

CITY OF BROCKTON, MASSACHUSETTS

Basic Financial Statements,
Required Supplementary Information
and Additional Information

June 30, 2014

(With Independent Auditors' Report Thereon)

CITY OF BROCKTON, MASSACHUSETTS

Table of Contents

	Page(s)
Independent Auditors' Report	1 – 3
Management's Discussion and Analysis	4 – 21
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Position	23
Statement of Activities	24
Fund Financial Statements:	
Balance Sheet – Governmental Funds	25
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	26
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	27
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	28
Statement of Net Position – Proprietary Funds	29
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	30
Statement of Cash Flows – Proprietary Funds	31
Statement of Net Position – Fiduciary Funds	32
Statement of Changes in Net Position – Fiduciary Funds	33
Notes to Basic Financial Statements	34 – 65
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	66
Notes to Required Supplementary Information	67 – 68
Schedules of Funding Progress and Contributions from Employers	69
Additional Information	
Budgetary Comparison Schedule – Water Enterprise Fund	70
Budgetary Comparison Schedule – Sewer Enterprise Fund	71

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Brockton, Massachusetts (the City), as of and for the year ended June 30, 2014 (except for the Brockton Contributory Retirement System, which is as of and for the year ended December 31, 2013), and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2014 (except for the Brockton Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2013), 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

As described in Note 16 to the financial statements, the City has restated its 2013 Governmental Activities beginning net position for the correction of an error. This restatement is due to an understatement of tax possessions. Our opinion is unmodified with respect to this matter.

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 66 through 69) 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 were 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2015 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Boston, Massachusetts
March 27, 2015

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(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, 2014.

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

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

Financial Highlights

The assets of the City exceeded its liabilities at the close of fiscal year 2014 by approximately \$152.0 million (net position).

- The City's total net position decreased in fiscal year 2014 by approximately \$25.4 million, or 35.8%. This is primarily due to the recognition of a \$20.3 million increase in the other post-employment benefit (OPEB) liability.
- At the end of fiscal year 2014, unassigned fund balance for the general fund was approximately \$19.6 million or 5.9%, of total general fund expenditures.
- The City's total bonded debt decreased by approximately \$5.3 million during fiscal year 2014. 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 and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick and vacation time).

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

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

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

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

The City maintains 40 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balance for the general fund and school roof repairs fund, which are the City's major governmental funds. Data from the other nonmajor governmental funds are combined into a single, aggregated presentation.

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

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

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

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

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

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, assets exceeded liabilities by approximately \$152.0 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 \$5.3 million, or 2.2% from the prior fiscal year. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt are generally provided from other sources, since the capital assets themselves typically are not used to liquidate these liabilities.

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

An additional portion of the City's net position (\$39.6 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance of a negative \$133.5 million represents an unrestricted net deficit.

Condensed Statements of Net Position (In thousands)

	Governmental activities		Business-type activities		Total	
	2014	2013*	2014	2013	2014	2013*
Current and other assets	\$ 237,402	244,885	40,221	42,639	277,623	287,524
Capital assets	191,967	197,285	184,016	183,731	375,983	381,016
Total assets	\$ 429,369	442,170	224,237	226,370	653,606	668,540
Deferred outflows of resources	\$ 258	411	89	123	347	534
Long-term debt outstanding	\$ 125,896	125,026	98,775	104,985	224,671	230,011
Other liabilities	261,464	246,661	15,841	15,069	277,305	261,730
Total liabilities	\$ 387,360	371,687	114,616	120,054	501,976	491,741
Net position:						
Invested in capital assets	\$ 159,369	160,475	86,475	80,067	245,844	240,542
Restricted	39,610	34,824	—	—	39,610	34,824
Unrestricted	(156,712)	(124,405)	23,236	26,372	(133,476)	(98,033)
Total net position	\$ 42,267	70,894	109,711	106,439	151,978	177,333

*Reflects adjustment to account for tax possessions. See Note 16 for further details.

Total Net Position

During fiscal year 2014, the City's net position decreased by about \$25.4 million, or 14.3%. The decrease in net position was due to the recognition of the increase in the City's OPEB net obligation totaling \$20.3 million.

Governmental Activities – Assets

For governmental activities, current and other assets decreased \$4.9 million, coupled with a decrease in capital assets of \$5.3 million, resulting in a decrease in total assets of \$10.2 million. The decrease in the capital assets was the result of depreciation exceeding capital additions during fiscal year 2014.

Governmental Activities – Liabilities

Governmental activities liabilities increased by \$15.7 million. There was an increase of \$14.8 million in other liabilities and an \$870 thousand increase in long-term debt outstanding. The increase in other liabilities was primarily due to the recognition of a \$20.3 million increase of the OPEB net obligation while the increase in long-term debt outstanding was due to scheduled debt repayments offset by increases in debt service due to new debt financing.

The City's 2014 annual required contribution (ARC) was \$35.3 million. Interest on the net OPEB obligation and adjustments to the ARC totaled \$99,479 thousand. Contributions against the ARC on a pay-as-you-go basis

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

totaled \$15.0 million resulting in an increase in the government-wide net OPEB obligation of \$20.3 million. While the City's net OPEB obligation is \$204.6 million as of June 30, 2014, ultimately, over the next 30 years, the City will recognize the entire OPEB obligation, which is estimated at \$417.0 million as of June 30, 2014, the date of the City's most recent actuarial valuation.

Business Type Activities – Assets

For business type activities, there was an increase in net position of \$3.3 million. Current and other assets decreased by \$2.4 million, while capital assets increased by \$285 thousand, and total assets decreased by \$2.1 million. The decrease in current and other assets was due primarily to the decrease in the recognition of receivables related to the major ongoing investment in and upgrade of the wastewater and water treatment plants. The increase in capital assets of \$285 thousand is due to depreciation totaling less than the City's continued investment in capital spending that has been funded with borrowings from the Massachusetts Water Pollution Abatement Trust (MWPAT). In 2014, additions to business type activities capital assets totaled \$6.9 million, which is reflected in construction in progress, buildings, machinery and equipment and infrastructure. The work, when completed, will have improved the processing capability and increased the throughput capacity of the plants. The depreciation expense for all business type activities totaled \$6.6 million.

Business Type Activities – Liabilities

Business type activities liabilities decreased by \$5.4 million. There was an increase of \$800 thousand in other liabilities and a decrease of \$6.2 million in long-term debt outstanding. The increase in other liabilities was the result of a net increase in the warrants and account payable and compensated absences and claims. The decrease of the long-term debt was the result of yearly required debt service payments exceeding new issuances.

Governmental Activities – Statement of Activities

Gross expenses for governmental activities were \$403.5 million for fiscal year 2014. This reflected an increase of \$11.5 million, or 2.9%. Included in this net increase is the City's recognition of \$20.3 million of additional expense across all categories of governments related to the increase in the City's OPEB net obligation.

Total general revenues for governmental activities of \$146.8 million offset total net expenses of \$175.4 million. Major ongoing revenue contributors were the net property tax at \$115.3 million, an increase of \$6.5 million. The remaining categories in total increased by \$2.6 million, excise taxes at \$7.3 million, an increase of \$919 thousand, intergovernmental at \$20.3 million, an increase of \$1.1 million and other totaling \$4.0 million, an increase of \$576 thousand.

In assessing the City's revenue adequacy to finance governmental activities, it is important to acknowledge the criticality of payments from outside agencies, especially from state and federal programs. Total revenues, excluding transfers, for governmental activities were \$375.0 million. Of this total almost \$228.1 million, or 61.0%, 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 \$20.3 million in intergovernmental aid which is classified as general revenue. An additional 30.1% of the total is derived from the City's property tax. The severe constraints on the City's revenue flexibility to pay for governmental activities is demonstrated by the fact that almost 90% of its revenues are obtained from either intergovernmental sources over which the City has no control, or from the property tax, a source whose growth is limited by state law.

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

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 2014, the City levied a total of \$116.7 million in gross real estate property taxes against an aggregate fair market assessed value of \$5.4 billion. This levy left only a small amount in unused levy capacity without the approval of the voters. However, the levy comprised only 2.1% of the City's aggregate assessed value. With voter approval, the City could levy an additional \$17.3 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 3.1%.

The water fund incurred a \$622 thousand increase; the sewer fund contributed a \$2.1 million increase, while the net position for the combination of the nonmajor recreation, refuse and renewable energy funds increased \$592 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 self-sufficient. The water and sewer funds are designed to recover the costs of operations of those funds. In the water fund the operating income totaled \$436 thousand. In the sewer fund the operating income totaled \$4.3 million. In the water and sewer funds, cash flow from operations of \$2.4 million and \$10.0 million, respectively. In both of these funds a major upgrade to the wastewater and water treatment plants is ongoing and required a major contribution of resources to finance both the construction itself and the impact of construction in increased plant operating costs.

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

Condensed Statement of Changes in Net Position

(In thousands)

	Governmental activities		Business-type activities		Total	
	2014	2013*	2014	2013	2014	2013*
Revenues:						
Program revenues:						
Charge for services	\$ 13,983	13,128	41,558	39,397	55,541	52,525
Operating grants	214,081	208,101	818	781	214,899	208,882
Capital grants	—	8,150	448	390	448	8,540
General revenues:						
Property taxes	115,272	108,794	—	—	115,272	108,794
Excise taxes	7,335	6,416	—	—	7,335	6,416
Intergovernmental	20,339	19,282	—	—	20,339	19,282
Other	3,949	3,372	—	—	3,949	3,372
Total revenues	<u>374,959</u>	<u>367,243</u>	<u>42,824</u>	<u>40,568</u>	<u>417,783</u>	<u>407,811</u>
Expenses:						
General government	28,780	26,807	—	—	28,780	26,807
Public safety	69,071	61,014	—	—	69,071	61,014
Education	271,542	270,552	—	—	271,542	270,552
Public works	12,940	12,190	—	—	12,940	12,190
Human services	3,727	3,788	—	—	3,727	3,788
Culture and recreation	3,561	3,952	—	—	3,561	3,952
State and county assessments	7,192	6,707	—	—	7,192	6,707
Court judgments	326	285	—	—	326	285
Interest on long-term debt	6,324	6,623	—	—	6,324	6,623
Enterprise accounts:						
Water	—	—	15,909	15,442	15,909	15,442
Sewer	—	—	14,926	15,725	14,926	15,725
Other	—	—	8,840	8,453	8,840	8,453
Total expenses	<u>403,463</u>	<u>391,918</u>	<u>39,675</u>	<u>39,620</u>	<u>443,138</u>	<u>431,538</u>
Excess (deficiency) before transfers	<u>(28,504)</u>	<u>(24,675)</u>	<u>3,149</u>	<u>948</u>	<u>(25,355)</u>	<u>(23,727)</u>
Transfers	<u>(123)</u>	<u>415</u>	<u>123</u>	<u>(415)</u>	<u>—</u>	<u>—</u>
Total transfers	<u>(123)</u>	<u>415</u>	<u>123</u>	<u>(415)</u>	<u>—</u>	<u>—</u>
Change in net position	<u>(28,627)</u>	<u>(24,260)</u>	<u>3,272</u>	<u>533</u>	<u>(25,355)</u>	<u>(23,727)</u>
Net position – beginning of year - restated	<u>70,894</u>	<u>95,154</u>	<u>106,439</u>	<u>105,906</u>	<u>177,333</u>	<u>201,060</u>
Net position – end of year	<u>\$ 42,267</u>	<u>70,894</u>	<u>109,711</u>	<u>106,439</u>	<u>151,978</u>	<u>177,333</u>

*Reflects adjustment to account for tax possessions. See Note 16 for further details.

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

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.

