

CITY OF BROCKTON, MASSACHUSETTS

Basic Financial Statements,
Required Supplementary Information
and Additional Information

June 30, 2015

(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 – 73
Required Supplementary Information	
Budgetary Comparison Schedule – General Fund	74
Pension Plan Schedules and OPEB Schedule of Funding Progress	75-79
Notes to Required Supplementary Information	80 –82
Additional Information	
Budgetary Comparison Schedule – Water Enterprise Fund	83
Budgetary Comparison Schedule – Sewer Enterprise Fund	84



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, 2015 (except for the Brockton Contributory Retirement System, which is as of and for the year ended December 31, 2014), 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, 2015 (except for the Brockton Contributory Retirement System, which is as of and for the year ended December 31, 2014), and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

During the year ended June 30, 2015, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* and GASB Statement No 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result, the City reported a restatement for the change in accounting principle (see Note 2). Our opinion is unmodified with respect to this matter.

The City has elected to change its policy related to the allocation of other postemployment benefit liabilities to include the business-type activities and related enterprise funds. As a result, the City reported a restatement for the change in accounting principle (see Note 2). 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 74 through 79) 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 18, 2016 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

CliftonLarsonAllen LLP

Boston, Massachusetts
March 18, 2016

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

(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, 2015.

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

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

Financial Highlights

The liabilities of the City exceeded its assets at the close of fiscal year 2015 by approximately \$101.0 million (net position).

- As a result of the implementation of GASB 68, the City restated (reduced) its beginning net position by \$237.8 million.
- The City's total net position decreased in fiscal year 2015 by approximately \$15.1 million, or 17.6%. This is primarily due to the recognition of a \$24.6 million increase in the other post-employment benefit (OPEB) liability.
- At the end of fiscal year 2015, unassigned fund balance for the general fund was approximately \$22.0 million, or 6.4%, of total general fund expenditures.
- The City's total bonded debt decreased by approximately \$12.5 million during fiscal year 2015. This decrease was due to scheduled debt repayments exceeding new debt issuances.

Overview of the Financial Statements

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

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

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

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

(Unaudited)

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

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

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

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

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

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

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

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

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

(Unaudited)

systems, both of which are considered to be major funds of the City. Refuse, recreational and renewable energy activities are combined into a single nonmajor fund.

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

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

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

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

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

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

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City, liabilities exceeded assets by approximately \$101.0 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 million, or .3% 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, 2015

(Unaudited)

An additional portion of the City's net position \$37.1 million represents resources that are subject to external restrictions on how they may be used. The remaining balance of a negative \$394.1 million represents an unrestricted net deficit.

Condensed Statements of Net Position (In thousands)

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 144,803	237,402	43,364	40,221	188,167	277,623
Capital assets	188,891	191,967	180,567	184,016	369,458	375,983
Total assets	\$ 333,694	429,369	223,931	224,237	557,625	653,606
Deferred outflows of resources	\$ 22,407	258	2,162	89	24,569	347
Long-term debt outstanding	\$ 120,151	125,896	91,982	98,775	212,133	224,671
Other liabilities	433,222	261,464	37,806	15,841	471,028	277,305
Total liabilities	\$ 553,373	387,360	129,788	114,616	683,161	501,976
Net position:						
Invested in capital assets	\$ 159,815	159,369	89,030	86,475	248,845	245,844
Restricted	37,058	39,610	—	—	37,058	39,610
Unrestricted	(394,145)	(156,712)	7,275	23,236	(386,870)	(133,476)
Total net position	\$ (197,272)	42,267	96,305	109,711	(100,967)	151,978

Total Net Position

The City's total net position decreased in fiscal year 2015 by approximately \$15.1 million, or 17.6%. This is primarily due to the recognition of a \$24.6 million increase in the other post-employment benefit (OPEB) liability. In addition to the current year loss, beginning net position was decreased by \$237.8 million due to the implementation of GASB Statement No. 68 (net pension liability).

Governmental Activities – Assets

For governmental activities, current and other assets decreased \$92.6 million, coupled with a decrease in capital assets of \$3.1 million, resulting in a decrease in total assets of \$95.7 million. The majority of the decrease in current and other assets was the removal of the pension asset of approximately \$88 million, as a result of the implementation of GASB 68. The decrease in the capital assets was the result of depreciation exceeding capital additions during fiscal year 2015.

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

(Unaudited)

Governmental Activities – Liabilities

Governmental activities liabilities increased by \$166.0 million. There was an increase of \$171.8 million in other liabilities and a \$5.7 million decrease in long-term debt outstanding. The increase in other liabilities was primarily due to the recognition of a \$23.8 million increase of the OPEB liability as well as the \$156.0 million recognition of the Net Pension Liability in accordance with GASB Statement No. 68, while the decrease in long-term debt outstanding was due to scheduled debt repayments were larger than increases in debt service due to new debt financing.

The City's 2015 OPEB annual required contribution (ARC) was \$38.1 million. Interest on the net OPEB obligation and adjustments to the ARC totaled \$616 thousand. Contributions against the ARC on a pay-as-you-go basis totaled \$12.9 million resulting in an increase in the government-wide net OPEB obligation of \$24.6 million. While the City's net OPEB obligation is \$229.2 million as of June 30, 2015, the City's entire net OPEB obligation, which is estimated at \$417.0 million as of June 30, 2014, the date of the City's most recent actuarial valuation, will be required to be recorded in its entirety in fiscal year 2018.

Business Type Activities – Assets

Current and other assets increased by \$3.1 million, while capital assets decreased by \$3.4 million and total assets decreased by \$.3 million. The increase in current and other assets was due primarily as a result of a significant transfer of cash balances in the amount \$3.4 million. The decrease in capital assets of \$3.4 million is due to depreciation totaling more than the City's continued investment in capital spending that has been funded with borrowings from the Massachusetts Clean Water Trust (MCWT). In 2015, additions to business type activities capital assets totaled \$3.5 million, which is reflected in construction in progress, buildings, machinery and equipment and infrastructure. The work, when completed, will have improved the processing capability and increased the throughput capacity of the plants. The depreciation expense for all business type activities totaled \$6.9 million.

Business Type Activities – Liabilities

Business type activities liabilities increased by \$15.2 million. There was an increase of \$22.0 million in other liabilities and a decrease of \$6.8 million in long-term debt outstanding. The increase was primarily due to the recognition of the OPEB liability as well as the recognition of the Net Pension Liability in accordance with GASB Statement No.68. 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 \$420.2 million for fiscal year 2015. This reflected an increase of \$16.7 million, or 4%. The majority of the increase relates to the recognition of on-behalf payments from the Massachusetts Teachers Retirement System (MTRS) of approximately \$20M, this was offset by revenue of the same amount.

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

(Unaudited)

Total general revenues for governmental activities of \$148.5 million offset total net expenses of \$170.4 million. Major ongoing revenue contributors were the net property tax at \$118.8 million, an increase of \$3.6 million. The remaining categories in total increased by \$401 thousand, excise taxes at \$8.1 million, an increase of \$744 thousand, intergovernmental at \$20.7 million, an increase of \$349 thousand and other totaling \$3.3 million, an decrease of \$521 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 \$400.7 million. Of this total almost \$249.8 million, or 62.3%, 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 \$20.7 million in intergovernmental aid which is classified as general revenue. An additional 30.0% of the total is derived from the City's property tax. The severe constraints on the City's revenue flexibility to pay for governmental activities is demonstrated by the fact that almost 90% of its revenues are obtained from either intergovernmental sources over which the City has no control, or from the property tax, a source whose growth is limited by state law.

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

For fiscal year 2015, the City levied a total of \$118.8 million in gross real estate property taxes against an aggregate fair market assessed value of \$5.5 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 \$17.9 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 \$6.8 million, or 7.6%.

The water fund incurred a \$245 thousand decrease; the sewer fund contributed a \$6.8 million increase, while the net position for the combination of the nonmajor recreation, refuse and renewable energy funds increased \$264 thousand. The non major refuse fund is self-sufficient. The non major recreation and renewable energy funds require a transfer of general fund revenues to support its programs. Most of the recreation fund's revenues derive from the golf course, but those revenues are not sufficient to pay for both the golf course operations and other park and recreation programs. For this reason, a transfer of other revenues is required. The Solar Energy facility generates and sells electricity.

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

(Unaudited)

The operations of the water fund and sewer fund are self-sufficient. The water and sewer funds are designed to recover the costs of operations of those funds. In the water fund the operating loss totaled \$1.4 million. In the sewer fund the operating income totaled \$5.9 million. In the water and sewer funds, cash flow from operations of \$1.0 million and \$7.0 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.

Condensed Statement of Changes in Net Position

(In thousands)

	Governmental activities		Business-type activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charge for services	\$ 14,961	13,983	43,979	41,558	58,940	55,541
Operating grants	229,297	214,081	1,095	818	230,392	214,899
Capital grants	5,533	—	2,079	448	7,612	448
General revenues:						
Property taxes	118,831	115,272	—	—	118,831	115,272
Excise taxes	8,079	7,335	—	—	8,079	7,335
Intergovernmental	20,689	20,339	—	—	20,689	20,339
Other	3,255	3,949	—	—	3,255	3,949
Total revenues	400,645	374,959	47,153	42,824	447,798	417,783
Expenses:						
General government	27,701	28,780	—	—	27,701	28,780
Public safety	64,777	69,071	—	—	64,777	69,071
Education	291,903	271,542	—	—	291,903	271,542
Public works	14,104	12,940	—	—	14,104	12,940
Human services	3,937	3,727	—	—	3,937	3,727
Culture and recreation	3,400	3,561	—	—	3,400	3,561
State and county assessments	7,649	7,192	—	—	7,649	7,192
Court judgments	59	326	—	—	59	326
Interest on long-term debt	6,678	6,324	—	—	6,678	6,324
Enterprise accounts:						
Water	—	—	16,640	15,909	16,640	15,909
Sewer	—	—	16,814	14,926	16,814	14,926
Other	—	—	9,264	8,840	9,264	8,840
Total expenses	420,208	403,463	42,718	39,675	462,926	443,138
Excess (deficiency) before transfers	(19,563)	(28,504)	4,435	3,149	(15,128)	(25,355)
Transfers	(2,339)	(123)	2,339	123	—	—
Total transfers	(2,339)	(123)	2,339	123	—	—
Change in net position	(21,902)	(28,627)	6,774	3,272	(15,128)	(25,355)
Net position – beginning of year - restated	(175,369)	70,894	89,531	106,439	(85,838)	177,333
Net position – end of year	\$ (197,271)	42,267	96,305	109,711	(100,966)	151,978

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

(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 2015, the City's governmental funds reported combined fund balances of approximately \$86.3 million, a decrease of approximately \$.6 million, or less than 1%, in comparison with the prior year. The general fund balance increased by \$3.2 million, from \$61.5 million to \$64.7 million; and the combined fund balances for all the other governmental funds decreased by \$3.8 million, from \$25.4 million to \$21.6 million.

In assessing these balances, it is important to note that the "Balance Sheet – Governmental Funds" does not include capital assets or bonded indebtedness. Please refer to the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" and the "Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position." These reconciliations will demonstrate that essentially the City's decrease in fund balances of \$.6 million, compared to its decrease in net position of \$21.9 million, a difference of \$21.3 million, is explained largely by the following factors:

1. \$2.1 million – the negative effect of revenue accruals.
2. \$3.1 million – the negative effect of the amount by which depreciation expense exceeded capital asset additions.
3. \$21.7 million – the negative effect of increases in other liabilities, primarily OPEB and net pension liability, which did not require the use of current resources.
4. \$244 thousand – the negative effect of the amount by which the amortization of deferred losses on refunding and bond issue costs exceeds bond premiums.
5. \$6.3 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.
6. \$500 thousand – the negative effect of the amount related to issuance of bonds .

