			
General Government	16,614,138	-	16,614,138
Human Services	-	405,754	405,754
Public Safety	-	1,837,645	1,837,645
Subtotal	<u>16,614,138</u>	<u>2,243,399</u>	<u>18,857,537</u>
Assigned To:			
General Government	2,924,380	-	2,924,380
Human Services	14,504	-	14,504
Public Safety	205,709	-	205,709
Public Works	731,281	-	731,281
Culture/Recreation	7,033	-	7,033
Education	4,624,115	-	4,624,115
Subtotal	<u>8,507,022</u>	<u>-</u>	<u>8,507,022</u>
Unassigned	<u>25,673,337</u>	<u>(5,838,791)</u>	<u>19,834,546</u>
 Total Fund Balances	 <u>\$ 83,683,867</u>	 <u>\$ 26,808,553</u>	 <u>\$ 110,492,420</u>

The City maintains a stabilization account in accordance with MGL Chapter 40 Section 5B that is reported as unassigned fund balance in the general fund. The City may appropriate in any year an amount not exceeding 10% of the amount raised in the preceding fiscal year from real and personal property taxes, or a larger amount as approved by the Department of Revenue. Further, the stabilization account may not exceed 10% of the City's equalized valuation as defined in MGL Chapter 44 Section 1. Funds can be appropriated from the stabilization account by 2/3 vote of City Council, but only a simple majority to appropriate money into the fund. The balance of the stabilization accounts was \$3.4 million at June 30, 2018.

Pursuant to Chapter 324 of the Acts of 1990, the City maintains a separate reserve for unforeseen and extraordinary expenditures. The purpose of the reserve is to ensure fiscal stability and must be maintained at a minimum balance of 1.5% of the gross amount raised on the prior year approved property tax filing. The balance of the reserve at June 30, 2018, totaled \$6.3 million, and is reported as restricted in the general fund.

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 18 TAX ABATEMENTS

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

The City negotiates property tax abatement agreements on an individual basis. As of June 30, 2018, the City had tax abatement agreements with 14 entities, all of which received abatements in fiscal year 2018. The City's policy is to disclose individual tax abatement agreements in which the amount abated exceeded 10% of the total abatements made by the City in any given fiscal year. In fiscal year 2018, taxes abated under these agreements totaled \$809,529.

- 540 Westgate Drive – A 50 percent property tax abatement to a company related to redevelopment and expansion of the property for expanded restaurant and retail opportunities and a new cinema. The expansion is expected to result in the creation of additional jobs for residents of Brockton. The total abatement for fiscal year 2018 amounted to \$240,918.
- 160 Pleasant St - A 100 percent property tax abatement to a company related to the renovation and expansion of a supermarket, and a condominium unit. The expansion is expected to result in the creation of additional jobs for residents of Brockton. The total abatement for fiscal year 2018 amounted to \$119,628.
- 309 Battles St. – A 95 percent property tax abatement to a company related to the purchase and redevelopment of an abandoned building. The redevelopment is expected to result in the creation of additional jobs for residents of Brockton. The total abatement for fiscal year 2018 amounted to \$113,669.
- 14 E. Union St. - A 100 percent property tax abatement to a company related to the purchase and redevelopment of an abandoned building. The redevelopment is expected to result in additional jobs to residents and expand commercial and industrial activity in Brockton. The total abatement for fiscal year 2018 amounted to \$126,274.

NOTE 19 FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

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

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 19 FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS (CONTINUED)

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

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

Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which is required to be implemented during fiscal year 2019. Management is currently evaluating the Statement's impact on the basic financial statements.

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is required to be implemented during fiscal year 2021. Management is currently evaluating the Statement's impact on the basic financial statements.

Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, which is required to be implemented during fiscal year 2020. Management is currently evaluating the Statement's impact on the basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS
BUDGETARY COMPARISON SCHEDULE — GENERAL FUND
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2018
(UNAUDITED)**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources (Inflows):				
Real and Personal Property Taxes, Net	\$ 136,083,937	\$ 136,083,937	\$ 136,091,935	\$ 7,998
Motor Vehicle and Other Excise	9,463,800	9,463,800	10,916,163	1,452,363
Penalties and Interest on Taxes	1,671,700	1,671,700	1,943,675	271,975
Payments in Lieu of Taxes	151,200	151,200	162,764	11,564
User Charges and Other Revenue	618,925	618,925	1,525,804	906,879
Fees	1,393,300	1,393,300	1,595,675	202,375
Licenses and Permits	3,388,882	3,388,882	3,513,222	124,340
Intergovernmental	197,704,212	197,704,212	198,440,180	735,968
Fines	430,400	430,400	226,495	(203,905)
Investment Income	201,200	201,200	509,861	308,661
Transfers In	6,681,886	8,434,381	8,641,105	206,724
Amounts Available for Appropriation	<u>357,789,442</u>	<u>359,541,937</u>	<u>363,566,879</u>	<u>4,024,942</u>
Charges to Appropriations (Outflows):				
Current:				
General Government	16,139,859	15,139,859	14,233,974	905,885
Public Safety	54,318,787	55,295,287	50,835,514	4,459,773
Education	174,335,453	175,221,448	175,221,443	5
Public Works	9,095,542	9,095,542	8,463,605	631,937
Human Services	2,821,865	2,844,865	2,532,708	312,157
Culture and Recreation	2,879,303	2,879,303	2,477,473	401,830
State and County Assessments	15,067,785	15,067,785	15,374,078	(306,293)
Pension and Fringe Benefits	82,072,229	82,272,229	78,152,195	4,120,034
Court Judgments	250,000	250,000	164,687	85,313
Capital Outlay	404,579	771,579	651,866	119,713
Debt Service	11,859,840	11,859,840	11,627,551	232,289
Transfers Out	1,984,127	2,284,127	2,284,127	-
Total Charges to Appropriations	<u>371,229,369</u>	<u>372,981,864</u>	<u>362,019,221</u>	<u>10,962,643</u>
Excess (Deficiency) of Resources Over Charges to Appropriations	<u>(13,439,927)</u>	<u>(13,439,927)</u>	<u>\$ 1,547,658</u>	<u>\$ 14,987,585</u>
Other Budget Items:				
Free Cash	14,581,067	14,581,067		
Other Available Funds	<u>(1,141,140)</u>	<u>(1,141,140)</u>		
Total Other Budget Items	<u>13,439,927</u>	<u>13,439,927</u>		
Net Budget	<u>\$ -</u>	<u>\$ -</u>		

See accompanying Independent Auditors' Report.

**CITY OF BROCKTON, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018
(UNAUDITED)**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability:				
Service Cost	\$ 13,782,419	\$ 13,252,326	\$ 11,641,512	\$ 10,817,393
Interest	48,362,463	46,791,714	44,359,746	41,739,197
Differences Between Expected and Actual Experience	4,943,799	-	11,431,816	-
Changes in Assumptions	22,366,074	-	-	17,356,197
Benefit Payments, Including Refunds of Member Contributions	<u>(41,835,507)</u>	<u>(39,288,216)</u>	<u>(38,024,658)</u>	<u>(37,937,119)</u>
Net Change in Total Pension Liability	47,619,248	20,755,824	29,408,416	31,975,668
Total Pension Liability - Beginning	<u>611,666,125</u>	<u>590,910,301</u>	<u>561,501,885</u>	<u>529,526,217</u>
Total Pension Liability - Ending ^(a)	<u>\$ 659,285,373</u>	<u>\$ 611,666,125</u>	<u>\$ 590,910,301</u>	<u>\$ 561,501,885</u>
Plan Fiduciary Net Position:				
Contributions - Employer	\$ 25,014,425	\$ 20,072,463	\$ 19,247,619	\$ 19,332,315
Contributions - Member	9,184,633	8,825,940	8,302,780	8,467,701
Net Investment Income	55,086,280	30,472,468	(7,554,439)	15,837,436
Benefit Payments, Including Refunds of Member Contributions	(41,835,507)	(39,288,216)	(38,024,658)	(37,937,119)
Other, Net	-	(366,882)	(798,475)	(406,376)
Administrative Expense	<u>(785,306)</u>	<u>(779,411)</u>	<u>(686,453)</u>	<u>(677,927)</u>
Net Change in Plan Fiduciary Net Position	46,664,525	18,936,362	(19,513,626)	4,616,030
Plan Fiduciary Net Position - Beginning	<u>371,414,117</u>	<u>352,477,755</u>	<u>371,991,381</u>	<u>367,375,351</u>
Plan Fiduciary Net Position - Ending ^(b)	<u>\$ 418,078,642</u>	<u>\$ 371,414,117</u>	<u>\$ 352,477,755</u>	<u>\$ 371,991,381</u>
Net Pension Liability - Ending ^{(a)(b)}	<u>\$ 241,206,731</u>	<u>\$ 240,252,008</u>	<u>\$ 238,432,546</u>	<u>\$ 189,510,504</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.41%	60.72%	59.65%	66.25%
Covered Payroll	\$ 90,223,109	\$ 93,327,963	\$ 89,738,426	\$ 76,707,094
Net Pension Liability as a Percentage of Covered Payroll	267.34%	257.43%	265.70%	247.06%

