

## PRELIMINARY OFFICIAL STATEMENT AND NOTICE OF SALE DATED MAY 30, 2013

Moody's Investors Service, Inc.:

In the opinion of Edwards Wildman Palmer LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Notes is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986 (the "Code"). Interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Notes is exempt from Massachusetts personal income taxes, and the Notes are exempt from Massachusetts personal property taxes. The Notes will be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Notes. See "Tax Exemption" herein.

### CITY OF BROCKTON, MASSACHUSETTS \$7,000,000 GENERAL OBLIGATION BOND ANTICIPATION NOTES

The City of Brockton, Massachusetts (the "City") will receive telephone and electronic bids at First Southwest Company (617-619-4400) in the case of telephone bids and via PARITY in the case of electronic bids until 11:00 A.M. Eastern Time, Wednesday, June 5, 2013 for the purchase of the following described General Obligation Bond Anticipation Notes (the "Notes").

\$7,000,000	General Obligation Bond Anticipation Notes (renewal) dated June 14, 2013 and payable June 13, 2014. Interest will be computed on a 30 day month/360 day year basis (359/360). The Notes are not subject to redemption prior to their stated maturity dates.
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Bids may be submitted electronically via PARITY pursuant to this Notice of Sale until 11:00 A.M., local time, but no bid will be received after the time for receiving bids specified above. To the extent any instructions or directions set forth in PARITY conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about PARITY, potential bidders may contact First Southwest Company (617) 619-4400 or PARITY at (212) 404-8102.

The Notes will be issued by means of a book-entry system, evidencing ownership of the Notes in principal amounts of \$1,000, or integral multiples thereof, with transfers of ownership effected on the records of The Depository Trust Company (DTC) and its participants pursuant to rules and procedures adopted by DTC. (See "Book-Entry-Transfer System.")

Principal and interest will be payable upon maturity in Federal Reserve funds at U.S. Bank National Association, in Boston, Massachusetts, or its successor as Paying Agent. If the Notes are issued in book-entry form, disbursements of such payments to DTC Participants are the responsibility of DTC and disbursements of such payments to the Beneficial Owners are the responsibility of DTC Participants and the Indirect Participants, as more fully described herein. .

Bids may be for all or part of the Notes at a single or various rates of interest in a multiple of one-hundredth (1/100) of one percent (1%). **No bid for less than par and accrued interest to the date of delivery will be considered and a premium of at least \$2.55 must be included for each \$1,000 bid.** The right is reserved to reject any or all bids and to reject any bid not complying with this Notice of Sale and, so far as permitted by law, to waive any irregularity with respect to any bid.

An electronic bid made in accordance with this Notice of Sale shall be deemed an offer to purchase the Notes in accordance with the terms provided in this Notice of Sale and shall be binding upon the bidder as if made by a signed and sealed written bid delivered to the City.

Any bidder who submits a winning bid by telephone in accordance with this Notice of Sale shall be required to provide written confirmation of the terms of the bid by faxing or e-mailing a completed, signed bid form to First Southwest Company by not later than 12 P.M. on the date of sale.

The award of the Notes to the winning bidders will not be effective until the bid has been approved by the Treasurer and the Mayor of the City.

The successful bidder for all or a portion of the Note issue may request that said Notes be issued in the form of one fully registered physical certificate, rather than in book-entry form through the facilities of The Depository Trust Company. The successful bidder seeking the issuance of such Notes in this manner shall bear any and all costs of any re-registration or transfer of Notes from time to time. Any bidder seeking to have such Notes issued in the form of fully registered physical certificates, rather than in book-entry form shall indicate this preference to the City at the time of the submission of the winning bid. The City reserves the right to decline any request to issue the Notes in non-book entry form if it should determine, in its sole discretion that issuing the Notes in this manner is not in its best interests.

On or prior to the date of delivery of the Notes, the successful bidder shall furnish to the Town a certificate acceptable to Bond Counsel to the effect that (a) as of June 5, 2013 (the "Sale Date"), the purchaser had offered or reasonably expected to offer all of the Notes to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the price set forth in such certificate, plus accrued interest, if any, (b) such price represents the fair market price of the Notes as of the Sale Date, and (c) as of the date of such certificate, all of the Notes have been offered to the general public in a bona fide offering at the price set forth in such certificate, and at least 10% of the principal amount of the Notes actually has been sold to the general public at such price. To the extent the certifications described in the preceding sentence are not factually accurate with respect to the reoffering of the Notes, Bond Counsel should be consulted by the bidder as to alternative certifications that will be suitable to establish the "issue price" of the Notes for federal tax law purposes. If the purchaser is purchasing the Notes for its own account and not on behalf of another party, and the purchaser does not presently intend to resell the Notes, the successful bidder will be required to so certify.

The Note issue will be awarded on the basis of lowest net interest cost to the City. Such cost will be determined by computing the total amount of interest payable on the Notes, at the rate or rates stated, from June 14, 2013 until the maturity of the Notes and deducting there from the sum, if any, by which the amount bid for the Notes exceeds the aggregate principal amount of the Notes. In the event a bidder offering a premium for the Notes is awarded a lesser amount of notes than bid, the premium shall be reduced proportionately.

The purchaser(s) will be furnished the opinion of Edwards Wildman Palmer LLP of Boston, Massachusetts, approving the legality of the Notes. The opinion will also indicate that the Notes and the enforceability thereof may be subject to bankruptcy and other laws affecting creditor's rights and that their enforceability may also be subject to the exercise of judicial discretion in appropriate cases. Payment of the principal of and interest on the Notes is not limited to a particular fund or source of revenue nor is any lien or pledge for such payment created with respect to any such fund or source. See "Tax Exemption". The Notes will be valid general obligations of the City of Brockton and, except to the extent they are paid from the bond proceeds in anticipation of which they are issued, or from any other available moneys, the principal of and interest on the Notes are payable from taxes which may be levied upon all taxable property in the City subject to the limit imposed by Chapter 59, Section 21C of the General Laws (Proposition 2 ½).

It is anticipated that CUSIP identification numbers will be printed on the Notes. All expenses in relation to the printing of CUSIP numbers on said Notes shall be paid for by the issuer, provided however, that the issuer assumes no responsibility for any CUSIP Service Bureau charge or other charge that may be imposed for the assignment of such numbers.

**THE NOTES WILL BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR PURPOSES OF SECTION 265(b)(3) OF THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE").**

In order to assist bidders in complying with the requirements of paragraph (b)(5)(i)(C) of Rule 15c2-12 promulgated by the Securities and Exchange Commission, the City will undertake to provide notices of certain significant events. A description of this undertaking is set forth in the Preliminary Official Statement.

It shall be a condition of the successful bidder's obligation to accept delivery of and pay for the Notes that, contemporaneously with or before accepting Notes and paying therefore, it shall be furnished, without costs, with (a) the approving opinion of the firm of Edwards Wildman Palmer LLP, Boston, Massachusetts, with respect to the Notes, (b) a certificate in form satisfactory to said firm, dated as of the date of delivery such Notes and receipt of payment therefore, to the effect that there is no litigation pending, or to the knowledge of the signer or signers therefore, threatened affecting the validity of such Notes or the power of the City to levy and collect taxes to pay them, and (c) a certificate of the City Treasurer to the effect that, to the best of his knowledge and belief, both the Preliminary Official Statement as of the date of sale and the Final Official Statement as of the date of delivery of such Notes referred to below, do not contain any untrue statement of a material fact and do not omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

Additional information concerning the City of Brockton and the Notes is contained in the Preliminary Official Statement dated May 30, 2013 to which prospective bidders are directed. The Preliminary Official Statement is provided for informational purposes and is not a part of this Notice of Sale. The Preliminary Official Statement has been deemed final by the City except for the omission of the reoffering prices, interest rates, and other terms of the Notes depending on such matters, and the identity of the underwriters, but is subject to change without notice and to completion or amendment in a Final Official Statement. Copies of the Preliminary Official Statement may be obtained from First Southwest Company, 54 Canal Street, Boston, Massachusetts, 02114 telephone (617-619-4400). Within seven business days following the award of the Notes and receipt of necessary information from the successful bidder(s), 5 copies of the Final Official Statement will be made available to the successful bidder. Upon request, additional copies will be provided at the expense of the requester.

The Notes in definitive form will be delivered to The Depository Trust Company on or about June 14, 2013 for credit to the City in federal reserve funds.

May 30, 2013

City of Brockton, Massachusetts  
/s/ Martin Brophy, Treasurer

**OFFICIAL STATEMENT  
CITY OF BROCKTON, MASSACHUSETTS  
\$7,000,000 GENERAL OBLIGATION BOND ANTICIPATION NOTES**

This Official Statement is provided for the purpose of presenting certain information relating to the City of Brockton, Massachusetts (the "City") in connection with the sale of an aggregate \$7,000,000 principal amount of its General Obligation Bond Anticipation Notes (the "Notes"). The information contained herein has been furnished by the City except information attributed to another governmental agency or official as the source.

**Authorization of the Notes and Use of Proceeds**

The following sets forth the principal amount, purpose, statutory reference and date of mayoral approval for the current offering of Bond Anticipation Notes:

This Issue	BANs Outstanding (1)	Total Amount Authorized	Date Approved	Purpose	Statutory Authority (M.G.L., as amended)
\$ 7,000,000	\$ 7,000,000	\$ 36,001,597	6/28/2011	School Building Remodeling	Ch. 44, s. 7(3A)
<b>Total</b>	<u>\$ 7,000,000</u>				

(1) To be renewed with this issue.

**Book-Entry Transfer System**

The Depository Trust Company ("DTC"), New York, NY, will act as securities depository for the Notes. The Notes will be issued in fully-registered form registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One-fully registered Note certificate will be issued for each interest rate, each in the aggregate principal amount bearing such interest rate, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has an AA+ rating with Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Notes, except in the event that use of the book-entry system for the Notes is discontinued.

To facilitate subsequent transfers, all Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The

deposit of Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. (nor such other DTC nominee) will consent or vote with respect to the Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the [Issuer] or the Paying Agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Notes at any time by giving reasonable notice to the City or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, Note certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

### **Tax Exemption**

In the opinion of Edwards Wildman Palmer LLP, Bond Counsel to the City ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Notes is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Notes is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In the opinion of Bond Counsel, the Notes are "qualified tax exempt obligations" for purposes of Section 265(b)(3) of the Code. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Notes.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Notes. Failure to comply with these requirements may result in interest on the Notes being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Notes. The City has covenanted to comply with such requirements to ensure that interest on the Notes will not be included in federal gross income. The opinion of Bond Counsel assumes compliance with these requirements.

Bond Counsel is also of the opinion that, under existing law, interest on the Notes is exempt from Massachusetts personal income taxes, and the Notes are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Notes. Prospective Noteholders should be aware, however, that the Notes are included in the measure of Massachusetts estate and inheritance taxes, and the Notes and

the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel expresses no opinion as to the taxability of the Notes or the income therefrom or any other tax consequences arising with respect to the Notes under the laws of any state other than Massachusetts.

To the extent the issue price of the Notes is less than the amount to be paid at maturity of such Notes (excluding amounts stated to be interest and payable at least annually over the term of such Notes), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Notes which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of the Notes is the first price at which a substantial amount of the Notes is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Notes accrues daily over the term to maturity of such Notes on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Notes to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Notes. Noteholders should consult their own tax advisors with respect to the tax consequences of ownership of Notes with original issue discount, including the treatment of purchasers who do not purchase such Notes in the original offering to the public at the first price at which a substantial amount of such Notes is sold to the public.

Notes purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Notes, or, in some cases, at the earlier redemption date of such Notes ("Premium Notes"), will be treated as having amortizable note premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable note premium in the case of obligations, such as the Premium Notes, the interest on which is excluded from gross income for federal income tax purposes. However, a Noteholder's basis in a Premium Note will be reduced by the amount of amortizable note premium properly allocable to such Noteholder. Holders of Premium Notes should consult their own tax advisors with respect to the proper treatment of amortizable note premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Notes may adversely affect the value of, or the tax status of interest on, the Notes.

Prospective Noteholders should be aware that from time to time legislation is or may be proposed which, if enacted into law, could result in interest on the Notes being subject directly or indirectly to federal income taxation, or otherwise prevent Noteholders from realizing the full benefit provided under current federal tax law of the exclusion of interest on the Notes from gross income. To date, no such legislation has been enacted into law. However, it is not possible to predict whether any such legislation will be enacted into law. Further, no assurance can be given that any pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the market value and marketability of, or the tax status of interest on, the Notes. Prospective Noteholders are urged to consult their own tax advisors with respect to any such legislation, interpretation or development.

Although Bond Counsel is of the opinion that interest on the Notes is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Notes may otherwise affect the federal or state tax liability of a Noteholder. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Notes, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Notes in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the Noteholder or the Noteholder's other items of income, deduction or exclusion. Bond Counsel expresses no opinion regarding any such other tax consequences, and Noteholders should consult with their own tax advisors with respect to such consequences.

### **Bank Eligibility**

In the opinion of Bond Counsel, the Notes are "qualified tax exempt obligations" for purposes of Section 265(b)(3) of the Code.

## Security and Remedies

Full Faith and Credit. General obligation bonds and notes of a Massachusetts city or town constitute a pledge of its full faith and credit. Payment is not limited to a particular fund or revenue source. Except for “qualified bonds” as described below (see “*Serial Bonds and Notes*” under “INDEBTEDNESS - *Types of Obligations*”) and setoffs of state distributions as described below (see “*State Distributions*” under “CITY FINANCES – *Revenues*” below), no provision is made by the Massachusetts statutes for priorities among bonds and notes and other general obligations, although the use of certain moneys may be restricted.

Tax Levy. The Massachusetts statutes direct the municipal assessors to include annually in the tax levy for the next fiscal year “all debt and interest charges matured and maturing during the next fiscal year and not otherwise provided for [and] all amounts necessary to satisfy final judgments”. Specific provision is also made for including in the next tax levy payments of rebate amounts not otherwise provided for and payment of notes in anticipation of federal or state aid, if the aid is no longer forthcoming.

The total amount of a tax levy is limited by statute. However, the voters in each municipality may vote to exclude from the limitation any amounts required to pay debt service on indebtedness incurred before November 4, 1980. Local voters may also vote to exempt specific subsequent bond issues from the limitation. (See “*Tax Limitations*” Under “PROPERTY TAXATION” below.) In addition, obligations incurred before November 4, 1980 may be constitutionally entitled to payment from taxes in excess of the statutory limit.

Except for taxes on the increased value of certain property in designated development districts which may be pledged for the payment of debt service on bonds issued to finance economic development projects within such districts, no provision is made for a lien on any portion of the tax levy to secure particular bonds or notes or bonds and notes generally (or judgments on bonds or notes) in priority to other claims. Provision is made, however, for borrowing to pay judgments, subject to the General Debt Limit. (See “INDEBTEDNESS – Authorization Procedure and Limitations” below.) Subject to the approval of the State Director of Accounts for judgments above \$10,000, judgments may also be paid from available funds without appropriation and included in the next tax levy unless other provision is made.

Court Proceedings. Massachusetts cities and towns are subject to suit on their general obligation bonds and notes and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the bonds or notes from lawfully available funds or, if necessary, to order the city or town to take lawful action to obtain the required money, including the raising of it in the next annual tax levy, within the limits prescribed by law. (See “*Tax Limitations*” under “PROPERTY TAXATION” below.) In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors including the current operating needs of the city or town and the availability and adequacy of other remedies. The Massachusetts Supreme Judicial Court has stated in the past that a judgment against a municipality can be enforced by the taking and sale of the property of any inhabitant. However, there has been no judicial determination as to whether this remedy is constitutional under current due process and equal protection standards.

Restricted Funds. Massachusetts statutes also provide that certain water, gas and electric, community antenna television system, telecommunications, sewer, parking meter and passenger ferry fee, community preservation and affordable housing receipts may be used only for water, gas and electric, community antenna television system, telecommunications, sewer, parking, mitigation of ferry service impacts community preservation and affordable housing and related purposes, respectively; accordingly, moneys derived from these sources may be unavailable to pay general obligation bonds and notes issued for other purposes. A city or town that accepts certain other statutory provisions may establish an enterprise fund for a utility, health care, solid waste, recreational or transportation facility and for police or fire services; under those provisions any surplus in the fund is restricted to use for capital expenditures or reduction of user charges. In addition, subject to certain limits, a city or town may annually authorize the establishment of one or more revolving funds in connection with use of certain revenues for programs that produce those revenues; interest earned on a revolving fund is treated as general fund revenue. A city or town may also establish an energy revolving loan fund to provide loans to owners of privately-held property in the city or town for certain energy conservation and renewable energy projects, and may borrow to establish such a fund. The loan repayments and interest earned on the investment of amounts in the fund shall be credited to the fund. Also, the annual allowance for depreciation of a gas and electric plant or a community antenna television and telecommunications system is restricted to use for plant or system renewals and improvements, for nuclear decommissioning costs, and costs of contractual commitments, or, with the approval of the State Department of Telecommunications and Energy, to pay debt incurred for plant or system reconstruction or renewals. Revenue bonds and notes issued in anticipation of them may be secured by a prior lien on specific revenues. Receipts from industrial users in connection with industrial revenue financings are also not available for general municipal purposes.

State Distributions. State grants and distributions may in some circumstances be unavailable to pay general obligation bonds and notes of a city or town in that the State Treasurer is empowered to deduct from such grants and distributions the amount of any debt service paid on “qualified bonds” (See “Serial Bonds and Notes” under “INDEBTEDNESS-TYPES OF OBLIGATIONS” below) and any other sums due and payable by the city or town to the Commonwealth or certain other public entities, including any unpaid assessments for costs of any public transportation authority (such as the Massachusetts Bay Transportation Authority or a regional transit authority) of which it is a member, for costs of the Massachusetts Water Resources Authority if the city or town is within the territory served by the Authority, for any debt service due on obligations issued to the Massachusetts School Building Authority, or for charges necessary to meet obligations under the Commonwealth’s Water Pollution Abatement or Drinking Water Revolving Loan Programs, including such charges imposed by another local governmental unit that provides wastewater collection or treatment services or drinking water services to the city or town.

If a city or town is (or is likely to be) unable to pay principal or interest on its bonds or notes when due, it is required to notify the State Commissioner of Revenue. The Commissioner shall in turn, after verifying the inability, certify the inability to the State Treasurer. The State Treasurer shall pay the due or overdue amount to the paying agent for the bonds or notes, in trust, within three days after the certification or one business day prior to the due date (whichever is later). This payment is limited, however, to the estimated amount otherwise distributable by the Commonwealth to the city or town during the remainder of the fiscal year (after the deductions mentioned in the foregoing paragraph). If for any reason any portion of the certified sum has not been paid at the end of the fiscal year, the State Treasurer shall pay it as soon as practicable in the next fiscal year to the extent of the estimated distributions for that fiscal year. The sums so paid shall be charged (with interest and administrative costs) against the distributions to the city or town.