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

(Unaudited)

Of the total of ending fund balances of \$86.3 million, \$13.2 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. \$30.6 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. \$15.3 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. \$5.8 million constitutes "assigned to" fund balance, amounts that are constrained by the City's intent for use for specific purposes, but are considered neither restricted nor committed. \$21.4 million constitutes "unassigned" fund balance, amounts in the general fund that are not otherwise constrained for a specific purpose more narrow than the general operations of the City.

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 \$6.8 million consists of the following:

The FY 2015 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 \$6.8 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 \$17.0 million consists of the following:

The FY 2015 General Fund Restricted Fund balance represents the Health Insurance Trust fund in the amount of \$10.8 million. This amount consists of the Health Insurance Trust Fund balance of \$4.9 million and the amount for the FY 2015 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

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

(Unaudited)

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 2015 General Fund Restricted Fund Balance in the amount of \$5.8 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 \$13.1 million appropriated for the use in the FY 2016 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, 2015

(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 \$5.8 million consists of the following:

The FY 2015 General Fund Assigned Fund Balance amount represents year-end encumbrances in the amount of \$5.8 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 \$22.0 million consists of the following:

This grouping includes the City's Stabilization fund in the amount of \$2.5 million and the City's undesignated fund Balance in the amount of \$18.9 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 \$19.0 million consists of the following:

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

(Unaudited)

This grouping includes the City's accumulated surplus in the amount of \$19.0 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 \$64.7 million, an increase of \$3.2 million. This decrease in fund balance was largely driven by a deficiency of revenues and other financing sources over expenditures and other financing uses.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 6.4% of total general fund expenditures, while total fund balance represents 18.7% of that same amount.

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

Proprietary Funds

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

The net position of the proprietary funds at the end of the current fiscal year totaled approximately \$96.3 million. Changes in net position of the proprietary funds at the end of the current fiscal year totaled an increase of approximately \$6.8 million, or 7.6%.

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

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

(Unaudited)

For the water fund, the fiscal year 2015 operating loss was \$1.4 million, or 9.7% of operating revenues. Nonoperating revenues (expenses) and transfers essentially netted to a positive \$1.2 million, and so net position decreased by \$245 thousand. Cash flow from operations was \$975 thousand.

For the sewer fund, operating income was \$5.9 million, or 28.0% of operating revenues. However, nonoperating expenses and transfers increased net position by \$788 thousand and so net position increased by \$6.8 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 2015. Cash flow from operations was \$6.9 million.

For the combined results of the other enterprise funds, the value of net position decreased by \$264 thousand or 3.2%. The operating loss for combined other enterprise funds was \$1.1 million in fiscal year 2015 or 13.4% of operating revenues. With the benefit of net transfers in (general fund subsidy) and the nonoperating revenue of \$1.3 million, the operating loss of \$1.1 million became a \$264 thousand increase in net position.

Budgetary Highlights

In fiscal year 2015, the original budget called for \$337.1 million in spending. Of this amount \$171.0 million was for Education spending, \$44.7 million was for Public Safety spending, \$73.0 million was for Fringe Benefit spending and \$48.4 million for all other categories.

Resources totaled \$323.9 million, creating a planned deficit of approximately \$13.2 million. Offsetting this deficit was a contribution from "Free Cash" of \$13.4 million. The remaining total of approximately \$0.2 million was applied to Other Available Funds.

In the final budget, a total of \$337.5 million in spending was authorized, an increase of \$0.4 million. The budgets that made up this amount included the following: the public safety budget by \$0.3 million; the capital budget by \$0.1 million; all other budgets did not increase. To help finance the additional \$0.4 million in authorized spending, the other Available Funds, including transfers in were increased by \$0.4 million.

On an actual basis, resources were higher than the final budget by \$7.6 million. The majority of revenue categories resulted in a positive variance with the exceptions of Motor Vehicle, Payments in Lieu of Taxes, 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 2015, the positive variance was largely driven by the Real and Personal property taxes collections, Fees revenue collection activities, Licenses and Permits revenues collection activities, User charges and other revenue, and Intergovernmental revenue. The Fees category increased as a result of the City receiving the yearly fee for the local cable franchise. The Licenses and Permit revenue increased as a result of an increase in the City departments licenses and permits fees activity.

On the expenditure side, a favorable variance of \$6.3 million was achieved. The City has typically achieved 1% to 2% positive variance on spending. For fiscal year 2015, 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, 2015

(Unaudited)

As a result of the revenue and expenditure positive variances, the City's fiscal year 2015 general fund operations estimated to create free cash of approximately \$14.5 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, 2015 amounted to approximately \$369.5 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 \$6.5 million for fiscal year 2015 represented a decrease of 1.7%. Capital assets for governmental activities decreased by \$3.1 million, or 1.6%, while capital assets for business-type activities decreased by \$3.4 million, or 1.9%. The decrease in capital assets for business-type activities was primarily caused by the depreciation exceeding capital asset additions. The decrease in capital assets for governmental activities 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	
	2015	2014	2015	2014	2015	2014
Land	\$ 7,411	7,411	3,246	3,246	10,657	10,657
Construction in progress	1,464	1,095	3,875	9,049	5,339	10,144
Historical works of art	1,809	1,809	—	—	1,809	1,809
Buildings	145,350	151,040	131,486	130,092	276,836	281,132
Land improvements	8,068	4,226	436	332	8,504	4,558
Machinery and equipment	3,483	4,169	7,832	8,960	11,315	13,129
Infrastructure	21,306	22,217	33,692	32,337	54,998	54,554
Total	<u>\$ 188,891</u>	<u>191,967</u>	<u>180,567</u>	<u>184,016</u>	<u>369,458</u>	<u>375,983</u>

Long-Term Debt – At the end of the current fiscal year, the City had total bonded debt outstanding of approximately \$212.1 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	
	2015	2014	2015	2014	2015	2014
Long-term debt, net of unamortized premiums	\$ <u>120,151</u>	<u>125,896</u>	<u>91,982</u>	<u>98,775</u>	<u>212,133</u>	<u>224,671</u>

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

(Unaudited)

The overall net increase is attributable to the following factors:

The City's bonded debt decreased by approximately \$12.5 million or a decrease of 5.6%. This decrease in long-term debt was the result of scheduled principal payments of \$13.5 million netted against the issuance of \$500 thousand purchase of Land and Building and the city's business type activities issued \$500 thousand for Water and Sewer enterprise upgrade projects.

Total long-term debt of the City represents a claim of about 57.4% of the City's total capital assets, and a claim of about 38.1% 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 an "AA-" rating from Standard and Poor's and an "A1" 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, especially with respect to state revenue assistance, more recently, conditions have become more stable. Nonetheless, a significant and sustained reduction in unrestricted state aid has presented a major obstacle, as the full amount of lost revenue from the first decade of the century 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. State aid to education has grown slightly due to inflation and student enrollment increases. However, for state revenue assistance other than for education, the decline was particularly steep. For example, 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%. Unrestricted state aid has recently increased modestly each year, including in the Governor's FY 2017 proposal. Nonetheless, unrestricted state aid for FY 2017 in the governor's budget, at \$21.4 million, would remain substantially below the FY 08 dollar amount, even 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 state meals tax. The City has adopted both measures. Between the two measures the City has realized more than \$1.2 million in on-going, new annual revenues. However, this new revenue falls far short of replacing the loss of funding from unrestricted aid.

Although the property tax levy has provided a predictable, steady source of revenue growth, the 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 2015 and in the FY 16 budget the approximate percentages of the city's revenue budget comprised by different sources were as follows: property tax, 30 to 31 %; state aid 48% to 49 %; Enterprise Fund revenues, 10 to 11 %; other local receipts, 5 to 6 %; and reserves/available funds, about 5%. Over the years, the percentage of total revenues represented by each category has remained rather consistent.

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

(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 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 some needed 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. The city council, rather than appropriating that sum as requested to the City's stabilization fund, disapproved the appropriation in order to slightly reduce the levy amount. In FY 2015, a new Mayor who was elected on a pledge to restrict property tax increases, did not recommend at all the appropriation of about \$2.5 million in allowable tax levy. In FY 2016, that same amount of about \$2.5 million in allowable property tax levy again was not appropriated. These revenues are not permanently lost; they are available for appropriation in future years. However the benefit of adding these revenues to the city's reserves has been permanently lost. In the opinion of the CFO, this would have been a wise strategy and would have created a badly needed increase to reserves of about \$6 million from the FY 13, FY15 and FY 16 tax levy authority. The FY 2017 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. The water enterprise fund for years was self-supporting. It no longer is self-supporting. No utility fee increases have been adopted by the City Council for several years, even though for the past several years, water fee increases were requested. As a result, the general fund has had to carry some of the water fund's costs, Capital spending has also suffered as a result. The Water Commission again requested an increase for FY 2016, this time for 30 % for July 1, 2015. The city council ultimately approved a 10 % increase for January 1, 2016, followed by two additional 10 % increases at the beginning of calendar years 2017 and 2018. The revenue from these increases will improve matters, but will not allow for full need capital budgeting, nor will it allow for full operating self-sufficiency. In FY 2016, the city council did authorize some increases to other departmental fees, licenses, and permits set by ordinance to recover inflation from the decade since the last increase.

The growth rates in these various funding sources have not kept pace with the rates of growth in the cost of the services financed by them. Cost pressures on 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 have allowed the city to extend this strategy through time, but there obviously is a limit to this approach. 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 confronted financing the record costs of the latest winter and chose to amortize its cost over the FY 16, FY 17, and FY 18 budget years. In addition, pressure has continued for contract settlements from unions without contracts. Most of the unions have now settled through FY 16, and a few are settled through FY 19, but for most unions, the bargaining cycle will begin anew for the FY 17 through FY 19 period.

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

(Unaudited)

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 2015 represented the third straight year of double digit percentage sales price increases for single family homes. For the condominium market, the improvement is real but not as dramatic.

The City's overall assessed value increased substantially in FY 2016, by more than \$641 million, or nearly 12 %. Significant growth occurred in both residential values and personal property valuations. The Trinity Financial Corp. has completed the redevelopment of an entire City block in the downtown area, comprised of mixed use residential housing, commercial space, and parking. The project blends private risk capital, both debt and equity, with public financing, including some City land for parking and a \$4 million state grant for phase I 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 been leased. A long vacant downtown parcel nearby was developed as a supermarket for nearly \$20 million, also with a tax increment financing agreement. In July 2015, the city council approved a District Improvement Financing District for the downtown area. Plans for this district are in the preliminary stages of development.

In addition, two major developments may be on the horizon. The Mayor reached an 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. However, the validity of that settlement was challenged by city council in court over the issue of the mayor's authority to grant the cooling water sale. This case is pending. In addition, a \$650 million casino project has been proposed for the City. It was approved as required by the voters. Award of the license is in the hands the Massachusetts Gaming Commission, which has expressed concern over the potential impact of an Indian gaming facility just south of Brockton in the city of Taunton. That facility is facing challenges in court. If the Brockton facility is approved by the Commission, it would add \$10 million per year in PILOT payments, absent the Indian facility. If the Indian facility is constructed, that \$10 million would be reduced to \$6 million. The Commission's decision is pending.

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. With the recent property valuation increases, the City enjoys override capacity and could increase its levy. The FY 2016 assessed valuation of the City would support a maximum levy of \$152.6 million at 2.5% of assessed value. The actual FY 2016 levy was \$124.5 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.