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

**CITY OF BROCKTON, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018
(UNAUDITED)**

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Actuarially Determined Contribution	\$ 25,014	\$ 20,072	\$ 19,290	\$ 19,290	\$ 17,239	\$ 16,597	\$ 13,788	\$ 11,517	\$ 11,117	\$ 10,958
Contributions in Relation to the Actuarially Determined Contribution	<u>25,014</u>	<u>20,072</u>	<u>19,248</u>	<u>19,332</u>	<u>17,283</u>	<u>16,639</u>	<u>13,834</u>	<u>11,618</u>	<u>11,117</u>	<u>10,946</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42</u>	<u>\$ (42)</u>	<u>\$ (44)</u>	<u>\$ (42)</u>	<u>\$ (46)</u>	<u>\$ (101)</u>	<u>\$ -</u>	<u>\$ 12</u>
Covered Payroll	\$ 90,223	\$ 93,328	\$ 89,738	\$ 76,707	\$ 76,378	\$ 74,417	\$ 74,417	\$ 75,433	\$ 74,357	\$ 74,357
Contributions as a Percentage of Covered Payroll	27.72%	21.51%	21.45%	25.20%	22.63%	22.36%	18.59%	15.40%	14.95%	14.72%

See accompanying Independent Auditors' Report.

**CITY OF BROCKTON, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018
(UNAUDITED)**

**Schedule of Investment Returns
Brockton Contributory Retirement System ⁽¹⁾**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual Money-Weighted Rate of Return, Net of Investment Income	15.05%	8.80%	-2.06%	4.38%

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

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
City's Proportion of the Net Pension Liability	93.40333%	93.03000%	93.02878%	93.50853%
City's Proportionate Share of the Net Pension Liability	225,295,129	223,506,439	221,810,876	177,208,481
City's Covered Payroll	84,271,388	86,823,004	72,465,192	69,675,322
City's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	267.3%	257.4%	306.1%	254.3%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	63.41%	60.72%	59.65%	66.25%

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

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

**CITY OF BROCKTON, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018
(UNAUDITED)**

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

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Actuarially Determined Contribution	\$ 23,364	\$ 18,673	\$ 17,945	\$ 18,038	\$ 16,075	\$ 15,477	\$ 12,732	\$ 10,342	\$ 9,709	\$ 9,742
Contributions in Relation to the Actuarially Determined Contribution	<u>23,364</u>	<u>18,673</u>	<u>17,945</u>	<u>18,038</u>	<u>16,075</u>	<u>15,477</u>	<u>12,732</u>	<u>10,342</u>	<u>9,709</u>	<u>9,742</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 84,271	\$ 86,823	\$ 72,465	\$ 69,675	\$ 71,795	\$ 69,952	\$ 69,952	\$ 70,907	\$ 74,356	\$ 69,896
Contributions as a Percentage of Covered Payroll	27.72%	21.51%	24.76%	25.89%	22.39%	22.13%	18.20%	14.59%	13.06%	13.94%

See accompanying Independent Auditors' Report.