The foregoing does not constitute a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions, and the direction to use estimated distributions to pay debt service may be subject to repeal by future legislation. Moreover, adoption of the annual appropriation act has sometimes been delayed beyond the beginning of the fiscal year and estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

Bankruptcy. Enforcement of a claim for payment of principal or interest on general obligation bonds or notes would be subject to the applicable provisions of Federal bankruptcy laws and to the provisions of other statutes, if any, hereafter enacted by the Congress or the State legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied. Massachusetts municipalities are not generally authorized by the Massachusetts General Laws to file a petition for bankruptcy under Federal Bankruptcy laws. In cases involving significant financial difficulties faced by a single city, town or regional school district, the Commonwealth has enacted special legislation to permit the appointment of a fiscal overseer, finance control board or, in the most extreme cases, a state receiver. In a limited number of these situations, such special legislation has also authorized the filing of federal bankruptcy proceedings, with the prior approval of the Commonwealth. In each case where such authority was granted, it expired at the termination of the Commonwealth’s oversight of the financially distressed city, town or regional school district. To date, no such filings have been approved or made.

### **Financial Advisory Services of First Southwest Company**

First Southwest Company, Boston, Massachusetts, serves as financial advisor to the City of Brockton, Massachusetts.

### **Disclosure of Significant Events**

In order to assist underwriters in complying with the requirements of paragraph (b)(5)(i)(C) of Rule 15c2-12 promulgated by the Securities and Exchange Commission (the “Rule”) applicable to municipal securities having a stated maturity of 18 months or less, the Issuer will covenant for the benefit of the owners of the Notes to file with the Municipal Securities Rulemaking Board (the “MSRB”), notices of the occurrence of any of the following events with respect to the Notes within ten business days of such occurrence: (a) principal and interest payment delinquencies; (b) non-payment related defaults, if material; (c) unscheduled draws on debt service reserves reflecting financial difficulties; (d) unscheduled draws on credit enhancements reflecting financial difficulties; (e) substitution of credit or liquidity providers, or their failure to perform; (f) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Notes, or other material events affecting the tax status of the Notes; (g) modifications to rights of owners of the Notes, if material; (h) bond calls, if material, and tender offers; (i) defeasances; (j) release, substitution or sale of property securing the repayment of the Notes, if material; (k) ratings changes on the Notes; (l) bankruptcy, insolvency,

receivership or similar event of the Issuer; (m) the consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (n) appointment of a successor or additional trustee or the change of name of a trustee, if material.

Other than the City, there are no obligated persons with respect to the Notes within the meaning of the Rule.

The covenant will be included in a Significant Events Disclosure Certificate to be executed by the signers of the Notes and incorporated by reference in the Notes. The sole remedy available to the owners of the Notes for the failure of the Issuer to comply with any provision of the certificate shall be an action for specific performance of the Issuer's obligations under the certificate and not for money damages; no other person shall have any right to enforce any provision of the certificate.

**The Issuer has never failed to comply in all material respects with any previous undertakings to provide annual reports or notices of significant events in accordance with the Rule.**

## CITY OF BROCKTON, MASSACHUSETTS

### General

Brockton is an industrial-residential 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. Settled in 1649 and incorporated as a city in 1881, it is governed by an elected mayor and an 11-member city council.

### Principal Executive Officers

The following table sets forth the principal executive officers of the City.

<u>Title</u>	<u>Name</u>	<u>Term Expires</u>
Mayor	Linda M. Balzotti	January 2014
Chief Financial Officer	John A. Condon	April 2015
City Auditor	Heidi Chuckran	December 2013
Treasurer/Collector	Martin Brophy	October 2013
City Clerk	Anthony J. Zeoli	January 2016
Chairman-Board of Assessors	Paul Sullivan	June 2013

### Municipal Services

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 tertiary wastewater treatment plant facilities are contracted out to private parties.

The City distributes water from Silver Lake in Halifax, the Brockton Reservoir in Avon, and the desalination plant owned by Aquaria in Dighton to its residents and to a portion of several area towns. The City has complete (approximately 98%) and separate storm and sanitary sewer systems. The Water, the Sewer, the Refuse, and the Renewable Energy Departments operate under separate enterprise funds.

### Water Supply

The City has met its long-term need for additional water by connecting to a new water system through a joint effort by Bluestone Energy Inc. and the Spanish Company, Inima. The joint venture (called Aquaria) constructed a desalinization (Reverse Osmosis) plant on the tidal estuary of the Taunton River. In 2002, the City executed a twenty year contract which requires the payment of a fixed price attached to an increasing volume commitment, regardless of the amount of water actually taken, plus an additional charge for water actually delivered. The financial obligation is primarily attached to the fixed price component.

The schedule for the City's fixed purchase commitment resembles the projected growth in water demand for the City, but the schedule somewhat exceeds this curve, especially in years three to eight. In the event that other water purchase contracts are executed, the City has the right to offset its fixed commitment 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 contract also provided the significant benefit that all of the risk of financing the permitting process, plant construction and operation, rested with a third party and not with the City's rate payers. The City made no payment until the water was available for delivery. Construction of both the plant and the pipeline was completed and delivery of water began in 2008.

The agreement will require increasing the City's water revenues in order to pay for the contractual minimum purchase commitment, if other entities do not sign contracts. Effective on all bills mailed on or after July 1, 2008, the water rates were increased 60%. However, even with this kind of increase, the City's water rates would be comparable to those of other Massachusetts communities, especially those in southeastern Massachusetts, whose projected growth is expected also to make them potential customers of the desalinization plant. The Water Commission and Chief Financial Officer recommended a 3% increase effective July 1, 2012, however the City Council has not acted upon the recommendation.

## **Industry, Commerce and Quality of Life**

Originally a farming community, Brockton serves as the primary industrial, trade and medical center for the approximately 170,000 persons of the Brockton Primary Metropolitan Statistical Area. Brockton functions both as a suburb to Boston and as the central city within the Greater Brockton area.

There are three hospitals located within the City: the Good Samaritan Medical Center, Brockton Hospital and the V.A. Medical Center. The City also is host to other health facilities such as Blue Cross/Blue Shield, Bridgewater Park/ Goddard Medical Associates, clinical and professional offices and convalescent facilities. The City is also host to "Metro South Chamber of Commerce".

There are 4 industrial parks totaling approximately 283 acres located in Brockton: Brockton Business Center, Oak Hill Way Industrial Park, Campanelli Industrial Park and Northeast Industrial Park. Brockton Business Center includes such tenants as Copeland Toyota, Concord Foods, Bernardi Honda and Hyundai, G & S Candy, Kinyon-Campbell Business School, U.S. Post Office (Regional Distribution Center), GZA Drilling and Hart-Hankers Inc. The Oak Hill Way Industrial Park includes such tenants as Bay State Gas, Ryder Student Transportation, Mullare News Agency, Powers Pharmaceutical, U.P.S. and the City of Brockton Wastewater Treatment Plant. The Northeast Industrial Park includes a Pizzeria Uno materials production plant.

One of New England's first regional malls, the 615,000 square foot Westgate Mall, is situated at the junction of routes 24 and 27 in Brockton. In 1998 the mall began a comprehensive, on-going renovation and expansion. The renovations have been extensive and include the major additions of both retail and dining establishments. Included in the expansions and renovations are a new Sears building and a new building for anchor store Macy's, as well as Best Buy, Dick's Sporting Goods, Old Navy, Modell's Sporting Goods, and Texas Road House Steakhouse. In May 2012, Market Basket opened an 81,000 square foot freestanding supermarket at the mall.

Open space in Brockton consists primarily of a 756 acre recreational area known as D.W. Field Park. The park includes six ponds, bike and foot paths, and an 18-hole golf course. There are also more than 35 neighborhood playgrounds and parks.

The Brockton Recycling Program, formerly a limited and self-sufficient program managed and operated by its residents, has been significantly expanded, with curbside pickup now offered by the City's contract vendor for trash pickup. Curbside recycling includes newspapers, bottles, cans and plastics. Other materials such as paints, electronics, automotive products and hazardous materials, can be recycled by drop-off at the City recycling center.

Cultural offerings for the public include the Brockton Historical Society, Brockton Symphony Orchestra, Opera of New England of Greater Brockton and the Brockton Art Centre-Fuller Memorial, which has won several architectural design awards. The Brockton Shoe Museum was erected in 1981, serving as a continuing reminder of Brockton's past as a leader in the manufacture of men's shoes.

In May 2002, the City sold \$8 million in economic development bonds to finance a loan to the Brockton 21<sup>st</sup> Century Corporation, the City's non-profit economic development agency. The corporation added this funding to a \$6 million state grant and \$4 million in private financing to construct an \$18 million Baseball Stadium/Conference Center Complex. The complex is situated about one mile from the interchange with Route 24, a limited access highway. The Stadium capacity is just over 5,000. The 14,000 square foot Shaw's Conference Center is on land leased from the City, adjacent to the High School and has a view of the ball field. The Shaw's Center has enjoyed steady growth since 2003.

In May 2002, the Brockton Rox began playing in an independent league unaffiliated with major league baseball clubs. Most years the team has been number 1 or 2 in attendance. In 2004, the club led the league in attendance and established a league record in doing so. The club has enjoyed success on the field as well: the Rox won the league championship in 2003 and in seven out of ten years, reached the playoffs. However, the recession significantly affected the team's revenues from 2007 through 2011, its 10<sup>th</sup> year of play. At the conclusion of the 2011 season, the Rox underwent a significant reorganization. The Rox will operate under new ownership, under a new lease and will move to the Futures Collegiate Baseball League, consisting of amateur players. The schedule will be for about one-half as many games. The lease agreement will be about 45 percent of the previous payment.

Today, Brockton is a diversified commercial center and industrial-residential city. The following tables list the major categories of employment from and aggregate annual wage and payroll data.

Industry	Calendar Year Average				
	2007	2008	2009	2010	2011
Construction	1,239	1,101	871	923	939
Manufacturing	2,496	2,387	2,030	2,010	1,989
Trade, Transportation and Utilities	7,836	7,614	7,270	7,632	7,714
Information	610	527	557	510	454
Financial Activities	1,261	1,128	1,066	1,075	1,112
Professional and Business Services	3,899	3,647	3,438	3,487	3,508
Education and Health Services	14,003	14,645	15,031	14,724	14,750
Leisure and Hospitality	2,840	2,768	2,694	2,572	2,517
Other Services	2,296	2,248	2,297	2,436	2,570
Total Employment	36,480	36,065	35,254	35,369	35,553
Number of Establishments	2,200	2,098	2,193	2,381	2,397
Average Weekly Wages	\$ 780	\$ 812	\$ 823	\$ 834	\$ 846
Total Wages	\$ 1,542,763,146	\$ 1,517,087,782	\$ 1,572,669,454	\$ 1,598,991,083	\$ 1,629,434,236

Source: Massachusetts Department of Education and Training. Data based upon place of employment, not place of residence. Due to the reclassification the U.S. Department of Labor now uses the North American Industry Classification System (NAICS) as the basis for the assignment and tabulation of economic data by industry.

The establishment of commuter rail service linking Brockton to Boston in 1997 is believed to have had a positive effect on housing prices in the City. The following table sets forth the trend in residential sales in the City.

<u>Year</u>	<u>Median Selling Price</u>	<u>% Change</u>
2012	\$150,765	-2.16 %
2011	154,000	-10.85
2010	172,750	+6.14
2009	162,750	-10.08
2008	181,000	-22.20
2007	232,644	- 13.19
2006	268,000	- 2.55
2005	275,000	10.04
2004	249,913	7.98
2003	231,450	17.5
2002	196,975	21.1
2001	162,550	16.1
2000	140,000	17.4
1999	119,300	16.6
1998	102,300	16.4
1997	87,900	4.1

## Largest Employers

The following table lists the largest employers in Brockton, including the City itself.

<u>Name</u>	<u>Product/ Function</u>	<u>Approximate Number of Employees</u>
City of Brockton (full-time, school only)	School Personnel	2,700
Signature Health (including Goddard Park)	Hospital	2,275
Caritas Good Samaritan Medical Center	Hospital	1,902
BAMSI	Human Services	1,570
Old Colony YMCA	Social Services	1,450
VA Boston Health Care System	Hospital	1,274
South Bay Mental Health Services	Hospital	850
US Post Office	Post Office	834
UPS	Distributor	810
City of Brockton (full-time, excluding schools)	City Government	689
HarborOne Credit Union	Finance	377
Brockton Neighborhood Health Center	Health Center	351
Brockton Professional Baseball	Pro Sports	340
WB Mason	Business Supplies	320
PharMerica	Pharmacy	270
Verizon Communications	Communications	270
Columbia Gas of Mass. (Bay State Gas)	Utility	228
Uno Foods	Restaurant/Food Materials Production	225
Baypoint Rehabilitation Center	Rehabilitation Center	224
Concord Foods	Food Preparation	222
Self Help	Social Service	220
U.S. Laboratory Corp.	Medical Laboratory	220
St. Joseph Manor Health Care	Skilled Nursing Care	208
Northeast Electrical Company	Utility	200
Shaw's Supermarket	Grocery Store	192
Super Stop & Shop	Grocery Store	186
Brockton Area Transit	Transportation	180
West Acres	Skilled Nursing Care	170
Father Bill Mainspring House	Social Services	167
Old Colony Elder Services	Aging Services	160
Wal-Mart	Department Store	150
Brockton Visiting Nurses Association	Health Care	135
Crescent Credit Union	Finance	127
Lowe's	Home Centers	125
Zoots	Garment Press	114
Home Depot	Home Centers	105
Kinneally Foods	Meat Purveyor	101
Berndai Auto	Automotive	98
Brockton Housing Authority	Home Centers	85
Barbour Corporation	Manufacturing	85
White's Pastry Shop	Retail Bakery	85
Cardinal Spellman	School	80
Trinity Catholic School	School	75

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SOURCE: Brockton 21<sup>st</sup> Century Corporation, May 2013.

## Labor Force, and Unemployment Rates

According to the Massachusetts Division of Employment Security data, in March 2013 the City had a total labor force of 45,204, of which 41,323 were employed and 3,881 or 8.6% were unemployed as compared with 6.8% for the Commonwealth. The following table sets forth the City's average labor force and unemployment rates for calendar years 2008 through 2012 and the unemployment rates for the State and U.S. as a whole for the same period.

<u>Year</u>	<u>Labor Force</u>	City of Brockton Unemployment <u>Rate</u>	Massachusetts Unemployment <u>Rate</u>	U.S. Unemployment <u>Rate</u>
2012	45,531	9.0%	6.7%	8.1%
2011	45,336	10.1	6.9	8.5
2010	46,107	11.6	8.5	9.6
2009	45,518	10.7	8.2	9.3
2008	44,558	6.8	5.3	5.8

SOURCE: Massachusetts Division of Employment Security, Federal Reserve Bank of Boston and U.S. Bureau of Labor Statistics. Data based upon place of residence, not place of employment.

## Retail Sales

The following table compares the most recent retail trade data for the City of Brockton with that of the Commonwealth as a whole.

		<u>Brockton</u>	<u>Massachusetts</u>
Establishments:	2007	328	25,469
	1997	329	25,761
	1997	359	26,209
	1992	534	38,491
	1987	590	38,905
Sales (000):	2007	\$1,263,529	\$88,082,966
	2002	1,313,341	73,903,837
	1997	932,387	58,578,048
	1992	711,913	47,663,248
	1987	825,798	44,818,481
Per Capita Sales:	2007	\$13,584	\$13,553
	1997	9,887	9,736
	1992	7,549	7,920
	1987	8,880	7,609
	1982	6,256	5,023

SOURCE: U.S. Census of Retail Trade and Federal Census.

## Education

Education in the Brockton area is available at all levels. The City's school department maintains 25 schools: 14 elementary schools, 2 alternative education centers (grades 5 through 12), 5 middle schools, 1 comprehensive high school, a preschool and kindergarten diagnostic and service center, and a kindergarten center. Through its Community Schools division, the school department also operates a self-sustaining Evening High School Diploma program, various self-sustaining and grant-funded remedial, enrichment and child care programs with extended-day and summer school options, as well as a 90% grant-funded Adult Learning Center providing services to more than 700 in adult basic education, GED preparation, English-as-a-second language and family literacy.

The school department also has its own Champion Charter School, chartered by the State as Horace Mann Institution, providing an accessible alternative high school education for approximately 125 Grade 9-12 students who had previously dropped out of school.

The following table sets forth the actual public school enrollments for 2008 through 2012 with projected enrollments for 2013.

**Public School Enrollments – October 1,**

	Actual					Projected
	2008	2009	2010	2011	2012	2013
Kindergarten	1,330	1,272	1,289	1,394	1,461	1,375
Elementary	5,636	6,058	6,203	6,330	6,485	6,746
Junior High	3,373	3,654	3,695	3,726	3,820	3,928
Senior High	4,266	4,344	4,500	4,428	4,518	4,543
Other (1)	640	271	252	263	312	314
<b>Totals</b>	<b>15,245</b>	<b>15,599</b>	<b>15,939</b>	<b>16,141</b>	<b>16,596</b>	<b>16,906</b>

(1) Pre-school and ungraded enrollment and elementary grade levels being reconfigured from K-6, 7-8, 9-12 to K-5, 6-8, and 9-12.

Higher education is available in Brockton at Massasoit Community College, a two-year state college with 242 instruction/research and public service members and 67 administrators. Massasoit's ten buildings occupy 100 acres of land. The school offers 41 programs to 8,053 day and evening students at the Brockton campus. Stonehill College is located on the Brockton/Easton boundary and Bridgewater State College is within 10 miles.

Parochial schools in Brockton enroll approximately 1,300 students from grades K-12 at five separate campuses. Approximately 50% of these students are from Brockton and the others from surrounding towns.

The State School Choice, Charter and Technical/Vocational Schools

During the 2012/2013 school year, approximately 205 Brockton students in grades K-12 are attending other public schools under the state sponsored school choice, approximately 286 are attending Charter Schools and 749 are attending Technical/Vocational High Schools.

Private Schools in the City of Brockton

As of October 2012, approximately 594 Brockton-residing students were enrolled in the City's four private schools in grades K-12. The individual student population/enrollment of these four schools, including students who do not live in Brockton, ranges from 75 to 600. Approximately 50% of these students receive home-to-school-and-back transportation provided by the Brockton School Department.

The School Assignment Plan

In 1995, the Massachusetts Board of Education approved a school assignment plan submitted by the School Committee. Brockton's plan is exceptionally comprehensive in promoting informed parental choice of local educational opportunities. Enrollment is monitored for class size and a fair representation of the demographic makeup of the school system.

Since a substantial percentage of the parents select schools outside of their neighborhood, the plan has improved the distribution of class sizes without the periodic adjustment of fixed school boundaries. Typically, more than 90% of the first grade and seventh grade parents receive assignments to their first or second choice schools. The school assignment process is coordinated by the School Registration and Parent Information Center located in the school's central administration building.

Brockton school facilities range from turn-of-the-century buildings to newer schools constructed when enrollment peaked during the 1970's. As a result of the plan, the City undertook the construction of five new schools with 90% reimbursement by the state's School Building Assistance Program. The 300-pupil pre-1900 vintage Winthrop Elementary

School has been replaced, at the same location, with the new Louis F. Angelo Elementary School housing approximately 700 students. The 300-pupil Paine Elementary School (constructed in 1916) and the 200-pupil Goddard School (constructed in 1881), have been replaced by the new 700-student Joseph F. Plouffe Elementary School in an adjacent site. Both new elementary schools opened during the 1998-1999 school year. The new 700-pupil Dr. William H. Arnone Elementary School opened in January 2002 at the gateway to the City center. The Mary E. Baker School opened in October 2008. The Manthala George School Opened in January 2009. The twin K-5 schools each have a capacity of 800 students and are equipped with state of the art educational technology. The Mary E. Baker School was awarded a grant from the Massachusetts State Renewable Energy Trust and has been designated as a "green" school. All five schools have contributed to transforming the character of their immediate neighborhoods.