As of the end of the fiscal year 2014, the City's governmental funds reported combined fund balances of approximately \$87.0 million, an increase of approximately \$2.4 million, or 2.8%, in comparison with the prior year. The general fund balance decreased by \$5.9 million, from \$67.4 million to \$61.5 million; the school roof repairs fund deficit increased by \$7.0 million, from a deficit of \$7.1 million to a negative fund balance of \$632 and the combined fund balances for all the other governmental funds increased by \$1.2 million, from \$24.2 million to \$25.4 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 \$2.4 million, compared to its decrease in net position of \$28.6 million, a difference of \$31.0 million, is explained largely by the following factors:

1. \$4.7 million – the negative effect of revenue accruals.
2. \$5.3 million – the negative effect of the amount by which depreciation expense exceeded capital asset additions.
3. \$79 thousand – the amortization effect of the pension asset in the statement of activities, which is not included in the operating statement of the governmental funds.
4. \$20.0 million – the negative effect of increases in other liabilities, primarily OPEB, which did not require the use of current resources.
5. \$28 thousand – the positive effect of the amount by which the amortization of deferred losses on refunding and bond issue costs exceeds bond premiums.
6. \$5.8 million – the positive effect of the amount by which the repayment of bond principal are expenditures in the governmental funds but reduce long-term liabilities in the statement of net position.
7. \$6.8 million – the negative effect of the amount related to issuance of bonds .

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

Of the total of ending fund balances of \$87.0 million, \$13.4 million constitutes “nonspendable” fund balance, which is not available for spending by the City because this fund balance amount cannot be spent because they are either not in spendable form or they are legally or contractually required to remain intact. \$33.8 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. \$15.6 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. \$4.6 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. \$19.5 million constitutes “unassigned” fund balance, amounts in the general fund that are not otherwise constrained for a specific purpose more narrow than the general operations of the City.

For General Fund Balance:

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

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

The total fund balance of \$7.0 million consists of the following:

The FY 2014 General Fund Non-spendable fund balance represents the Note Receivable from the Brockton 21st Century Corporation pursuant to an agreement further described in footnote (3) Receivables – (b) Note Receivable in the amount of \$7.0 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 \$16.9 million consists of the following:

The FY 2014 General Fund Restricted Fund balance represents the Health Insurance Trust fund in the amount of \$11.4 million. This amount consists of the Health Insurance Trust Fund balance of \$5.5 million and the amount

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

for the FY 2014 Blue Cross and Blue Shield amount held on deposit to pay claims totaling \$5.9 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 2014 General Fund Restricted Fund Balance in the amount of \$5.5 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 at least or equal to 1.5% of the "Gross Amount Raised" as reported to the state on the prior year property tax approval filing. This reserve may only be used for unforeseen and extraordinary expenditures.

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 fund balance includes the Certified Free Cash in the amount \$13.4 million appropriated for the use in the FY 2015 budget. Not infrequently, governments balance their budget by appropriating a portion of existing fund balance to bridge the gap between appropriations and estimated revenues.

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

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

The 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.

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

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

The total fund balance of \$4.6 million consists of the following:

The FY 2014 General Fund Assigned Fund Balance amount represents year-end encumbrances in the amount of \$4.6 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. Amounts in the general fund that is not otherwise constrained for a specific purpose.

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

The total fund balance of \$19.6 million consists of the following:

This grouping includes the City's Stabilization fund in the amount of \$2.4 million and the City's undesignated fund Balance in the amount of \$17.2 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 \$17.2 million consists of the following:

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

This grouping includes the City's accumulated surplus in the amount of \$17.2 million.

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 \$61.5 million, a decrease of \$5.9 million. This decrease in fund balance was largely driven by a deficiency of revenues and other financing sources over expenditures and other financing uses.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 5.9% of total general fund expenditures, while total fund balance represents 18.4% 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.

The school roof repairs fund accounts for the rehabilitation of several school roofs, boilers and windows related to the Massachusetts School Building Assistance Bureau Green Repair Program. At June 30, 2014, the total fund balance was a negative \$632 dollars. The prior year deficit of \$7.1 million was eliminated by the permanent financing of its short-term debt.

Proprietary Funds

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

The net position of the proprietary funds at the end of the current fiscal year totaled approximately \$109.7 million. Changes in net position of the proprietary funds at the end of the current fiscal year totaled a increase of approximately \$3.3 million, or 3.1%.

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

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

For the water fund, the fiscal year 2014 operating income was \$436 thousand, or 2.8% of operating revenues. Nonoperating revenues (expenses) and transfers essentially netted to a positive \$186 thousand, and so net position increased by \$622 thousand. Cash flow from operations was \$2.4 million.

For the sewer fund, operating income was \$4.3 million, or 24.8% of operating revenues. However, nonoperating expenses and transfers decreased net position by \$2.2 million and so net position increased by \$2.1 million. The strong operating income was driven by an increase in sewer rates which is meant to recover future costs, which resulted in a strong operating income in fiscal year 2014. Cash flow from operations was \$10.0 million.

For the combined results of the other enterprise funds, the value of net position increased by \$592 thousand or 7.0%. The operating loss for combined other enterprise funds was \$506 thousand in fiscal year 2014 or 6.0% of operating revenues. With the benefit of net transfers in (general fund subsidy) and the nonoperating revenue of \$1.1 million, the operating loss of \$506 thousand became an \$592 thousand increase in net position.

Budgetary Highlights

In fiscal year 2014, the original budget called for \$329.7 million in spending. Of this amount \$167.3 million was for Education spending, \$44.7 million was for Public Safety spending, \$66.4 million was for Fringe Benefit spending and \$51.3 million for all other categories.

Resources totaled \$316.6 million, creating a planned deficit of approximately \$13.1 million. Offsetting this deficit was a contribution from "Free Cash" of \$13.3 million. The remaining total of approximately \$0.2 million was applied to Other Financing Sources/(Uses).

In the final budget, a total of \$332.6 million in spending was authorized, an increase of \$2.9 million. The budgets that made up this amount included the following: the public safety budget by \$2.9 million; all other budgets did not increase. To help finance the additional \$2.9 million in authorized spending, the other financing sources/(uses), including transfers in were increased by \$2.9 million.

On an actual basis, resources were higher than the final budget by \$9.8 million. The majority of revenue categories resulted in a positive variance with the exceptions of intergovernmental and 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 2014, the positive variance was largely driven by the Real and Personal property taxes, Motor Vehicle Excise Taxes revenue collection activities, Fees revenue collection activities, Licenses and Permits revenues collection activities, User charges and other revenue, and Fines revenue. The increase in the Excise tax revenues were the result of increased collections in the categories of excise taxes revenues. The Fees category increased as a result of the City receiving the yearly fee for the local cable franchise. The Licenses and Permit revenue increased as a result of an increase in the City departments licenses and permits fees activity. The Fines revenue increased as a result of an increase in the City departments fine issuance activity.

On the expenditure side, a favorable variance of \$4.2 million was achieved. The City has typically achieved 1% to 2% positive variance on spending. For fiscal year 2014, this positive variance was driven by actual budgetary expenditures less than budgeted expenditures in the general government, public safety, and pension and fringe benefits. The reasons for the positive variances in the general government, public safety, and pension and fringe was due to conservative budgeting in these line items.

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

As a result of the revenue and expenditure positive variances, the City's fiscal year 2014 general fund operations estimated to create free cash of approximately \$13.1 million to be used in the FY 2016 budget.

Capital Assets and Debt Administration

Capital Assets – The City's investment in capital assets for its governmental and business-type activities as of June 30, 2014 amounted to approximately \$376.0 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, construction-in-progress, buildings, machinery and equipment, infrastructure, and historical works of art. The total decrease in the City's investment in capital assets of \$5.0 million for fiscal year 2014 represented a decrease of 1.3%. Capital assets for governmental activities decreased by \$5.3 million, or 2.7%, while capital assets for business-type activities increased by \$285 thousand, or less than 1%. The increase in capital assets for business-type activities was primarily caused by the capital asset additions exceeding depreciation. In FY 2012 the City started an approximately \$35.8 million Green Repair project to rehab several school roofs, boilers and windows. This project was completed in FY 2014. The decrease in capital assets for governmental activities is the result of depreciation exceeding capital asset additions.

Major capital assets included the following:

Capital Assets (In thousands)						
	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 7,411	7,411	3,246	3,246	10,657	10,657
Construction in progress	1,095	34,492	9,049	9,725	10,144	44,217
Historical works of art	1,809	1,809	—	—	1,809	1,809
Buildings	151,040	122,068	130,092	134,158	281,132	256,226
Land improvements	4,226	3,848	332	379	4,558	4,227
Machinery and equipment	4,169	4,557	8,960	2,665	13,129	7,222
Infrastructure	22,217	23,100	32,337	33,558	54,554	56,658
Total	\$ <u>191,967</u>	<u>197,285</u>	<u>184,016</u>	<u>183,731</u>	<u>375,983</u>	<u>381,016</u>

Long-Term Debt – At the end of the current fiscal year, the City had total bonded debt outstanding of approximately \$224.6 million. The entire amount is backed by the full faith and credit of the City.

Outstanding Debt (In thousands)						
	Governmental activities		Business-type activities		Total	
	2014	2013	2014	2013	2014	2013
General obligation bonds, net	\$ 125,896	125,026	98,775	104,985	224,671	230,011
Total	\$ <u>125,896</u>	<u>125,026</u>	<u>98,775</u>	<u>104,985</u>	<u>224,671</u>	<u>230,011</u>

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

The overall net increase is attributable to the following factors:

The City's bonded debt decreased by approximately \$5.3 million or a decrease of 2.3%. This decrease in long-term debt was the result of scheduled principal payments of \$13.0 million netted against the issuance of \$6.8 million Green Repair projects to rehab several school roofs, boilers and windows and the city's business type activities issued \$915 thousand for Water enterprise upgrade projects.

Total long-term debt of the City represents a claim of about 59.8% of the City's total capital assets, and a claim of about 52.5% of the City's total assets. As a percentage of the fair value of taxable property in the City, the long-term debt comprises only 4.2%.

The City maintains a "AA-" rating from Standard and Poor's and an "Aa3" rating from Moody's for general obligation debt.

Economic Factors and Next Year's Budgets

While the economic circumstances confronting the City had deteriorated considerably over the first decade of this century, more recently, conditions have become more stable. Nonetheless, that significant and sustained reduction in unrestricted state aid has presented a major obstacle, as the full amount of lost revenue has not been replaced. During the 2002 to 2008 period, revenue assistance from the state declined in both nominal and real terms. This was initially true even for aid to education, although this trend has been reversed. However, for revenue assistance other than for education, the decline was particularly steep. For example, the City's unrestricted state aid was reduced by approximately \$11.6 million from nearly \$28.0 million in FY 2008 to nearly \$16.4 million in FY 2012, a reduction of about 41%. The governor's FY 2013 proposal at first increased by about 6% aid to education and held other revenue assistance about level, but ultimately the state provided a "one-time" distribution of additional unrestricted state aid of about \$1.3 million. Since then, aid to education has grown only slightly as student enrollment has increased and to reflect very modest cost inflation. Unrestricted state aid has also increased modestly each year, including in the Governor's FY 2016 proposal. Nonetheless, unrestricted state aid for FY 2016 would remain about \$9.0 million below its FY 2009 level without adjusting for inflation.

During this period, the state has provided municipalities with two new, local option revenue sources: the ability to raise the lodging excise tax from 4% up to 6%, and the ability to add 0.75% to the meals tax. The City has adopted both measures. Between the two measures the City has realized more than \$1.6 million in on-going, new revenues. However, this new revenue falls far short of replacing the loss of \$9.0 million in unrestricted aid.

Although the property tax levy has provided a predictable, steady source of revenue growth, the City's property values in combination with the state's property tax limitation law, Proposition 2½, so-called, limit the ability of the property tax to finance the City's budget. In FY 2013 and 2014, it provided only about 30% and 31% of the City's total spending in the general and enterprise funds; state revenue assistance comprised 46% and 47%; the enterprise funds contributed revenues equal to 13% and 12%; other local receipts contributed 6% and 4%; and the remaining 5% and 6% was provided by appropriating balance sheet reserves. In FY 2015, the percentages were composed of 30%, 48%, 12%, 5% and 5% respectively, as the percentage of total revenues represented by each category has remained very consistent.