**CITY OF BROCKTON, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018
(UNAUDITED)**

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

	2018	2017	2016	2015
City's Share of Net Pension Liability	\$ 406,936,492	\$ 389,967,839	\$ 372,391,598	\$ 293,063,758
Commonwealth's Share of the City's Net Pension Liability	406,936,492	389,967,839	372,391,598	293,063,758
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
City's Expense and Revenue Recognized for the Commonwealth's Support	\$ 42,473,146	\$ 39,779,276	\$ 30,204,273	\$ 20,360,546
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	54.25%	52.73%	55.38%	61.64%

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

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

**CITY OF BROCKTON, MASSACHUSETTS
 REQUIRED SUPPLEMENTARY INFORMATION
 JUNE 30, 2018
 (UNAUDITED)**

Schedule of Changes in the Total OPEB Liability ⁽¹⁾

	2018
Total OPEB Liability:	
Service Cost	\$ 28,647,015
Interest	21,275,694
Differences Between Expected and Actual Experience	(1,084,896)
Benefit Payments, Including Refunds of Member Contributions	(14,940,000)
Net Change in Total Pension Liability	33,897,813
Total OPEB Liability - Beginning	721,419,471
Total OPEB Liability - Ending	\$ 755,317,284
Covered Payroll	\$ 216,000,000
Total OPEB Liability as a Percentage of Covered Payroll	349.68%

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

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018
(UNAUDITED)

NOTE 1 BUDGETARY BASIS OF ACCOUNTING

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

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

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

- (a) Budgeted revenues are recorded when cash is received, as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget), as opposed to an assignment of fund balance (GAAP).

NOTE 2 EXPENDITURES IN EXCESS OF BUDGET

In fiscal year 2018, expenditures and encumbrances and continuing appropriations exceeded budgeted amounts for State and County Assessments (\$306,293).

CITY OF BROCKTON, MASSACHUSETTS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
JUNE 30, 2018
(UNAUDITED)

NOTE 3 EXPLANATION OF DIFFERENCES BETWEEN BUDGETARY INFLOWS AND OUTFLOWS AND GAAP REVENUES AND EXPENDITURES – GENERAL FUND

Budgetary Inflows and GAAP Revenues:

Actual Amounts (Budgetary Basis) "Amounts Available for Appropriation" from the Budgetary Comparison Schedule	\$ 363,566,879
Differences - Budget to GAAP:	
Property and Excise Taxes, and Intergovernmental Revenues are Reported as a Budgetary Resource on the Cash Basis, Rather Than on the Modified Accrual Basis	1,123,019
Stabilization Fund Earnings	29,324
MTRS On-Behalf Payments	42,473,146
Transfers from Other Funds are Inflows of Budgetary Resources But Are Not Revenues for Financial Reporting Purposes	<u>(8,641,105)</u>
Total Revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances	<u>\$ 398,551,263</u>

Budgetary Outflows and GAAP Revenues:

Actual Amounts (Budgetary Basis) "Total Charges to Appropriation" from the Budgetary Comparison Schedule	\$ 362,019,221
Differences - Budget to GAAP:	
Enterprise Fund Related Budgetary Expenditures are Recorded as Reductions to Transfers for GAAP Purposes	(2,787,294)
Health Claims Expenditures and Accruals Are Not reported as Charges to Appropriations on a Budgetary Basis	(3,608,130)
Adjustments for Expenditures, Encumbrances, and Accruals, Net	(111,758)
MTRS On-Behalf Payments	42,473,146
Transfers to Other Funds are Outflows of Budgetary Appropriations But Are Not Expenditures for Financial Reporting Purposes	<u>(2,284,127)</u>
Total Expenditures as Reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances	<u>\$ 395,701,058</u>