CITY OF BROCKTON, MASSACHUSETTS

Management's Discussion and Analysis

June 30, 2015

(Unaudited)

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, 2015

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Total</u>
Assets:			
Cash and investments	\$ 99,062,249	20,425,272	119,487,521
Receivables, net:			
Property taxes, liens, and excise taxes (net of \$1,179,014 allowance)	13,187,625	—	13,187,625
Intergovernmental	10,800,021	1,462,615	12,262,636
Customer receivables	—	21,119,806	21,119,806
Departmental and Other	573,444	356,101	929,545
Other assets	5,994,603	—	5,994,603
Long-term note receivable	6,781,832	—	6,781,832
Long-term intergovernmental receivable	5,780,864	—	5,780,864
Tax possessions	2,622,390	—	2,622,390
Capital assets:			
Nondepreciable	10,684,418	7,121,110	17,805,528
Depreciable, net	178,206,530	173,446,366	351,652,896
Total assets	<u>333,693,976</u>	<u>223,931,270</u>	<u>557,625,246</u>
Deferred outflows of resources:			
Pension	22,302,205	2,105,873	24,408,078
Losses on refundings	105,249	56,439	161,688
Total deferred outflows of resources	<u>22,407,454</u>	<u>2,162,312</u>	<u>24,569,766</u>
Total assets and deferred outflows	<u>356,101,430</u>	<u>226,093,582</u>	<u>582,195,012</u>
Liabilities:			
Warrants and accounts payable	11,364,001	3,056,766	14,420,767
Accrued liabilities:			
Interest	2,288,825	923,356	3,212,181
Payroll and related withholdings	17,818,666	130,960	17,949,626
Tax abatement refunds	3,247,975	—	3,247,975
Noncurrent liabilities:			
Due within one year:			
Compensated absences and claims	4,446,348	168,205	4,614,553
Bonds, note and loans payable	7,537,299	7,156,844	14,694,143
Due in more than one year:			
Compensated absences and claims	14,309,804	6,446,761	20,756,565
Unearned revenue	—	2,599,617	2,599,617
Landfill closure and postclosure care costs	2,595,341	1,656,000	4,251,341
Bonds, note and loans payable	112,613,731	84,825,414	197,439,145
Net pension liability	155,996,167	14,729,850	170,726,017
Other post employment benefits	221,154,866	8,094,655	229,249,521
Total liabilities	<u>553,373,023</u>	<u>129,788,428</u>	<u>683,161,451</u>
Net position:			
Net investment in capital assets	159,815,167	89,030,471	248,845,638
Restricted for:			
Permanent funds:			
Nonexpendable	6,460,891	—	6,460,891
Expendable	549,570	—	549,570
Statutory reserve	5,726,276	—	5,726,276
Health claims	11,265,640	—	11,265,640
Federal, state and local grants	12,770,775	—	12,770,775
Other	284,895	—	284,895
Unrestricted	(394,144,807)	7,274,683	(386,870,124)
Total net position	<u>\$ (197,271,593)</u>	<u>96,305,154</u>	<u>(100,966,439)</u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2015

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	\$ 27,701,302	5,252,075	9,062,732	3,281,587	(10,104,908)	—	(10,104,908)
Public safety	64,776,824	2,583,290	3,431,398	—	(58,762,136)	—	(58,762,136)
Education	271,542,282	6,597,678	195,861,133	—	(69,083,471)	—	(69,083,471)
Education - MTRS	20,360,546	—	20,360,546	—	—	—	—
Public works	14,104,252	83,256	41,515	2,251,156	(11,728,325)	—	(11,728,325)
Human services	3,936,769	373,786	290,096	—	(3,272,887)	—	(3,272,887)
Culture and recreation	3,400,225	70,566	249,877	—	(3,079,782)	—	(3,079,782)
State and county assessments	7,648,979	—	—	—	(7,648,979)	—	(7,648,979)
Court judgments	58,517	—	—	—	(58,517)	—	(58,517)
Interest on long-term debt	6,677,958	—	—	—	(6,677,958)	—	(6,677,958)
Total governmental activities	<u>420,207,654</u>	<u>14,960,651</u>	<u>229,297,297</u>	<u>5,532,743</u>	<u>(170,416,963)</u>	<u>—</u>	<u>(170,416,963)</u>
Business-type activities:							
Water	16,639,778	14,625,150	295,332	208,917	—	(1,510,379)	(1,510,379)
Sewer	16,814,721	21,185,600	577,817	1,869,768	—	6,818,464	6,818,464
Other	9,264,023	8,168,421	222,069	—	—	(873,533)	(873,533)
Total business-type activities	<u>42,718,522</u>	<u>43,979,171</u>	<u>1,095,218</u>	<u>2,078,685</u>	<u>—</u>	<u>4,434,552</u>	<u>4,434,552</u>
Total primary government	<u>\$ 462,926,176</u>	<u>58,939,822</u>	<u>230,392,515</u>	<u>7,611,428</u>	<u>(170,416,963)</u>	<u>4,434,552</u>	<u>(165,982,411)</u>
General revenues:							
Property taxes, levied for general purposes, net					\$ 118,830,587	—	118,830,587
Excises					8,079,262	—	8,079,262
Payments in lieu of taxes					170,006	—	170,006
Penalties and interest on taxes					1,965,793	—	1,965,793
Other					454,202	—	454,202
Unrestricted Grants and Contributions					20,688,772	—	20,688,772
Investment income					665,457	—	665,457
Transfers, net					(2,339,928)	2,339,928	—
Total general revenues and transfers					<u>148,514,151</u>	<u>2,339,928</u>	<u>150,854,079</u>
Change in net assets					(21,902,812)	6,774,480	(15,128,332)
Net position, beginning of year					42,267,063	109,711,237	151,978,300
Restatement of net position (see Note 2)					(217,635,844)	(20,180,563)	(237,816,407)
Net position, end of year					<u>\$ (197,271,593)</u>	<u>96,305,154</u>	<u>(100,966,439)</u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Balance Sheet – Governmental Funds

June 30, 2015

Assets	General	Other governmental	Total
	<u> </u>	<u> </u>	<u> </u>
Cash and investments	\$ 78,395,624	20,666,625	99,062,249
Receivables, net:			
Property taxes (net of \$463,238 allowance)	7,391,566	—	7,391,566
Motor vehicle excise (net of \$715,776 allowance)	1,954,055	—	1,954,055
Tax liens	3,842,004	—	3,842,004
Intergovernmental	3,380,596	7,419,425	10,800,021
Departmental and other	12,345	561,099	573,444
Total receivables	<u>16,580,566</u>	<u>7,980,524</u>	<u>24,561,090</u>
Long-term note receivable	6,781,832	—	6,781,832
Long-term intergovernmental receivable	5,780,864	—	5,780,864
Tax possessions	2,622,390	—	2,622,390
Deposit with health claims agent	5,858,800	—	5,858,800
Total assets	<u>\$ 116,020,076</u>	<u>28,647,149</u>	<u>144,667,225</u>
Liabilities, Deferred Inflows of Resources and Fund Balances			
Warrants and accounts payable	\$ 6,420,337	4,943,664	11,364,001
Accrued liabilities:			
Tax abatement refunds	3,247,975	—	3,247,975
Payroll and related withholdings	15,718,305	2,100,360	17,818,665
Health claims payable	2,705,487	—	2,705,487
Total liabilities	<u>28,092,104</u>	<u>7,044,024</u>	<u>35,136,128</u>
Deferred Inflows of Resources:			
Unavailable revenue	<u>23,224,656</u>	<u>—</u>	<u>23,224,656</u>
Fund balances (deficits):			
Nonspendable	6,781,832	6,460,891	13,242,723
Restricted	16,991,916	13,605,240	30,597,156
Committed	13,131,133	2,186,879	15,318,012
Assigned	5,770,989	—	5,770,989
Unassigned	22,027,446	(649,885)	21,377,561
Total fund balances	<u>64,703,316</u>	<u>21,603,125</u>	<u>86,306,441</u>
Total liabilities and fund balances	<u>\$ 116,020,076</u>	<u>28,647,149</u>	<u>144,667,225</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, 2015

Total fund balance – governmental funds	\$ 86,306,441
Amounts reported for governmental activities in the statements of net position are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	188,890,948
Other assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds	23,224,656
Inventory capitalized in the government-wide statements	135,802
Deferred outflows of resources - pension	22,302,205
Deferred outflows of resources - losses on refunding	105,249
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	(90,870,000)
Other general obligation bonds	(28,162,250)
Bond premiums	(1,118,780)
Other post employment benefits	(221,154,866)
Net pension liability	(155,996,167)
Accrued interest on bonds	(2,288,825)
Landfill and postclosure care costs	(2,595,341)
Compensated absences and claims	(16,050,665)
	<u>(518,236,894)</u>
Net position of governmental activities	<u>\$ (197,271,593)</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, 2015

	<u>General</u>	<u>Other governmental</u>	<u>Total</u>
Revenues:			
Real and personal property taxes, net	\$ 118,469,441	—	118,469,441
Motor vehicle and other excise	7,722,874	—	7,722,874
Penalties and interest on taxes	1,965,793	—	1,965,793
Payments in lieu of taxes	170,006	—	170,006
User charges and other revenue	4,061,881	4,930,183	8,992,064
Fees	1,848,612	6,069,702	7,918,314
Licenses and permits	2,445,956	—	2,445,956
Intergovernmental	188,917,544	43,130,239	232,047,783
Intergovernmental (MTRS on-behalf payment contribution)	20,360,546	—	20,360,546
Fines	631,430	316,288	947,718
Investment income	235,000	430,456	665,456
Contributions	—	771,144	771,144
	<hr/>	<hr/>	<hr/>
Total revenues	346,829,083	55,648,012	402,477,095
Expenditures:			
Current:			
General government	12,667,093	11,987,824	24,654,917
Public safety	42,720,714	1,976,945	44,697,659
Education	169,148,890	36,322,561	205,471,451
Public works	9,618,415	771,850	10,390,265
Human services	2,342,472	442,447	2,784,919
Culture and recreation	2,059,565	134,633	2,194,198
State and county assessments	7,648,979	—	7,648,979
Pension and fringe benefits	66,734,793	—	66,734,793
Pension (MTRS on-behalf payment)	20,360,546	—	20,360,546
Court judgments	58,517	—	58,517
Capital outlay	542,197	3,213,386	3,755,583
Debt service	12,595,525	156,945	12,752,470
	<hr/>	<hr/>	<hr/>
Total expenditures	346,497,706	55,006,591	401,504,297
Excess (deficiency) of revenues over expenditures	<hr/>	<hr/>	<hr/>
	331,377	641,421	972,798
Other financing sources (uses):			
Operating transfers in	4,087,686	459,647	4,547,333
Operating transfers out	(1,487,371)	(5,399,890)	(6,887,261)
Other	267,914	—	267,914
Bond proceeds	—	500,000	500,000
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	2,868,229	(4,440,243)	(1,572,014)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	<hr/>	<hr/>	<hr/>
	3,199,606	(3,798,822)	(599,216)
Fund balance, beginning of year	<hr/>	<hr/>	<hr/>
	61,503,710	25,401,947	86,905,657
Fund balance, end of year	<hr/>	<hr/>	<hr/>
	\$ 64,703,316	21,603,125	86,306,441