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

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 re-capture to the extent possible the cost of services through imposing user fees, to be judicious in appropriating balance sheet reserves, and to replenish these reserves when possible. However, many taxpayers and residents have been harmed by the recession and its aftermath effects, and concerns for these constituents have been manifested in the emergence of a local "low tax" advocacy group and in the reluctance of elected officials to levy increases in taxes or impose fee increases. In FY 2013, the City Council did not appropriate the full property tax levy allowed by law; the amount of \$1.0 million was not levied rather than appropriated as requested to the City's stabilization fund. In FY 2015, a new Mayor who was elected on a pledge to restrict property tax increases did not recommend the appropriation of about \$2.5 million in allowable tax levy. The FY 2016 budget has not been prepared; it is uncertain whether the full levy will be appropriated.

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. However, no utility fee increases have been adopted by the City Council for several years, even though for the past several years, water fee increases have been requested. Capital spending has suffered as a result. The Water Commission has requested a 30% increase for FY 2016, but at this date, the City Council has taken no action.

The growth rates in the funding sources other than the property tax have not been as reliable. The heavy reliance on state aid has become problematic in a period when almost all of the increase in state assistance has been restricted to education. This is especially pronounced when unrestricted state aid has been reduced. In the meantime, recent cost pressures on employee and retiree benefits and pensions have continued, and modest inflation recovery increases in wages and salaries have also raised expenditure levels. Accordingly, maintaining the same level of services in recent years has resulted in drawing down some of the City's reserves. Favorable budget variances from conservative budgeting, including an unexpected surplus in snow removal costs in FY 2012, allowed for some replenishment of those to assist in the FY 2014/FY 2015 budget. During FY 2014, settlement of union contracts with the firefighters and police unions, and financing high snow removal costs from FY 2013 required drawing down reserves. In FY 2015, the city avoided further diminishing its stabilization fund. However, in FY 2016, the city will confront financing the record costs of the latest winter. In addition, pressure has continued for contract settlements from unions without contracts.

Despite recent 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 begun to show signs of price increases. Calendar 2014 represented the second straight year of double digit percentage sales price increases for single family homes. The monthly average median value of a single family home at the end of calendar 2014 exceeded what it had been in late 2007. For the condominium market, the improvement is real but not as dramatic.

The City's overall assessed value increased slightly from FY 2014 to FY 2015 by about \$100.0 million, or 2.0%. The Bernardi Auto Group has redeveloped a large parcel off Route 24 to create two separate dealerships, a Hyundai and a Honda, with an investment of \$24 million. This project was granted a substantial Tax Incentive Financing agreement, but in future years it will provide healthy growth in property tax revenue. The Cerberus private equity fund in December 2010 closed on the acquisition of the Good Samaritan Medical Center as part of its acquisition of the Caritas Catholic hospital chain. This ownership has converted the property from tax exempt

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

to taxable. In addition, the ownership is making substantial, on-going improvements to the facility. The revenues will be a significant addition to the City's tax levy of about \$1.3 million. In the past few months, the Trinity Financial Corp. has nearly completed the redevelopment of an entire City block in the downtown area. The project will be developed in two phases and will be comprised of mixed use residential housing, commercial space, and parking. The project blends private risk capital, both debt and equity, with public financing, including some City land for parking and a \$4 million state grant for phase I and further state funding to come for phase II. When both phases have been completed, the project will have cost \$100 million, which represents the largest investment in downtown Brockton in memory. Most of the residential apartments already have committed lessors. A long vacant downtown parcel nearby is being redeveloped as a supermarket for nearly \$20 million, also with a tax increment financing agreement.

In addition, two major developments may be on the horizon. The Mayor has reached a tentative agreement with the proponents of a gas fired electric generating plant which, when and if finally permitted and built, would add about \$3.5 million per year in PILOT payments and \$0.5 million per year for purchasing of cooling water. In addition, a \$650 million casino project has been proposed for the City. If approved by the votes and the Massachusetts Gaming Commission, it would add \$10 million per year in PILOT payments.

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

In February 2012, the mayor requested that the City Council approve a local option statute, which would have removed the issue of health insurance benefit plan design from collective bargaining for all City and school workers and retirees by either joining the state's Group Insurance Commission plans or adopting new City plan designs with similar benefits. Although substantial savings were projected for this step, the initiative was opposed by union members and retirees, who pledged in public to engage in good faith bargaining over plan design. The City Council unanimously voted to not accept the statute, which was projected to have saved more than \$6.0 million per year. Subsequently, the City and all of its school and municipal unions engaged in prolonged and substantive bargaining under a separate provision of state law which permits the union and retirees to bargain as a coalition of interests on proportionately weighted vote. With this process, the coalition of all employees/retirees and the City reached agreement on new plan designs with significantly increased co-payments. However, unlike the GIC plans, the new City plans do not contain annual deductibles. The plans for active employees and retirees who are not eligible for Medicare were effective on July 1, 2013, and the plans for Medicare eligible retirees were effective on January 1, 2013. The coalition and the plans are in effect for four years. The plans are expected to save an estimated \$4.7 million annually in costs to the City, based on cost of the plans in effect on July 1, 2012, which were replaced. The retiree plans also significantly reduced the City's OPEB estimate.

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2014

(Unaudited)

The adverse impact of costs rising more rapidly than revenues could be avoided by a voter referendum to override the provisions of the property tax limitation statute, Proposition 2½. Even with the recent property valuation decreases, the City enjoys override capacity and could increase its levy. The FY 2015 assessed valuation of the City would support a maximum levy of \$136.5 million at 2.5% of assessed value. The actual FY 2015 levy was \$118.7 million. The tax increase on the average resident with a single family home would be about \$30 per year for every million in increased levy. While the City's voters have twice declined to approve overrides in City referendum elections, the capacity for them to do so exists. If needed, a significant amount of additional revenue could be obtained at a modest cost to the average taxpayer.

Requests for Information

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

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CITY OF BROCKTON, MASSACHUSETTS

Statement of Net Position

June 30, 2014

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Assets:			
Cash and investments	\$ 104,202,186	20,951,215	125,153,401
Receivables, net:			
Property taxes, liens and excise taxes (net of \$1,199,419 allowance)	13,171,738	—	13,171,738
Intergovernmental	8,419,242	1,144,023	9,563,265
Customer receivables	—	17,770,002	17,770,002
Departmental and other	353,357	356,101	709,458
Other assets	5,994,603	—	5,994,603
Long-term note receivable	6,964,839	—	6,964,839
Long-term intergovernmental receivable	8,378,411	—	8,378,411
Tax possessions	2,256,078	—	2,256,078
Pension asset	87,662,128	—	87,662,128
Capital assets:			
Nondepreciable	10,315,298	12,294,786	22,610,084
Depreciable, net	181,651,459	171,721,498	353,372,957
Total assets	<u>429,369,339</u>	<u>224,237,625</u>	<u>653,606,964</u>
Deferred outflows of resources - loss on refundings	257,906	89,588	347,494
Total assets and deferred outflows	<u>429,627,245</u>	<u>224,327,213</u>	<u>653,954,458</u>
Liabilities:			
Warrants and accounts payable	7,941,176	3,114,184	11,055,360
Accrued liabilities:			
Interest	2,270,909	978,933	3,249,842
Payroll and related withholdings	21,847,202	162,324	22,009,526
Tax abatement refunds	4,228,934	—	4,228,934
Bond anticipation note	62,000	—	62,000
Noncurrent liabilities:			
Due within one year:			
Compensated absences and claims	4,908,767	162,948	5,071,715
Bonds, note and loans payable	6,336,650	6,957,786	13,294,436
Due in more than one year:			
Compensated absences and claims	12,840,954	6,359,577	19,200,531
Unearned revenue	—	3,889,807	3,889,807
Landfill closure and postclosure care costs	2,727,326	1,173,000	3,900,326
Bonds, note and loans payable	119,559,464	91,817,417	211,376,881
Other post employment benefits	204,636,800	—	204,636,800
Total liabilities	<u>387,360,182</u>	<u>114,615,976</u>	<u>501,976,158</u>
Net position:			
Net investment in capital assets	159,368,549	86,474,691	245,843,240
Restricted for:			
Permanent funds:			
Nonexpendable	6,412,349	—	6,412,349
Expendable	577,995	—	577,995
Statutory reserve	5,509,344	—	5,509,344
Health claims	11,399,855	—	11,399,855
Federal, state and local grants	15,374,005	—	15,374,005
Other	336,814	—	336,814
Unrestricted	(156,711,848)	23,236,546	(133,475,302)
Total net position	<u>\$ 42,267,063</u>	<u>109,711,237</u>	<u>151,978,300</u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2014

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net position		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities:							
General government	\$ 28,780,264	5,133,736	12,207,280	—	(11,439,248)		(11,439,248)
Public safety	69,070,782	2,948,108	3,824,269	—	(62,298,405)		(62,298,405)
Education	271,542,135	5,246,779	195,230,093	—	(71,065,263)		(71,065,263)
Public works	12,939,985	289,709	2,299,123	—	(10,351,153)		(10,351,153)
Human services	3,726,934	329,455	300,435	—	(3,097,044)		(3,097,044)
Culture and recreation	3,560,406	34,954	219,918	—	(3,305,534)		(3,305,534)
State and county assessments	7,192,401	—	—	—	(7,192,401)		(7,192,401)
Court judgments	326,353	—	—	—	(326,353)		(326,353)
Interest on long-term debt	6,324,021	—	—	—	(6,324,021)		(6,324,021)
Total governmental activities	403,463,281	13,982,741	214,081,118	—	(175,399,422)	—	(175,399,422)
Business-type activities:							
Water	15,908,813	15,870,241	282,234	39,026		282,688	282,688
Sewer	14,926,554	17,354,658	325,367	409,160		3,162,631	3,162,631
Other	8,839,573	8,333,282	210,277	—		(296,014)	(296,014)
Total business-type activities	39,674,940	41,558,181	817,878	448,186	—	3,149,305	3,149,305
Total primary government	\$ 443,138,221	55,540,922	214,898,996	448,186	(175,399,422)	3,149,305	(172,250,117)
General revenues:							
Property taxes, levied for general purposes, net					\$ 115,272,342	—	115,272,342
Excises					7,335,030	—	7,335,030
Payments in lieu of taxes					232,710	—	232,710
Penalties and interest on taxes					2,125,904	—	2,125,904
Other					202,307	—	202,307
Unrestricted grants and contributions					20,339,503	—	20,339,503
Investment income					1,387,220	—	1,387,220
Transfers, net					(122,967)	122,967	—
Total general revenues and transfers					146,772,049	122,967	146,895,016
Change in net position					(28,627,373)	3,272,272	(25,355,101)
Net position, beginning of year (as restated)					70,894,436	106,438,965	177,333,401
Net position, end of year					\$ 42,267,063	109,711,237	151,978,300

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Balance Sheet – Governmental Funds

June 30, 2014

Assets	General	School roof repairs	Other governmental	Total
Cash and investments	\$ 79,286,261	61,368	24,854,557	104,202,186
Receivables, net:				
Property taxes (net of \$471,066 allowance)	7,271,818	—	—	7,271,818
Motor vehicle excise (net of \$728,353 allowance)	1,810,519	—	—	1,810,519
Departmental and other	19,537	—	333,820	353,357
Tax liens	4,089,401	—	—	4,089,401
Intergovernmental	2,839,776	—	5,579,466	8,419,242
Total receivables	16,031,051	—	5,913,286	21,944,337
Long-term note receivable	6,964,839	—	—	6,964,839
Long-term intergovernmental receivable	8,378,411	—	—	8,378,411
Tax possessions	2,256,078	—	—	2,256,078
Deposit with health claims agent	5,858,800	—	—	5,858,800
Total assets	<u>\$ 118,775,440</u>	<u>61,368</u>	<u>30,767,843</u>	<u>149,604,651</u>
Liabilities, Deferred Inflows of Resources and Fund Balances				
Liabilities:				
Warrants and accounts payable	\$ 4,803,092	—	3,138,085	7,941,177
Accrued liabilities:				
Tax abatement refunds	4,228,934	—	—	4,228,934
Payroll and related withholdings	19,620,023	—	2,227,179	21,847,202
Due to other funds	—	—	—	—
Health claims payable	3,294,786	—	—	3,294,786
Bond anticipation note payable	—	62,000	—	62,000
Total liabilities	<u>31,946,835</u>	<u>62,000</u>	<u>5,365,264</u>	<u>37,374,099</u>
Deferred Inflows of Resources:				
Unavailable revenue	<u>25,324,895</u>	<u>—</u>	<u>—</u>	<u>25,324,895</u>
Fund balances:				
Nonspendable	6,964,839	—	6,412,349	13,377,188
Restricted	16,909,199	—	16,927,182	33,836,381
Committed	13,443,957	—	2,145,568	15,589,525
Assigned	4,592,537	—	—	4,592,537
Unassigned	19,593,178	(632)	(82,520)	19,510,026
Total fund balances	<u>61,503,710</u>	<u>(632)</u>	<u>25,402,579</u>	<u>86,905,657</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 118,775,440</u>	<u>61,368</u>	<u>30,767,843</u>	<u>149,604,651</u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