**CITY OF BROCKTON, MASSACHUSETTS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
JUNE 30, 2018
(UNAUDITED)**

NOTE 4 SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

Valuation Date	January 1, 2018
Methods:	
Actuarial Cost Method	Entry Age Normal Cost
Asset Valuation Method	Fair Value
Assumptions:	
Inflation	3.00%
Salary Increases	Based on years of service, ranging from 7.00% at 0 years of service decreasing to 3.75% after 9 years of service
Investment Rate of Return	8.0%, net of investment expenses
Cost of Living Adjustments	3.0% of the first \$12,000 annually
Mortality	Healthy Retiree - RP-2000 Mortality Table projected generationally with Scale BB for males and females Disabled Retiree - RP-2000 Mortality Table set forward two years for all disabled members
Retirement Rates	General Employees - 1.0% and 1.5% for males and females, respectively, beginning at age 50 ranging to 30.0% and 20.0% for males and females, respectively, ending at age 69 Police and Fire - 1.0% beginning at age 45 ranging to 100.0% at age 65

**CITY OF BROCKTON, MASSACHUSETTS
BUDGETARY COMPARISON SCHEDULE — WATER ENTERPRISE FUND
ADDITIONAL INFORMATION
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources:				
Charges for Services	\$ 16,682,562	\$ 17,182,562	\$ 17,056,588	\$ (125,974)
Departmental Charges and Fees	691,175	691,175	678,908	(12,267)
Miscellaneous	34,778	34,778	34,778	-
Amounts Available for Appropriation	<u>17,408,515</u>	<u>17,908,515</u>	<u>17,770,274</u>	<u>(138,241)</u>
Charges to Appropriations:				
Salaries and Benefits	3,232,945	3,232,945	3,014,288	218,657
Ordinary Maintenance	11,341,250	11,841,250	11,090,788	750,462
Debt Service	2,107,528	2,107,528	2,046,264	61,264
Capital Outlay	135,842	135,842	93,559	42,283
Total Charges to Appropriations	<u>16,817,565</u>	<u>17,317,565</u>	<u>16,244,899</u>	<u>1,030,383</u>
Excess (Deficiency) of Resources Over Charges to Appropriations	590,950	590,950	1,525,375	892,142
Other Financing Sources (Uses):				
Certified Retained Earnings	170,498	170,498	170,498	-
Transfers Out	(761,448)	(761,448)	(761,448)	-
Total Other Financing Sources (Uses)	<u>(590,950)</u>	<u>(590,950)</u>	<u>(590,950)</u>	<u>-</u>
Net Changes in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 934,425</u>	<u>\$ 892,142</u>

See accompanying Independent Auditors' Report.

**CITY OF BROCKTON, MASSACHUSETTS
 BUDGETARY COMPARISON SCHEDULE — SEWER ENTERPRISE FUND
 ADDITIONAL INFORMATION
 YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
Resources:				
Charges for Services	\$ 17,094,878	\$ 17,094,878	\$ 19,802,275	\$ 2,707,397
Departmental Charges and Fees	426,415	426,415	415,947	(10,468)
Miscellaneous	250,558	250,558	250,558	-
Amounts Available for Appropriation	<u>17,771,851</u>	<u>17,771,851</u>	<u>20,468,780</u>	<u>2,696,929</u>
Charges to Appropriations:				
Salaries and Benefits	1,656,750	1,656,750	1,540,564	116,186
Ordinary Maintenance	10,247,012	10,247,012	9,331,792	915,220
Debt Service	6,950,207	6,950,207	6,848,924	101,283
Capital Outlay	1,937,656	1,937,656	1,814,248	123,408
Total Charges to Appropriations	<u>20,791,625</u>	<u>20,791,625</u>	<u>19,535,528</u>	<u>1,256,097</u>
Excess (Deficiency) of Resources Over Charges to Appropriations	(3,019,774)	(3,019,774)	933,252	3,953,026
Other Financing Sources (Uses):				
Certified Retained Earnings	4,426,183	4,426,183	4,426,183	-
Transfers Out	(1,406,409)	(1,406,409)	(1,406,409)	-
Total Other Financing Sources (Uses)	<u>3,019,774</u>	<u>3,019,774</u>	<u>3,019,774</u>	<u>-</u>
Net Changes in Fund Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,953,026</u>	<u>\$ 3,953,026</u>

See accompanying Independent Auditors' Report.

Investment advisory services are offered through CliftonLarsonAllen Wealth Advisors, LLC,
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