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, 2015

Net change in fund balances – total governmental funds	\$ (599,216)
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 \$7,040,431 exceeded depreciation expense of \$10,116,240.	(3,075,809)
Accrual basis revenues can result in more or (less) revenues reported in the statement of activities depending upon timing of billings and collections.	(2,100,239)
Issuance of Bonds	(500,000)
Repayments of bond principal are expenditures in the governmental funds but reduce long-term liabilities in the statement of net position.	6,336,650
Amortization of bond premiums \$326,268 add to net position, amortization of deferred outflows \$152,656 decrease net position, and current year premiums decrease net position by \$416,834.	(244,222)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This amount represents the difference between an increase in interest payable \$17,916, a decrease in landfill liability \$131,985, increase in compensated absences and claims \$1,595,731, increase in other postemployment benefit liabilities \$23,743,662, and decrease in net pension liability related activity of \$3,505,348 (change in net pension liability \$18,796,857 less recognition of deferred outflows \$22,302,205)	<u>(21,719,976)</u>
Change in net position of governmental activities	<u>\$ (21,902,812)</u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Net Position – Proprietary Funds

June 30, 2015

Assets	Enterprise funds			Total
	Water	Sewer	Other	
Current assets:				
Cash and cash equivalents	\$ 6,586,146	9,378,061	4,461,065	20,425,272
Customer receivables, net	6,101,965	11,078,717	3,939,124	21,119,806
Intergovernmental receivable	578,337	884,278	—	1,462,615
Other	306,148	49,953	—	356,101
Total current assets	13,572,596	21,391,009	8,400,189	43,363,794
Noncurrent assets:				
Capital assets:				
Nondepreciable	4,943,733	1,516,868	660,509	7,121,110
Depreciable, net	45,767,250	121,939,768	5,739,348	173,446,366
Total noncurrent assets	50,710,983	123,456,636	6,399,857	180,567,476
Total assets	64,283,579	144,847,645	14,800,046	223,931,270
Deferred outflows of resources:				
Pension	1,062,964	441,231	601,678	2,105,873
Losses on refundings	31,783	24,656	—	56,439
Total deferred outflows of resources	1,094,747	465,887	601,678	2,162,312
Total assets and deferred outflows of resources	65,378,326	145,313,532	15,401,724	223,987,709
Liabilities				
Current liabilities:				
Warrants and accounts payable	973,791	1,379,443	703,532	3,056,766
Accrued expenses	273,624	740,909	39,783	1,054,316
Compensated absences and claims	87,689	41,017	39,499	168,205
Bonds, notes, and loans payable	1,738,342	5,317,842	100,660	7,156,844
Total current liabilities	3,073,446	7,479,211	883,474	11,436,131
Noncurrent liabilities:				
Compensated absences and claims	1,136,160	2,941,533	2,369,068	6,446,761
Unearned revenue	2,599,617	—	—	2,599,617
Landfill and postclosure care costs	—	1,656,000	—	1,656,000
Other post employment benefits	4,195,853	1,819,441	2,079,361	8,094,655
Net pension liability	7,435,065	3,086,255	4,208,530	14,729,850
Bonds	22,842,506	61,181,038	801,870	84,825,414
Total noncurrent liabilities	38,209,201	70,684,267	9,458,829	118,352,297
Total liabilities	41,282,647	78,163,478	10,342,303	129,788,428
Net Position				
Net investment in capital assets	26,550,732	56,982,412	5,497,327	89,030,471
Unrestricted	(2,455,053)	10,167,642	(437,906)	7,274,683
Total net position	\$ 24,095,679	67,150,054	5,059,421	96,305,154

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, 2015

	Enterprise funds			
	Water	Sewer	Other	Total
Operating revenues:				
Charges for services	\$ 14,131,347	20,938,269	7,901,562	42,971,178
Fees	493,803	247,331	262,086	1,003,220
Other	—	—	4,773	4,773
Total operating revenues	<u>14,625,150</u>	<u>21,185,600</u>	<u>8,168,421</u>	<u>43,979,171</u>
Operating expenses:				
Salaries and benefits	4,149,364	2,504,623	2,146,655	8,800,642
Utilities	691,831	1,596,231	84,973	2,373,035
Repairs and maintenance	695,598	1,193,196	272,688	2,161,482
Contractual services	7,835,594	4,707,057	6,109,175	18,651,826
Other supplies and expenses	521,061	941,622	260,440	1,723,123
Depreciation	2,209,813	4,275,608	390,753	6,876,174
Total operating expenses	<u>16,103,261</u>	<u>15,218,337</u>	<u>9,264,684</u>	<u>40,586,282</u>
Operating income (loss)	<u>(1,478,111)</u>	<u>5,967,263</u>	<u>(1,096,263)</u>	<u>3,392,889</u>
Nonoperating revenue (expense):				
Interest income	277,076	309,218	222,069	808,363
Interest expense	(536,517)	(1,596,384)	661	(2,132,240)
Debt subsidies	18,256	268,599	—	286,855
Total nonoperating (expenses) revenue	<u>(241,185)</u>	<u>(1,018,567)</u>	<u>222,730</u>	<u>(1,037,022)</u>
Income (loss) before capital contributions and transfers	<u>(1,719,296)</u>	<u>4,948,696</u>	<u>(873,533)</u>	<u>2,355,867</u>
Capital contributions	208,917	1,869,768	—	2,078,685
Transfers in	2,301,516	1,446,978	1,137,755	4,886,249
Transfers out	(1,035,804)	(1,510,517)	—	(2,546,321)
Total capital contributions and transfers, net	<u>1,474,629</u>	<u>1,806,229</u>	<u>1,137,755</u>	<u>4,418,613</u>
Change in net position	<u>(244,667)</u>	<u>6,754,925</u>	<u>264,222</u>	<u>6,774,480</u>
Net position, beginning of year	34,624,895	64,733,606	10,352,736	109,711,237
Restatement of net position (Note 2)	(10,284,549)	(4,338,477)	(5,557,537)	(20,180,563)
Net position, end of year	\$ <u>24,095,679</u>	<u>67,150,054</u>	<u>5,059,421</u>	<u>96,305,154</u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2015

	Enterprise funds			Total
	Water	Sewer	Other	
Cash flows from operations:				
Cash received from customers	\$ 14,919,689	17,517,434	8,192,244	40,629,367
Cash paid to employees	(4,096,124)	(2,060,579)	(2,044,793)	(8,201,496)
Cash paid to vendors	(9,848,699)	(8,480,012)	(6,574,757)	(24,903,468)
Net cash provided by (used in) operations	974,866	6,976,843	(427,306)	7,524,403
Cash flows from noncapital financing activities:				
Transfers In	2,301,516	1,446,978	1,137,755	4,886,249
Transfers Out	(1,035,804)	(1,510,517)	—	(2,546,321)
Net cash provided by (used in) noncapital financing activities	1,265,712	(63,539)	1,137,755	2,339,928
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(568,282)	(1,639,010)	(800,490)	(3,007,782)
Interest paid on debt	(541,636)	(1,457,111)	—	(1,998,747)
Loan Proceeds Received	632,292	—	—	632,292
Repayment of long-term debt	(1,619,257)	(5,105,143)	(100,000)	(6,824,400)
Net cash used in capital and related financing activities	(2,096,883)	(8,201,264)	(900,490)	(11,198,637)
Cash flows from investing activity:				
Interest income	277,076	309,218	222,069	808,363
Increase (decrease) in cash and cash equivalents	420,771	(978,742)	32,028	(525,943)
Cash and cash equivalents, beginning of year	6,165,375	10,356,803	4,429,037	20,951,215
Cash and cash equivalents, end of year	\$ 6,586,146	9,378,061	4,461,065	20,425,272
Reconciliation of operating income (loss) to net cash provided by (used in) operations:				
Operating income (loss)	\$ (1,478,111)	5,967,263	(1,096,263)	3,392,889
Reconciliation of operating income (loss) to net cash provided by (used in) operations:				
Depreciation expense	2,209,813	4,275,608	390,753	6,876,174
Net pension liability	(167,071)	(69,351)	(94,569)	(330,991)
Other post employment benefits	450,476	195,339	223,245	869,060
Changes in operating assets and liabilities:				
Accounts receivable	294,539	(3,668,166)	23,823	(3,349,804)
Warrants and accounts payable	(133,648)	(50,662)	158,944	(25,366)
Other assets and liabilities	(201,132)	326,812	(33,239)	92,441
Net cash provided by (used in) operations	\$ 974,866	6,976,843	(427,306)	7,524,403

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Changes in Net Position – Fiduciary Funds

Year ended December 31, 2014

	<u>Pension trust fund</u>
Additions:	
Contributions:	
Employers	\$ 19,332,315
Employees	8,467,701
Other	<u>576,629</u>
Total contributions	<u>28,376,645</u>
Investment income:	
Net appreciation in fair value of investments	8,681,208
Investment income	<u>9,552,598</u>
Total investment income	18,233,806
Less investment expenses	<u>2,396,370</u>
Net investment income	<u>15,837,436</u>
Intergovernmental	271,790
Other	<u>13,439</u>
Total additions	<u>44,499,310</u>
Deductions:	
Benefits	37,937,119
Member refunds and transfers to other systems, net	1,268,234
Administrative expenses	<u>677,927</u>
Total deductions	<u>39,883,280</u>
Change in net position	4,616,030
Net position, beginning of year	<u>367,375,351</u>
Net position, end of year	\$ <u><u>371,991,381</u></u>

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

(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, 2014 can be obtained by contacting the Brockton Retirement Board at 1322 Belmont Street, Suite 101, Brockton, MA 02301.

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

The City has entered into joint ventures with other municipalities to pool resources and share the costs, risks, and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specified service recipients. The following is a list of the City's joint ventures, their purpose, the address where the joint venture financial statements are available, and the annual assessment paid by the City in 2015:

<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	\$ 2,165,188
Southeastern Regional School District 250 Foundry Street South Easton, MA 02375	To provide educational services	2,952,574

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

(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, 2015, except for the System, which is presented as of and for the year ended December 31, 2014.

Government-Wide Statements

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

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

Fund Financial Statements

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

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

The City reports the following major governmental fund:

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

The City reports the following major enterprise funds:

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

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

Additionally, the City reports the following fund types:

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

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

(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. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized as soon as all eligibility requirements imposed by the provider have been met.

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

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

(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 respective balance sheets and statements of net position.

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

(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) *Allowance for Uncollectible Accounts*

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

(f) *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.

(g) *Deferred Outflows of Resources*

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

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

(h) *Deferred Inflows of Resources*

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

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

(i) *Pensions*

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

(j) *Capital Assets*

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

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

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

(k) Net Position and Fund Balance

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

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

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

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

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

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

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

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

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

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.

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

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

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.

(m) *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.

(n) *Implementation of New Accounting Principles and Prior Year Restatements*

For the year ending June 30, 2015, the City implemented the following pronouncements issued by the GASB:

- GASB Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*
- GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

- GASB Statement No. 69, *Government Combinations and Disposal of Government Operations*
- GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68.*

The implementation of GASB Statement No. 69 had no reporting impact for the City.

The implementation of GASB Statements No.'s 67, 68 and 71 resulted in, among other things, the establishment of a net pension liability in the Statement of Net Position, as well as deferred outflows related to pension activities, and expanded note disclosure and required supplementary information. As a result, the City has restated its 2015 beginning net position to reflect the implementation of the Statement.

In addition, the City has changed its methodology related to the allocation of other postemployment benefit (OPEB) liabilities to its business-type activities and related enterprise funds. As a result, the City has restated its 2015 beginning net position to reflect the change in accounting principle.