### Transportation and Utilities

The major highway serving the City is State Route 24. Other highways within a ten mile radius include Interstates 93, 95 and 495 and State Routes 3 and 128. Public bus service is provided by the Brockton Area Transit Authority (BAT). Rail freight service is provided by Conrail.

Commuter rail service was reinstated in September 1997 on the "Old Colony Line". One branch of this line runs from Boston's South Station through Brockton to the Middleborough/Lakeville area about 45 miles south of Boston. There are three train stops in Brockton: one in the north end (Montello), one in the south end (Campello) and one in the City center. This downtown station was constructed next to the police station, two blocks from Main Street and three blocks from City Hall. In order to create a transportation center at this station, in February 1999 Brockton Area Transit Intermodal Center was relocated across Commercial Street.

Gas and electric services are provided by established private utilities with both major offices and distribution centers located within the City.

### Population, Income and Wealth Levels

	<u>Brockton</u>	<u>Massachusetts</u>	<u>U.S.</u>
Median Age			
2010	35.2	39.1	37.2
2000	34.0	36.5	35.3
1990	31.5	33.6	32.9
1980	29.3	31.2	30.0
Median Family Income			
2010	\$57,228	\$81,165	\$51,144
2000	46,235	61,664	50,046
1990	38,544	44,367	35,225
1980	18,606	21,166	19,908
Per Capita Income			
2010	\$22,312	\$33,966	\$27,334
2000	17,163	25,952	21,587
1990	13,455	17,224	14,420
1980	9,944	12,510	10,797

On the basis of the 2010 Federal Census, the City has a population density of 4,384 persons per square mile.

<b>Population Trends</b>				
<u>2010</u>	<u>2000</u>	<u>1990</u>	<u>1980</u>	<u>1970</u>
93,810	94,304	92,788	95,172	89,040

SOURCE: Federal Census.

## PROPERTY TAXATION

In addition to state aid, one of the principal revenue sources of the City is the tax on real and personal property. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from available funds. The total amount levied is subject to certain limits prescribed by law; for a description of those limits, see "Tax Limitations" below. The estimated receipts for a fiscal year from other sources may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the State Commissioner of Revenue. Excepting special funds the use of which is otherwise provided for by law, the deduction for appropriations voted from available funds for a fiscal year cannot exceed the "free cash" as of the beginning of the prior fiscal year as certified by the State Director of Accounts plus up to nine months' collections and receipts on account of earlier years' taxes after that date. Subject to certain adjustments, free cash is surplus revenue less uncollected overdue property taxes from earlier years. Although an allowance is made in the tax levy for abatements (see "Abatements and Overlay" below), no reserve is generally provided for uncollectible real property taxes. Since some of the levy is inevitably not collected, this creates a cash deficiency which may or may not be offset by other items. (See "Taxation to Meet Deficits" below).

### Tax Levy Computation

The following table illustrates the trend in the manner in which the tax levy is determined.

#### TAX LEVY COMPUTATION

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Estimated Fiscal 2014 (6)
Total Appropriations(1)	\$ 316,701,514	\$ 310,429,081	\$ 324,309,368	\$ 339,349,076	\$ 357,931,345	\$ 363,756,504
Additions:						
State and County Assessments	5,140,616	5,610,283	5,686,037	5,814,898	6,061,305	7,135,900
Overlay Reserve	1,928,394	2,057,017	2,324,286	2,738,111	2,947,648	2,900,000
Other Additions(2)	868,265	2,418,647	325,630	2,216,188	349,303	417,306
Total Additions	<u>7,937,274</u>	<u>10,085,947</u>	<u>8,335,953</u>	<u>10,769,197</u>	<u>9,358,256</u>	<u>10,453,206</u>
Gross Amount to be Raised	<u>324,638,788</u>	<u>320,515,028</u>	<u>332,645,321</u>	<u>350,118,273</u>	<u>367,289,601</u>	<u>374,209,710</u>
Deductions:						
Local Estimated Receipts(3)	55,929,354	56,105,587	65,052,033	63,312,395	65,095,633	60,065,666
State Aid(4):	159,656,620	149,192,490	151,980,902	160,274,035	169,938,094	177,955,864
Available Funds(5)	12,671,809	15,386,625	12,277,783	18,314,625	20,755,613	20,369,352
Total Deductions	<u>228,257,783</u>	<u>220,684,702</u>	<u>229,310,718</u>	<u>241,901,055</u>	<u>255,789,340</u>	<u>258,390,882</u>
Net Amount to be Raised (Tax Levy)	<u>\$ 96,381,005</u>	<u>\$ 99,830,326</u>	<u>\$ 103,334,603</u>	<u>\$ 108,217,218</u>	<u>\$ 111,500,261</u>	<u>\$ 115,818,828</u>

- (1) Includes additional appropriations from taxation and other revenues voted subsequent to adoption of the annual budget but prior to setting of the tax rate. Includes sewer and water enterprises.
- (2) Includes state educational offsets, overlay deficits and other deficits.
- (3) Includes sewer and water enterprise revenue.
- (4) Includes prior year's estimates. Estimated by the State Department of Revenue and required by law to be used in setting of the tax rate. Actual state aid payments may vary upward or downward from said estimates and the State may withhold payments pending receipt of State and County assessments. The City has confronted reductions in discretionary State aid since fiscal 2008, projected to continue in fiscal 2012. The City has laid off employees, restricted new hires and negotiated with unions to counter these reductions. All retirees have been shifted to less expensive health insurance plans, and all non-union employees have been required to increase their contribution to health insurance costs from a 25% share to a 40% share. Concessions were negotiated with the firefighters' union and library employees' union to temporarily defer or postpone scheduled compensation. The City's local revenue compensation to the school budget, both for education and for school buses, was cut by almost \$7 million in total. (Some portion of this was made up by federal stimulus money). Finally, the City analyzed the status of its health insurance trust fund, from which the City's health/dental benefits are paid, and which is funded by both the employer and covered person contributions. The City's analysis after accounting for the need to pay incurred but not reported claims and prudently reserving for the possibility of high claims which fell short of this City's reinsurance levels, determined that the fund's cash balances significantly exceeded the reserve requirements. Accordingly, the health budget was reduced with the expectations that the reserves would be drawn down. In fiscal 2012 the City expects only inflation increases for education aid and a 7% reduction in discretionary aid. The City anticipates using reserves, including health trust reserves, to counter this reduction. The City also intends to negotiate with the unions and only as a last resort will lay off employees. The City expects an increase in state aid in fiscal 2013.
- (5) Transfers from available funds, including "free cash", generally made as an offset to a particular appropriation item.
- (6) Based on the Mayor's budget submitted to City Council for approval.

## Assessed Valuations and Tax Levies

Property is classified for the purpose of taxation according to its use. The legislature has in substance created three classes of taxable property: (1) residential real property, (2) open space land, and (3) all other (commercial, industrial and personal property). Within limits, cities and towns are given the option of determining the share of the annual levy to be borne by each of the three categories. The share required to be borne by residential real property is at least 50 per cent of its share of the total taxable valuation; the effective rate for open space must be at least 75 per cent of the effective rate for residential real property; and the share of commercial, industrial and personal property must not exceed 175 per cent of their share of the total valuation. A city or town may also exempt up to 20 per cent of the valuation of residential real property (where used as the taxpayer's principal residence) and up to 10 per cent of the valuation of commercial real property (where occupied by certain small businesses). Property may not be classified in a city or town until the State Commissioner of Revenue certifies that all property in the city or town has been assessed at its fair cash value. Such certification must take place every three years, or pursuant to a revised schedule as may be issued by the Commissioner.

Related statutes provide that certain forest land, agricultural or horticultural land (assessed at the value it has for these purposes) and recreational land (assessed on the basis of its use at a maximum of 25 per cent of its fair cash value) are all to be taxed at the rate applicable to commercial property. Land classified as forest land is valued for this purpose at five per cent of fair cash value but not less than ten dollars per acre.

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes a redetermination of the fair cash value of the taxable property in each municipality. This is known as the "equalized value". See "DEBT LIMITS" below.

The City has used multiple tax rates under classification since fiscal 1984 when it first revalued all real and personal property in the City to full value.

The following table sets forth the trend in the City's assessed valuations, tax levies, and tax levies per capita.

<u>Fiscal Year</u>	<u>Real Estate Valuation</u>	<u>Personal Property Valuation</u>	<u>Total Assessed Valuation</u>	<u>Tax Levy</u>	<u>Tax Levy Per Capita(1)</u>
2013	\$ 5,293,452,622	\$ 192,787,250	\$ 5,486,239,872	\$ 111,500,261	\$ 1,189
2012	5,453,125,711	181,508,380	5,634,634,091	108,217,218	1,154
2011 (2)	5,448,775,565	180,413,520	5,629,189,085	103,334,603	1,102
2010	5,684,315,129	183,886,760	5,868,201,889	99,830,326	1,064
2009	7,005,442,810	168,780,780	7,174,223,590	96,381,006	1,027

(1) Based on the 2010 federal census.

(2) Revaluation year.

## Tax Rate Factor and Levy Distribution

<u>Fiscal Year</u>	<u>Tax Rate Factor (1)</u>	<u>% of Levy</u>	
		<u>Residential</u>	<u>Commercial, Industrial/Personal Property</u>
2013	\$1.57	64.0%	36.0%
2012	1.56	65.3	34.6
2011	1.61	65.4	34.6
2010	1.66	66.8	33.2
2009	1.70	66.2	33.8

(1) In communities using multiple tax rates, the factor by which the uniform rate (see below) is multiplied to determine the Commercial/Industrial Tax Rate.

## Tax Rate Per \$1,000 Valuation

<u>Fiscal Year</u>	<u>Uniform Rate(1)</u>	<u>Residential Real Property</u>	<u>All Other (Commercial, Industrial and Personal Property)</u>
2013	\$20.32	\$16.88	\$31.91
2012	19.21	16.14	29.96
2011	18.36	15.29	29.55
2010	17.01	13.77	28.24
2009	13.43	11.10	22.84

(1) The rate at which real estate and personal property would be taxed if the City used a single rate rather than multiple tax rates. Provided for comparative purposes only.

## Largest Taxpayers

The following is a list of the largest taxpayers in the City and the fiscal 2013 valuation of each. All taxpayers listed below are current in their tax payments.

<u>Name</u>	<u>Nature of Business</u>	<u>Fiscal 2013 Assessed Valuation</u>	<u>% of Total Assessed Value</u>
Steward Health Care	Hospital	\$ 80,059,130	1.46 %
Mass Electric Co. (National Grid)	Utility	48,776,090	0.89
Columbia Gas of Massachusetts	Utility	32,985,410	0.60
Westgate Brockton Mall LLC	Westgate Mall	27,007,930	0.49
New England Telephone (Verizon)	Utility	26,466,500	0.48
110 Liberty St. Realty Company LLC	Medical Office	16,752,500	0.31
Mucci Investment Prop LLC	Developer	16,735,800	0.31
Acadia Crescent Plaza, LLC	Developer	15,823,640	0.29
Beacon Communities, LLC (1)	Housing	27,805,040	0.51
Lowes Home Center Inc.	Retail	14,393,310	0.26
Total		<u>\$ 306,805,350</u>	<u>5.59 %</u>

(1) Calculated at the residential tax rate.

## State Equalized Valuation

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes a redetermination of the fair cash value of the taxable property in each municipality as of January 1 of even numbered years. This is known as the "equalized value". The following table sets forth the trend in equalized valuations of the City of Brockton.

<u>January 1,</u>	<u>State Equalized Valuations</u>	<u>Annual Percentage Increase (Decrease)</u>
2012	\$ 5,986,229,500	(6.7) %
2010	6,416,494,600	(25.6)
2008	8,627,153,400	10.4
2006	7,787,790,000	29.7
2004	6,003,792,100	35.1
2002	4,420,483,600	32.7
2000	3,330,760,700	15.1

## Abatements and Overlay

The City is authorized to increase each tax levy by an amount approved by the State Commissioner of Revenue as an "overlay" to provide for tax abatements. If abatements are granted in excess of the applicable overlay reserve, the excess is required to be added to the next tax levy. Abatements are granted where exempt real or personal property has been assessed or where taxable real or personal property has been overvalued or disproportionately valued. The assessors may also abate uncollectible personal property taxes. They may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue. But uncollected real property taxes are ordinarily not written off until they become municipal "tax titles" by purchase at the public sale or by taking, at which time the tax is written off in full by reserving the amount of the tax and charging surplus.

The following table sets forth the trend in overlay reserves and abatements for recent levies.

Fiscal Year	Net Tax Levy (1)	Overlay Reserve		Abatements Granted through June 30, 2012	Surplus (Deficiency) Through June 30, 2012
		Dollar Amount	As a % of Net Levy		
2012	\$ 105,479,107	\$ 2,738,111	2.60 %	\$ 831,777	\$ 1,906,334
2011 (2)	101,010,317	2,324,286	2.30	1,202,533	1,121,753
2010	97,773,309	2,057,017	2.10	1,549,389	507,628
2009	94,452,612	1,928,394	2.04	1,699,675	228,719
2008 (2)	90,819,194	1,953,092	2.15	1,745,841	207,251

(1) Tax levy prior to addition of overlay reserve.

(2) Revaluation years.

## Tax Levies and Collections

The City issues tax bills which are payable in four installments. Under the statute, preliminary tax payments are due on August 1 and November 1 with payment of the actual tax bill (after credit is given for the preliminary payments) in installments on February 1, and May 1, if actual tax bills are mailed by December 31. Interest accrues on delinquent taxes currently at the rate of 14% per annum. Real property (land and buildings) is subject to a lien for the taxes assessed upon it (subject to any paramount federal lien and subject to bankruptcy and insolvency laws). If the property has been transferred, an unenforced lien expires on the fourth December 31 after the fiscal year to which the tax relates. If the property has not been transferred by the fourth December 31, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien where it could not be enforced because of a legal impediment. The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by sale or taking of the property as described below.

The following table compares the trend in the City's net tax collections with its net (gross tax levy less overlay reserve for abatements) tax levies.

Fiscal Year	Gross Tax Levy	Overlay Reserve for Abatements	Net Tax Levy	Collections During Fiscal Year Payable		Collections as of May 17, 2013	
				Dollar Amount(1)	% of Net Levy	Dollar Amount(1)	% of Net Levy
2013	\$ 111,500,261	\$ 2,947,648	\$ 108,552,613	\$ 105,002,735	96.7 %	\$ 105,002,735	96.7 %
2012	108,217,218	2,738,111	105,479,107	102,364,585	97.0	104,107,584	98.7
2011 (2)	103,334,603	2,324,286	101,010,317	97,535,074	96.6	100,236,789	99.2
2010	99,830,326	2,057,017	97,773,309	93,691,363	95.8	96,204,127	98.4
2009	96,381,006	1,928,394	94,452,612	90,556,405	95.9	93,782,284	99.3
2008 (2)	92,772,286	1,953,092	90,819,194	86,310,291	95.0	88,830,505	97.8

(1) Actual dollar collections net of refunds. Does not include abatements or proceeds of tax titles redemptions attributable to each levy.

(2) Revaluation years.

## Taking and Sale

Massachusetts law permits a municipality either to sell by public sale (at which the municipality may become the purchaser) or to take real property for nonpayment of taxes. In either case the property owner can redeem the property by paying the unpaid taxes, with interest and other charges, but if the right of redemption is not exercised within six months (which may be extended an additional year in the case of certain installment payments), it can be foreclosed by petition to the Land Court. Upon foreclosure, a tax title purchased or taken by the municipality becomes a "tax possession" and may be held and disposed of in the same manner as other land held for municipal purposes.

The following table sets forth the amount of tax titles and possessions outstanding at fiscal year end and the amount realized through the redemption of tax title accounts during the fiscal year. Amounts collected through such redemptions are treated as general receipts of the City and are not credited back to specific tax levies.

<u>Fiscal Year</u>	<u>Tax Titles at Fiscal Year End</u>	<u>Amount Realized Tax Possessions at Fiscal Year End</u>	<u>From Redemption of Tax Titles During Fiscal Year(1)</u>
2012	\$5,354,808	\$2,445,122	\$1,898,849
2011	4,417,334	2,278,752	2,307,260
2010	3,429,118	2,612,101	1,554,396
2009	2,843,757	2,613,666	3,160,094
2008	5,838,589	2,518,083	3,166,455

In order to maximize the collection efforts, the City has implemented a system of collection whereby a minimum of three notices of delinquency are sent to the payers. Also, the City instituted a notice of previous taxes owed on the current tax bill. This notice gives taxpayers an additional five notices per year when taxes are delinquent. By targeting the fiscal years before these accounts are placed in tax title, the City has reduced the amount of delinquent taxes that fall into tax title. In order to maximize the collection of tax title accounts and forestall foreclosure proceedings, the City requires payment in full or, with a minimum of 25% down, a written agreement with the delinquent taxpayer to make timely payments on current tax bills, and pay the balance in full within 12 months. The City has a property disposition plan in place to sell foreclosed properties. City owned buildings and large parcels of land are sold at public auction or through a sealed bid process. This maximizes the influx of cash while putting the sold properties back on the tax rolls.

## Taxation to Meet Deficits

Overlay deficits, i.e., tax abatements in excess of the overlay included in the tax levy to cover abatements, are required to be added to the next tax levy. It is generally understood that revenue deficits, i.e., those resulting from non-property tax revenues being less than anticipated, are also required to be added to the next tax levy (at least to the extent not covered by surplus revenue). Amounts lawfully expended since the prior tax levy and not included therein are also required to be included in the annual tax levy. The circumstances under which this can arise are limited since municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for major disasters, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, established utility rates and certain established salaries, e.g., civil service, must legally be paid for work actually performed, whether or not covered by appropriations.

All deficits and overdrafts in existence at the time the City's tax rates have been set have been provided for as required by Massachusetts law.

Cities and towns are authorized to appropriate sums, and thus to levy taxes, subject to any overall limits on tax levies, to cover deficits arising from other causes, such as "free cash" deficits arising from a failure to collect taxes. This is not generally understood, however, and it has not been the practice to levy taxes to cover free cash deficits. Except to the extent that free cash deficits have been reduced or eliminated by subsequent collections of uncollected taxes (including sales of tax titles and tax possessions), lapsed appropriations, non-property tax revenues in excess of estimates, other miscellaneous items or funding loans authorized by special act, they remain in existence. See "CITY FINANCES – Undesignated Fund Balance and Free Cash."

## Tax Limitations

Chapter 59, Section 21C of the General Laws, also known as Proposition 2½, imposes two separate limits on the annual tax levy of a city or town.

The primary limitation is that the tax levy cannot exceed 2 1/2 percent of the full and fair cash value. If a city or town exceeds the primary limitation, it must reduce its tax levy by at least 15 percent annually until it is in compliance, provided that the reduction can be reduced in any year to not less than 7 1/2 percent by majority vote of the voters, or to less than 7 1/2 percent by two-thirds vote of the voters.