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

June 30, 2014

Total fund balance – governmental funds	\$ 86,905,657
Amounts reported for governmental activities in the statements of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	191,966,757
Other assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds	25,324,895
Pension asset is not a financial resource and therefore not reported in the funds	87,662,128
Other costs are capitalized in the government-wide statements	135,803
Deferred losses on refunding transactions	257,906
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	(93,040,000)
Other general obligation bonds	(31,828,900)
Bond premiums	(1,027,214)
Other post employment benefits	(204,636,800)
Accrued interest on bonds	(2,270,909)
Landfill and postclosure care costs	(2,727,326)
Compensated absences and claims	(14,454,934)
	<u>(349,986,083)</u>
Net position of governmental activities	<u>\$ 42,267,063</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, 2014

	<u>General</u>	<u>School roof repairs</u>	<u>Other governmental</u>	<u>Total</u>
Revenues:				
Real and personal property taxes, net	\$ 117,036,526	—	—	117,036,526
Motor vehicle and other excise	7,393,772	—	—	7,393,772
Penalties and interest on taxes	2,125,904	—	—	2,125,904
Payments in lieu of taxes	232,710	—	—	232,710
User charges and other revenue	3,963,202	—	5,549,931	9,513,133
Fees	1,845,288	—	5,259,872	7,105,160
Licenses and permits	2,760,343	—	—	2,760,343
Intergovernmental	181,317,389	2	40,918,434	222,235,825
Fines	861,399	—	391,949	1,253,348
Investment income	422,742	—	964,218	1,386,960
Contributions	7,783,785	—	873,190	8,656,975
Total revenues	325,743,060	2	53,957,594	379,700,656
Expenditures:				
Current:				
General government	12,712,499	—	9,754,152	22,466,651
Public safety	46,336,460	—	2,527,368	48,863,828
Education	168,696,088	—	36,178,154	204,874,242
Public works	6,817,674	—	472,980	7,290,654
Human services	2,293,832	—	390,055	2,683,887
Culture and recreation	2,082,215	—	128,634	2,210,849
State and county assessments	7,192,401	—	—	7,192,401
Pension and fringe benefits	73,305,341	—	—	73,305,341
Court judgments	326,353	—	—	326,353
Capital outlay	853,810	(222,135)	1,975,052	2,606,727
Debt service	12,047,375	—	152,650	12,200,025
Total expenditures	332,664,048	(222,135)	51,579,045	384,020,958
Excess (deficiency) of revenues over expenditures	(6,920,988)	222,137	2,378,549	(4,320,302)
Other financing sources (uses):				
Operating transfers in	2,903,971	—	423,749	3,327,720
Operating transfers out	(1,873,914)	—	(1,576,773)	(3,450,687)
Other	(38,508)	—	—	(38,508)
Bond proceeds	—	6,838,000	—	6,838,000
Total other financing sources (uses)	991,549	6,838,000	(1,153,024)	6,676,525
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(5,929,439)	7,060,137	1,225,525	2,356,223
Fund balance, beginning of year	67,433,149	(7,060,769)	24,177,054	84,549,434
Fund balance, end of year	\$ 61,503,710	(632)	25,402,579	86,905,657

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, 2014

Net change in fund balances – total governmental funds	\$ 2,356,223
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital additions as expenditures. In the statement of activities, the cost of those assets is depreciated over their estimated useful lives. Capital additions of \$4,170,730 is less than depreciation expense of \$9,489,307.	(5,318,577)
Accrual basis revenues can result in more or (less) revenues reported in the statement of activities depending upon timing of billings and collections.	(4,703,276)
Issuance of bonds	(6,838,000)
Repayments of bond principal are expenditures in the governmental funds but reduce long-term liabilities in the statement of net position.	5,786,900
Amortization of bond premiums \$180,930 add to net position while the amortization of deferred outflows \$152,657 decrease net position. The amount by which the amortization of bond premiums exceeds the amortization of deferred outflows increases net position.	28,273
Amortization of the pension asset in the statement of activities is not included in the operating statement of the governmental funds.	78,617
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 \$60,830, a decrease in landfill liability \$141,221, a decrease in compensated absences and claims \$53,124 and increase in other postemployment benefit liabilities \$20,272,708.	<u>(20,017,533)</u>
Change in net position of governmental activities	<u>\$ (28,627,373)</u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Net Position – Proprietary Funds

June 30, 2014

	Enterprise funds			
	Water	Sewer	Other	Total
Assets and Deferred Outflows of Resources				
Current assets:				
Cash and cash equivalents	\$ 6,165,375	10,356,803	4,429,037	20,951,215
Customer receivables, net	6,396,504	7,410,551	3,962,947	17,770,002
Intergovernmental receivable	1,144,023	—	—	1,144,023
Other	306,148	49,953	—	356,101
Total current assets	<u>14,012,050</u>	<u>17,817,307</u>	<u>8,391,984</u>	<u>40,221,341</u>
Noncurrent assets:				
Capital assets:				
Nondepreciable	7,053,267	5,042,997	198,522	12,294,786
Depreciable, net	45,299,247	120,630,653	5,791,598	171,721,498
Total noncurrent assets	<u>52,352,514</u>	<u>125,673,650</u>	<u>5,990,120</u>	<u>184,016,284</u>
Total assets	<u>66,364,564</u>	<u>143,490,957</u>	<u>14,382,104</u>	<u>224,237,625</u>
Deferred outflows of resources				
Losses on refundings	52,604	36,984	—	89,588
Total assets and deferred outflows of resources	<u>66,417,168</u>	<u>143,527,941</u>	<u>14,382,104</u>	<u>224,327,213</u>
Liabilities				
Current liabilities:				
Warrants and accounts payable	1,078,406	1,484,765	551,013	3,114,184
Accrued expenses	299,009	808,890	33,358	1,141,257
Compensated absences and claims	86,541	38,106	38,301	162,948
Bonds, notes, and loans payable	1,638,649	5,219,137	100,000	6,957,786
Total current liabilities	<u>3,102,605</u>	<u>7,550,898</u>	<u>722,672</u>	<u>11,376,175</u>
Noncurrent liabilities:				
Compensated absences and claims	1,338,440	2,617,632	2,403,505	6,359,577
Unearned revenue	2,599,617	1,290,190	—	3,889,807
Landfill and postclosure care costs	—	1,173,000	—	1,173,000
Bonds	24,751,611	66,162,615	903,191	91,817,417
Total noncurrent liabilities	<u>28,689,668</u>	<u>71,243,437</u>	<u>3,306,696</u>	<u>103,239,801</u>
Total liabilities	<u>31,792,273</u>	<u>78,794,335</u>	<u>4,029,368</u>	<u>114,615,976</u>
Net Position				
Net investment in capital assets	27,158,880	54,328,882	4,986,929	86,474,691
Unrestricted	7,466,015	10,404,724	5,365,807	23,236,546
Total net position	<u>\$ 34,624,895</u>	<u>64,733,606</u>	<u>10,352,736</u>	<u>109,711,237</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, 2014

	Enterprise funds			Total
	Water	Sewer	Other	
Operating revenues:				
Charges for services	\$ 15,458,588	17,105,806	7,896,016	40,460,410
Fees	411,653	248,852	252,702	913,207
Other	—	—	184,564	184,564
Total operating revenues	15,870,241	17,354,658	8,333,282	41,558,181
Operating expenses:				
Salaries and benefits	4,109,758	1,986,729	1,904,123	8,000,610
Utilities	748,531	1,112,538	78,816	1,939,885
Repairs and maintenance	715,074	945,871	247,307	1,908,252
Contractual services	7,455,506	4,384,320	6,032,019	17,871,845
Other supplies and expenses	456,645	352,822	220,841	1,030,308
Depreciation	1,948,202	4,265,577	356,127	6,569,906
Total operating expenses	15,433,716	13,047,857	8,839,233	37,320,806
Operating income (loss)	436,525	4,306,801	(505,951)	4,237,375
Nonoperating revenues (expenses):				
Interest income	282,234	325,367	210,277	817,878
Interest expense	(475,097)	(1,878,697)	(340)	(2,354,134)
Debt subsidies	39,026	409,160	—	448,186
Total nonoperating revenues (expenses)	(153,837)	(1,144,170)	209,937	(1,088,070)
Income (loss) before transfers	282,688	3,162,631	(296,014)	3,149,305
Transfers in	639,147	108,345	888,573	1,636,065
Transfers out	(300,000)	(1,213,098)	—	(1,513,098)
Total transfers in (out)	339,147	(1,104,753)	888,573	122,967
Change in net position	621,835	2,057,878	592,559	3,272,272
Net position, beginning of year	34,003,060	62,675,728	9,760,177	106,438,965
Net position, end of year	\$ 34,624,895	64,733,606	10,352,736	109,711,237

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2014

	Enterprise funds			Total
	Water	Sewer	Other	
Cash flows from operations:				
Cash received from customers	\$ 16,135,310	18,306,024	8,280,770	42,722,104
Cash paid to employees	(4,034,702)	(1,896,025)	(1,872,350)	(7,803,077)
Cash paid to vendors	(9,723,621)	(6,386,848)	(6,724,420)	(22,834,889)
Net cash provided by (used in) operations	<u>2,376,987</u>	<u>10,023,151</u>	<u>(316,000)</u>	<u>12,084,138</u>
Cash flows from noncapital financing activities:				
Transfers in	639,147	108,345	888,573	1,636,065
Transfers out	(300,000)	(1,213,098)	—	(1,513,098)
Net cash provided by (used in) noncapital financing activities	<u>339,147</u>	<u>(1,104,753)</u>	<u>888,573</u>	<u>122,967</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(1,560,094)	(4,502,539)	(792,970)	(6,855,603)
Interest paid on debt	(485,933)	(1,944,608)	(840)	(2,431,381)
Debt issued	1,490,646	5,353	—	1,495,999
Repayment of long-term debt	(1,622,239)	(5,110,005)	(150,000)	(6,882,244)
Debt subsidies	39,026	409,160	—	448,186
Net cash used in capital and related financing activities	<u>(2,138,594)</u>	<u>(11,142,639)</u>	<u>(943,810)</u>	<u>(14,225,043)</u>
Cash flows from investing activity:				
Interest earned	282,234	325,367	210,277	817,878
Net cash provided by investing activity	<u>282,234</u>	<u>325,367</u>	<u>210,277</u>	<u>817,878</u>
Increase (decrease) in cash and cash equivalents	859,774	(1,898,874)	(160,960)	(1,200,060)
Cash and cash equivalents, beginning of year	5,305,601	12,255,677	4,589,997	22,151,275
Cash and cash equivalents, end of year	\$ <u>6,165,375</u>	<u>10,356,803</u>	<u>4,429,037</u>	<u>20,951,215</u>
Reconciliation of operating income (loss) to net cash provided by (used in) operations:				
Operating income (loss)	\$ 436,526	4,301,797	(505,951)	4,232,372
Reconciliation of operating income (loss) to net cash provided by (used in) operations:				
Depreciation expense	1,948,202	4,265,576	356,127	6,569,905
Effect of Changes in operating assets and liabilities:				
Accounts receivable	265,069	951,367	(52,511)	1,163,925
Warrants and accounts payable	(347,868)	413,707	(144,777)	(78,938)
Other assets and liabilities	75,058	90,704	31,112	196,874
Net cash provided by (used in) operations	\$ <u>2,376,987</u>	<u>10,023,151</u>	<u>(316,000)</u>	<u>12,084,138</u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Net Position – Fiduciary Funds