The cumulative effect of the changes in accounting principles are as follows:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Water</u>	<u>Sewer</u>	<u>Other</u>
Net Position, June 30, 2014, as previously reported	\$ 42,267,063	109,711,237	34,624,895	64,733,606	10,352,736
Cumulative effect of application of GASB 68, net pension liability	(224,861,439)	(12,954,968)	(6,539,172)	(2,714,375)	(3,701,421)
Cumulative effect of change in accounting principle related to OPEB	<u>7,225,595</u>	<u>(7,225,595)</u>	<u>(3,745,377)</u>	<u>(1,624,102)</u>	<u>(1,856,116)</u>
Total adjustments	<u>(217,635,844)</u>	<u>(20,180,563)</u>	<u>(10,284,549)</u>	<u>(4,338,477)</u>	<u>(5,557,537)</u>
Net position, June 30, 2014, as restated	\$ <u><u>(175,368,781)</u></u>	<u><u>89,530,674</u></u>	<u><u>24,340,346</u></u>	<u><u>60,395,129</u></u>	<u><u>4,795,199</u></u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

(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:		
2016	\$	194,564
2017		206,850
2018		219,913
2019		233,800
2020		248,564
2021 – 2022		<u>5,678,141</u>
Total	\$	<u><u>6,781,832</u></u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

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

For fiscal years 2013, 2014 and 2015, cash payments were not sufficient to satisfy the principal amounts. The available hotel/motel tax has been applied to principal and interest payments due.

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

(c) Long-Term Receivable (Intergovernmental)

The City participates in the Commonwealth’s school building assistance program, which is administered by the Massachusetts School Building Authority (MSBA). The MSBA provides financial assistance (90% of total costs) to the City to build and/or renovate schools. As of June 30, 2015, under MSBA’s contract assistance program, the City was due funds totaling \$8,378,410.

In the General Fund, the receivable is offset by unavailable (deferred inflows of resources) revenue because the revenue does not meet the revenue recognition criteria. The following is a schedule of the five-year paydown as of June 30, 2015 through 2020:

Fiscal year:		
2016	\$	2,597,546
2017		2,597,546
2018		1,061,106
2019		1,061,106
2020		1,061,106
		<hr/>
Total	\$	<u>8,378,410</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

(4) Capital Assets

Capital asset activity for the year ended June 30, 2015 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	1,095,086	1,008,196	639,076	1,464,206
Historical works of art	1,809,514	—	—	1,809,514
Total capital assets, not being depreciated	<u>10,315,298</u>	<u>1,008,196</u>	<u>639,076</u>	<u>10,684,418</u>
Capital assets, being depreciated:				
Buildings	238,379,538	159,738	—	238,539,276
Land improvements	11,057,822	4,265,287	—	15,323,109
Machinery and equipment	25,542,686	362,124	—	25,904,810
Infrastructure	97,729,302	1,884,162	—	99,613,464
Total capital assets, being depreciated	<u>372,709,348</u>	<u>6,671,311</u>	<u>—</u>	<u>379,380,659</u>
Less accumulated depreciation for:				
Buildings	87,339,376	5,849,674	—	93,189,050
Land improvements	6,831,522	423,818	—	7,255,340
Machinery and equipment	21,374,631	1,047,608	—	22,422,239
Infrastructure	75,512,360	2,795,140	—	78,307,500
Total accumulated depreciation	<u>191,057,889</u>	<u>10,116,240</u>	<u>—</u>	<u>201,174,129</u>
Total capital assets, being depreciated, net	<u>181,651,459</u>	<u>(3,444,929)</u>	<u>—</u>	<u>178,206,530</u>
Governmental capital assets, net	<u>\$ 191,966,757</u>	<u>(2,436,733)</u>	<u>639,076</u>	<u>188,890,948</u>

Depreciation expense was charged to governmental functions as follows:

Governmental activities:	
General government	\$ 444,202
Public safety	1,164,194
Public works	2,587,011
Education	5,578,923
Human services	76,047
Culture and recreation	265,863
Total depreciation expense – governmental activities	<u>\$ 10,116,240</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

	<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>4,123,775</u>	<u>568,282</u>	<u>2,677,816</u>	<u>2,014,241</u>
Total capital assets, not being depreciated	<u>7,053,267</u>	<u>568,282</u>	<u>2,677,816</u>	<u>4,943,733</u>
Capital assets, being depreciated:				
Buildings	27,775,245	44,336	—	27,819,581
Land improvements	105,700	—	—	105,700
Machinery and equipment	17,115,012	—	—	17,115,012
Infrastructure	<u>32,395,539</u>	<u>2,633,480</u>	<u>—</u>	<u>35,029,019</u>
Total capital assets, being depreciated	<u>77,391,496</u>	<u>2,677,816</u>	<u>—</u>	<u>80,069,312</u>
Less accumulated depreciation for:				
Buildings	4,784,021	680,433	—	5,464,454
Land improvements	105,271	430	—	105,701
Machinery and equipment	10,095,998	935,978	—	11,031,976
Infrastructure	<u>17,106,959</u>	<u>592,972</u>	<u>—</u>	<u>17,699,931</u>
Total accumulated depreciation	<u>32,092,249</u>	<u>2,209,813</u>	<u>—</u>	<u>34,302,062</u>
Total capital assets being depreciated, net	<u>45,299,247</u>	<u>468,003</u>	<u>—</u>	<u>45,767,250</u>
Water capital assets, net	<u>52,352,514</u>	<u>1,036,285</u>	<u>2,677,816</u>	<u>50,710,983</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Sewer:				
Capital assets, not being depreciated:				
Land	186,327	—	—	186,327
Construction in progress	4,856,670	1,996,066	5,522,195	1,330,541
Total capital assets, not being depreciated	<u>5,042,997</u>	<u>1,996,066</u>	<u>5,522,195</u>	<u>1,516,868</u>
Capital assets, being depreciated:				
Buildings	137,447,132	5,522,196	—	142,969,328
Land improvements	258,000	—	—	258,000
Machinery and equipment	43,372,097	62,527	—	43,434,624
Infrastructure	38,056,640	—	—	38,056,640
Total capital assets, being depreciated	<u>219,133,869</u>	<u>5,584,723</u>	<u>—</u>	<u>224,718,592</u>
Less accumulated depreciation for:				
Buildings	30,693,048	3,475,535	—	34,168,583
Land improvements	258,000	—	—	258,000
Machinery and equipment	42,527,424	197,410	—	42,724,834
Infrastructure	25,024,744	602,663	—	25,627,407
Total accumulated depreciation	<u>98,503,216</u>	<u>4,275,608</u>	<u>—</u>	<u>102,778,824</u>
Total capital assets being depreciated, net	<u>120,630,653</u>	<u>1,309,115</u>	<u>—</u>	<u>121,939,768</u>
Sewer capital assets, net	<u>125,673,650</u>	<u>3,305,181</u>	<u>5,522,195</u>	<u>123,456,636</u>
Other:				
Capital assets, not being depreciated:				
Land	130,359	—	—	130,359
Construction in progress	68,163	461,987	—	530,150
Total capital assets, not being depreciated	<u>198,522</u>	<u>461,987</u>	<u>—</u>	<u>660,509</u>
Capital assets, being depreciated:				
Buildings	905,875	—	—	905,875
Land improvements	32,459,301	154,750	—	32,614,051
Machinery and equipment	3,509,816	178,937	—	3,688,753
Infrastructure	7,060,842	4,816	—	7,065,658
Total capital assets, being depreciated	<u>43,935,834</u>	<u>338,503</u>	<u>—</u>	<u>44,274,337</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Less accumulated depreciation for:				
Buildings	559,658	15,316	—	574,974
Land improvements	32,128,069	50,044	—	32,178,113
Machinery and equipment	2,521,428	236,339	—	2,757,767
Infrastructure	2,935,081	89,054	—	3,024,135
	<u>38,144,236</u>	<u>390,753</u>	<u>—</u>	<u>38,534,989</u>
Total accumulated depreciation				
Total capital assets being depreciated, net	<u>5,791,598</u>	<u>(52,250)</u>	<u>—</u>	<u>5,739,348</u>
Other capital assets, net	<u>5,990,120</u>	<u>409,737</u>		<u>6,399,857</u>
Business-type activities capital assets, net	<u>\$ 184,016,284</u>	<u>4,751,203</u>	<u>8,200,011</u>	<u>180,567,476</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, 2015, the City's bank balances of uninsured and uncollateralized deposits totaled \$121,962,916. All of the 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.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

Deposits and investments made by the System are governed by Chapter 32 of the MGL. The System engages investment managers that adhere to MGL c. 32, sec 23(3), the “Prudent Person” rule, which permits (among other things) the investment in corporate bonds, equities, 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, 2015 for the primary government and December 31, 2014 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>
Retirement system:				
Money market mutual funds	\$ 13,562,037	13,562,037	—	—
Pooled fixed income securities	<u>95,153,118</u>	<u>95,153,118</u>	<u>—</u>	<u>—</u>
Subtotal	<u>108,715,155</u>	<u>108,715,155</u>	<u>—</u>	<u>—</u>
City:				
U.S. Treasury notes and bonds	905,019	116,998	474,813	313,208
U.S. agencies	1,224,247	125,990	926,157	172,100
Corporate bonds	596,363	71,177	525,186	—
MMDT	<u>7,831,327</u>	<u>7,831,327</u>	<u>—</u>	<u>—</u>
Subtotal	<u>10,556,956</u>	<u>8,145,492</u>	<u>1,926,156</u>	<u>485,308</u>
Total	<u>\$ 119,272,111</u>	<u>116,860,647</u>	<u>1,926,156</u>	<u>485,308</u>

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

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

(d) Credit Risk

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

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

The City's fixed-income investments as of June 30, 2015 for the primary government and December 31, 2014 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>Not rated</u>
Retirement system:			
Money market mutual funds \$	13,562,037	—	13,562,037
Pooled fixed income securities	<u>95,153,118</u>	<u>—</u>	<u>95,153,118</u>
Subtotal	<u>108,715,155</u>	<u>—</u>	<u>108,715,155</u>
City:			
U.S. agencies	2,129,288	2,129,288	—
Corporate Bonds	596,364	470,325	126,039
MMDT	<u>7,831,327</u>	<u>—</u>	<u>7,831,327</u>
Subtotal	<u>10,556,979</u>	<u>2,599,613</u>	<u>7,957,366</u>
Total	<u>\$ 119,272,134</u>	<u>2,599,613</u>	<u>116,672,521</u>

In addition to the above schedule, the City has \$905,019 invested in U.S. government securities, which are not included above as they are explicitly guaranteed by the U.S. government.

(e) Concentration Risk

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

The System does not have a policy for concentration of credit risk. As of December 31, 2014, the System was not exposed to concentration of credit risk.

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

(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.

The System's policy for foreign currency risk is to diversify the foreign countries and currencies within its pooled international investment portfolio. As of December 31, 2014, the System had indirect exposure to foreign currency risk for certain pooled equity investments in the amount of approximately \$54,900,000.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

(6) Pension Plan – Brockton Contributory Retirement System (System)

(a) General Information

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

Membership in the System was as follows at December 31, 2014:

Active members	1,827
Inactive members	403
Retirees and beneficiaries currently receiving benefits	<u>1,287</u>
Total	<u><u>3,517</u></u>

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

(b) Benefits Provided

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

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

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

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

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

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

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

(c) *Contributions*

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

For the year ended December 31, 2014, active member contributions totaled \$8,467,701 and employer contributions totaled \$19,332,315. Contributions to the System from the City were \$18,037,764 for the year ended June 30, 2015.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

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

The components of the net pension liability of the System at December 31, 2014, were as follows:

Total pension liability	\$ 554,569,401
Plan fiduciary net position	<u>(371,991,381)</u>
Net pension liability	\$ <u>182,578,020</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>67.1%</u>

At June 30, 2015, the City reported a liability of \$170,726,017 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014 for which update procedures were used to roll forward the total pension liability to the measurement date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2014, the City's proportion was 93.50853 percent, which was an increase of .90694 percent from its proportion measured as of December 31, 2013.