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2 1/2 percent, subject to exceptions for property added to the tax rolls and for property which has had substantial valuation increases other than as part of a general revaluation, in its assessed valuation over the prior year's valuation. This "growth" limit on the tax levy may be exceeded in any year by a majority vote of the voters, but an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitation, since the two limitations apply independently. In addition, if the voters vote to approve taxes in excess of the "growth" limit for the purpose of funding a stabilization fund, such increased amount may only be taken into account for purposes of calculating the maximum levy limit in each subsequent year if the board of selectmen of a town or the city council of the city votes by a two-thirds vote to appropriate such increased amount in such subsequent year to the stabilization fund.

The applicable tax limits may also be reduced in any year by a majority vote of the voters.

The State Commissioner of Revenue may adjust any tax limit "to counterbalance the effects of extraordinary, non-recurring events which occurred during the base year".

Proposition 2 ½ further provides that the voters may exclude from the taxes subject to the tax limits and from the calculation of the maximum tax levy (a) the amount required to pay debt service on bonds and notes issued before November 4, 1980, if the exclusion is approved by a majority vote of the voters, and (b) the amount required to pay debt service on any specific subsequent issue for which similar approval is obtained. Even with voter approval, the holders of the obligation for which unlimited taxes may be assessed do not have a statutory priority or security interest in the portion of the tax levy attributable to such obligations. It should be noted that Massachusetts General Laws Chapter 44, Section 20 requires that the taxes excluded from the levy limit to pay debt service on any such bonds and notes be calculated based on the true interest cost of the issue. Accordingly, the Department of Revenue limits the amount of such taxes which may be levied in each year to pay debt service on any such bonds and notes to the amount of such debt service, less a pro rata portion of any original issue premium received by the city or town that was not applied to pay costs of issuance.

Voters may also exclude from the Proposition 2 1/2 limits the amount required to pay specified capital outlay expenditures. In addition, the city council of a city, with the approval of the mayor if required, or the board of selectmen or the town council of a town may vote to exclude from the Proposition 2 1/2 limits taxes raised in lieu of sewer or water charges to pay debt service on bonds or notes issued by the municipality (or by an independent authority, commission or district) for water and sewer purposes, provided that the municipality's sewer or water charges are reduced accordingly.

In addition, Proposition 2 ½ limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the Massachusetts Water Resources Authority, and certain districts for which special legislation provides otherwise) to the sum of (a) 2 1/2 percent of the prior year's assessments and (b) "any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option". Regional water districts, regional sewerage districts and regional veterans districts may exceed these limitations under statutory procedures requiring a two-thirds vote of the district's governing body and either approval of the local appropriating authorities (by two-thirds vote in districts with more than two members or by majority in two-member districts) or approval of the registered voters in a local election (in the case of two-member districts). Under Proposition 2 ½ any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. Similarly, State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

The City has been in full compliance with Proposition 2 1/2 since fiscal 1984 following completion of a professional revaluation of all real and personal property in the City to full value. Revaluations were subsequently completed by the City for use in fiscal years 1987, 1990, 1993, 1996, 1999, 2002, 2005, 2008 and 2011. The City has never voted to override or exclude taxes from the tax-levy limit imposed by Proposition 2 1/2. The following table sets forth the trend in the City's tax levies and levy limits under Proposition 2 1/2.

Fiscal Year	Total Assessed Valuation	Primary Levy Limit	Secondary Levy Limit	Actual Levy	Under (Over) Primary Limit	Under (Over) Secondary Levy Limit
2013	\$ 5,486,239,872	\$ 137,155,997	\$ 112,506,174	\$ 111,500,261	\$ 24,649,823	\$ 1,005,913
2012	5,634,634,091	140,865,852	108,261,967	108,217,218	32,603,885	44,749
2011	5,629,189,685	140,729,727	103,342,047	103,334,603	37,387,680	7,444
2010	5,868,201,889	146,705,047	99,864,769	99,830,326	46,840,278	34,443
2009	7,174,223,590	179,355,590	96,443,017	96,381,006	82,912,573	62,011

### Sale of Tax Receivables

Cities and towns are authorized to sell delinquent property tax receivables at public sale or auction, either individually or in bulk. The City does not expect to utilize this option at the present time.

### Pledged Taxes

Taxes on the increased value of certain property in designated development districts may be pledged for the payment of costs of economic development projects within such districts and may therefore be unavailable for other municipal purposes. (See "Tax Increment Financing for Development Districts" below).

### Community Preservation Act

The Massachusetts Community Preservation Act (the "CPA") permits cities and towns that accept its provisions to levy a surcharge on its real property tax levy and to receive state matching funds for the acquisition, creation, preservation, rehabilitation and restoration of open space, historic resources and affordable housing. The provisions of the CPA must be accepted by the voters of the city or town at an election after such provisions have first been accepted by either a vote of the legislative body of the city or town or an initiative petition signed by 5% of its registered voters.

A city or town may approve a surcharge of up to 3% of the real property tax levy, and it may accept one or more exemptions to the surcharge under the CPA, including an exemption for low-income individuals and families and for low and moderate-income senior citizens, an exemption for \$100,000 of the value of each taxable parcel of residential real property, and an exemption for commercial and industrial properties in cities and towns with classified tax rates. The surcharge is not counted in the total taxes assessed for the purpose of determining the permitted levy amount under Proposition 2 1/2 (see "Tax Limitations" under "PROPERTY TAXATION"). A city or town may revoke its acceptance of the provisions of the CPA at any time after 5 years from the date of such acceptance and may change the amount of the surcharge or the exemptions to the surcharge at any time, provided that any such revocation or change must be approved pursuant to the same process as acceptance of the CPA.

Any city or town that accepts the provisions of the CPA will receive annual state matching grants to supplement amounts raised by its surcharge on the real property tax levy. The state matching funds are raised from certain recording and filing fees of the registers of deeds. Those amounts are deposited into a state trust fund and are distributed to cities and towns that have accepted the provision of the CPA, which distributions are not subject to annual appropriation by the state legislature. The amount distributed to each city and town is based on a statutory formula which requires that 80% of the amount in the state trust fund be used to match an equal percentage of the amount raised locally by each city and town, and that the remaining 20% of the amount in the fund be distributed only to those cities and towns that levy the maximum 3% surcharge base on a formula which takes into account equalized property valuation and population, resulting in larger distributions to those communities with low valuations and small populations. The total state distribution made to any city or town may not, however, exceed 100% of the amount raised locally by the surcharge on the real property tax levy.

The amounts raised by the surcharge on real property taxes and received in state matching funds are required to be deposited in a dedicated community preservation fund. Each city or town that accepts the provisions of the CPA is required to establish a community preservation committee to study the community preservation needs of the community and to make recommendations to the legislative body of the city or town regarding the community preservation projects that should be funded from the community preservation fund. Upon the recommendations of the committee, the legislative body of the city or town may appropriate amounts from the fund for permitted community preservation purposes or may reserve amounts for spending in future fiscal years, provided that at least 10% of the total annual revenues to the fund must be spent or set aside for open space purposes, 10% for historic resource purposes and 10% for affordable housing purposes.

The CPA authorizes cities and towns that accepts its provisions to issue bonds and notes in anticipation of the receipt of surcharge revenues to finance community preservation projects approved under the provisions of the CPA. Bonds and notes issued under the CPA are general obligations of the city or town and are payable from amounts on deposit in the community preservation fund. In the event that a city or town revokes its acceptance of the provisions of the CPA, the surcharge shall remain in effect until all contractual obligations incurred by the city of town prior to such revocation, including the payment of bonds or notes issued under the CPA, have been fully discharged.

**The City has not adopted the Community Preservation Act, and there are no plans to do so.**

## CITY FINANCES

### **Budget and Appropriation Process**

In a city, within 170 days (unless otherwise provided by special legislation) after the annual organization of the city government (which is ordinarily in early January), the Mayor is required to submit a budget of proposed expenditures for the fiscal year beginning on the next July 1. The city council may make appropriations for the recommended purposes and may reduce or reject any item. Without a recommendation of the Mayor, the council may not make any appropriation for a purpose not included in the proposed budget, except by a two-thirds vote in case of a failure of the Mayor to recommend an appropriation for such a purpose within 7 days after a request from the city council. The council may not increase any item without the recommendation of the Mayor (except as provided by legislation, subject to local acceptance, under which the school budget or regional school district assessment can be increased upon recommendation of the school committee or regional district school committee and by two-thirds vote of the council, provided that such increase does not cause the total annual budget to exceed property tax limitations). If the council fails to act on any item of the proposed budget within 45 days, that item takes effect.

Under certain circumstances and subject to certain limits and requirements, the city council of a city, upon the recommendation of the Mayor, may transfer amounts appropriated for use of one department (except for the use of a municipal light department or a school department) to another appropriation for the same department for the use of any other department.

If the Mayor does not make a timely budget submission, provision is made for preparation of a budget by the council. Provision is also made for supplementary appropriations upon recommendation of the Mayor.

Water and Sewer department expenditures are included in the budget adopted by the city council. Gas and electric department expenditures may be appropriated by municipal light boards. Under certain legislation any city or town which accepts the legislation may provide that the appropriations for the operating costs of any department may be offset, in whole or in part, by estimated receipts from fees charged for services provided by the department. It is assumed that this general provision does not alter the pre-existing power of an electric or gas department to appropriate its own receipts. The school budget is limited to the total amount appropriated by the city council, but the school committee retains full power to allocate the funds appropriated, subject to the provisions of the Education Reform Act of 1993, which is further discussed herein under "Education Reform".

City department heads are generally required to submit their budget requests to the Finance Department for compilation and recommendation to the Mayor between December 1 and January 31. This does not apply to the school department, which must submit its requests to the Finance Department for review and recommendation in time for the Mayor to include them in his submission to the council.

State and county assessments, abatements in excess of overlays, principal and interest not otherwise provided for, and final judgments are included in the tax levy whether or not included in the budget. Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy.

**In the City of Brockton, the Finance Department independently develops revenue estimates and evaluates the impact of each proposed spending request as the Chief Financial Officer is required under Chapter 324 of the Acts of 1990 to certify in writing to the Mayor and the City Council as to the affordability of any spending request.**

## Budget Trends

The following table sets forth the trend in operating budgets in the format recommended by the Mayor and voted by the city council. The budgets are inclusive of supplemental appropriations and transfers between appropriation items made during the fiscal year. The budgets are inclusive of expenditures for state and county assessments, overlay for tax abatements and deficits to be raised.

### COMPARATIVE BUDGET TRENDS General and Enterprise Funds

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	Proposed Fiscal 2014 (5)
Water (1)	\$ 13,948,971	\$ 15,250,020	\$ 15,911,513	\$ 16,478,246	\$ 17,116,935	\$ 15,967,028
Sewer (1)	15,409,679	17,582,107	18,304,684	18,213,411	18,060,630	18,465,985
Other Public Works and Trash	14,609,177	14,778,498	16,434,971	16,616,591	15,371,536	14,586,900
Fire	19,390,591	19,060,837	20,000,703	20,373,633	19,868,295	21,232,160
Police	18,311,501	18,526,895	17,457,643	17,950,478	17,412,066	18,538,973
Public Property	2,421,590	2,285,041	2,360,447	2,336,950	2,211,203	2,424,731
City Schools	138,129,236	128,708,177	140,877,082	152,390,474	156,420,332	164,293,149
Regional School Assessment	2,588,411	2,414,501	2,715,744	2,702,679	2,741,616	2,932,308
General Government and Other	22,010,239	23,423,390	19,316,828	21,385,797	20,343,838	22,975,406
Employees/Retiree Health Insurance	45,420,452	43,812,151	40,097,965	42,229,978	52,003,360	49,778,155
Retirement	9,809,576	9,864,017	10,171,188	12,580,316	15,424,055	16,021,867
Capital	1,021,595	864,800	4,188,393	1,373,298	5,258,499	3,668,902
Debt Service (2)	14,083,889	13,908,707	15,630,960	12,613,238	12,662,769	12,495,017
Overlay Reserve	1,928,393	2,057,017	2,058,181	2,120,000	2,840,000	2,900,000
State County Charges	5,140,616	5,610,283	5,692,129	5,879,360	6,395,186	7,135,900
Reserves (3)	414,872	2,368,587	-	704,990	262,094	793,228
Total(4)	<u>\$ 324,638,788</u>	<u>\$ 320,515,028</u>	<u>\$ 331,218,431</u>	<u>\$ 345,949,439</u>	<u>\$ 364,392,414</u>	<u>\$ 374,209,709</u>

(1) Enterprise Funds capital expenditures included in the Capital category.

(2) Debt service includes all City debt service, other than water and sewer, and debt issued under the State Qualified Bond Act.

(3) Consists of net additions to the stabilization and supplemental reserve funds.

(4) Totals include cash appropriations for departmental capital spending.

(5) Reflects the amount submitted by the Mayor for City Council approval.

## Revenues (General Fund)

**Local Options Room Occupancy Tax:** Under this tax, local governments may tax the provision of hotel, motel and lodging house rooms at a rate not to exceed six percent (6%) of the cost of renting such rooms. The tax is paid by the operator of the hotel, motel or lodging house, and bed and breakfast to the State Commissioner of Revenue, who in turn pays the tax back to the municipality in which the rooms are located in quarterly distributions. In 2009, the City increased the local room occupancy excise tax from 4% to 6% as permitted under G.L. c. 64G section 3A. The City collected \$600,019 from this tax in fiscal 2011. The City collected \$560,958 from this tax in fiscal 2012. Projected revenue collected from this tax is expected to be comparable in future years.

**Local Option Meals Tax:** On June 6, 2010, the City adopted the local meals excise tax to be effective October 1, 2010. In fiscal year 2011, the local meals excise tax is a 0.75% tax on the gross receipts of a vendor from the sale of restaurant meals. The tax is paid by the vendor to the State Commissioner of Revenue, who in turn pays the tax to the municipality in which the meal was sold. The City collected \$821,433 from this tax in fiscal 2012. The revenue from this tax is projected to be comparable in future years.

**Property Taxes:** Property taxes are a major source of revenue for the City. The total amount levied is subject to certain limits prescribed by law; for a description of those limits see "PROPERTY TAXATION - Tax Limitations" above.

**State Aid:** The City's state aid entitlement is based upon a number of different formulas, and while said formulas might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount

appropriated by the state legislature. The state annually estimates state aid but actual payments may vary from the estimate.

In addition to grants for specified capital purposes (some of which are payable over the life of the bonds issued for the projects), the Commonwealth provides financial assistance to cities and towns for current purposes. Payments to cities and towns are derived primarily from a percentage of the State's personal income, sales and use, and corporate excise tax receipts, together with the net receipts from the State Lottery. A municipality's state aid entitlement is based on a number of different formulas, of which the "schools" and "lottery" formulas are the most important. Both of the major formulas tend to provide more state aid to poorer communities. The formulas for determining a municipality's state aid entitlement are subject to amendment by the state legislature and, while a formula might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The state annually estimates state aid, but the actual state aid payments may vary from the estimate.

In the fall of 1986, both the State Legislature (by statute repealed as of July 1, 1999) and the voters (by initiative petition) placed limits on the growth of state tax revenues. Although somewhat different in detail, each measure essentially limited the annual growth in state tax revenues to an average rate of growth in wages and salaries in the Commonwealth over the three previous calendar years. If not amended, the remaining measure could restrict the amount of state revenues available for state aid to local communities.

Legislation was enacted in 1991 to help municipalities compensate for additional local aid reductions by the Commonwealth for fiscal year 1992. Under that law, municipalities were allowed to defer budgeting for teacher's summer compensation payable by the end of fiscal years 1992 and 1993. Municipalities that chose to defer such amounts are required to amortize the resulting budget deficiency by raising at least one fifteenth of the deferred amount in each of the fiscal years 1997 through 2011, or in accordance with a more rapid amortization schedule.

Motor Vehicle Excise: An excise is imposed on the registration of motor vehicles (subject to exemptions) at a rate of \$25 per \$1,000 of valuation. Valuations are determined by a statutory formula based on manufacturer's list price and year of manufacture. Bills not paid when due bear interest at 12% per annum. Provision is also made, after notice to the owner, for suspension of the owner's operating license or registration by the registrar of motor vehicles.

Trash Fees: In fiscal 2002 the City assessed a fee of \$110 per household for the pickup and disposal of residential trash. For fiscal 2003, an ordinance change raised trash fees from \$110 to \$220 per household effective July 1, 2002 and to \$280 per household effective July 1, 2003. At the current rate of \$280, the trash fee generates revenues sufficient to fully fund the service.

Enterprise Revenues: See "Enterprise Funds" herein.

Other: Other major sources of revenue include penalties and interest on taxes, investment income, fines, licenses and permits.

## **Education Reform**

State legislation known as the Education Reform Act of 1993, as amended, imposes certain minimum expenditure requirements on municipalities with respect to funding for education and related programs, and may affect the level of state aid to be received for education. The requirements are determined on the basis of formulas affected by various measures of wealth and income, enrollments, prior levels of local spending and state aid, and other factors. In every year since passage of the act, the City's school related appropriations have exceeded the minimum required funding.

## **State School Building Assistance**

Under its school building assistance program, the Commonwealth of Massachusetts provides grants to cities, towns and regional school districts for school construction projects. Until July 26, 2004, the State Board of Education was responsible for approving grants for school projects and otherwise administering the program. Grant amounts ranged from 50% to 90% of approved project costs. Municipalities generally issued bonds to finance the entire project cost, and the Commonwealth disbursed the grants in equal annual installments over the term of the related bonds.

Pursuant to legislation which became effective on July 26, 2004, the state legislature created the Massachusetts School Building Authority (the "Authority") to finance and administer the school building assistance program. The Authority has assumed all powers and obligations of the Board of Education with respect to the program. In addition to certain other amounts, the legislation dedicates a portion of Commonwealth sales tax receipts to the Authority to finance the program.

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the Authority based on the approved project cost and reimbursement rate applicable under the prior law. The Authority has paid and is expected to continue to pay the remaining amounts of the grants for such projects either in annual installments to reimburse debt service on bonds issued by the municipalities to finance such projects, or as lump sum payments to contribute to the defeasance of such bonds.

Projects on the priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the Authority based on the eligible project costs and reimbursement rates applicable under the prior law. With limited exceptions, the Authority is required to fund the grants for such projects in the order in which they appear on the waiting list. Grants for any such projects that have been completed or substantially completed have been paid and are expected to continue to be paid by the Authority in lump sum payments, thereby eliminating the need for the Authority to reimburse interest expenses that would otherwise be incurred by the municipalities to permanently finance the Authority's share of such project costs. Interest on debt issued by municipalities prior to July 1, 2004 to finance such project costs, and interest on temporary debt until receipt of the grant, is included in the approved costs of such projects. Grants for any such projects that have not yet commenced or that are underway have been and are expected to continue to be paid by the Authority as project costs are incurred by the municipality pursuant to a project funding agreement between the Authority and the municipality, eliminating the need for the municipality to borrow even on a temporary basis to finance the Authority's share of the project costs in most cases.

The range of reimbursement rates for new project grant applications submitted to the Authority on or after July 1, 2007 has been reduced to between 40% and 80% of approved project costs. The Authority promulgated new regulations with respect to the application and approval process for projects submitted after July 1, 2007. The Authority pays grants for such projects as project costs are incurred pursuant to project funding agreements between the Authority and the municipalities. None of the interest expense incurred on debt issued by municipalities to finance their portion of the costs of new projects will be included in the approved project costs eligible for reimbursement.