June 30, 2014

(Except for Pension Trust, which is as of December 31, 2013)

Assets	Pension Trust Fund	Agency Funds
	<u> </u>	<u> </u>
Cash and cash equivalents	\$ 3,367,823	507,661
Receivables:		
Interest and dividends	866,912	—
Receivable for securities sold	212,103	—
Contributions from employers	577,301	—
Other	115,321	186,891
	<u> </u>	<u> </u>
Total receivables	1,771,637	186,891
Investments, at fair value:		
Short-term:		
Domestic	10,234,653	—
Fixed income:		
Domestic	87,953,036	—
International	21,095,772	—
Equities:		
Domestic	84,928,458	—
International	65,713,063	—
Real estate	23,311,620	—
Alternative	69,937,321	—
	<u> </u>	<u> </u>
Total investments	363,173,923	—
Total assets	<u> </u>	<u> </u>
	368,313,383	694,552
	<u> </u>	<u> </u>
Liabilities		
Payable for securities purchased	299,897	
Accounts payable and other liabilities	638,135	694,552
	<u> </u>	<u> </u>
Total liabilities	938,032	\$ 694,552
	<u> </u>	<u> </u>
Net Position		
Net Position held in trust for pension benefits	\$ 367,375,351	
	<u> </u>	

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Changes in Net Position – Fiduciary Funds

Year ended December 31, 2013

	<u>Pension trust fund</u>
Additions:	
Contributions:	
Employers	\$ 17,283,264
Employees	7,571,457
Other	5,711
Total contributions	<u>24,860,432</u>
Investment income:	
Net appreciation in fair value of investments	38,315,589
Investment income	6,150,526
Total investment income	<u>44,466,115</u>
Less investment expenses	<u>2,833,590</u>
Net investment income	<u>41,632,525</u>
Intergovernmental	<u>546,220</u>
Transfers from other systems	<u>361,984</u>
Total additions	<u>67,401,161</u>
Deductions:	
Benefits	36,088,966
Member refunds and transfers to other systems, net	1,530,923
Administrative expenses	659,316
Total deductions	<u>38,279,205</u>
Change in net position	29,121,956
Net position, beginning of year	<u>338,253,395</u>
Net position, end of year	\$ <u><u>367,375,351</u></u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

(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, 2013 can be obtained by contacting the Brockton Retirement Board at 15 Christy's Drive, Brockton, MA 02301.

The Brockton Redevelopment Authority and the Brockton Educational Foundation both meet the definition of a component unit; however, their operations are 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 2014:

<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	\$ 2,076,852
Southeastern Regional School District 250 Foundry Street South Easton, MA 02375	To provide educational services	2,891,255

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

(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.

(a) *Basis of Presentation*

The financial condition and results of operations of the City are presented as of and for the year ended June 30, 2014, except for the System, which is presented as of and for the year ended December 31, 2013.

Government-Wide Statements

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

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

Fund Financial Statements

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

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

The City reports the following major governmental funds:

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

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

The City reports the following major enterprise funds:

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

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

Additionally, the City reports the following fund types:

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

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

(b) *Measurement Focus, Basis of Accounting*

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

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

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

(c) *Cash and Cash Equivalents*

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

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

(d) *Investment Valuation*

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

(e) *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.

(f) *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.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

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

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

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

(g) 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 Fund Financial Statements, net position is reported in the following categories:

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

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

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

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

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

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

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.

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

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

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.

(i) *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.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

(3) Receivables

(a) Property Taxes

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

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

(b) Note Receivable

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

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

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

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

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

Fiscal year:		
2015	\$	183,007
2016		194,564
2017		206,850
2018		219,913
2019		233,800
2020 – 2022		<u>5,926,705</u>
Total	\$	<u><u>6,964,839</u></u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

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

Fiscal year 2013 was the first year that the cash payments had not been sufficient to satisfy the principal amounts. Fiscal year 2014 was the second year that the cash payments had not been sufficient to satisfy the principal amounts. The available hotel/motel tax has been applied to principal and interest payments due.

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.

(c) Long-Term Receivable

The City participates in the Commonwealth's school building assistance program, which is administered by the Massachusetts School Building Authority (MSBA). The MSBA provides financial assistance (90% of total costs) to the City to build and/or renovate schools. As of June 30, 2014, under MSBA's contract assistance program, the City was due funds totaling \$10,975,956.

In the General Fund, the receivable is offset by deferred revenue because the revenue is not considered available. The following is a schedule of the five-year paydown as of June 30, 2014 through 2019, and in five-year increments thereafter:

Fiscal year:		
2015	\$	2,597,546
2016		2,597,546
2017		2,597,546
2018		1,061,106
2019		1,061,106
2020		<u>1,061,106</u>
Total	\$	<u><u>10,975,956</u></u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

(d) *Intergovernmental Receivables*

Massachusetts Clean Water Trust (MCWT)

In order to fund continuous upgrades to the City's wastewater treatment plant, the City has entered into loan agreements with the MCWT (formerly the Massachusetts Water Pollution Abatement Trust). When the loan agreements are executed, the City is responsible for paying the debt service on the loan. However, the City does not receive all loan proceeds when the loan agreements are executed.

The City annually enters into loan agreements with MCWT for the purposes of upgrading water and sewer infrastructure. The City records the entire amount of the loan at inception; however, the proceeds from the loan are not received until such time the work is performed. As of June 30, 2014, the City has recorded receivables in its Water enterprise fund totaling approximately \$1,144,000, representing the amount of loan proceeds not yet received from the MCWT.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

(4) Capital Assets

Capital asset activity for the year ended June 30, 2014 was as follows:

Primary Government

	Beginning balance	Increases	Decreases	Ending balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 7,410,698	—	—	7,410,698
Construction in progress	34,492,520	948,432	34,345,866	1,095,086
Historical works of art	1,809,514	—	—	1,809,514
Total capital assets, not being depreciated	43,712,732	948,432	34,345,866	10,315,298
Capital assets, being depreciated:				
Buildings	204,260,101	34,119,437	—	238,379,538
Land improvements	10,351,104	706,718	—	11,057,822
Machinery and equipment	24,781,890	760,796	—	25,542,686
Infrastructure	95,748,089	1,981,213	—	97,729,302
Total capital assets, being depreciated	335,141,184	37,568,164	—	372,709,348
Less accumulated depreciation for:				
Buildings	82,192,571	5,146,805	—	87,339,376
Land improvements	6,502,915	328,607	—	6,831,522
Machinery and equipment	20,224,721	1,149,910	—	21,374,631
Infrastructure	72,648,375	2,863,985	—	75,512,360
Total accumulated depreciation	181,568,582	9,489,307	—	191,057,889
Total capital assets, being depreciated, net	153,572,602	28,078,857	—	181,651,459
Governmental capital assets, net	\$ 197,285,334	29,027,289	34,345,866	191,966,757

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 336,289
Public safety	1,205,575
Public works	2,649,927
Education	4,932,107
Human services	96,777
Culture and recreation	268,632
	<hr/>
Total depreciation expense – governmental activities	\$ 9,489,307

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Water:				
Capital assets, not being depreciated:				
Land	\$ 2,929,492	—	—	2,929,492
Construction in progress	<u>9,089,664</u>	<u>1,560,093</u>	<u>6,525,982</u>	<u>4,123,775</u>
Total capital assets, not being depreciated	<u>12,019,156</u>	<u>1,560,093</u>	<u>6,525,982</u>	<u>7,053,267</u>
Capital assets, being depreciated:				
Buildings	27,775,245	—	—	27,775,245
Land improvements	105,700	—	—	105,700
Machinery and equipment	10,589,030	6,525,982	—	17,115,012
Infrastructure	<u>32,395,539</u>	<u>—</u>	<u>—</u>	<u>32,395,539</u>
Total capital assets, being depreciated	<u>70,865,514</u>	<u>6,525,982</u>	<u>—</u>	<u>77,391,496</u>
Less accumulated depreciation for:				
Buildings	4,104,142	679,879	—	4,784,021
Land improvements	104,411	860	—	105,271
Machinery and equipment	9,398,055	697,943	—	10,095,998
Infrastructure	<u>16,537,439</u>	<u>569,520</u>	<u>—</u>	<u>17,106,959</u>
Total accumulated depreciation	<u>30,144,047</u>	<u>1,948,202</u>	<u>—</u>	<u>32,092,249</u>
Total capital assets being depreciated, net	<u>40,721,467</u>	<u>4,577,780</u>	<u>—</u>	<u>45,299,247</u>
Water capital assets, net	<u>52,740,623</u>	<u>6,137,873</u>	<u>6,525,982</u>	<u>52,352,514</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

Sewer:

Capital assets, not being depreciated:

Land	\$ 186,327	—	—	186,327
Construction in progress	555,043	4,301,627	—	4,856,670
Total capital assets, not being depreciated	741,370	4,301,627	—	5,042,997

Capital assets, being depreciated:

Buildings	137,380,163	66,969	—	137,447,132
Land improvements	258,000	—	—	258,000
Machinery and equipment	43,238,154	133,943	—	43,372,097
Infrastructure	38,056,640	—	—	38,056,640
Total capital assets, being depreciated	218,932,957	200,912	—	219,133,869

Less accumulated depreciation for:

Buildings	27,258,419	3,434,629	—	30,693,048
Land improvements	258,000	—	—	258,000
Machinery and equipment	42,317,965	209,459	—	42,527,424
Infrastructure	24,403,255	621,489	—	25,024,744

Total accumulated depreciation	94,237,639	4,265,577	—	98,503,216
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Total capital assets being depreciated, net	124,695,318	(4,064,665)	—	120,630,653
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Sewer capital assets, net	125,436,688	236,962	—	125,673,650
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Other:

Capital assets, not being depreciated:

Land	130,359	—	—	130,359
Construction in progress	80,313	—	12,150	68,163
Total capital assets, not being depreciated	210,672	—	12,150	198,522

Capital assets, being depreciated:

Buildings	905,875	—	—	905,875
Land improvements	32,459,301	—	—	32,459,301
Machinery and equipment	2,900,345	609,471	—	3,509,816
Infrastructure	6,865,192	195,650	—	7,060,842

Total capital assets, being depreciated	43,130,713	805,121	—	43,935,834
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CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

	Beginning balance	Increases	Decreases	Ending balance
Less accumulated depreciation for:				
Buildings	\$ 540,840	18,815	—	559,655
Land improvements	32,081,894	46,175	—	32,128,069
Machinery and equipment	2,346,202	175,230	—	2,521,432
Infrastructure	2,819,173	115,907	—	2,935,080
Total accumulated depreciation	<u>37,788,109</u>	<u>356,127</u>	<u>—</u>	<u>38,144,236</u>
Total capital assets being depreciated, net	<u>5,342,604</u>	<u>448,994</u>	<u>—</u>	<u>5,791,598</u>
Other capital assets, net	<u>5,553,276</u>	<u>448,994</u>	<u>12,150</u>	<u>5,990,120</u>
Business-type activities capital assets, net	<u>\$ 183,730,587</u>	<u>6,823,829</u>	<u>6,538,132</u>	<u>184,016,284</u>

(5) Deposits and Investments

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

(a) Custodial Credit Risk

Custodial credit risk is the risk that in the event of bank failure, the City’s deposits may not be returned. The City carries deposits that are insured by Federal Deposit Insurance Corporation (FDIC) insurance or collateralized with securities held by the City or the City’s agent in the City’s name. The City also carries deposits that are not collateralized and are uninsured. As of June 30, 2014, the City’s bank balances of uninsured and uncollateralized deposits totaled \$117,135,520. All of the Retirement System’s deposits are fully insured.

(b) 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.