For the year ended June 30, 2015, the City recognized pension expense of \$14,201,425. At June 30, 2015, the City reported deferred outflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 9,802,488
Changes in Assumption	13,392,080
Changes in Proportion	<u>1,213,510</u>
	\$ <u>24,408,078</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

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

<u>Year Ended June 30</u>	
2016	\$ 5,546,604
2017	5,546,604
2018	5,546,604
2019	5,546,604
2020	<u>2,221,662</u>
Total	\$ <u>24,408,078</u>

(d) Actuarial assumptions

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

Methods:

Actuarial cost method	Entry age normal cost
Asset valuation method	Fair value

Assumptions:

Inflation	3.00%
Salary increases	Based on years of service, ranging from 7.00% at 0 years of service decreasing to 3.75% after 9 years of service
Investment rate of return	8.0%
Cost of living adjustment	3.0% annually
Mortality	Healthy Retiree - RP-2000 Mortality Table projected generationally with Scale BB for males and females Disabled Retiree - RP-2000 Mortality Table set forward two years for all disabled members
Retirement rates	General Employees - 1.0% and 1.5% for males and females, respectively, beginning at age 50 ranging to 30.0% and 20.0% for males and females, respectively, ending at age 69 Police and Fire - 1.0% beginning at age 45 ranging to 100.0% at age 65

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

The actuarial assumptions used in the January 1, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2012 to December 31, 2013.

(e) ***Investment Policy and Rates of Return***

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

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

The System's annual money-weighted rate of return on pension plan investments, net of investment expenses, was 4.38%. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested, measured monthly.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return of each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	55%	8.54%
Fixed Income	36%	2.02%
Alternative	9%	6.06%

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

(f) Discount Rate

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

(g) Sensitivity of the net pension liability to changes in the discount rate

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

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
Net pension liability	\$ 240,512,268	\$ 182,578,020	\$ 133,168,063

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

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
Net pension liability	\$ 224,899,479	\$ 170,726,017	\$ 124,523,494

(h) Legally Required Reserve Accounts

The balances in the System's legally required reserves at December 31, 2014 are as follows:

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity Savings Fund	\$ 86,218,525	Active members' contribution balance
Annuity Reserve Fund	26,489,263	Retired members' contribution account
Military Service Credit Fund	101,760	Amounts appropriated to fund military service time
Pension Reserve Fund	289,137,571	Amounts appropriated to fund future retirement
Pension Fund	<u>(29,955,738)</u>	Remaining net position
Total	\$ <u>371,991,381</u>	

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

(7) Retirement System - MTRS

(a) *Plan Description*

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

(b) *Benefits Provided*

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

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

(c) *Contributions*

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

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

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

Since the City does not contribute directly to MTRS, the City does not report a proportionate share of the net pension liability of the MTRS at June 30, 2015. The Commonwealth's net pension liability associated with the City was \$293,063,758.

The MTRS' net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014.

For the year ended June 30, 2015, the City recognized pension expense of \$20,360,546 associated with MTRS and revenue of the same amount for support provided by the Commonwealth.

(d) Actuarial assumptions

The MTRS' total pension liability for the June 30, 2014 measurement date was determined by an actuarial valuation as of January 1, 2014 rolled forward to June 30, 2014. This valuation used the following assumptions:

Investment rate of return	8.0%
Salary increases	Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service
Mortality Rates:	Pre-retirement - reflects RP-2000 Employees table adjusted for "white-collar" employment projected 22 years with Scale AA (gender distinct) Post-retirement - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) Disability - reflects RP-2000 Healthy Annuitant table adjusted for large annuity amounts and projected 17 years with Scale AA (gender distinct) set forward 3 years for males
Other	3.5% interest rate credited to the annuity savings fund 3.0% cost of living increase per year

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

(e) Rates of Return

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2014 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	43%	7.2%
Core Fixed Income	13%	2.5%
Hedge Funds	10%	5.5%
Private Equity	10%	8.8%
Real Estate	10%	6.3%
Value Added Fixed Income	10%	6.3%
Timber/Natural Resources	4%	5.0%
Totals	<u>100%</u>	

(f) Discount Rate

The discount rate used to measure the MTRS' total pension liability was 8.0%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will be made at the current contribution rates and the Commonwealth's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rates. Based on those assumptions, the net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

(g) Pension plan fiduciary net position

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

(8) Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2015:

<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>	<u>Current portion</u>
Governmental activities:							
General:							
Taxable	2028	(4.75% – 6.45%)	\$ 93,040,000	—	2,170,000	90,870,000	2,680,000
General obligation	2035	(3.00% – 6.75%)	<u>31,828,900</u>	<u>500,000</u>	<u>4,166,650</u>	<u>28,162,250</u>	<u>4,692,375</u>
Subtotal			124,868,900	500,000	6,336,650	119,032,250	7,372,375
Add (deduct):							
Unamortized bond premium			<u>1,027,214</u>	<u>416,834</u>	<u>325,268</u>	<u>1,118,780</u>	<u>164,924</u>
Total governmental activities debt, net			\$ <u>125,896,114</u>	<u>916,834</u>	<u>6,661,918</u>	<u>120,151,030</u>	<u>7,537,299</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

<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>	<u>Current portion</u>
Business-type activities:							
Water	2035	(3.00% – 7.75%)	\$ 26,309,635	—	1,761,568	24,548,067	1,733,816
Sewer	2031	(2.00% – 6.75%)	70,617,389	—	5,219,136	65,398,253	5,242,081
Other	2024	(3.80% – 6.00%)	1,000,000	—	100,000	900,000	100,000
Subtotal			97,927,024	—	7,080,704	90,846,320	7,075,897
Add (deduct):							
Unamortized bond premium			848,179	—	(130,935)	717,244	80,947
Sewer - MCWT Interim Loan	2017	.09%	—	418,694	—	418,694	—
Total business-type activities debt, net			\$ 98,775,203	418,694	6,949,769	91,982,258	7,156,844
Total debt, net			\$ 224,671,317	1,335,528	13,611,687	212,133,288	14,694,143
Other long-term obligations:							
Self-insured benefit plans:							
Governmental activities			\$ 6,989,850	1,384,133	1,223,570	7,150,413	2,705,487
Business-type activities:							
Water			1,098,936	7,443	210,449	895,930	38,501
Sewer			2,523,126	313,613	3,188	2,833,551	18,667
Other			2,304,831	3,880	40,277	2,268,434	18,479
Compensated absences, net:							
Governmental activities			10,759,871	887,049	41,181	11,605,739	1,740,861
Business-type activities:							
Water			326,043	1,876	—	327,919	49,188
Sewer			132,612	16,387	—	148,999	22,350
Other			136,976	3,157	—	140,133	21,020
Landfill closure and postclosure care costs:							
Governmental activities			2,727,326	—	131,985	2,595,341	—
Business-type activities:							
Sewer			1,173,000	483,000	—	1,656,000	—
Other post employment benefits							
Governmental activities			197,411,205	36,154,220	12,410,559	221,154,867	—
Business-type activities:							
Water			3,745,377	685,935	235,459	4,195,853	—
Sewer			1,624,102	297,441	102,102	1,819,441	—
Other			1,856,116	339,932	116,688	2,079,361	—
Net pension liability							
Governmental activities			137,199,310	35,278,364	16,481,507	155,996,167	—
Business-type activities:							
Water			6,539,172	1,681,432	785,539	7,435,065	—
Sewer			2,714,375	697,953	326,073	3,086,255	—
Other			3,701,421	951,754	444,645	4,208,530	—
Total other long-term obligations			\$ 382,963,649	79,187,569	32,553,221	429,597,997	4,614,553

In 2015, the City issued \$7,338,000 of general obligation bonds for land acquisition \$500,000 and \$6,838,000 for School Remodeling. The \$6,838,000 was presented in the 2014 financials as long-term debt, since the funding used to retire BAN's outstanding was consummated prior to the date of the 2014 report.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

During 2015, the City entered into two interim loan agreements for \$275,500 (water enterprise fund) and \$1,704,244 (sewer enterprise fund) with the Massachusetts Clean Water Trust (MCWT) to fund various water and sewer system improvements. Interim interest rates are .09% and the loans are anticipated to be permanently financed in December 2016. Amounts accrued and considered issued during 2015 total \$418,694 in the sewer enterprise fund.

Subsequent to year end, the City issued \$7,120,000 of State Qualified Refunding Bonds to refund \$7,485,000 of previously issued bonds.

Maturity of Bond Indebtedness

Bond indebtedness outstanding at June 30, 2015 matures as follows:

	Governmental activities		
	Principal	Interest	Total
Year ending June 30:			
2016	\$ 7,372,375	5,982,569	13,354,944
2017	8,143,000	5,623,929	13,766,929
2018	6,001,875	5,219,643	11,221,518
2019	6,700,000	4,909,192	11,609,192
2020	7,405,000	4,555,234	11,960,234
2021 – 2025	41,675,000	16,675,626	58,350,626
2026 – 2030	39,475,000	3,870,257	43,345,257
2031 – 2035	2,260,000	195,794	2,455,794
	<u>\$ 119,032,250</u>	<u>47,032,244</u>	<u>166,064,494</u>

	Water		Sewer	
	Principal	Interest	Principal	Interest
Year ending June 30:				
2016	\$ 1,733,816	549,598	5,242,081	1,578,070
2017	1,762,862	500,227	5,777,735	1,418,027
2018	1,788,215	453,712	5,346,533	1,266,141
2019	1,673,589	407,583	5,334,485	1,120,405
2020	1,702,135	362,436	5,354,899	978,360
2021 – 2025	8,324,871	1,235,876	27,720,543	2,758,198
2026 – 2030	5,835,922	407,946	10,463,326	368,027
2031 – 2035	1,726,657	73,592	577,345	572
	<u>\$ 24,548,067</u>	<u>3,990,969</u>	<u>65,816,947</u>	<u>9,487,800</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

	Business-type activities			
	Other		Total	
	Principal	Interest	Principal	Interest
Year ending June 30:				
2016	\$ 100,000	—	7,075,897	2,127,668
2017	100,000	—	7,640,599	1,918,254
2018	100,000	—	7,234,748	1,719,853
2019	100,000	—	7,108,074	1,527,988
2020	100,000	—	7,157,034	1,340,796
2021 – 2025	400,000	—	36,445,414	3,994,074
2026 – 2030	—	—	16,299,248	775,973
2031 – 2035	—	—	2,304,000	74,164
	<u>\$ 900,000</u>	<u>—</u>	<u>91,265,014</u>	<u>13,478,770</u>

The City has entered into loan agreements with the MCWT to finance certain water and wastewater related capital improvements. Since the City is legally obligated for the total debt amounts, the full liability has been recorded in the Water and Sewer enterprise funds in the accompanying basic financial statements. The City expects to receive \$265,260 and \$1,891,151 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:						
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	24,869	7,167	26,095	164,552	50,964	171,719
2021 – 2025	78,058	13,726	191,546	408,657	269,604	422,383
Total	<u>\$ 189,523</u>	<u>75,737</u>	<u>465,585</u>	<u>1,425,566</u>	<u>655,108</u>	<u>1,501,303</u>

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

As of June 30, 2015, the City may issue approximately \$244.4 million of additional general-obligation debt under the normal debt limit. The City has approximately \$190.9 million of debt exempt from the debt limit.

As of June 30, 2015, the City has total authorized unissued debt of \$80.9 million. The remaining authorized unissued debt is intended to finance the following:

School construction/furnishings	\$	23,576,922
School refunding		950,000
Refunding		2,430,000
Pension funding		47,710,000
Water projects		3,295,188
Sewer projects		1,970,779
Economic development		1,000,000
	\$	<u>80,932,889</u>

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, 2015 totals \$161,688.