## **Financial Operations**

During each year from fiscal 1992 through fiscal 2012, and projected at June 30, 2013, the City has generated free cash surpluses ranging from 1% to 8% of General Fund Revenues. These surpluses resulted in part from conservative expenditure budgets and aggressive monitoring and control of actual expenditures during the years. They also resulted in part from deliberate underestimation of likely revenues in preparing annual budgets. In the fiscal 1998 to 2009 budgets, free cash amounts have been appropriated to support capital expenses, to pay debt service, and to increase permanent reserves. Conservative budgetary strategies were employed in constructing the budgets and utilized during each fiscal year.

## **Investment of City Funds**

Investments of funds of cities and towns, except for trust funds, are generally restricted by Massachusetts General Laws Chapter 44, Section 55. That statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposits of banks and trust companies, in obligations issued or unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation units in the Massachusetts Municipal Depository Trust ("MMDT"), or in shares in SEC - registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

MMDT is an investment pool created by the Commonwealth. The State Treasurer is the sole trustee, and the funds are managed under contract by an investment firm under the supervision of the State Treasurer's office. According to the State Treasurer the Trust's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. Government obligations and highly-rated corporate securities with maturities of one year or less.

Trust funds, unless otherwise provided by the donor, may be invested in accordance with Section 54 of Chapter 44, which permits a broader range of investments than Section 55, including any bonds or notes that are legal investments for

savings banks in the Commonwealth. The restrictions imposed by Sections 54 and 55 do not apply to city and town retirement systems.

**Accounting Policies**

Please refer to attached audited financial statements of the City.

**Fiscal Year 2012 Results**

**General Fund Revenues**

The City of Brockton's year to date general fund total revenues as of June 30, 2012 of \$292.332 million has increased by \$13.353 million over the prior year's year to date general fund total revenues as of June 30, 2011 of \$278.979 million which represents an overall percentage increase in year to date general fund revenues of 4.786%. The overall increase is attributable to three (3) revenue source areas: real estate tax revenue has marginally increased by \$4.856 million; motor vehicle excise collections have marginally increased by \$0.582 million; and state aid to the City has marginally increased by \$9.8 million. The City has finishing the fiscal year ending June 30, 2012 with an unassigned fund balance of \$18.030 million (formerly known as the undesignated fund balance) for the general fund similar to the amount in unassigned fund balance at June 30, 2011.

**Business Type Activities**

Year To Date Summary Revenue Analysis  
of Business Type Activities

Year to date	6/30/2012 Revenues (millions)	6/30/2011 Revenues (millions)	Increase (Decrease) Revenues (millions)	Overall % Increase (Decrease) Revenues
Sewer enterprise fund	\$19.006	\$19.829	-\$0.823	-4.150%
Water enterprise fund	\$15.218	\$14.928	\$0.290	1.942%
Refuse enterprise fund	\$7.456	\$7.427	\$0.029	0.004%
Renewable energy enterprise fund	\$0.138	\$0.125	\$0.013	10.400%

**Certified Free Cash and Certified Retained Earnings**

The City has not drawn down free cash for capital outlay purposes in the fiscal year ending June 30, 2012.

It has been the management philosophy of the City to utilize any free cash that is certified to augment the subsequent year's expenditures; typically those expenditures are for retirement assessments, treasurer's debt service, and stabilization and Chapter 324 reserve fund contributions. The City generally utilizes certified retained earnings from the business type activities of the enterprise funds to augment the subsequent year's expenditures typically for debt service.

## **Annual Audits**

Audits covering all funds of the City for recent fiscal years have been performed annually by KPMG Peat Marwick, certified public accountants. The most recent audit is for fiscal 2012 which is attached hereto as Appendix A. Said audit reports the City's operations in accordance with the new accounting standards of GASB 34. Copies of prior year audits are available upon request. The attached report speaks only as of its date, and only to the matters expressly set forth therein. The auditors have not been engaged to review this Official Statement or to perform audit procedures regarding the post-audit period, nor have the auditors been requested to give their consent to the inclusion of their report in Appendix A. Except as stated in their report, the auditors have not been engaged to verify the financial information set out in Appendix A and are not passing upon and do not assume responsibility for the sufficiency, accuracy or completeness of the financial information presented in that appendix.

## **Financial Statements**

Set forth on the following pages are the following tables and financial statements of the City of Brockton: Governmental Funds Balance Sheets for fiscal years 2012, 2011 and 2010 and a Comparative Statement of Revenues, Expenditures and Changes in Fund Equity - General Fund for fiscal 2008 through fiscal 2012. Said financials were extracted from the City's audited financial statements.

City of Brockton, MA  
Balance Sheet- Governmental Funds  
June 30, 2012 (1)

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

(1) Extracted from the annual audit.

City of Brockton, MA  
Balance Sheet- Governmental Funds  
June 30, 2011 (1)

<b>Assets</b>	<u>General</u>	<u>Other Governmental</u>	<u>Total</u>
Cash and investments	\$79,688,383	\$ 27,430,931	\$ 107,119,314
Receivables, net:			
Property taxes	6,777,857	-	6,777,857
Motor vehicle excise	2,484,301	-	2,484,301
Departmental and other	38,330	-	38,330
Tax liens	4,456,841	-	4,456,841
Intergovernmental	2,870,045	2,885,284	5,755,329
Total receivables	<u>16,627,374</u>	<u>2,885,284</u>	<u>19,512,658</u>
Long-term note receivable	7,451,183	-	7,451,183
Long-term intergovernmental receivable	16,171,048	-	16,171,048
Deposit with health claims agent	7,245,000	-	7,245,000
Total Assets	<u>\$ 127,182,988</u>	<u>\$ 30,316,215</u>	<u>\$ 157,499,203</u>
<b>Liabilities and Fund Balances</b>			
Warrants and accounts payable	\$ 3,477,827	\$ 2,743,653	\$ 6,221,480
Accrued liabilities:			
Tax abatement refunds	1,703,610	-	1,703,610
Payroll and related withholdings	8,712,515	16,998	8,729,513
Health claims payable	4,306,037	-	4,306,037
Bond anticipation note payable	-	896,000	896,000
Deferred revenue	31,176,417	395,657	31,572,074
Total liabilities	<u>49,376,406</u>	<u>4,052,308</u>	<u>53,428,714</u>
Fund balances:			
Nonpendable	7,451,183	5,201,284	12,652,467
Restricted	26,112,216	19,280,818	45,393,034
Committed	4,869,582	1,490,722	6,360,304
Assigned	20,453,183	347,238	20,800,421
Unassigned	18,920,418	(56,155)	18,864,263
Total fund balances	<u>\$77,806,582</u>	<u>\$ 26,263,907</u>	<u>\$ 104,070,489</u>
Total liability and fund balances	<u>\$127,182,988</u>	<u>\$ 30,316,215</u>	<u>\$ 157,499,203</u>

(1) Extracted from the annual audit.

City of Brockton, MA  
Balance Sheet- Governmental Funds  
June 30, 2010 (1)

<b>Assets</b>	<b>General</b>	<b>Other Governmental</b>	<b>Total</b>
Cash and investments	\$84,871,049	\$ 18,126,897	\$ 102,997,946
Receivables, net:			
Property taxes	6,308,402	-	6,308,402
Motor vehicle excise	2,365,900	-	2,365,900
Departmental and other	348,149	-	348,149
Tax liens	3,429,300	-	3,429,300
Intergovernmental	3,014,653	10,064,018	13,078,671
Total receivables	<u>15,466,404</u>	<u>10,064,018</u>	<u>25,530,422</u>
Long-term note receivable	7,451,183	-	7,451,183
Long-term intergovernmental receivable	19,374,822	-	19,374,822
Deposit with health claims agent	6,744,800	-	6,744,800
Total Assets	<u>\$ 133,908,258</u>	<u>\$ 28,190,915</u>	<u>\$ 162,099,173</u>
<b>Liabilities and Fund Balances</b>			
Warrants and accounts payable	\$ 5,054,154	\$ 3,257,881	\$ 8,312,035
Accrued liabilities:			
Tax abatement refunds	1,578,539	-	1,578,539
Payroll and related withholdings	9,647,177	127,864	9,775,041
Health claims payable	3,835,502	-	3,835,502
Bond anticipation note payable	-	9,000,000	9,000,000
Deferred revenue	33,815,001	822,763	34,637,764
Total liabilities	<u>53,930,373</u>	<u>13,208,508</u>	<u>67,138,881</u>
Fund balances:			
Reserved for:			
Encumbrances and continuing appropriations	2,129,668	166,286	2,295,954
Deposits held	6,744,800	-	6,744,800
Note receivable	7,594,432	-	7,594,432
Unreserved:			
Designated for subsequent year's expenditures	9,656,070	602,790	10,258,860
Designated for extraordinary & unforeseen expenditures	4,869,582	-	4,869,582
Designated for stabilization	4,307,493	-	4,307,493
Designated for health claims	26,627,871	-	26,627,871
Undesignated, reported in:			
General fund	18,047,969	-	18,047,969
Special Revenue funds	-	13,379,850	13,379,850
Capital Projects funds	-	(4,272,830)	(4,272,830)
Permanent funds	-	5,106,311	5,106,311
Total fund balances	<u>\$79,977,885</u>	<u>\$ 14,982,407</u>	<u>\$ 94,960,292</u>
Total liability and fund balances	<u>\$133,908,258</u>	<u>\$ 28,190,915</u>	<u>\$ 162,099,173</u>

(1) Extracted from the annual audit.

City of Brockton, Massachusetts  
Statement of Revenues, Expenditures  
and Changes in Fund Balances- Governmental Funds(1)

	June 30	
	2011	2012
Revenues:		
Real and personal property taxes, net	\$ 102,552,359	\$ 106,728,051
Motor Vehicle and Other Excise	6,453,016	6,729,299
Penalties and Interest on Taxes	1,399,808	1,694,109
Payment in Lieu of Taxes	191,011	188,881
User Charges and Other Revenues	4,709,641	3,989,410
Fees	1,751,886	1,780,971
Licenses and permits	2,138,531	2,044,967
Intergovernmental	152,715,724	163,524,900
Fines	431,418	808,373
Investment income	470,818	345,421
Contributions	13,134,609	14,195,703
Total Revenues	285,948,821	302,030,085
Expenditures:		
Current:		
General Government	11,480,291	11,303,185
Public Safety	36,566,539	37,337,236
Education	142,631,868	153,505,472
Public works	8,733,165	5,595,546
Human services	2,077,830	2,194,788
Culture and recreation	1,875,244	2,087,123
State and county assessments	5,658,876	6,022,609
Pension and fringe benefits	67,335,563	76,903,470
Court judgments	133,226	161,056
Capital outlay	483,080	582,058
Debt service	13,194,988	11,267,156
Total Expenditures	290,170,670	306,959,699
Excess (Deficiency) of Revenues Over Expenditures	(4,221,849)	(4,929,614)
Other Financing Sources (Uses):		
Operating Transfers In	6,146,430	8,150,910
Operating Transfers out	(4,159,514)	(7,632,656)
Other	63,630	212,368
Bond proceeds	-	-
Bonds premium	53,213	284,565
Payments to refunding bond escrow agent	(1,071,213)	(4,646,815)
Issuance of refunding bonds	1,018,000	4,362,250
Total Other Financing Sources (Uses)	2,050,546	730,622
Excess (deficiency) of Revenues Over Expenditures and Other Financing Uses	(2,171,303)	(4,198,992)
Fund Balance, Beginning of Year	79,977,885	77,806,582
Fund Balance, End of Year	\$77,806,582	\$73,607,590

(1) Extracted from City's audited financial statements.

City of Brockton, Massachusetts  
Comparative Statement of Revenues, Expenditures and Changes in Fund Balances- Governmental Funds\*

	June 30		
	2008	2009	2010
<b>Revenues:</b>			
Real and personal property taxes, net	\$ 92,101,172	\$ 95,588,735	\$ 97,073,442
Motor Vehicle and Other Excise	7,428,602	6,379,821	6,330,498
Penalties and Interest on Taxes	1,567,170	1,426,544	1,619,799
Intergovernmental	158,473,527	147,233,595	152,401,565
User Charges and Other Revenues (1)	2,625,085	2,035,361	1,863,045
Payment in Lieu of Taxes	250,929	185,816	263,086
Fines, Licenses and Permits	2,348,237	668,256	2,772,606
Investment Income	2,738,588	847,311	465,816
Contributions	14,531,327	14,388,380	14,860,275
Fees	726,216	1,385,859	1,633,587
Licenses and permits	-	2,004,126	-
Total Revenues (2)	<u>282,790,853</u>	<u>272,143,804</u>	<u>279,283,719</u>
<b>Expenditures:</b>			
<b>Current:</b>			
Education	139,185,475	128,454,533	132,547,974
Public Safety	37,065,317	37,009,397	37,237,861
Public Works (3)	7,269,213	8,795,802	6,494,963
Pension and Fringe Benefits	58,514,818	65,831,713	68,801,529
General Government	13,338,042	11,613,497	10,993,590
Culture and Recreation	2,033,497	1,768,568	1,926,882
State and County Assessments	4,963,785	5,372,254	5,605,388
Human Services	1,907,545	1,866,668	1,838,839
Court Judgments	422,196	255,872	229,955
Capital Outlay (4)	669,200	496,973	638,400
Debt Service	13,115,304	12,814,575	12,987,630
Total Expenditures (5)	<u>278,484,392</u>	<u>274,279,852</u>	<u>279,303,011</u>
Excess (Deficiency) of Revenues Over Expenditures	4,306,461	(2,136,048)	(19,292)
<b>Other Financing Sources (Uses):</b>			
Operating Transfers In (Out) Net (6)	393,571	656,943	2,263,539
Proceeds of Long-Term Debt	-	-	(876,777)
Total Other Financing Sources (Uses)	<u>393,571</u>	<u>656,943</u>	<u>1,386,762</u>
Excess (deficiency) of Revenues Over Expenditures and Other Financing Uses	4,700,032	(1,479,105)	1,367,470
Fund Balance, Beginning of Year	<u>75,389,488</u>	<u>80,089,520</u>	<u>78,610,415</u>
Fund Balance, End of Year	<u>\$80,089,520</u>	<u>\$78,610,415</u>	<u>\$79,977,885</u>

(1) Trash fee and Departmental receipts. Sewer and water operations are accounted for as enterprise.

(2) Excludes all Enterprise revenues.

(3) Includes a long-term contract for trash pickup.

(4) Prior to fiscal 1998, the City accounted for capital expenditures within current operation expenses.

(5) Includes some Enterprise expenditures. See note (6) below.

(6) Operating transfers are budgeted items (see audited financial statements attached hereto as Appendix A).

They are intended to recapture expenditures borne by the General Fund in support of Enterprise and Spec

\*Complied from the City's audited financial statements.

## Free Cash – General Fund

Under Massachusetts law, an amount known as "free cash" is certified as of the beginning of each fiscal year by the State Bureau of Accounts and this amount, together with certain subsequent tax receipts, is used as the basis for subsequent appropriations from available funds, which are not required to be included in the annual tax levy.

The following table compares free cash under the UMAS system with Unreserved General Fund Balance and total General Fund Balance under GAAP.

<u>June 30</u>	<u>General Fund Balance (GAAP)</u>	<u>Unreserved General Fund Balance (GAAP)</u>	<u>Free Cash (UMAS)</u>
2013 (est.)	\$68,000,000	\$28,600,000	\$12,000,000
2012	73,607,509	29,232,166	13,318,577
2011	77,806,582	18,920,418 (1)	14,701,332
2010	79,977,885	18,047,969	16,948,909
2009	78,610,415	10,338,742	9,656,070
2008	80,089,520	16,762,531	14,490,760

(1) Starting in fiscal 2011, General Fund balance includes Stabilization fund.

It has been the City's policy in recent years to appropriate essentially all of its certified free cash by fiscal year end, and to generate new free cash through conservative budgeting procedures and strict budget oversight. Among the purposes for which free cash has been appropriated during the five most recent fiscal years include general budget operations, court judgments, capital purchases and transfers to the Supplemental Reserve and Stabilization funds.

## Free Cash – Enterprise Funds

In addition, the State Bureau of Accounts annually certifies the amount of "free cash" in each of the City's enterprise funds, as set forth below.

<u>July 1</u>	<u>Water Enterprise Fund</u>	<u>Sewer Enterprise Fund</u>	<u>Recreation Enterprise Fund</u>	<u>Refuse Enterprise Fund (1)</u>	<u>Renewal Energy Fund</u>
2013 (est.)	\$ 2,500,000	\$ 3,900,000	\$ 150,000	\$ 1,000,000	\$ 25,000
2012	923,199	3,078,216	354,676	1,549,353	78,038
2011	3,032,671	4,562,091	267,455	845,961	44,873
2010	1,810,967	1,748,393	209,302	1,171,286	76,156
2009	5,063,034	2,569,144	224,200	1,221,957	187,347
2008	1,714,493	(174,236)	35,621	1,152,794	84,458

(1) Established in fiscal 2002.

## Tax Increment Financing for Development Districts

Under recent legislation, cities and towns are authorized to establish development districts to encourage increased residential, industrial and commercial activity. All or a portion of the taxes on growth in assessed value in such districts may be pledged and used solely to finance economic development projects pursuant to the city or town's development program for the district. This includes pledging such "tax increments" for the payment of bonds issued to finance such projects. As a result of any such pledge, tax increments raised from new growth properties in development districts are not available for other municipal purposes. Tax increments are taken into account in determining the total taxes assessed for the purpose of calculating the maximum permitted tax levy under Proposition 2 ½. (See "Tax Limitations" under "PROPERTY TAXATION" above.) The City has not established any such development districts.

## Other Tax Increment Financing

Pursuant to separate legislation, Massachusetts General Law Chapter 23A, the City has executed TIF agreements as part of its Economic Opportunity Area/Economic target Area status. Beginning in 1997, the City has executed a total of 50 TIF agreements with a total of value of \$78.3 million. These agreements ranged from 1 year in length to 20, and ranged in value from \$32.9 thousand to \$14.5 million. The most remote expiration date is in 2025. Of the 50 total, 11 TIF agreements have already expired, and 5 more have been revoked. Also pursuant to the same legislation, beginning in 1997 the City executed a total of 7 special tax assessment agreements, with a total value of \$9.3 million, ranging in value from \$171 thousand to \$4.8 million. All of these special tax assessment agreements have expired.

## Reserve Funds

The City of Brockton maintains a special reserve fund for extraordinary and unforeseen expenditures called the "Supplemental Reserve". Since fiscal 1992, one and one-half percent of the "Gross Amount to be Raised" on the annual tax computation form for the previous fiscal year has been appropriated to this fund in the budget for the current fiscal year. Expenditures from this fund can be made only by the Mayor, with City Council approval. The Supplemental Reserve Fund is accounted for in the General Fund balance sheet as "Unreserved: Designated for Extraordinary and Unforeseen Expenditures".

Since fiscal year 1993, the City has maintained a Stabilization Fund. Funded by an annual appropriation, the Stabilization Fund plus interest income may be appropriated for any municipal purpose by a two thirds majority vote of the City Council. It is accounted for in the General Fund balance sheet as "Unreserved: Designated for Stabilization". Supplemental Reserve Fund and Stabilization Fund balances at July 1 each year have been as follows:

<u>July 1</u>	<u>Supplemental Reserve Fund</u>	<u>Stabilization Fund</u>
2013 (est.)	\$5,281,676	\$5,600,000
2012	5,019,582	7,721,213
2011	4,869,582	3,668,809
2010	4,869,582	4,307,493
2009	4,720,203	2,387,467
2008	4,569,331	2,114,004

## Enterprise Funds

The City of Brockton has five Enterprise Funds which are accounted for as Special Revenue Funds in the City's audited financial statements.