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

Diversification is attained through varied investment management styles that comply with Massachusetts state law. This is accomplished through the retention of investment managers that adhere to M.G.L. c. 32, sec 23(3), the “Prudent Person” rule, which permits (among other things) the investment in corporate bonds, equities, alternative and real estate investments.

(c) Interest Rate Risk

The following is a listing of the City’s fixed-income investments and related maturity schedule (in years) as of June 30, 2014 for the primary government and December 31, 2013 for the retirement system (in thousands):

<u>Investment type</u>	<u>Fair value</u>	<u>Less than 1</u>	<u>1 – 5</u>	<u>6 – 10</u>	<u>More than 10</u>
Retirement system:					
Short-term investment fund	\$ 10,234,653	10,234,653	—	—	—
U.S. Treasury notes and bonds	10,271,034	1,489,811	2,947,226	1,560,209	4,273,788
U.S. agencies	918,575	—	918,575	—	—
Municipal bonds	438,794	—	225,692	—	213,102
Corporate bonds	64,782,669	385,353	20,894,364	27,513,800	15,989,152
Convertible bonds	3,835,495	—	1,152,118	1,154,842	1,528,535
Pooled funds – domestic	3,034,448	3,034,448	—	—	—
Pooled funds – international	21,095,772	21,095,772	—	—	—
Asset backed:	—	—	—	—	—
CMOs	4,634,561	—	1,596,067	—	3,038,494
Other	37,458	—	—	—	37,458
Subtotal	<u>119,283,459</u>	<u>36,240,037</u>	<u>27,734,042</u>	<u>30,228,851</u>	<u>25,080,529</u>
City:					
U.S. Treasury notes and bonds	579,852	50,907	474,277	54,668	—
U.S. agencies	1,327,507	125,872	886,063	315,572	—
Corporate bonds	538,430	50,969	487,461	—	—
MMDT	10,353,615	10,353,615	—	—	—
Subtotal	<u>12,799,404</u>	<u>10,581,363</u>	<u>1,847,801</u>	<u>370,240</u>	<u>—</u>
Total	<u>\$ 132,082,863</u>	<u>46,821,400</u>	<u>29,581,843</u>	<u>30,599,091</u>	<u>25,080,529</u>

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

The asset backed investments held by the System as of December 31, 2013 are highly sensitive to changes in interest rates.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

(d) Credit Risk

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

The City’s fixed-income investments as of June 30, 2014 for the primary government and December 31, 2013 for the retirement system were rated by Standard & Poor’s and/or an equivalent national rating organization, and the ratings are presented below using the Standard and Poor’s rating scale:

<u>Investment type</u>	<u>Fair value</u>	<u>AAA to A</u>	<u>BBB to B</u>	<u>CCC</u>	<u>Not rated</u>
Retirement system:					
Short-term investment fund	\$ 10,234,653	—	—	—	10,234,653
U.S. agencies	918,575	918,575	—	—	—
Municipal bonds	438,794	438,794	—	—	—
Corporate bonds	64,782,669	20,560,883	40,376,627	571,450	3,273,709
Convertible bonds	3,835,495	440,382	3,019,315	—	375,798
Pooled funds – domestic	3,034,448	—	—	—	3,034,448
Pooled funds – international	21,095,772	—	—	—	21,095,772
Asset backed:	—				
CMO’s	4,634,561	1,499,531	873,460	—	2,261,570
Other	37,458	37,458	—	—	—
Subtotal	<u>109,012,425</u>	<u>23,895,623</u>	<u>44,269,402</u>	<u>571,450</u>	<u>40,275,950</u>
City:					
U.S. agencies	1,327,507	1,327,507	—	—	—
Corporate Bonds	538,430	418,548	—	—	119,882
MMDT	10,353,615	—	—	—	10,353,615
Subtotal	<u>12,219,552</u>	<u>1,746,055</u>	<u>—</u>	<u>—</u>	<u>10,473,497</u>
Total	<u>\$ 121,231,977</u>	<u>25,641,678</u>	<u>44,269,402</u>	<u>571,450</u>	<u>50,749,447</u>

In addition to the above schedule, the City and the System have \$579,852 and \$10,271,034, respectively, invested in U.S. government securities, which are not included above as they are explicitly guaranteed by the U.S. government.

(e) Concentration Risk

The System has no investments in a single issuer, at fair value, that exceed 5% of the System’s investments as of December 31, 2013. Additionally, the City has no investments in a single issuer, at fair value, that exceed 5% of the City’s net position as of June 30, 2014.

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

(f) Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Only the retirement system is statutorily allowed to invest in foreign currency securities. Similar to the investments in domestic equities, the City employs, or encourages its investment advisor to employ, diversification, asset allocation, and quality strategies.

Currency hedging is permitted for defensive purposes. Currency hedging shall be effected through the use of forward currency contracts. At December 31, 2013, there were no open forward currency contracts.

Risk of loss arises from changes in currency exchange rates. Although the System does not have investments denominated in foreign currencies, the System's exposure to fluctuations in foreign currency for investments denominated in U.S. dollars includes \$21,095,772 in international pooled fixed income and equity funds, respectively.

(6) Retirement System

(a) Plan Description

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

(b) Basis of Accounting

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

Investments of the System are stated as follows:

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

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

(c) Membership

The City's membership in the System consisted of the following at January 1, 2014, the date of the latest actuarial valuation:

Retirees and beneficiaries receiving benefits	1,261
Terminated plan members entitled to but not receiving benefits	394
Active plan members	<u>1,730</u>
Total membership	<u><u>3,385</u></u>

(d) Contributions

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

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

<u>Fiscal year ending</u>	<u>Annual required contribution</u>	<u>Interest on net pension asset</u>	<u>Amortization of net pension asset</u>	<u>Pension cost</u>	<u>Actual contribution</u>	<u>Change in net pension asset</u>	<u>Net pension asset</u>
2014	\$ 16,075,286	(7,006,681)	6,928,064	15,996,669	16,075,286	78,617	87,662,128
2013	15,476,710	(6,975,802)	6,589,821	15,090,729	15,476,710	385,981	87,583,511
2012	12,731,589	(6,922,931)	6,027,905	11,836,563	12,742,561	905,998	87,442,640

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

(e) **Reserve Accounts**

The balances in the System's reserves at December 31, 2013 are as follows:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity Savings Fund	\$ 82,372,774	Active members' contribution balance
Annuity Reserve Fund	26,799,027	Retired members' contribution account
Military Service Credit	98,615	Members' contribution account while on military leave
Pension Reserve Fund	270,871,696	Amounts to fund future retirement benefits
Pension Fund	<u>(12,735,858)</u>	Remaining net assets
Total	<u>\$ 367,406,254</u>	

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

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

The funded status of the City's pension plan administered by the System as of January 1, 2014, the most recent actuarial valuation date, is as follows (in thousands):

Actuarially accrued liability (AAL)	\$ 529,526
Actuarial value of plan assets	<u>355,691</u>
Unfunded actuarial accrued liability (UAAL)	<u>\$ 173,835</u>
Funded ratio (actuarial value of plan assets/AAL)	67.2%
Covered payroll (active plan members)	\$ 73,757
UAAL as a percentage of covered payroll	235.7%

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

In the January 1, 2014 actuarial valuation, the individual entry age normal actuarial cost method was used. The actuarial assumptions included an 8.0% investment rate of return, projected salary increases of 3.75% and cost-of-living adjustments of 3.0% up to \$12,000 annually. The actuarial value of assets was determined using a 5 year smoothing of the fair value of investments. The System's unfunded actuarial accrued liability is being amortized as a level percentage of pay on an open basis. The remaining amortization period at January 1, 2014 was 19 years.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

(7) Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2014:

<u>General long-term obligations</u>	<u>Maturing through year ended June 30</u>	<u>Interest percentage range</u>	<u>Outstanding beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding end of year</u>
Governmental activities:						
General:						
Taxable	2028	(4.75% – 6.45%)	\$ 94,805,000	—	1,765,000	93,040,000
General obligation	2035	(3.00% – 6.75%)	<u>29,012,800</u>	<u>6,838,000</u>	<u>4,021,900</u>	<u>31,828,900</u>
Subtotal			<u>\$ 123,817,800</u>	<u>6,838,000</u>	<u>5,786,900</u>	124,868,900
Add (deduct):						
Unamortized bond premium						<u>1,027,214</u>
Total governmental activities bonded debt, net						<u>125,896,114</u>

Subsequent to year-end the City issued \$7,338,000 of general obligation bonds for land acquisition (\$500,000) and to permanently finance \$6,838,000 in BAN's outstanding at June 30, 2014. As such, the \$6,838,000 is presented as long-term debt.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

<u>General long-term obligations</u>	<u>Maturing through year ended June 30</u>	<u>Interest percentage range</u>	<u>Outstanding beginning of year</u>	<u>Additions</u>	<u>Reductions</u>	<u>Outstanding end of year</u>
Business-type activities:						
Water	2035	(3.00% – 7.75%)	\$ 27,170,518	915,000	1,775,883	26,309,635
Sewer	2031	(2.00% – 6.75%)	75,727,394	—	5,110,005	70,617,389
Other	2024	(3.80% – 6.00%)	<u>1,150,000</u>	<u>—</u>	<u>150,000</u>	<u>1,000,000</u>
Subtotal			\$ <u>104,047,912</u>	<u>915,000</u>	<u>7,035,888</u>	<u>97,927,024</u>
Add (deduct):						
Unamortized bond premium						<u>848,179</u>
Total business-type activities bonded debt, net						<u>98,775,203</u>
Total bonded debt, net						\$ <u>224,617,317</u>
Other long-term obligations:						
Self-insured benefit plans:						
Governmental activities			\$ 6,827,165	302,629	139,944	6,989,850
Business-type activities:						
Water			1,006,732	92,206		1,098,938
Sewer			2,438,681	84,445		2,523,126
Other			2,287,366	17,465		2,304,831
Compensated absences, net:						
Governmental activities			10,898,442	232,718	371,289	10,759,871
Business-type activities:						
Water			379,089		53,046	326,043
Sewer			130,046	2,566	—	132,612
Other			132,993	3,982		136,975
Landfill closure and postclosure care costs:						
Governmental activities			2,868,547	—	141,221	2,727,326
Business-type activities:						
Sewer			1,150,000	23,000	—	1,173,000
Other post employment benefits						
Governmental activities			<u>184,364,092</u>	<u>35,244,550</u>	<u>14,971,842</u>	<u>204,636,800</u>
Total other long-term obligations			\$ <u>212,483,153</u>	<u>36,003,561</u>	<u>15,677,342</u>	<u>232,809,372</u>

During 2014, the City issued \$915,000 in MCWT bonds for the water fund to fund water system improvements. Interest on the bonds will be payable semiannually on July 15 and January 15, commencing on July 15, 2015. The interest rates are 2% are due serially through January 15, 2035.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

Maturity of Bond Indebtedness

Bond indebtedness outstanding at June 30, 2014 matures as follows:

	Governmental activities		
	Principal	Interest	Total
Year ending June 30:			
2015	\$ 6,336,650	6,164,661	12,501,311
2016	7,347,375	5,966,006	13,313,381
2017	8,118,000	5,608,116	13,726,116
2018	5,976,875	5,204,580	11,181,455
2019	6,675,000	4,894,879	11,569,879
2020 – 2024	38,820,000	18,744,459	57,564,459
2025 – 2029	48,700,000	6,148,246	54,848,246
2030 – 2034	2,555,000	282,575	2,837,575
2035 – 2039	340,000	6,600	346,600
	<u>\$ 124,868,900</u>	<u>53,020,122</u>	<u>177,889,022</u>

	Water		Sewer	
	Principal	Interest	Principal	Interest
Year ending June 30:				
2015	\$ 1,638,649	558,266	5,219,137	1,725,710
2016	1,739,470	551,243	5,242,081	1,578,070
2017	1,768,637	502,572	5,359,041	1,418,027
2018	1,794,116	455,942	5,346,533	1,266,141
2019	1,679,619	409,695	5,334,485	1,120,405
2020 – 2024	8,384,393	1,433,277	27,330,875	3,469,548
2025 – 2029	7,068,810	545,301	15,641,971	617,830
2030 – 2034	2,119,554	114,571	1,143,266	22,980
2035 – 2039	116,387	2,328	—	—
	<u>\$ 26,309,635</u>	<u>4,573,195</u>	<u>70,617,389</u>	<u>11,218,711</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