(9) Landfill Closure and Postclosure Care Costs

State and Federal laws and regulations require that the City place a final cover on its landfill sites and perform certain maintenance and monitoring functions at the landfill sites for a minimum of thirty years after closure. In addition to operating expenses related to current activities of the landfill sites, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfills no longer accept waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfills used during the year. The estimated liability for landfill closure and postclosure care costs is based on the percent usage (filled) of the landfills and is as follows at June 30, 2015:

	<u>Governmental activities</u>	<u>Business-type activities (Sewer fund)</u>
Closure and postclosure care costs	\$ 2,595,341	1,656,000
Percentage usage (filled)	100.00%	72.00%

It is estimated that an additional \$644,000 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the Sewer fund landfill is currently expected to be filled to capacity (the year 2029).

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

The landfill liability recorded by the governmental activities represents postclosure care costs only, as the closure costs have been contractually assumed by a third party in exchange for the future use of the landfill site. As of June 30, 2009, the landfill was closed and the City began to incur postclosure care costs 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, 2015. 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.

(10) Temporary Borrowings

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

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

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

Short-term debt activity for the year ended June 30, 2015 was as follows:

	Outstanding as of June 30, 2014	Additions	Reductions	Outstanding as of June 30, 2015
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Bond anticipation notes payable:				
Governmental activities:				
School roof repairs fund:				
School construction	\$ 62,000	—	62,000	—
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

(11) Operating Transfers

Operating transfers and their purposes during the year ended June 30, 2015 were as follows:

	Governmental funds		Enterprise funds		
	General	Other	Water	Sewer	Other
Water receipts – in lieu of taxes	\$ 1,035,804	—	(1,035,804)	—	—
Sewer receipts – in lieu of taxes	1,259,072	—	—	(1,259,072)	—
Other Enterprise receipts – in lieu of taxes	(183,496)	—	—	—	183,496
General fund revenue – recreation subsidy	(700,000)	—	—	—	700,000
Other fund revenue – recreation Capital Purchases	—	(154,259)	—	—	154,259
General fund revenue – Sewer, renewable energy and recreation debt service costs	(166,550)	—	—	66,550	100,000
Sewer Enterprise – Debt Service Costs	—	—	251,445	(251,445)	—
Transfer of Connection Fees	—	(3,430,499)	2,050,071	1,380,428	—
Parking authority reserve – parking authority	253,143	(253,143)	—	—	—
Parking authority reserve – parking authority	172,200	(172,200)	—	—	—
Parking meter fees – parking authority	95,000	(95,000)	—	—	—
Parking meter fees – parking authority	321,699	(321,699)	—	—	—
Parking fines	523,830	(523,830)	—	—	—
Weights and Measures – Personal Services	34,414	(34,414)	—	—	—
Transfer Capital Projects – School Feasibility	(130,000)	130,000	—	—	—
Transfer of Ambulance Fees	413,845	(413,845)	—	—	—
Transfer of Ambulance Fees - Dispatch System	—	—	—	—	—
Special revenue fund - Stpiend	1,000	(1,000)	—	—	—
General Fund revenue - Transfer of cable agreement reimbursement to Special Revenue Fund	(329,646)	329,646	—	—	—
Total	\$ 2,600,315	(4,940,243)	1,265,712	(63,539)	1,137,755

(12) Other Postemployment Benefit (OPEB) Disclosures

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

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

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, 2015, 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, 2015:

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

Annual Required Contribution (ARC)	\$ 38,093,166
Interest on net OPEB obligation	8,185,472
Adjustment to ARC	<u>(8,801,110)</u>
Annual OPEB cost	37,477,528
Contributions made	<u>(12,864,807)</u>
Change in net OPEB obligation	24,612,721
Net OPEB obligation – beginning of year	<u>204,636,800</u>
Net OPEB obligation – end of year	\$ <u><u>229,249,521</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:			
2015	\$ 37,477,528	34.33%	\$ 229,249,521
2014	35,244,550	42.48%	204,636,800
2013	40,168,968	38.48%	184,364,092

(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 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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

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.

(13) Risk Management

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

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

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

Both employees and the City contribute to the Health Care Plans based upon a percentage formula, 75% City and 25% employee. The retirees' contribution rate is 25%, except for those retirees who were 65 or older as of July 1, 2003 and whose annual household income was \$22,340 or less for a single person over 65 years of age, or \$30,260 for a two person household with one person over 65 years of age. For these retirees, the contribution 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 \$350,000 per covered person. The City maintains a working deposit with the administrator of its Blue Cross Blue Shield Health Care Plans. At June 30, 2015, that deposit was \$5.86 million, which includes Dental insurance. The financial arrangement with Harvard Pilgrim is monthly level funding of \$1.3 million with quarterly adjustments if necessary.

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

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

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, 2015 and 2014 were as follows:

	Workers' compensation plan	Health care plans	Total
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	9,548,356	3,368,389	12,916,745
Provision for losses/change in estimate	1,829,037	45,455,876	47,284,913
Payments for claims	<u>(1,010,202)</u>	<u>(46,043,131)</u>	<u>(47,053,333)</u>
Balance at June 30, 2015	\$ <u>10,367,191</u>	<u>2,781,134</u>	<u>13,148,325</u>

The liability for claims consists of governmental and business-type activities in the amount of approximately \$7,150,410 and \$5,997,915, respectively.

(14) Commitments

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

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

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

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

At the time that the contract was enacted the schedule for the City's fixed purchase commitment resembled the projected growth in water demand for the City, but the schedule somewhat exceeded this curve, especially in years three to eight. In recent years, water conservation measures and lack of economic growth have resulted in a demand curve, which is significantly less than that assumed in the fixed

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

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 \$6.2 million in fiscal year 2015.

As of June 30, 2015, based on the current fixed annual charge, the City expects to pay \$89.9 million for its Firm Commitment as follows:

Fiscal year:	<u>Amount</u>
2016	\$ 6,171,638
2017	6,380,988
2018	6,598,712
2019	6,816,436
2020	6,816,436
2021 – 2025	34,082,180
2026 – 2029	23,043,342
	<u>\$ 89,909,732</u>

(15) Fund Deficits

The following funds had deficit fund balances at June 30, 2015:

School Roof Repairs Fund	\$ 632
School Repairs - MSBA Acclr. Program	496,978
Special Revenue	
Public Safety Grants	18,780
Public Works Grants	5,000
Education Grants	128,495
	<u>\$ 649,885</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

(16) Fund Balance Classification Details

The components of fund balance for the City's governmental funds as of June 30, 2015 are as follows:

	<u>General</u>	<u>Other Governmental</u>
Fund balances		
Nonspendable:		
Permanent fund principal	\$ —	6,460,891
Notes receivable	6,781,832	—
	<u>6,781,832</u>	<u>6,460,891</u>
Restricted for:		
General government	16,991,916	3,031,207
Human services	—	240,517
Public safety	—	1,458,216
Public works	—	1,224,220
Culture/recreation	—	472,702
Education	—	7,178,378
	<u>16,991,916</u>	<u>13,605,240</u>
Committed to:		
General government	13,131,133	—
Human services	—	669,730
Public safety	—	1,517,149
	<u>13,131,133</u>	<u>2,186,879</u>
Assigned to:		
General government	1,345,306	—
Human services	2,118	—
Public safety	584,689	—
Public works	344,683	—
Culture/recreation	—	—
Education	3,494,193	—
	<u>5,770,989</u>	<u>—</u>
Unassigned	<u>22,027,446</u>	<u>(649,885)</u>
Total fund balances	\$ <u>64,703,316</u>	<u>21,603,125</u>

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

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, 2015.

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, 2015, totaled \$5.7 million, and is reported as restricted in the general fund.

(17) Future Implementation of GASB Pronouncements

The GASB has issued the following statements:

Statement No. 72, Fair Value Measurement and Application, which is required to be implemented during fiscal year 2016. Management is evaluating the Statement's future impact on the basic financial statements.

Statement No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, which is required to be implemented during fiscal year 2016. Management is evaluating the Statement's future impact on the basic financial statements.

Statement No. 74, Financial Reporting for Postemployment Benefits Plans Other than Pension Plans, which is required to be implemented during fiscal year 2017. Management is evaluating the Statement's future impact on the financial statements.

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

Statement No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments, which is required to be implemented during fiscal year 2016. Management does not believe implementation of this Statement will impact the basic financial statements.

Statement No. 77, Abatement Disclosures, which is required to be implemented during fiscal year 2017. Management is evaluating the Statement's future impact on the basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Basic Financial Statements

June 30, 2015

Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is required to be implemented during fiscal year 2017. Management is evaluating the Statement's future impact on the basic financial statements.

Statement No. 79, *Certain External Investment Pools and Pool Participants*, which is required to be implemented during fiscal year 2016, except for the provisions in paragraphs 18, 19, 23-26, and 40, which is required to be implemented during fiscal year 2017. Management is evaluating the Statement's future impact on the basic financial statements.

Statement No. 80, *Blending requirements for Certain Component Units – an amendment of GASB Statement No. 14*, which is required to be implemented during fiscal year 2017. Management is evaluating the Statement's future impact on the basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Budgetary Comparison Schedule – General Fund
Required Supplementary Information

June 30, 2015

(Unaudited)

	Budgeted amounts		Actual amounts (budgetary basis)	Variance with final budget positive (negative)
	Original	Final		
Resources (inflows):				
Real and personal property taxes, net	\$ 115,956,571	115,956,571	117,610,966	1,654,395
Motor vehicle and other excise	7,944,000	7,944,000	7,722,874	(221,126)
Penalties and interest on taxes	1,924,000	1,924,000	1,965,793	41,793
Payments in lieu of taxes	211,000	211,000	170,006	(40,994)
User charges and other revenue	850,000	850,000	1,423,595	573,595
Fees	480,000	480,000	1,848,612	1,368,612
Licenses and permits	1,573,876	1,573,876	2,445,956	872,080
Intergovernmental	188,165,583	188,165,583	191,555,830	3,390,247
Fines	780,000	780,000	631,430	(148,570)
Investment income	116,000	116,000	178,364	62,364
Transfers in	5,864,515	6,236,715	6,872,146	635,431
Amounts available for appropriation	<u>323,865,545</u>	<u>324,237,745</u>	<u>332,425,572</u>	<u>8,187,827</u>
Charges to appropriations (outflows):				
Current:				
General government	14,066,295	14,056,295	13,767,634	288,661
Public safety	44,700,885	44,993,085	42,988,577	2,004,508
Education	171,037,763	171,037,763	170,570,549	467,214
Public works	7,133,597	7,133,597	9,021,132	(1,887,535)
Human services	2,497,955	2,497,955	2,309,321	188,634
Culture and recreation	2,201,736	2,201,736	1,988,190	213,546
State and county assessments	7,176,064	7,176,064	7,648,979	(472,915)
Pension and fringe benefits	72,942,921	72,942,921	68,402,382	4,540,539
Court judgment	150,000	150,000	58,517	91,483
Capital outlay	36	90,036	290,938	(200,902)
Debt service	13,006,977	13,006,977	12,754,075	252,902
Transfers out	2,178,341	2,178,341	1,387,371	790,970
Total charges to appropriations	<u>337,092,570</u>	<u>337,464,770</u>	<u>331,187,665</u>	<u>6,277,105</u>
Excess (deficiency) of resources over charges to appropriations	<u>(13,227,025)</u>	<u>(13,227,025)</u>	<u>1,237,907</u>	<u>14,464,932</u>
Other budget items:				
Free cash	13,443,957	13,443,957		
Other available funds	(216,932)	(216,932)		
Total other budget items	<u>13,227,025</u>	<u>13,227,025</u>		
Net budget	<u>\$ —</u>	<u>—</u>		

See notes to required supplementary information.

See accompanying independent auditors' report.