**Water Enterprise Fund.** The Water Enterprise Fund was established in fiscal 1990. Effective with the creation of the water commission, rates are recommended by the water commission, subject to approval by the City Council. Prior to the creation of the commission, water rates were set by the Mayor at the recommendation of the Commissioner of Public Works. This fund is currently self-supporting, but future rate increases will be required to support capital needs and pay for the desalinated water. See "City of Brockton, Massachusetts – Municipal Services – Water Supply" above.

**Sewer Enterprise Fund.** The Sewer Enterprise Fund was established in fiscal 1992. Sewer rates are set by the City Council with the approval of the Mayor. The City has expended from retained earnings to help fund necessary capital projects with an objective of annually generating the reserve balance at about 10% of revenues. This fund is fully self-supporting.

The City in 2006 concluded consent decree negotiations with the Massachusetts Department of Environmental Protection, the US Environmental Protection Agency, the Massachusetts Attorney General and the U.S. Department of Justice relative to permit violations at the city's sewer treatment plant. The settlement required major capital expenditures for upgrading the plant, improving its treatment processes, and rehabilitating the collection system. Some of this work was initiated while the negotiations were in progress. The City originally anticipated that the financial cost of the work would approximate \$85 million, to be expended and accomplished over about five years. The city council has approved borrowing for the work and has also authorized rate increases in phases in 2005, 2006, 2007, 2008 and 2009. The rate increases in the aggregate were more than 60% but still leave city sewer rates competitive with those of MWRA

communities. The increases are expected to be sufficient to finance operations and maintenance costs, borrowing costs for the construction projects, penalties of \$120,000, and \$180,000 in required supplemental environmental projects (SEPs). All of the SEPs also have been paid for. The construction projects were on schedule. However, the most recent cost estimates indicate that inflation may add about \$10 million to the estimate of \$85 million in cost. In May of 2009, the city council authorized an additional \$11 million of borrowing for the added costs that had been anticipated in the rate increase of 30% approved in the Fall of 2008.

**Recreation Enterprise Fund.** In fiscal 1993, the City established the Recreation Enterprise Fund. Fees for golf and recreation activities are set by the Parks and Recreation Commission. The General Fund subsidizes the Recreation Fund for the specific purposes which otherwise could not be afforded. The subsidy for Recreation Fund programs in the fiscal years from fiscal 2008 through fiscal 2013 has ranged from \$350,000 to \$520,000 per year in direct subsidy plus about \$450,000 per year in indirect costs.

**Refuse Enterprise Fund** – In fiscal year 2002, the City established the Refuse Enterprise Fund for the pick-up and disposal of garbage, trash, and other refuse from the City's residential properties. The City provides service weekly. The City charges a flat fee per single family unit (\$220 per year in fiscal 2002; \$280 per year since fiscal 2003). Single family residences are limited to one barrel per week for this fee. Additional pickup/disposal service may be obtained at the price of \$1.00 per bag. Initially, the City's General Fund subsidized the Refuse Fund. For fiscal 2003, the subsidy was \$2.113 million. In fiscal 2004, the Mayor budgeted a subsidy of \$1.112 million, but the fund actually required only \$634 thousand and thus generated a surplus for retained earnings. Accordingly, beginning in fiscal 2005, the City has no longer subsidized the Refuse Enterprise Fund. Instead, the Retained Earnings balance from the prior year's operations has been used to help pay for budgeted operating costs.

**Renewable Energy Fund** - By Chapter 5 of the Acts of 2005, the City was authorized to install, finance, and operate solar energy facilities. Section 5 of that Act permitted the City to establish an enterprise fund for operation of the solar energy facilities. The construction of the facility was accomplished by a combination of City appropriation (\$500,000), City borrowings (\$1,600,000) and various grant funds (almost \$1.7 million). The City issued a public bid for the design, construction, operations and maintenance of the facility, which was to be located on a former "brownfield" site. Global Solar Energy Inc. of Arizona was the successful general bidder, with local partners. In October 2006, the construction of the facility was concluded. Accordingly, during fiscal 2006 the facility was not in operation.

The City in 2006 conducted a public procurement for the sale of the facility's generated electricity as well as so-called "renewable energy certificates". Constellation New Energy was the successful bidder and in November 2006 began to purchase the facility's output. The revenue derived from the sale of the facility's output approximately equals the cost of operations and maintenance, and contributes about one-half annual debt-service of \$100,000.

In November 2006 the U.S. Internal Revenue Service notified the City that the project qualified for the issuance of up to \$1,600,000 in so-called "Clean Renewable Energy Bonds". The City issued the full amount of that allocation in February 2008.

City of Brockton, Massachusetts  
Statement of Net Assets- Proprietary Funds  
June 30, 2012 (1)

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

(1) Extracted from audited financial statements of the City.

City of Brockton, Massachusetts  
Statement of Net Assets- Proprietary Funds  
June 30, 2011 (1)

<b>Assets</b>	Enterprise funds			Total
	Water	Sewer	Other	
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 7,919,962	\$ 9,171,763	\$ 3,631,273	\$ 20,722,998
Customer receivables, net	6,824,463	9,658,706	3,864,889	20,348,058
Intergovernmental receivables	6,086,937	799,985	-	6,886,922
Other	306,151	49,956	-	356,107
Total Current Assets	<u>21,137,513</u>	<u>19,680,410</u>	<u>7,496,162</u>	<u>48,314,085</u>
<b>Noncurrent assets:</b>				
Other	229,830	575,401	37,177	842,408
<b>Capital assets:</b>				
Nondepreciable	4,335,982	26,810,742	162,709	31,309,433
Depreciable, net	42,058,802	105,278,818	5,407,559	152,745,179
Total noncurrent assets	<u>46,624,614</u>	<u>132,664,961</u>	<u>5,607,445</u>	<u>184,897,020</u>
Total assets	<u>\$ 67,762,127</u>	<u>\$ 152,345,371</u>	<u>\$ 13,103,607</u>	<u>\$ 233,211,105</u>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Warrants and accounts payable	\$ 1,462,662	\$ 935,429	\$ 653,080	\$ 3,051,171
Accrued expenses	245,280	946,883	18,288	1,210,451
Compensated absences and claims	104,931	36,159	33,548	174,638
Bonds, notes, and loans payable	1,312,022	4,902,527	150,000	6,364,549
Total current liabilities	<u>3,124,895</u>	<u>6,820,998</u>	<u>854,916</u>	<u>10,800,809</u>
<b>Noncurrent Liabilities:</b>				
Compensated absences and claims	1,539,729	3,027,451	2,904,456	7,471,636
Unearned Revenue	551,815	1,290,190	-	1,842,005
Landfill and postclosure care costs	-	1,081,000	-	1,081,000
Bonds	26,036,508	81,663,118	1,305,171	109,004,797
Total noncurrent liabilities	<u>28,128,052</u>	<u>87,061,759</u>	<u>4,209,627</u>	<u>119,399,438</u>
Total liabilities	<u>31,252,947</u>	<u>93,882,757</u>	<u>5,064,543</u>	<u>130,200,247</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	25,133,191	46,323,900	4,115,097	75,572,188
Unrestricted	11,375,989	12,138,714	3,923,967	27,438,670
Total net assets	<u>\$36,509,180</u>	<u>\$58,462,614</u>	<u>\$8,039,064</u>	<u>\$103,010,858</u>

(1) Extracted from audited financial statements of the City.

City of Brockton, Massachusetts  
Statement of Net Assets- Proprietary Funds  
June 30, 2010 (1)

<b>Assets</b>	<b>Enterprise funds</b>			<b>Total</b>
	<b>Water</b>	<b>Sewer</b>	<b>Other</b>	
<b>Current Assets:</b>				
Cash and cash equivalents	\$ 8,714,684	\$ 6,373,695	\$ 4,008,670	\$ 19,097,049
Customer receivables, net	6,351,922	10,974,130	3,817,745	21,143,797
Intergovernmental receivables	217,363	10,903,578	-	11,120,941
Other	306,151	49,957	-	356,108
Total Current Assets	<u>15,590,120</u>	<u>28,301,360</u>	<u>7,826,415</u>	<u>51,717,895</u>
<b>Noncurrent assets:</b>				
Other	245,528	618,026	43,377	906,931
<b>Capital assets:</b>				
Nondepreciable	3,731,390	18,666,202	130,359	22,527,951
Depreciable, net	43,202,901	108,703,441	5,530,141	157,436,483
Total noncurrent assets	<u>47,179,819</u>	<u>127,987,669</u>	<u>5,703,877</u>	<u>180,871,365</u>
Total assets	<u>\$ 62,769,939</u>	<u>\$ 156,289,029</u>	<u>\$ 13,530,292</u>	<u>\$ 232,589,260</u>
<b>Liabilities</b>				
<b>Current Liabilities:</b>				
Warrants and accounts payable	\$ 750,547	\$ 3,005,307	\$ 634,601	\$ 4,390,455
Accrued expenses	333,776	946,638	37,540	1,317,954
Compensated absences and claims	104,689	38,891	42,640	186,220
Bonds, notes, and loans payable	1,288,922	4,413,202	150,000	5,852,124
Total current liabilities	<u>2,477,934</u>	<u>8,404,038</u>	<u>864,781</u>	<u>11,746,753</u>
<b>Noncurrent Liabilities:</b>				
Compensated absences and claims	1,363,790	3,108,603	3,015,453	7,487,846
Unearned Revenue	-	1,290,190	-	1,290,190
Landfill and postclosure care costs	-	1,058,000	-	1,058,000
Bonds	21,964,982	86,619,358	1,453,149	110,037,489
Total noncurrent liabilities	<u>23,328,772</u>	<u>92,076,151</u>	<u>4,468,602</u>	<u>119,873,525</u>
Total liabilities	<u>25,806,706</u>	<u>100,480,189</u>	<u>5,333,383</u>	<u>131,620,278</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	23,897,750	47,240,661	4,057,351	75,195,762
Unrestricted	13,065,483	8,568,179	4,139,558	25,773,220
Total net assets	<u>\$36,963,233</u>	<u>\$55,808,840</u>	<u>\$8,196,909</u>	<u>\$100,968,982</u>

(1) Extracted from audited financial statements of the City.

City of Brockton, Massachusetts  
Statement of Revenues, Expenses, and Changes in Net Assets- Proprietary Funds  
June 30, 2012 (1)

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

(1) Extracted from audited financial statements of the City.

City of Brockton, Massachusetts  
Statement of Revenues, Expenses, and Changes in Net Assets- Proprietary Funds  
June 30, 2011 (1)

	Enterprise funds			Total
	Water	Sewer	Other	
Operating Revenues:				
Charges for Services	\$ 14,726,496	\$ 17,470,429	\$ 7,995,004	\$ 40,191,929
Fees	333,814	195,921	249,876	779,611
Other	-	-	125	125
Total Operating Revenues	<u>\$ 15,060,310</u>	<u>\$ 17,666,350</u>	<u>\$ 8,245,005</u>	<u>\$ 40,971,665</u>
Operating Expenses:				
Salaries and Benefits	\$ 4,471,957	\$ 1,718,618	\$ 1,600,155	\$ 7,790,730
Utilities	872,612	1,533,233	61,475	2,467,320
Repairs and Maintenance	627,197	1,351,631	163,660	2,142,488
Contractual Services	6,276,912	3,612,526	6,712,012	16,601,450
Other Supplies and Expenses	778,747	511,274	192,671	1,482,692
Depreciation	1,576,638	3,575,166	256,189	5,407,993
Total Operating Expenses	<u>14,604,063</u>	<u>12,302,448</u>	<u>8,986,162</u>	<u>35,892,673</u>
Operating Income (loss)	<u>456,247</u>	<u>5,363,902</u>	<u>(741,157)</u>	<u>5,078,992</u>
Nonoperating revenue (expense)				
Interest Income	285,986	331,629	209,145	826,760
Interest Expense	(596,103)	(2,230,539)	(21,202)	(2,847,844)
Debt Subsidies	44,405	451,086	-	495,491
Total nonoperating (expenses) revenue	(265,712)	(1,447,824)	187,943	(1,525,593)
Income (loss) before transfers and capital grants	190,535	3,916,078	(553,214)	3,553,399
Transfers In	10,116	65,077	565,589	640,782
Transfers Out	(654,704)	(1,327,381)	(170,220)	(2,152,305)
Total transfers in (out)	<u>(644,588)</u>	<u>(1,262,304)</u>	<u>395,369</u>	<u>(1,511,523)</u>
Change in net assets	(454,053)	2,653,774	(157,845)	2,041,876
Total net assets, beginning of year	36,963,233	55,808,840	8,196,909	100,968,982
Total net assets, end of year	<u>\$ 36,509,180</u>	<u>\$ 58,462,614</u>	<u>\$ 8,039,064</u>	<u>\$ 103,010,858</u>

(1) Extracted from audited financial statements of the City.

City of Brockton, Massachusetts  
Statement of Revenues, Expenses, and Changes in Net Assets- Proprietary Funds  
June 30, 2010 (1)

	Enterprise funds			Total
	Water	Sewer	Other	
<b>Operating Revenues:</b>				
Charges for Services	\$ 13,406,566	\$ 18,504,572	\$ 8,135,327	\$ 40,046,465
Fees	364,312	382,619	267,481	1,014,412
Other	-	31,569	1,975	33,544
Total Operating Revenues	<u>\$ 13,770,878</u>	<u>\$ 18,918,760</u>	<u>\$ 8,404,783</u>	<u>\$ 41,094,421</u>
<b>Operating Expenses:</b>				
Salaries and Benefits	\$ 4,362,228	\$ 2,159,516	\$ 1,574,274	\$ 8,096,018
Utilities	1,129,227	1,845,650	60,281	3,035,158
Repairs and Maintenance	962,886	1,294,011	139,726	2,396,623
Contractual Services	5,063,942	3,062,592	6,520,897	14,647,431
Other Supplies and Expenses	384,449	408,579	265,862	1,058,890
Depreciation	1,284,982	2,605,191	278,624	4,168,797
Total Operating Expenses	<u>13,187,714</u>	<u>11,375,539</u>	<u>8,839,664</u>	<u>33,402,917</u>
Operating Income (loss)	<u>583,164</u>	<u>7,543,221</u>	<u>(434,881)</u>	<u>7,691,504</u>
<b>Nonoperating revenue (expense)</b>				
Interest Income	262,137	265,661	199,887	727,685
Interest Expense	(625,935)	(2,142,400)	(16,190)	(2,784,525)
Debt Subsidies	45,433	467,875	-	513,308
Total nonoperating (expenses) revenue	(318,365)	(1,408,864)	183,697	(1,543,532)
Income (loss) before transfers and capital grants	264,799	6,134,357	(251,184)	6,147,972
<b>Transfers</b>				
Transfers In	106,500	1,067,877	714,983	1,889,360
Transfers Out	(680,015)	(943,458)	-	(1,623,473)
Total transfers in (out)	<u>(573,515)</u>	<u>124,419</u>	<u>714,983</u>	<u>265,887</u>
Change in net assets	(308,716)	6,258,776	463,799	6,413,859
<b>Total net assets</b>				
Total net assets, beginning of year	37,271,949	49,550,064	7,733,110	94,555,123
Total net assets, end of year	<u>\$ 36,963,233</u>	<u>\$ 55,808,840</u>	<u>\$ 8,196,909</u>	<u>\$ 100,968,982</u>

(1) Extracted from audited financial statements of the City.

City of Brockton, Massachusetts  
Statement of Revenues, Expenses, and Changes in Net Assets- Proprietary Funds  
June 30, 2009 (1)

	Enterprise funds			Total
	Water	Sewer	Other	
<b>Operating Revenues:</b>				
Charges for Services	\$15,509,696	\$ 18,306,084	\$ 8,177,752	\$ 41,993,532
Fees	298,314	615,819	263,713	1,177,846
Other	-		4,368	4,368
<b>Total Operating Revenues</b>	<b>\$ 15,808,010</b>	<b>\$ 18,921,903</b>	<b>\$ 8,445,833</b>	<b>\$ 43,175,746</b>
<b>Operating Expenses:</b>				
Salaries and Benefits	\$ 5,195,091	\$ 3,241,918	\$ 2,831,296	\$ 11,268,305
Utilities	994,349	1,793,036	70,928	2,858,313
Repairs and Maintenance	918,442	1,616,708	40,751	2,575,901
Contractual Services	3,504,133	1,319,734	6,271,928	11,095,795
Other Supplies and Expenses	409,331	321,529	315,859	1,046,719
Depreciation	974,480	1,660,225	320,224	2,954,929
<b>Total Operating Expenses</b>	<b>11,995,826</b>	<b>9,953,150</b>	<b>9,850,986</b>	<b>31,799,962</b>
<b>Operating Income (loss)</b>	<b>3,812,184</b>	<b>8,968,753</b>	<b>(1,405,153)</b>	<b>11,375,784</b>
<b>Nonoperating revenue (expense)</b>				
Interest Income	140,844	194,772	171,335	506,951
Interest Expense	(660,668)	(2,180,921)	(18,503)	(2,860,092)
Debt Subsidies	46,555	484,226	-	530,781
<b>Total nonoperating (expenses) revenue</b>	<b>(473,269)</b>	<b>(1,501,923)</b>	<b>152,832</b>	<b>(1,822,360)</b>
<b>Income (loss) before transfers and capital grants</b>	<b>3,338,915</b>	<b>7,466,830</b>	<b>(1,252,321)</b>	<b>9,553,424</b>
Transfers In	191,713	419,203	871,709	1,482,625
Transfers Out	(530,681)	(688,745)	-	(1,219,426)
<b>Total transfers in (out)</b>	<b>(338,968)</b>	<b>(269,542)</b>	<b>871,709</b>	<b>263,199</b>
<b>Change in net assets</b>	<b>2,999,947</b>	<b>7,197,288</b>	<b>(380,612)</b>	<b>9,816,623</b>
<b>Total net assets, beginning of year</b>	<b>34,272,002</b>	<b>42,352,776</b>	<b>8,113,722</b>	<b>84,738,500</b>
<b>Total net assets, end of year</b>	<b>\$37,271,949</b>	<b>\$49,550,064</b>	<b>\$7,733,110</b>	<b>\$94,555,123</b>

(1) Extracted from audited financial statements of the City.