	Business-type activities			
	Other		Total	
	Principal	Interest	Principal	Interest
Year ending June 30:				
2015	\$ 100,000	—	6,957,786	2,283,976
2016	100,000	—	7,081,551	2,129,313
2017	100,000	—	7,227,678	1,920,599
2018	100,000	—	7,240,649	1,722,083
2019	100,000	—	7,114,104	1,530,100
2020 – 2024	500,000	—	36,215,269	4,902,825
2025 – 2029	—	—	22,710,781	1,163,131
2030 – 2034	—	—	3,262,819	137,551
2031 – 2035	—	—	116,387	2,328
	\$ 1,000,000	—	97,927,024	15,791,906

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 funds in the accompanying basic financial statements. The City expects to receive \$302,910 and \$2,273,741 of Water and Sewer principal and interest subsidies, respectively, from MWPAT over the remaining life of the loans as follows:

	Business-type activities					
	Water		Sewer		Total	
	Principal subsidy	Interest subsidy	Principal subsidy	Interest subsidy	Principal subsidy	Interest subsidy
Year ending June 30:						
2015	\$ 19,393	18,256	113,993	268,598	133,386	286,854
2016	20,456	16,176	71,883	245,443	92,339	261,619
2017	21,794	13,454	73,951	223,890	95,745	237,344
2018	22,218	12,560	50,448	200,110	72,666	212,670
2019	22,129	12,654	51,661	182,914	73,790	195,568
2020 – 2024	102,927	20,893	139,253	573,209	242,180	594,102
2025 – 2029	—	—	78,388	—	78,388	—
Total	\$ 208,917	93,993	579,577	1,694,164	788,494	1,788,157

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.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

As of June 30, 2014, the City may issue approximately \$279.4 million of additional general-obligation debt under the normal debt limit. The City has approximately \$200.8 million of debt exempt from the debt limit.

As of June 30, 2014, the City has total authorized unissued debt of \$76.2 million. The remaining authorized unissued debt is intended to finance the following:

Land Acquisition	500,000
School refunding	950,000
Refunding	2,430,000
Pension funding	47,710,000
Water projects	5,278,677
Sewer projects	220,779
Economic development	1,000,000
	<hr/>
	\$ 76,194,894
	<hr/> <hr/>

In previous fiscal years, the City defeased certain debt where there were losses on the refunding transactions. These losses are being amortized over the shorter of the life of the refunding bonds and the refunded bonds and are reported as deferred outflows of resources in the government-wide and proprietary funds financial statements. The total deferred outflows reported at June 30, 2014 totals \$347,494.

(8) Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require that the City place a final cover on its landfill sites and perform certain maintenance and monitoring functions at the landfill sites for a minimum of thirty years after closure. In addition to operating expenses related to current activities of the landfill sites, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfills no longer accept waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfills used during the year. The estimated liability for landfill closure and postclosure care costs is based on the percent usage (filled) of the landfills and is as follows at June 30, 2014:

	Governmental activities	Business-type activities (Sewer fund)
	<hr/>	<hr/>
Closure and postclosure care costs	\$ 2,727,326	1,173,000
Percentage usage (filled)	100.00%	51.00%

It is estimated that an additional \$1,127,000 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the Sewer fund landfill is currently expected to be filled to capacity (the year 2047).

The landfill liability recorded by the governmental activities represents postclosure care costs only, as the closure costs have been contractually assumed by a third party in exchange for the future use of the landfill

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

site. As of June 30, 2009, the landfill was closed and the City began to incur postclosure care costs in fiscal year 2009.

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

The estimated total current cost of the landfill closure and postclosure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired as of June 30, 2014. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

(9) Temporary Borrowings

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

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

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

Short-term debt activity for the year ended June 30, 2014 was as follows:

	Outstanding as of June 30, 2013	Additions	Reductions	Outstanding as of June 30, 2014
Bond anticipation notes payable:				
Governmental activities:				
School roof repairs fund:				
School construction	\$ 7,000,000	6,900,000	13,838,000	62,000

Subsequent to year-end, the City retired the BAN outstanding with available funds.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

(10) Operating Transfers

Operating transfers and their purposes during the year ended June 30, 2014 were as follows:

	Governmental funds		Enterprise funds		
	General	Other	Water	Sewer	Other
Water receipts – in lieu of taxes	\$ (639,147)	—	639,147	—	—
Sewer receipts – in lieu of taxes	1,213,098	—	—	(1,213,098)	—
Other Enterprise receipts – in lieu of taxes	(106,168)	—	—	—	106,168
General fund revenue – recreation subsidy	(435,000)	—	—	—	435,000
General fund revenue – recreation additional foreman	(50,000)	—	—	—	50,000
General fund revenue – Sewer, renewable energy and recreation debt service costs	(219,850)	—	—	68,350	151,500
Water Enterprise - Reserve for Costs	300,000	—	(300,000)	—	—
Sewer Enterprise - Reclass PO from Special Revenue	—	(39,995)	—	39,995	—
Special revenue fund – Fund Recreation Capital Purchases	—	(145,905)	—	—	145,905
Parking authority reserve – parking authority	328,317	(328,317)	—	—	—
Parking meter fees – parking authority	296,883	(296,883)	—	—	—
Weights and Measures – Personal Services	40,451	(40,451)	—	—	—
Cemetery – Capital	150,000	(150,000)	—	—	—
Transfer of Ambulance Fees for Capital	207,180	(207,180)	—	—	—
Transfer of Ambulance Fees - Dispatch System	312,702	(312,702)	—	—	—
Special revenue fund - Reclass Prior year	8,871	(8,871)	—	—	—
Special revenue fund - Reimburse General Fur	46,469	(46,469)	—	—	—
General Fund - Deficit Ineligible Costs	(977)	977	—	—	—
General Fund revenue - Transfer of cable agreement reimbursement to Special Revenue Fund	(422,772)	422,772	—	—	—
Total	\$ 1,030,057	(1,153,024)	339,147	(1,104,753)	888,573

(11) Other Postemployment Benefit (OPEB) Disclosures

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires governments to account for other postemployment benefits, primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. Accordingly, actuarially required contributions are recognized as an expense on the government-wide statement of activities when a future retiree earns their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the government-wide statement of net position over time.

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

As of June 30, 2014, the valuation date, 3,066 retirees and 3,108 active members meet the eligibility requirements as put forth in Chapter 32B of MGL. The City sponsors and participates in a single employer defined benefit OPEB plan. The OPEB plan is administered by the City and does not issue a stand-alone financial report.

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

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

(a) Funding Policy

Employer and employee contribution rates are governed by the respective collective bargaining agreements. The City currently funds the plan on a pay-as-you-go basis. The City and plan members share the cost of benefits. As of June 30, 2014, the valuation date, the plan members contribute 10% to 25% of the monthly premium cost, depending on the plan in which they are enrolled. The City contributes the balance of the premium cost.

(b) Annual OPEB Cost and Net OPEB Obligation

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

The following table shows the components of the City's annual OPEB cost for the year ending June 30, 2014, the amount actually contributed to the plan, and the change in the City's net OPEB obligation based on an actuarial valuation as of June 30, 2014:

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

Annual Required Contribution (ARC)	\$ 35,344,029
Interest on net OPEB obligation	7,374,564
Adjustment to ARC	<u>(7,474,043)</u>
Annual OPEB cost	35,244,550
Contributions made	<u>(14,971,842)</u>
Change in net OPEB obligation	20,272,708
Net OPEB obligation – beginning of year	<u>184,364,092</u>
Net OPEB obligation – end of year	\$ <u><u>204,636,800</u></u>

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

	<u>Annual OPEB cost</u>	<u>Percentage of OPEB cost contributed</u>	<u>Net OPEB obligation</u>
Fiscal year ended:			
2014	\$ 35,244,550	42.48%	\$ 204,636,800

The City’s net OPEB obligation as of June 30, 2014 is recorded on the government-wide statement of net position.

(c) Funded Status and Funding Progress

The funded status of the plan as of June 30, 2014, based on an actuarial valuation as of June 30, 2014, was as follows (in thousands):

Actuarially accrued liability (AAL)	\$ 416,955
Actuarial value of plan assets	<u>—</u>
Unfunded actuarial accrued liability (UAAL)	\$ <u><u>416,955</u></u>
Funded ratio (actuarial value of plan assets/AAL)	—%
Covered payroll (active plan members)	\$ 190,904
UAAL as a percentage of covered payroll	218.4%

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the Commission are subject to continual revision as actual results are compared with past expectations and new estimates

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

(d) Actuarial Methods and Assumptions

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

In the June 30, 2014 actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.00% investment rate of return and an annual health care cost trend rate of 7.5%, reduced by decrements to an ultimate rate of 5% after 5 years, and the RP-2000 mortality table. The City's unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis assuming 4.5% increases. The remaining amortization period at June 30, 2014 was thirty years.

(12) Risk Management

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

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

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

Both employees and the City contribute to the Health Care Plans based upon a percentage formula, 75% City and 25% employee. The retirees' contribution rate is 25%, except for those retirees who were 65 or older as of July 1, 2003 and whose annual household income was \$22,340 or less for a single person over 65 years of age, or \$30,260 for a two person household with one person over 65 years of age. For these retirees, the contribution rates is 15% for BCBS Medex II. The 15% rate was established through a Home Rule Petition voted and approved by the City Council and the Massachusetts General Court. Stop loss insurance is carried on the Health Care Plans for claims in excess of \$325,000 per covered person and \$2,000,000 maximum per covered person. The City maintains a working deposit with the administrator of its Blue Cross Blue Shield Health Care Plans. At June 30, 2014, that deposit was \$5.86 million, which includes Dental insurance. The financial arrangement with Harvard Pilgrim is monthly level funding of \$1.42 million with quarterly adjustments if necessary.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

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.

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, 2014 and 2013 were as follows:

	Workers' compensation plan	Health care plans	Total
	<u> </u>	<u> </u>	<u> </u>
Balance at June 30, 2012	\$ 9,474,721	3,549,452	13,024,173
Provision for losses/change in estimate	707,512	46,909,989	47,617,501
Payments for claims	<u>(914,461)</u>	<u>(47,167,269)</u>	<u>(48,081,730)</u>
Balance at June 30, 2013	9,267,772	3,292,172	12,559,944
Provision for losses/change in estimate	1,192,354	45,503,819	46,696,173
Payments for claims	<u>(911,770)</u>	<u>(45,427,602)</u>	<u>(46,339,372)</u>
Balance at June 30, 2014	\$ <u>9,548,356</u>	<u>3,368,389</u>	<u>12,916,745</u>

The liability for claims consists of governmental and business-type activities in the amount of approximately \$6,989,850 and \$5,926,895, respectively.

(13) Commitments

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

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

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

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

At the time that the contract was enacted the schedule for the City's fixed purchase commitment resembled the projected growth in water demand for the City, but the schedule somewhat exceeded this curve,

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

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

The rate charged to the City for the Firm Commitment is a fixed annual charge of \$167,480 per year per 0.1 MGD of the City's Firm Commitment; this charge is incurred regardless of whether the City takes the water. In addition, the City incurs an additional charge of \$1.23 per 1,000 gallons for water actually delivered. For example, with a firm commitment of 2.0 MGD plus actual usage of 1.0 MGD for an entire year, the City would pay nearly \$3.8 million. The financial obligation is primarily attached to the fixed price component. The rate structure is permitted to escalate with the Producer Price Index for Finished Goods, excluding food after three years of water delivery. Accordingly, escalation will begin, in the fourth year of the contract, which is at the end of 2013. Fixed and variable charges are recorded in the major Water fund when incurred, which totaled \$6.1 million in fiscal year 2014.