CITY OF BROCKTON, MASSACHUSETTS

Required Supplementary Information

Last Ten Fiscal Years

(Unaudited)

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

<u>Total pension liability</u>		<u>2015</u>
Service Costs	\$	4,397,002
Interest		41,225,566
Changes of assumptions		17,357,735
Benefit payments, including refunds of member contributions		<u>(37,937,119)</u>
Net change in total pension liability		25,043,184
Total pension liability - beginning		<u>529,526,217</u>
Total pension liability - ending (a)	\$	<u><u>554,569,401</u></u>
<u>Plan fiduciary net position</u>		
Contributions - employer	\$	19,332,315
Contributions - member		8,467,701
Net investment income		15,837,436
Benefit payments, including refunds of member contributions		(37,937,119)
Other (net)		(406,376)
Administrative expense		<u>(677,927)</u>
Net change in plan fiduciary net position		4,616,030
Plan fiduciary net position - beginning		<u>367,375,351</u>
Plan fiduciary net position - ending (b)	\$	<u><u>371,991,381</u></u>
Net pension liability - ending (a) - (b)	\$	<u><u>182,578,020</u></u>
Plan fiduciary net position as a percentage of the total pension liability		67.1%
Covered-employee payroll	\$	73,756,821
Net pension liability as a percentage of covered-employee payroll		247.5%

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

See accompanying independent auditors' report.

CITY OF BROCKTON, MASSACHUSETTS

Required Supplementary Information

Last Ten Fiscal Years

(Unaudited)

**Schedule of Employer Contributions (in thousands)
Brockton Contributory Retirement System**

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Actuarially determined contribution	\$ 19,290	17,239	16,597	13,788	11,517
Contributions in relation to the actuarially determined contribution	<u>19,332</u>	<u>17,283</u>	<u>16,639</u>	<u>13,834</u>	<u>11,618</u>
Contribution deficiency (excess)	\$ <u>(42)</u>	<u>(44)</u>	<u>(42)</u>	<u>(46)</u>	<u>(101)</u>
Covered-employee payroll	\$ 73,757	76,378	74,417	74,417	75,433
Contributions as a percentage of covered-employee payroll	26.21%	22.63%	22.36%	18.59%	15.40%

(Continued)

	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Actuarially determined contribution	\$ 11,117	10,958	10,607	10,340	10,340
Contributions in relation to the actuarially determined contribution	<u>11,117</u>	<u>10,946</u>	<u>10,607</u>	<u>10,606</u>	<u>10,606</u>
Contribution deficiency (excess)	\$ <u>—</u>	<u>12</u>	<u>—</u>	<u>(266)</u>	<u>(266)</u>
Covered-employee payroll	\$ 74,357	74,357	72,260	69,893	69,028
Contributions as a percentage of covered-employee payroll	14.95%	14.72%	14.68%	15.17%	15.36%

(Concluded)

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

	<u>2014</u>
Annual money-weighted rate of return, net of investment income	4.38%

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

See accompanying independent auditors' report.

CITY OF BROCKTON, MASSACHUSETTS

Required Supplementary Information

Last Ten Fiscal Years

(Unaudited)

**Schedule of City's proportionate share of the net pension liability
Brockton Contributory Retirement System (1) (2)**

	2015
City's proportion of the net pension liability	93.50853%
City's proportionate share of the net pension liability	\$ 170,726,017
City's covered-employee payroll	\$ 69,675,322
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	245.0%
Plan fiduciary net position as a percentage of the total pension liability	67.1%

(1) Amounts presented were determined as of December 31, 2014

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

**Schedule of City Contributions (in thousands)
Brockton Contributory Retirement System**

	2015	2014	2013	2012	2011
Actuarially determined contribution	\$ 18,038	16,075	15,477	12,732	10,342
Contributions in relation to the actuarially determined contribution	18,038	16,075	15,477	12,732	10,342
Contribution deficiency (excess)	\$ —	—	—	—	—
Covered-employee payroll	\$ 69,675	71,795	69,952	69,952	70,907
Contributions as a percentage of covered-employee payroll	25.89%	22.39%	22.13%	18.20%	14.59%

(Continued)

	2010	2009	2008	2007	2006
Actuarially determined contribution	\$ 9,709	9,742	9,470	9,233	9,233
Contributions in relation to the actuarially determined contribution	9,709	9,742	9,470	9,233	9,233
Contribution deficiency (excess)	\$ —	—	—	—	—
Covered-employee payroll	\$ 74,356	69,896	67,924	65,699	64,886
Contributions as a percentage of covered-employee payroll	13.06%	13.94%	13.94%	14.05%	14.23%

(Concluded)

See accompanying independent auditors' report.

CITY OF BROCKTON, MASSACHUSETTS

Required Supplementary Information

Last Ten Fiscal Years

(Unaudited)

**Schedule of special funding amounts of the net pension liability
Massachusetts Teachers' Retirement System (1) (2)**

	<u>2015</u>
Commonwealth's 100% share of the net pension liability associates with the City	\$ 293,063,758
City's expense and revenue recognized for the commonwealth's support	\$ 20,360,546
Plan fiduciary net position as a percentage of the total pension liability	61.64%

(1) Amounts presented were determined as of June 30, 2014

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

See accompanying independent auditors' report.

CITY OF BROCKTON, MASSACHUSETTS

Required Supplementary Information

June 30, 2015

(Unaudited)

Schedules of Funding Progress

Other Post Employment Benefits (in thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (B)	Unfunded (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	Percentage Covered (B-A/C)
June 30, 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%

See accompanying independent auditors' report.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2015

(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 2015, expenditures and encumbrances and continuing appropriations exceeded budgeted amounts for Public Works (as a result of excess snow and ice expenditures) totaling \$1,887,535, Capital Outlay (\$200,902) and State and County Assessments (\$472,915).

CITY OF BROCKTON, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2015

(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	\$ 332,425,572
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	858,475
Stabilization fund earnings	56,636
MTRS on-behalf payments	20,360,546
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(6,872,146)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 346,829,083</u>

Budgetary outflows and GAAP expenditures:

Actual amounts (budgetary basis) “total charges to appropriation” from the budgetary comparison schedule	\$ 331,187,665
Differences – budget to GAAP:	
Enterprise fund related budgetary expenditures are recorded as reductions to transfers for GAAP purposes	(2,884,460)
Health claims expenditures and accruals are not reported as charges to appropriations on a budgetary basis	146,312
Adjustments for expenditures, encumbrances, and accruals, net	(924,986)
MTRS on-behalf payments	20,360,546
Transfers to other funds are outflows of budgetary appropriations but are not expenditures for financial reporting purposes	<u>(1,387,371)</u>
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balances	<u>\$ 346,497,706</u>

(4) Schedule of changes in employer net pension liability and related ratios

Changes of Assumptions

The mortality assumption for non-disabled participants was changed from the RP-2000 Mortality Table projected 15 and 7 years (pre-retirement and postretirement, respectively) beyond the valuation date with Scale AA for males and females to the RP-2000 Mortality Table projected generationally with Scale BB for males and females.

CITY OF BROCKTON, MASSACHUSETTS

Notes to Required Supplementary Information

June 30, 2015

(5) Schedule of employer contributions

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

Valuation date January 1, 2014

Methods:

Actuarial cost method Entry age normal cost

Amortization method Level percentage of pay

Remaining amortization period 19 years

Asset valuation method 5-year smoothing method

Assumptions:

Inflation 3.00%

Salary increases Based on years of service, ranging from 7.00% at 0 years of service decreasing to 3.75% after 9 years of service

Investment rate of return 8.0%

Cost of living adjustment 3.0% annually

Mortality Pre-retirement - RP-2000 Mortality Table projected 15 years beyond the valuation date with Scale AA for males and females

Postretirement - RP-2000 Mortality Table projected 7 years beyond the valuation date with Scale AA for males and females

Disabled Retiree - RP-2000 Mortality Table set forward two years for all disabled members

Retirement rates General Employees - 1.0% and 1.5% for males and females, respectively, beginning at age 50 ranging to 30.0% and 20.0% for males and females, respectively, ending at age 69

Police and Fire - 1.0% beginning at age 45 ranging to 100.0% at age 65

CITY OF BROCKTON, MASSACHUSETTS

Budgetary Comparison Schedule – Water Enterprise Fund
Additional Information

Year Ended June 30, 2015

(Unaudited)

	Budgeted amounts		Actual amounts (budgetary basis)	Variance with final budget positive (negative)
	Original	Final		
Resources:				
Charges for services	\$ 15,625,000	14,942,106	14,887,146	(54,960)
Departmental charges and fees	—	212,546	193,370	(19,176)
Miscellaneous	—	470,348	37,649	(432,699)
Amounts available for appropriation	<u>15,625,000</u>	<u>15,625,000</u>	<u>15,118,165</u>	<u>(506,835)</u>
Charges to appropriations:				
Salaries and benefits	3,073,890	3,073,890	2,740,898	332,992
Ordinary maintenance	10,335,720	10,335,720	9,667,404	668,316
Debt service	2,024,752	2,024,752	1,947,095	77,657
Capital outlay	—	—	32,227	(32,227)
Total charges to appropriations	<u>15,434,362</u>	<u>15,434,362</u>	<u>14,387,624</u>	<u>1,046,738</u>
Excess (deficiency) of resources over charges to appropriations	<u>190,638</u>	<u>190,638</u>	<u>730,541</u>	<u>539,903</u>
Other financing sources (uses):				
Certified retained earnings	2,171,358	2,171,358	2,171,358	—
Transfers out	(2,361,996)	(2,361,996)	(2,361,996)	—
Total other financing sources (uses)	<u>(190,638)</u>	<u>(190,638)</u>	<u>(190,638)</u>	<u>—</u>
Net changes in fund balance	<u>\$ —</u>	<u>—</u>	<u>539,903</u>	<u>539,903</u>

See accompanying independent auditors' report.

CITY OF BROCKTON, MASSACHUSETTS

Budgetary Comparison Schedule – Sewer Enterprise Fund
Additional Information

Year Ended June 30, 2015

(Unaudited)

	Budgeted amounts		Actual amounts (budgetary basis)	Variance with final budget positive (negative)
	Original	Final		
Resources:				
Charges for services	\$ 17,400,000	16,501,654	17,487,449	985,795
Departmental charges and fees	—	17,173	309,218	292,045
Miscellaneous	—	881,173	382,592	(498,581)
Amounts available for appropriation	<u>17,400,000</u>	<u>17,400,000</u>	<u>18,179,259</u>	<u>779,259</u>
Charges to appropriations :				
Salaries and benefits	1,520,022	1,520,022	1,354,347	165,675
Ordinary maintenance	8,079,182	8,079,182	7,356,360	722,822
Debt service	7,470,491	7,470,491	7,129,741	340,750
Capital outlay	1,830,024	1,830,024	1,780,405	49,619
Total charges to appropriations	<u>18,899,719</u>	<u>18,899,719</u>	<u>17,620,853</u>	<u>1,278,866</u>
Excess (deficiency) of resources over charges to appropriations	<u>(1,499,719)</u>	<u>(1,499,719)</u>	<u>558,406</u>	<u>2,058,125</u>
Other financing sources (uses):				
Certified retained earnings	3,456,266	3,456,266	3,456,266	—
Transfers in	—	—	—	—
Transfers out	(1,956,547)	(1,956,547)	(1,956,547)	—
Total other financing sources (uses)	<u>1,499,719</u>	<u>1,499,719</u>	<u>1,499,719</u>	<u>—</u>
Net changes in fund balance	<u>\$ —</u>	<u>—</u>	<u>2,058,125</u>	<u>2,058,125</u>

See accompanying independent auditors' report.