City of Brockton, Massachusetts  
Statement of Revenues, Expenses, and Changes in Net Assets- Proprietary Funds  
June 30, 2008 (1)

	Enterprise funds			Total
	Water	Sewer	Other	
<b>Operating Revenues:</b>				
Charges for Services	\$11,067,971	\$ 12,429,366	\$ 7,905,385	\$ 31,402,722
Fees	258,555	374,266	286,030	918,851
Other	-	33,879	-	33,879
Total Operating Revenues	<u>\$ 11,326,526</u>	<u>\$ 12,837,511</u>	<u>\$ 8,191,415</u>	<u>\$ 32,355,452</u>
<b>Operating Expenses:</b>				
Salaries and Benefits	\$ 3,695,574	\$ 1,784,582	\$ 1,999,794	\$ 7,479,950
Utilities	797,649	1,608,592	67,326	2,473,567
Repairs and Maintenance	662,127	845,631	56,580	1,564,338
Contractual Services	1,736,172	4,854,660	6,469,514	13,060,346
Other Supplies and Expenses	314,548	377,784	432,628	1,124,960
Depreciation	963,999	1,610,519	317,401	2,891,919
Total Operating Expenses	<u>8,170,069</u>	<u>11,081,768</u>	<u>9,343,243</u>	<u>28,595,080</u>
Operating Income (loss)	<u>3,156,457</u>	<u>1,755,743</u>	<u>(1,151,828)</u>	<u>3,760,372</u>
<b>Nonoperating revenue (expense)</b>				
Interest Income	154,299	162,186	163,661	480,146
Interest Expense	(509,358)	(2,231,233)	(120,632)	(2,861,223)
Debt Subsidies	47,411	499,939	-	547,350
Total nonoperating (expenses) revenue	(307,648)	(1,569,108)	43,029	(1,833,727)
Income (loss) before transfers and capital grants	2,848,809	186,635	(1,108,799)	1,926,645
<b>Transfers In</b>				
Transfers In	40,500	12,860	884,452	937,812
Transfers Out	(436,169)	(830,416)	-	(1,266,585)
Capital Grants	-	-	54,102	54,102
Total transfers in (out) and capital grants	<u>(395,669)</u>	<u>(817,556)</u>	<u>938,554</u>	<u>(274,671)</u>
Change in net assets	2,453,140	(630,921)	(170,245)	1,651,974
<b>Total net assets, beginning of year</b>				
	31,818,862	42,983,697	8,283,967	83,086,526
<b>Total net assets, end of year</b>				
	<u>\$34,272,002</u>	<u>\$42,352,776</u>	<u>\$8,113,722</u>	<u>\$84,738,500</u>

(1) Extracted from audited financial statements of the City.

## INDEBTEDNESS

### Authorization Procedure and Limitations

Bonds and notes are generally authorized on behalf of the City by vote of two-thirds of all the members of the city council. Provision is made for a referendum on the filing of a petition bearing the requisite number of signatures within twenty days of final passage on a loan order. Borrowings for certain purposes require state administrative approval. Temporary loans in anticipation of current revenues and in anticipation of federal and state grants may be made by the Treasurer with the approval of the Mayor.

### Debt Limit

General Debt Limit. The General Debt Limit of the City consists of a Normal Debt Limit and a Double Debt Limit. The Normal Debt Limit is 5 percent of the valuation of taxable property as last equalized by the State Department of Revenue. The City can authorize debt up to this amount without State approval. It can authorize debt up to twice this amount (the Double Debt Limit) with the approval of the State Municipal Finance Oversight Board consisting of the Attorney General, the State Treasurer, the State Auditor, and the Director of Accounts.

There are many categories of general obligation debt which are exempt from and do not count against the General Debt Limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes; emergency loans; loans exempted by special laws; certain school bonds, sewer bonds, solid waste disposal facility bonds and economic development bonds supported by tax increment financing; and subject to special debt limits, bonds for water (limited to 10 percent of equalized valuation), housing, urban renewal and economic development (subject to various debt limits), and electric, gas, community antenna television systems, and telecommunications systems (subject to separate limits). Revenue bonds are not subject to these debt limits. The General Debt Limit and the special debt limit for water bonds apply at the time the debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

Revenue Anticipation Notes. The amount borrowed in each fiscal year by the issue of revenue anticipation notes is limited to the tax levy of the prior fiscal year, together with the net receipts in the prior fiscal year from the motor vehicle excise and certain payments made by the Commonwealth in lieu of taxes. The fiscal year ends on June 30. Notes may mature in the following fiscal year, and notes may be refunded into the following fiscal year, to the extent of the uncollected, unabated current tax levy and certain other items, including revenue deficits, overlay deficits, final judgments and lawful unappropriated expenditures, which are to be added to the next tax levy, but excluding deficits arising from a failure to collect taxes of earlier years. (See "PROPERTY TAXATION - Taxation to Meet Deficits," above.) In any event, the period from an original borrowing to its final maturity cannot exceed one year.

### Types of Obligations

General Obligations. Massachusetts cities and towns are authorized to issue general obligation indebtedness of these types:

Serial Bonds and Notes. These are generally required to be payable in annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. A level debt service schedule, or a schedule that provides for a more rapid amortization of principal than level debt service, is permitted. The principal amounts of certain economic development bonds supported by tax increment financing may be payable in equal, diminishing or increasing amounts beginning within 5 years after the date of issue. The maximum terms of serial bonds and notes vary from one year to 40 years, depending on the purpose of the issue. The maximum terms permitted are set forth in the statutes. In addition, for many projects, the maximum term may be determined in accordance with useful life guidelines promulgated by the State Department of Revenue ("DOR"). Serial bonds and notes may be issued for the purposes set forth in the statutes. In addition, serial bonds and notes may be issued for any other public work improvement or asset not specifically listed in the Statutes that has a useful life of at least 5 years. Bonds or notes may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum applicable term measured from the date of the original bonds or notes and must produce present value savings over the debt service of the refunded bonds. Generally, the first required annual payment of principal of the refunding bonds cannot be later than the first principal payment of any of the bonds or notes being refunded thereby, however, principal payments made before the first principal payment of any of the bonds or notes being refunded thereby may be in any amount.

Serial bonds may be issued as “qualified bonds” with the approval of the state Municipal Finance Oversight Board composed of the State Treasurer, the State Auditor, the Attorney General and the Director of Accounts, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the Board. Qualified bonds may mature not less than 10 nor more than 30 years from their dates and are not subject to the amortization requirements described above. The State Treasurer is required to pay the debt service on qualified bonds and thereafter to withhold the amount of the debt service paid by the State from state aid or other state payments; administrative costs and any loss of interest income to the State are to be assessed upon the city or town.

Tax Credit Bonds or Notes. Subject to certain provisions and conditions, the officers authorized to issue bonds or notes may designate any duly authorized issue of bonds or notes as “tax credit bonds” to the extent such bonds and notes are otherwise permitted to be issued with federal tax credits or other similar subsidies for all or a portion of the borrowing costs. Tax credit bonds may be made payable without regard to the annual installments required by any other law, and a sinking fund may be established for the payment of such bonds. Any investment that is part of such a sinking fund may mature not later than the date fixed for payment or redemption of the applicable bonds.

Bond Anticipation Notes. These generally must mature within two years of their original dates of issuance but may be refunded from time to time for a period not to exceed five years from their original dates of issuance, provided that for each year that the notes are refunded beyond the second year they must be paid in part from revenue funds in an amount at least equal to the minimum annual payment that would have been required if the bonds had been issued at the end of the second year. For certain school projects, however, notes may be refunded from time to time for a period not to exceed seven years without having to pay any portion of the principal of the notes from revenue funds. The maximum term of bonds issued to refund bond anticipation notes is measured (except for certain school projects) from the date of the original issue of the notes.

Revenue Anticipation Notes. These are issued to meet current expenses in anticipation of taxes and other revenues. They must mature within one year but, if payable in less than one year, may be refunded from time to time up to one year from the original date of issue.

Grant Anticipation Notes. These are issued for temporary financing in anticipation of federal grants and state and county reimbursements. They must generally mature within two years, but may be refunded from time to time as long as the municipality remains entitled to the grant or reimbursement.

Revenue Bonds. Cities and towns may issue revenue bonds for solid waste disposal facilities and for projects financed under the Commonwealth’s Water Pollution Abatement or Drinking Water Revolving Loan Programs and for certain economic development projects supported by tax increment financing. In addition, cities and towns having electric departments may issue electric revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy.

## Debt Ratios

The following table sets forth the ratio of debt to estimated full valuation and per capita debt ratios at the end of the five most recent fiscal years. The table considers the principal amount of general obligation bonds of the City of Brockton only and does not deduct anticipated state grant payments applicable to the principal amount of outstanding bonds or debt that may be supported in whole or part (i.e. water, sewer and school debt) by non-tax revenue.

<u>Fiscal Year End</u>	<u>General Obligation Bonds Outstanding</u>	<u>Population (1)</u>	<u>Estimated Full Valuation (2)</u>	<u>Per Capita Debt</u>	<u>Ratio Debt to Estimated Full Valuation (2)</u>
2013	\$ 224,358,209 (3)	93,810	\$ 5,486,239,872	\$ 2,392	4.09 %
2012	235,938,232	93,810	5,634,634,091	2,515	4.19
2011	240,013,728	93,810	5,629,189,085	2,559	4.26
2010	236,249,982	93,810	5,868,201,889	2,518	4.03
2009	248,114,810	93,810	7,174,223,590	2,645	3.46

(1) 2010 Federal Census.

(2) Reflects local assessed valuations.

(3) Projected debt outstanding as of June 30, 2013.

**City of Brockton  
Direct Debt Summary  
Projected as of June 30, 2013**

Long Term Debt Outstanding:		
School (1)	\$ 23,040,000	
Water (2)	2,780,510	
General (3)	4,907,800	
Sewer (4)	1,976,690	
MWPAT (5)	94,633,209	
Pension Obligation Bonds ("POB") (6)	92,685,000	
Stadium (7)	3,235,000	
Clean Renewable Energy Bonds ("CREB") (8)	<u>1,100,000</u>	
Total Outstanding		\$ 224,358,209
Temporary Notes:		
Bond Anticipation Notes (9)		<u>7,000,000</u>
Total Direct Debt		<u>\$ 231,358,209</u>

- (1) The unpaid balance of school construction grants payable by the Authority for debt service on school bonds over the remaining terms of such bonds is estimated at \$13,573,502. \$15,701,000 of the outstanding school bonds is outside the debt limit. See "State School Building Assistance" above.
- (2) Expected payment from self-supporting enterprise. Outside the debt limit.
- (3) Includes golf course, library, land acquisition and planning debt. \$1,600,000 of the outstanding general bonds is outside the debt limit.
- (4) Expected payment from self-supporting enterprise. \$565,400 of the outstanding sewer bonds is outside the debt limit.
- (5) Expected payment from self-supporting enterprise. Bonds issued to Massachusetts Water Pollution Abatement Trust, for water and sewer projects. Gross amount does not reflect subsidies from the MWPAT. \$92,947,479 of the outstanding MWPAT bonds is outside the debt limit.
- (6) Outside the debt limit, taxable.
- (7) \$2,120,000 is taxable and outside the debt limit.
- (8) Outside the debt limit.
- (9) This Issue, payable June 13, 2014.

## Principal Payments by Purpose

The following table sets forth the projected principal payments by purpose on outstanding general obligation bonds of the City of Brockton projected as of June 30, 2013.

### City of Brockton, Massachusetts Bonded Debt Principal Payments by Purpose

Fiscal Year	School	Water	General	Sewer	MWPAT	POB	Stadium	CREB	Total
2014	\$ 3,325,375	\$ 369,125	\$ 656,525	\$ 323,975	\$ 5,937,600	\$ 1,235,000	\$ 620,000	\$ 100,000	\$ 12,567,600
2015	3,435,375	363,075	601,275	315,275	6,082,308	1,640,000	660,000	100,000	13,197,308
2016	3,592,375	361,760	597,000	308,865	6,134,331	2,150,000	660,000	100,000	13,904,331
2017	3,742,000	359,300	601,000	302,700	6,285,246	2,770,000	660,000	100,000	14,820,246
2018	1,544,875	357,250	582,000	265,875	6,333,170	3,375,000	130,000	100,000	12,688,170
2019	1,605,000	210,000	555,000	135,000	6,480,743	4,040,000	130,000	100,000	13,255,743
2020	1,670,000	210,000	480,000	135,000	6,525,741	4,760,000	125,000	100,000	14,005,741
2021	415,000	110,000	445,000	95,000	6,614,462	5,545,000	125,000	100,000	13,449,462
2022	315,000	110,000	190,000	95,000	6,741,401	6,395,000	125,000	100,000	14,071,401
2023	325,000	110,000	200,000	-	6,895,406	7,325,000	-	100,000	14,955,406
2024	335,000	110,000	-	-	6,958,242	8,330,000	-	100,000	15,833,242
2025	350,000	110,000	-	-	7,101,914	9,420,000	-	-	16,981,914
2026	360,000	-	-	-	6,097,991	10,595,000	-	-	17,052,991
2027	375,000	-	-	-	4,660,752	11,865,000	-	-	16,900,752
2028	390,000	-	-	-	2,482,008	13,240,000	-	-	16,112,008
2029	405,000	-	-	-	1,139,033	-	-	-	1,544,033
2030	420,000	-	-	-	812,660	-	-	-	1,232,660
2031	435,000	-	-	-	829,445	-	-	-	1,264,445
2032	-	-	-	-	257,579	-	-	-	257,579
2033	-	-	-	-	263,177	-	-	-	263,177
	<u>\$ 23,040,000</u>	<u>\$ 2,780,510</u>	<u>\$ 4,907,800</u>	<u>\$ 1,976,690</u>	<u>\$ 94,633,209</u>	<u>\$ 92,685,000</u>	<u>\$ 3,235,000</u>	<u>\$ 1,100,000</u>	<u>\$ 224,358,209</u>

## Debt Service Requirements

The following table shows the total debt service due on outstanding general obligation indebtedness of the City together with debt service subsidies expected to be received from the Massachusetts Water Pollution Abatement Trust and the Massachusetts School Building Authority.

### City of Brockton, Massachusetts Debt Service Requirements

Fiscal Year	Outstanding as of June 30, 2013		MWPAT Subsidy	MSBA Subsidy	Net Debt Service
	Principal	Interest			
2014	\$ 12,567,600	\$ 8,732,953	\$ (439,735)	\$ (2,597,546)	\$ 18,263,272
2015	13,197,308	8,285,879	(420,241)	(2,597,546)	18,465,400
2016	13,904,331	7,786,628	(353,958)	(2,597,546)	18,739,454
2017	14,820,246	7,234,800	(333,090)	(2,597,546)	19,124,410
2018	12,688,170	6,646,704	(285,336)	(1,061,106)	17,988,433
2019	13,255,743	6,159,056	(269,357)	(1,061,106)	18,084,336
2020	14,005,741	5,632,650	(222,683)	(1,061,106)	18,354,602
2021	13,449,462	5,071,142	(189,544)	-	18,331,060
2022	14,071,401	4,533,989	(166,413)	-	18,438,977
2023	14,955,406	3,964,733	(150,687)	-	18,769,453
2024	15,833,242	3,348,952	(106,955)	-	19,075,238
2025	16,981,914	2,686,923	(78,388)	-	19,590,450
2026	17,052,991	2,007,843	-	-	19,060,834
2027	16,900,752	1,279,393	-	-	18,180,145
2028	16,112,008	515,000	-	-	16,627,008
2029	1,544,033	105,048	-	-	1,649,081
2030	1,232,660	69,331	-	-	1,301,990
2031	1,264,445	36,110	-	-	1,300,555
2032	257,579	7,839	-	-	265,418
2033	263,177	2,632	-	-	265,809
Total	<u>\$ 224,358,209</u>	<u>\$ 74,107,604</u>	<u>\$ (3,016,386)</u>	<u>\$ (13,573,502)</u>	<u>\$ 281,875,924</u>

## Authorized Unissued Debt and Prospective Financing

The City has approximately \$88,063,916 in authorized unissued debt. Of this amount \$47,710,000 is authorized for pension obligation purposes. \$6,158,612 represents excess authorization for the construction of two elementary schools, to be rescinded. The remaining \$34,195,304 is authorized for various school remodeling (\$27,695,848), water (\$5,278,677), economic development (\$1,000,000), and sewer (\$220,779). The \$36 million school remodeling project has been approved to receive 80% state grant funding and the City expects its share of project costs to be approximately only \$7 million. The \$47,710,000 pension obligation bond authorization above represents the unissued balance of an original \$149,225,000 authorization for this purpose and will remain outstanding. However, the City does not intend to issue bonds against this balance, but there are no current plans to rescind the authorization.

## Overlapping Debt (1)

The City of Brockton is a member of Plymouth County, the Southeastern Regional Vocational School District and the Brockton Area Transit Authority. The following table sets forth the outstanding bonded debt, exclusive of temporary loans in anticipation of bonds or current revenue, of each overlapping entity, and the City of Brockton's estimated share of such debt and the fiscal 2013 dollar assessment for each.

	Bonded Debt as of 6/30/12 (1)	FY 2013 Dollar Assessment
Plymouth County (2)	\$ 3,300,000	\$116,997
Southeastern Regional Vocational School District (3)	6,102,000	2,741,616
Brockton Area Transit Authority (4)	-	2,000,246

(1) Omits debt of the Commonwealth.

(2) Source: Plymouth County Treasurer's Office. Assessment includes debt service and other County expenses assessed upon the City in proportion to its equalized valuation. Legislation enacted in 1997 abolished the county governments of Franklin and Middlesex counties as of July 1, 1997, with their assets, functions, debts and other obligations being assumed by the Commonwealth. The abolishment of the Middlesex County government was in part in response to a default by the county in the payment of general obligation notes of the county. The legislation also abolished the county governments of Hampden and Worcester counties as of July 1, 1998. Legislation enacted in 1998 abolished the county governments of Hampshire, Essex and Berkshire counties as of January 1, 1999, July 1, 1999 and July 1, 2000, respectively. The legislation requires the state secretary for administration and finance to establish a plan to recover the Commonwealth's expenditures for the liabilities and other debts assumed and paid by the Commonwealth on behalf of an abolished county. Unless these provisions are changed by further legislation, the state treasurer shall assess upon each city and town within the jurisdiction of an abolished county an amount not exceeding or equal to the county tax paid by each such city and town for the fiscal year immediately prior to the abolishment of the county (or two years prior in the case of Essex county) until such expenditures by the Commonwealth are recovered. It is possible that similar legislation will be sought to provide for the abolishment of county government in all the remaining counties

(3) Source: Treasurer's Office, Southeastern Regional-Vocational School District. Other District members are: East Bridgewater, Easton, Foxborough, Sharon, Stoughton and West Bridgewater.

(4) Source: Brockton Area Transit Authority.

## Coverage of Qualified Debt Service

The following table presents qualified debt service, projected state aid and the coverage ratio of total state aid to the City's outstanding State Qualified Bonds debt service. The table does not include debt of the Commonwealth.

Fiscal Year	Outstanding State Qualified Bonds Debt Service	Total State Aid (1)	Coverage Ratio Total State Aid to Qualified Debt Service
2014	\$ 734,633	\$ 177,955,864	242.24
2015	675,383	181,514,981	268.76
2016	662,483	185,145,281	279.47
2017	654,583	188,848,187	288.50
2018	597,183	192,625,150	322.56
2019	544,408	196,477,653	360.90
2020	451,408	200,407,206	443.96
2021	452,158	204,415,350	452.09
2022	452,158	208,503,657	461.13
2023	452,314	212,673,731	470.19
2024	451,751	216,927,205	480.19
2025	455,445	221,265,749	485.82
2026	453,195	225,691,064	498.00
2027	454,875	230,204,886	506.08
2028	456,000	234,808,983	514.93
2029	455,400	239,505,163	525.92
2030	454,200	244,295,266	537.86
2031	452,400	249,181,172	550.80
Total	<u>\$ 9,309,973</u>	<u>\$ 3,810,446,550</u>	

(1) Includes total state aid available for coverage. State aid is taken from the fiscal 2014 Governor's Budget and is increased at a rate of 2% each year thereafter. The State aid figures above no longer reflect school building assistance grants as such grants are no longer paid by the Commonwealth; they are now paid by the Massachusetts School Building Authority. Therefore, such payments no longer constitute "distributable aid" of the Commonwealth under the Qualified Bond Act.