As of June 30, 2014, based on the current fixed annual charge, the City expects to pay \$95.9 million for its Firm Commitment as follows:

	<u>Amount</u>
Fiscal year:	
2015	\$ 5,962,288
2016	6,171,638
2017	6,380,988
2018	6,598,712
2019	6,816,436
2020 – 2024	34,082,180
2025 – 2029	29,859,778
	<u> —</u>
	<u>\$ 95,872,020</u>

(14) Fund Deficits

The following funds had deficit fund balances at June 30, 2014:

School Roof Repairs Fund	\$ 632
Other governmental funds:	
Special revenue:	
Education Grants	<u>82,520</u>
Total	<u>\$ 83,152</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

(15) Fund Balance Classification Details

The components of fund balance for the City's governmental funds as of June 30, 2014 are as follows:

	<u>General</u>	<u>School Roof Repairs</u>	<u>Other Governmental</u>
Fund balances			
Nonspendable:			
Permanent fund principal	\$ —	—	6,412,349
Notes receivable	6,964,839	—	—
	<u>6,964,839</u>	<u>—</u>	<u>6,412,349</u>
Restricted for:			
General government	16,909,199	—	2,494,880
Human services	—	—	225,569
Public safety	—	—	1,927,976
Public works	—	—	4,807,845
Culture/recreation	—	—	503,681
Education	—	—	6,967,231
	<u>16,909,199</u>	<u>—</u>	<u>16,927,182</u>
Committed to:			
General government	13,443,957	—	—
Human services	—	—	582,631
Public safety	—	—	1,562,937
	<u>13,443,957</u>	<u>—</u>	<u>2,145,568</u>
Assigned to:			
General government	1,288,893	—	—
Human services	181,657	—	—
Public safety	298,138	—	—
Public works	931,149	—	—
Culture/recreation	69,300	—	—
Education	1,823,400	—	—
	<u>4,592,537</u>	<u>—</u>	<u>—</u>
Unassigned	<u>19,593,178</u>	<u>(632)</u>	<u>(82,520)</u>
Total fund balances	\$ <u>61,503,710</u>	<u>(632)</u>	<u>25,402,579</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2014

The City maintains a stabilization account in accordance with MGL Chapter 40 Section 5B that is reported as unassigned fund balance in the general fund. The City may appropriate in any year an amount not exceeding 10% of the amount raised in the preceding fiscal year from real and personal property taxes, or a larger amount as approved by the Department of Revenue. Further, the stabilization account may not exceed 10% of the City's equalized valuation as defined in MGL Chapter 44 Section 1. Funds can be appropriated from or added to the stabilization account by 2/3 vote of City Council. The balance of the stabilization accounts was \$2.4 million at June 30, 2014.

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, 2014, totaled \$5.5 million, and is reported as restricted in the general fund.

(16) Prior Period Restatement

The beginning net position of the governmental activities has been restated to reflect the correction of an error related to an understatement of tax possessions. As a result, the governmental activities' beginning net position of \$68,312,225 has been restated to \$70,894,436.

(17) Future Implementation of GASB Pronouncements

In June 2012, GASB issued Statement No 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*. The implementation of this Statement, among other things, expands note disclosures and required supplementary information related to the Pension Trust.

In June 2012, GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. In November 2013, GASB issued Statement No. 71, *Pension Transition for Contributions Made to the Measurement Date*. Statement No. 68 and 71 will require the City to recognize its long-term obligation for pension benefits. Although the City has not determined the amount of the pension liability, the amount is expected to be significant effect on its financial statements. The required implementation date is fiscal year 2015.

In January 2013, GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, which established accounting and financial reporting standards related to government combinations and disposals of government operations. Management does not believe implementation of this Statement will impact the basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Budgetary Comparison Schedule – General Fund
Required Supplementary Information

Year Ended June 30, 2014

(Unaudited)

	Budgeted amounts		Actual amounts (budgetary basis)	Variance with final budget positive (negative)
	Original	Final		
Resources (inflows):				
Real and personal property taxes, net	\$ 114,295,344	114,295,344	117,623,416	3,328,072
Motor vehicle and other excise	6,655,000	6,655,000	7,393,772	738,772
Penalties and interest on taxes	1,730,000	1,730,000	2,125,904	395,904
Payments in lieu of taxes	145,000	145,000	232,710	87,710
User charges and other revenue	685,000	685,000	3,963,202	3,278,202
Fees	550,000	550,000	1,845,288	1,295,288
Licenses and permits	1,310,000	1,310,000	2,760,343	1,450,343
Intergovernmental	182,412,946	182,412,946	181,317,388	(1,095,558)
Fines	895,000	895,000	861,399	(33,601)
Investment income	120,000	120,000	127,868	7,868
Transfers in	7,806,606	10,346,416	10,701,756	355,340
	316,604,896	319,144,706	328,953,046	9,808,340
Amounts available for appropriation				
Charges to appropriations (outflows):				
Current:				
General government	16,194,202	16,194,202	15,905,613	288,589
Public safety	44,696,659	47,581,469	46,540,431	1,041,038
Education	167,275,457	167,275,457	167,250,662	24,795
Public works	7,052,011	7,052,011	7,722,400	(670,389)
Human services	2,559,781	2,559,781	2,308,060	251,721
Culture and recreation	2,214,493	2,214,493	2,086,778	127,715
State and county assessments	7,176,393	7,176,393	7,192,401	(16,008)
Pension and fringe benefits	66,450,022	66,450,022	62,951,394	3,498,628
Court judgment	150,000	150,000	326,353	(176,353)
Capital outlay	776,710	776,710	613,199	163,511
Debt service	12,395,017	12,395,017	12,289,234	105,783
Transfers out	2,755,060	2,755,060	3,174,309	(419,249)
	329,695,805	332,580,615	328,360,834	4,219,781
Total charges to appropriations				
Excess (deficiency) of resources over charges to appropriations	(13,090,909)	(13,435,909)	\$ 592,212	14,028,121
Other budget items:				
Free cash	13,318,577	13,318,577		
Other available funds	(227,668)	117,332		
	13,090,909	13,435,909		
Total other budget items				
Net budget	\$ —	—		

See notes to required supplementary information.

See accompanying independent auditors' report.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2014

(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).

(2) **Expenditures in Excess of Budget**

In fiscal year 2014, the City had Snow and Ice (reported as part of Public Works) expenditures of (\$944,263), Court Judgements expenditures of (\$176,353) and State and County Assessments of (\$16,008) in excess of budgeted appropriations.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2014

(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	\$ 328,953,046
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	(586,890)
Contributions for health claims are not reported as a budgetary resource	7,841,732
Stabilization fund earnings	236,928
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(10,701,756)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 325,743,060</u>

Budgetary outflows and GAAP expenditures:

Actual amounts (budgetary basis) “total charges to appropriation” from the budgetary comparison schedule	\$ 328,360,834
Differences – budget to GAAP:	
Enterprise fund related budgetary expenditures are recorded as reductions to transfers for GAAP purposes	(2,679,950)
Health claims expenditures and accruals are not reported as charges to appropriations on a budgetary basis	10,170,160
Adjustments for expenditures, encumbrances, and accruals, net	(12,687)
Transfers to other funds are outflows of budgetary appropriations but are not expenditures for financial reporting purposes	<u>(3,174,309)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances	<u>\$ 332,664,048</u>

CITY OF BROCKTON, MASSACHUSETTS

Schedules of Funding Progress and Contributions from Employers

June 30, 2014

(Unaudited)

(Dollar amounts in thousands)

**Schedules of Funding Progress
Pension**

Actuarial valuation date	Actuarial value of assets (a)	Actuarial accrued liability (b)	Unfunded (b-a)	Funded ratio (a/b)	Covered payroll (c)	Percentage Covered ((b-a)/c)
January 1, 2014	\$ 355,691	529,526	173,835	67.2%	\$ 73,757	235.7%
January 1, 2013	332,881	519,018	186,137	64.1	76,378	243.7
January 1, 2011	355,849	492,457	136,608	72.3	74,417	183.6
January 1, 2010	351,526	453,213	101,687	77.6	70,882	143.5
January 1, 2008	377,647	410,270	32,623	92.0	69,345	47.0

Other Post Employment Benefits

June 30, 2014	\$ —	416,955	416,955	—	\$ 190,904	218.4%
June 30, 2012	—	504,888	504,888	—	173,404	291.2
June 30, 2010	—	693,570	693,570	—	171,103	405.4

Schedule of Contributions from City – Pension

	Annual required contribution	Percentage contributed
Year ended December 31:		
2013	\$ 16,075	100%
2012	15,477	100
2011	12,732	100
2010	10,342	100
2009	9,709	100

See accompanying independent auditors' report.

CITY OF BROCKTON, MASSACHUSETTS

Budgetary Comparison Schedule – Water Enterprise Fund
Additional Information

Year Ended June 30, 2014

(Unaudited)

	Budgeted amounts		Actual amounts (budgetary basis)	Variance with final budget positive (negative)
	Original	Final		
Resources:				
Charges for services	\$ 14,743,829	14,258,104	16,193,881	1,935,777
Departmental charges and fees	—	240,874	223,664	(17,210)
Miscellaneous	—	544,851	39,026	(505,825)
Amounts available for appropriation	<u>14,743,829</u>	<u>15,043,829</u>	<u>16,456,571</u>	<u>1,412,742</u>
Charges to appropriations:				
Salaries and benefits	3,001,913	3,001,913	2,831,452	170,461
Ordinary maintenance	9,921,529	9,921,529	9,506,405	415,124
Debt service	2,143,586	2,143,586	2,078,087	65,499
Capital outlay	—	—	27,033	(27,033)
Total charges to appropriations	<u>15,067,028</u>	<u>15,067,028</u>	<u>14,442,977</u>	<u>624,051</u>
Excess (deficiency) of resources over charges to appropriations	<u>(323,199)</u>	<u>(23,199)</u>	<u>\$ 2,013,594</u>	<u>2,036,793</u>
Other financing sources (uses):				
Certified retained earnings	923,199	923,199	923,199	—
Transfers out	(600,000)	(900,000)	(900,000)	—
Total other financing sources (uses)	<u>323,199</u>	<u>23,199</u>	<u>23,199</u>	<u>—</u>
Net changes in fund balance	<u>\$ —</u>	<u>—</u>	<u>2,036,793</u>	<u>2,036,793</u>

See accompanying independent auditors' report.

CITY OF BROCKTON, MASSACHUSETTS

Budgetary Comparison Schedule – Sewer Enterprise Fund
Additional Information

Year Ended June 30, 2014

(Unaudited)

	Budgeted amounts		Actual amounts (budgetary basis)	Variance with final budget positive (negative)
	Original	Final		
Resources:				
Charges for services	\$ 17,284,729	16,911,591	18,621,050	1,709,459
Departmental charges and fees	—	—	18,792	18,792
Miscellaneous	—	373,138	400,709	27,571
Amounts available for appropriation	<u>17,284,729</u>	<u>17,284,729</u>	<u>19,040,551</u>	<u>1,755,822</u>
Charges to appropriations :				
Salaries and benefits	1,474,609	1,474,609	1,304,276	170,333
Ordinary maintenance	7,851,813	7,851,813	7,303,346	548,467
Debt service	7,331,472	7,331,472	7,041,331	290,141
Capital outlay	1,896,510	1,896,510	1,920,091	(23,581)
Total charges to appropriations	<u>18,554,404</u>	<u>18,554,404</u>	<u>17,569,044</u>	<u>985,360</u>
Excess (deficiency) of resources over charges to appropriations	<u>(1,269,675)</u>	<u>(1,269,675)</u>	<u>\$ 1,471,507</u>	<u>2,741,182</u>
Other financing sources (uses):				
Certified retained earnings	3,078,216	3,078,216	3,078,216	—
Transfers in	—	—	39,995	39,995
Transfers out	(1,808,541)	(1,808,541)	(1,808,541)	—
Total other financing sources (uses)	<u>1,269,675</u>	<u>1,269,675</u>	<u>1,309,670</u>	<u>39,995</u>
Net changes in fund balance	<u>\$ —</u>	<u>—</u>	<u>2,781,177</u>	<u>2,781,177</u>

See accompanying independent auditors' report.