## Contractual Obligations

Municipal contracts are generally limited to currently available appropriations. Contracts with specified purposes can be granted extensions by statutory authority but are also subject to maximum term limits. A city or town generally has authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interest, but only when funds are available for the first fiscal year; obligations for succeeding fiscal years are subject to availability and appropriation of funds. Municipalities have specific authority in relatively few cases to enter long-term obligations not subject to annual appropriation, including contracts for refuse disposal. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. The City may have implied authority to require long-term contracts to carry out authorized municipal functions, such as contracts to purchase water from private water companies. Pursuant to the Home Rule Amendment to the Massachusetts Constitution, cities and towns may also be empowered to make other contracts and leases.

Since October 1991, the City has contracted with independent vendors for the pick-up and disposal of residential trash. Currently, Browning Ferris Industries, Inc. services as the contract vendor through June 20, 2009, at a fixed price bid of \$6.2 million per year. Beginning on July 1, 2007, that price may be escalated by a component of the Consumer Price Index, with the annual escalation not to exceed 2.5% per year. The City extended the contract through December 2011. The City issued a formal procurement and three vendors responded. All priced bids were lower than the present cost and the City awarded the contract to Allied Waste through June 30, 2017 at a price savings in the first year of about \$1 million.

The contractor provides trash services for residents of five residential units or less. Commercial entities and residences of more than five units must contract independently. In the City contract residential units are restricted to the pickup of one 32 gallon barrel per week. In order to place more trash at the curb, residents must purchase specially marked trash bags, the cost of which is \$1.00 per bag, with 75 cents going to the trash contractor and 25 cents to the City. Residents also receive unlimited weekly recycling, weekly yard waste removal in season, and the pickup by appointment of bulky items and white goods. Provisions are also made for separate handling of household hazardous waste.

In the summer of 1998 the state authorized the City, through approval of a home rule petition enacted as Chapter 199 of the Acts of 1998, to enter into a contract for the operation and maintenance of the City's water and wastewater treatment plant for a period not to exceed twenty (20) years. By the provisions of the Act, in the spring of 1999, the City awarded the contract to Professional Services Group, Inc. dated as July 1, 2000, and in August of 2000, the contract was approved by the Mayor and City Council. Under the contract the City retains ownership of the plants, and the City is responsible for capital improvements. Electricity costs are on a "pass through" basis to the City up to an annual kilowatt hour's allowance, with the vendor responsible for costs beyond the allowance. Minor adjustments to the fixed contract operating costs are allowed to compensate for significant variations in the volume of water or wastewater treated. Future costs will be restricted to inflationary increases and to cost increases from changes in scope or law. Inflationary increases are governed by the Producer Price Index for Commercial Natural Gas for the natural gas portion of the price and by the PPI Finished Goods, excluding Food and Energy, for all other costs. Construction at the wastewater treatment plant also has impacted its operations. As a result, the City and vendor negotiated a contract amendment for adjustments to price and terms. This amendment was approved by the City Council in July 2007. The main elements of the amendment were to:

- (1) Increase the fixed fee by about 3%,
- (2) Provide separate price escalators for the chemicals, natural gas, labor, and all other costs, and
- (3) Eliminate the maximum annual electrical consumption limit during the construction period and a one year shakedown period.

The impact of this agreement was reflected in the FY08 budget and was anticipated in the present rate structure.

The City has also entered into a 20-year water supply contract for the purchase of its water. (See "City of Brockton, Massachusetts – Municipal Services - Water Supply"). Pursuant to special legislative authority, the City's payment obligations under the contract constitute general obligations of the City which are not subject to annual appropriation. Nonetheless, \$5,309,375 was appropriated for fiscal 2011 and \$5,571,250 was appropriated for fiscal 2012 for the full cost of the year's obligation to be offset with water revenues. The amount appropriated for this contract in fiscal 2013 was \$6,111,000.

## **RETIREMENT PLAN**

The Massachusetts General Laws provide for the establishment of contributory retirement systems for state employees, for teachers and for county, city and town employees other than teachers. Teachers are assigned to a separate statewide teachers' system and not to the city and town systems. For all employees other than teachers, this law is subject to acceptance in each city and town. Substantially all employees of an accepting city or town are covered. If a town has a population of less than 10,000 when it accepts the statute, its non-teacher employees participate through the county system and its share of the county cost is proportionate to the aggregate annual rate of regular compensation of its covered employees. In addition to the contributory systems, cities and towns provide non-contributory pensions to a limited number of employees, primarily persons who entered service prior to July 1, 1937 and their dependents. The Public Employee Retirement Administration Commission ("PERAC") provides oversight and guidance for and regulates all state and local retirement systems.

The obligations of a city or town, whether direct or through a county system, are contractual legal obligations and are required to be included in the annual tax levy. If a city or town, or the county system of which it is a member, has not established a retirement system funding schedule as described below, the city or town is required to provide for the payment of the portion of its current pension obligations which is not otherwise covered by employee contributions and investment income. "Excess earnings," or earnings on individual employees' retirement accounts in excess of a predetermined rate, are required to be set aside in a pension reserve fund for future, not current, pension liabilities. Cities and towns may voluntarily appropriate to their system's pension reserve fund in any given year up to five percent of the preceding year's tax levy. The aggregate amount in the fund may not exceed ten percent of the equalized valuation of the city or town.

If a city or town, or each member city and town of a county retirement system, has accepted the applicable law, it is required to annually appropriate an amount sufficient to pay not only its current pension obligations, but also a portion of its future pension liability. The portion of each such annual payment allocable to future pension obligations is required to be deposited in the

pension reserve fund. The amount of the annual city or town appropriation for each such system is prescribed by a retirement system funding schedule which is periodically reviewed and approved by PERAC. Each system's retirement funding schedule is designed to reduce the unfunded actuarial pension liability of the system to zero by not later than June 30, 2030, with annual increases in the scheduled payment amounts of not more than 4.5%. The funding schedule must provide that payment in any year if the schedule is not less than 95 percent of the amount appropriated in the previous fiscal year. City, town and county systems which have an approved retirement funding schedule receive annual pension funding grants from the Commonwealth for the first 16 years of such funding schedule.

Pursuant to Chapter 188 of the Acts of 2010, a system (other than the state employee's retirement systems and the teachers' retirement system) which conducts an actuarial valuation as of January 1, 2009, or later, may establish a retired schedule which reduces the unfunded actuarial liability to zero by no later than June 30, 2040, subject to certain conditions. If the schedule is so extended and a later updated valuation allows for the development of a retired schedule with reduced payments, the retired schedule shall be adjusted to provide that the appropriation for each year shall not be less than that for such year under the prior schedule, thus providing for a shorter schedule rather than reduced payments.

In 2010, the Board of the Contributory Retirement System of the City of Brockton voted to extend the funding schedule to the year 2030 (not 2040). Previously, the board had adopted a schedule to fully fund the system by 2019 (as opposed to the previous statutory requirement of 2028). At the same time, the board voted to incorporate actuarial valuing of assets, rather than market, also known as asset smoothing.

The actuarial value of assets is determined by projecting the market value of assets as of the beginning of the prior plan year with the assumed rate of return during that year (8.0%) and accounting for deposits and disbursements with interest at the assumed rate of return. An adjustment is then applied to recognize the difference between the actual investment return and expected return over a five year period. This preliminary actuarial value is not allowed to differ from the market value of assets by more than 20%. The calculation of the actuarial value of assets as of January 1, 2011 is presented in the table below, from the report "City of Brockton Retirement System" from Buck Consultants, LLC as of the same date, the date of the most recent valuation.

#### Actuarial Value of Assets

(1)	Market value at January 1, 2010	\$308,238,475
(2)	2010 Contributions	\$19,693,476
(3)	2010 Payments	(\$35,406,443)
(4)	Net interest adjustment at 8.0% on (1), (2), and (3) to December 31, 2010	\$24,030,559
(5)	Expected market value on January 1, 2011	\$316,556,068
	(1) + (2) + (3) + (4)	
(6)	Actual market value on January 1, 2011	\$331,045,255
(7)	2010 (Gain)/Loss	(\$14,489,187)
(8)	80% of 2010 (Gain)/Loss	(\$11,591,350)
(9)	2009 (Gain)/Loss	(\$35,302,666)
(10)	60% of 2009 (Gain)/Loss	(\$21,181,600)
(11)	2008 (Gain)/Loss	\$143,436,890
(12)	40% of 2008 (Gain)/Loss	\$57,374,756
(13)	2007 (Gain)/Loss	\$1,008,727
(14)	20% of 2007 (Gain)/Loss	\$201,745
	Actuarial value on January 1, 2011, (6) + (8) + (10) + (12) + (14)	
(15)	but not less than 80% nor greater than 120% of (6)	\$355,848,807
(16)	Ratio of actuarial value to market value	107.49%
(17)	Actuarial Value Return for 2009	18.58%
(18)	Actuarial Value Return for 2010	2.16%
(19)	Market Value Return for 2009	21.59%
(20)	Market Value Return for 2010	12.82%

City, town and county systems may choose to participate in the Pension Reserves Investment Trust Fund (the "PRIT" Fund), which receives additional state funds to offset future pension costs of participating state and local systems. If a local system participates in the PRIT Fund, it must transfer ownership and control of all assets of its system to the Pension Reserves Investment Management Board, which manages the investment and reinvestment of the PRIT Fund. Cities and towns with systems participating in the PRIT Fund continue to be obligated to fund their pension obligations in the manner described above. The additional state appropriations to offset future pension liabilities of state and local systems participating in the PRIT Fund are required to total at least 1.3% of state payroll. Such additional state appropriations are deposited in the PRIT Fund and shared by all participating systems in proportion to their interest in the assets of the PRIT Fund as of July 1, for each fiscal year. The City has not participated in the PRIT.

Cost-of-living increases for each local retirement system may be granted and funded only by the local system, and only if it has established a funding schedule. Those statutory provisions are subject to acceptance by the local retirement board and approval by the local legislative body, which acceptance may not be revoked. The City voted to accept the cost-of-living funding responsibility, the cost impact of which is incorporated in the funding.

As of the January 1, 2011 valuation, there were 1,278 retired and disabled retired persons and surviving beneficiaries receiving pensions which totaled \$35.4 million under the contributory plan. The trend in annual required contributions of the City for each retirement system is presented below.

<u>Fiscal Year</u>	<u>Contributory</u>	<u>Non-Contributory</u>
2014 (budgeted)	\$16,004,577	\$17,290
2013	15,408,092	15,963
2012	12,551,287	29,029
2011	10,115,288	55,900
2010	9,767,584	96,433

The decline in assessment contributions from fiscal year 2006 to fiscal year 2007 occurred. In November of 2005, pursuant to the provisions of Section 4 of Chapter 483 of the Acts of 2004 (the Act), the City funded a portion of its unfunded accrued actuarial liability (UAAL) through the issuance of pension obligation bonds. The City sold \$101,515,000 in Federally Taxable Pension Obligation Bonds dated November 23, 2005, at a true interest cost (TIC) of 5.512%. According to a Plan of Finance described below, on November 30, 2005, the City paid \$100 million in net bond proceeds to the Retirement System, of which \$3,143,836 was applied to the unpaid balance of the City's 2006 assessment of \$17,597,103, with the balance of \$96,856,164 being applied to a portion of the City's share of the Retirement System's UAAL. None of the proceeds of the City's pension bonds were applied for the benefit of any other entity participating in the System; there are three other employers in the System.

As required by Section 4 of Chapter 483 of the Acts of 2004 (the Act) and guidelines issued by the Executive Office for Administration and Finance (the "EOAF") of the Commonwealth of Massachusetts, the City submitted a financial plan (the "Plan") to EOAF providing for the funding of a significant portion of the City's unfunded pension liability with \$100,000,000 of proceeds of the Bonds. The City believes that the Plan takes advantage of the potential benefits and minimizes the potential risks of issuing the bonds in a manner that is fiscally prudent and in the best financial interest of the City. The Plan was approved by the Commonwealth's Secretary for Administration and Finance on November 9, 2005.

According to the Retirement Board's then consulting actuary, Buck Consultants, the UAAL of the Retirement System as of November 30, 2005 was estimated to be \$146,225,000, of which approximately \$137,900,000 constituted the City's share, with the balance belonging to the other independent participants of the system. The deposit of \$100,000,000 of pension obligation bonds net proceeds into the Retirement System in November, 2005 eliminated all but a little over 10% of the City's share of the estimated UAAL of the Retirement System. The City will pay annual debt service on the pension obligation bonds in lieu of the annual payments to the Retirement System that would otherwise be required under the previous funding schedule on that portion of its estimated UAAL. The difference between the annual debt service on the pension obligation bonds and the payments to the Retirement System, based on an actuarial schedule which assumes 8.0% investment return and 4.75% rate of salary increase, that would otherwise be required to amortize that portion of the City's unfunded pension liability is expected over the life of the bonds, to result in savings to the City. This financial benefit will occur if over the life of the pension obligation bonds the Retirement System is able to earn a rate on its investment which meets or exceeds the TIC of 5.512% on the pension obligation bonds. In accordance with the EOAF guidelines, debt service on the pension obligation bonds has been structured to produce no savings in the first five years and annual savings in approximately equal amounts thereafter when compared to a pro forma funding schedule that

would otherwise amortize the City's unfunded liability through 2028 with an increase in the annual payments of 4.5% each year, the slowest amortization permitted by law.

Any future variation in actual experience from actuarial assumptions may result in additional UAAL (and amortization payments) or an overfunding of the City's unfunded actuarial liability (and credits). Based on the historic investment performance of the Retirement System and certain other factors, the City reasonably expects that actual experience will be better than assumed in the Plan. The City recognizes, however, that the actual experience of the Retirement System could be worse than assumed in the Plan. In fact, in calendar year 2008, that did occur. At January 1, 2009, compared to January 1, 2008, for the total plan, the Total Actuarial Accrued Liability had increased from \$437.1 million to \$462.1 million, while the market value of the system assets had decreased from \$392.2 million to \$267.5 million, resulting in a funded ratio decreasing from 89.7% to 57.9%.

As of January 1, 2010, the system's actuarial liability had increased to \$477.5 million, an increase of only 3.3%. Also as of January 1, 2010 the market value of the plan's assets had increased by 15.2% to \$308.2 million. The funded ratio had improved from 57.9% to 64.6%. However, during 2010 the Retirement Board voted to take advantage of legislation and to stretch out the funding schedule to 2030, an increase from the previous schedule of 10 years, but only 2 years more than the previous statutory requirement of 2028, and two years less than the new statutory requirement of 2040. In addition, the Board voted to adopt "Actuarial Asset" valuation as previously explained. The result of this, as can be seen on the previous table, was to increase asset values from \$308.2 million to \$363.9 million and improve the funding ratio to 76.2%.

As of January 1, 2011, the system's actuarial liability had increased to \$492.5 million, an increase of only 3.1%. Also as of January 1, 2011 the actuarial value of the plan's assets had decreased to \$355 million and the funded ratio decreased from 76.2% to 72.3%.

The following table depicts progress toward fully funding the system. The statistics are from reports submitted by the Retirement System's actuary. The statistics represent the System as a whole, including other participants such as the Brockton Housing Authority. The City represents about 87.3% of the System. None of the proceeds of the City's pension bonds were applied for the benefit of any other entity participating in the System, and future valuations will reflect that fact.

#### FUNDING STATUS

Valuation Date	Value of Assets*	Accrued Liability	Unfunded Accrued Liability	Unfunded Funded Ratio
1/1/11	\$355,848	\$492,456	\$136,607	72%
1/1/10	363,861	477,471	113,609	76
1/1/09	267,470	462,148	194,678	58
1/1/08	392,206	437,123	44,917	90
1/1/07	375,863	421,211	45,348	89
1/1/06	346,312	399,505	53,193	87
1/1/05	233,724	376,361	42,638	62
1/1/04	208,286	359,825	151,359	58
1/1/02	191,921	326,280	134,354	59
1/1/01	198,329	297,019	98,690	67
1/1/00	187,033	283,821	96,788	66
1/1/99	162,473	275,385	112,912	59
1/1/97	121,916	237,653	115,737	51
1/1/96	107,355	195,407	88,052	55
1/1/95	88,916	204,034	115,118	44
1/1/93	78,879	182,994	104,115	43

\*Market value through 1/1/09, actuarial value thereafter.

The City has not made a payment into the Pension Reserve Fund established by the Plan of Finance referenced above. The payment into the fund is required only in the event of gains against the plan. During calendar year 2006 the System experienced an actuarial gain of about \$6.5 million, but the City did not lower its fiscal year 2008 payment on the funding schedule in order to benefit from that gain, so no budgetary savings occurred. No budgetary savings during fiscal year 2007 through 2013 occurred, so no payments have been made.

The City may take advantage of the pension extension which was passed as part of the Municipal Relief Act of 2010 which provides that a system (other than the state employees' retirement system and the teachers' retirement system) which conducts an actuarial valuation as of January 1, 2009, or later, may establish a revised schedule which reduces the unfunded actuarial liability to zero by not later than June 30, 2040, subject to certain conditions. If the schedule is so extended under such provisions and a later updated valuation allows for the development of a revised schedule with reduced payments, the revised schedule shall be adjusted to provide that the appropriation for each year shall not be less than that for such year under the prior schedule, thus providing for a shorter schedule rather than reduced payments. As mentioned previously, the City has extended its funding schedule to 2030.

An update of the January 1, 2011 valuation report was conducted as of January 1, 2012, and according to the update, the system's actuarial accrued liability had increased to an estimated \$526.2 million, an increase of 6.8% at January 1, 2012, with an estimated actuarial value of plan assets of \$342 million, and funded ratio decreasing from 72.3% to approximately 65.0%. Half of this change is attributable to a small market loss, and the other half from mortality assumptions. The next valuation as of January 1, 2014, will capture the strong market results of 2012 and should show improvements.

### **OTHER POST EMPLOYMENT BENEFITS**

In addition to providing pension benefits, the City provides the majority of its retired employees with modest life insurance benefits at a cost of less than \$50 per year per retiree, and with payments for a portion of their health care insurance costs. Both of these benefits are offered pursuant to the provision of Massachusetts General Laws Chapter 32B. The City offers twelve different health insurance plan options, which are administered through two different health care providers, with the City actually self-insuring. Benefits are paid by the City on a "pay as you go" basis. The annual amounts needed to fund the City's group life and health insurance costs for retirees have escalated from less than \$6 million in fiscal year 1997 to a budget of almost \$16.93 million in fiscal 2013.

In an attempt to mitigate this cost escalation, in December of 2001, the City adopted Section 18 of M.G.L. Ch. 32B. This section provides, by local option, that all retirees from public employment who are eligible to receive Medicare benefits must enroll in Medicare parts A and B in order to receive the municipality's health care benefits. The section also provides that the public employer must offer a Medicare extension plan which provides benefits of comparable actuarial value to those offered prior to the adoption of Section 18, and the employer must pay the amount of any penalty due to the Social Security Administration for a retiree who is enrolling in Medicare subsequent to the date when he was eligible to do so. More than one-fourth of the City's approximately 2,600 pensions who are receiving health benefits are not eligible for Medicare by failing to achieve one or both of the tests of age 65 and 40 quarters of Medicare taxes paid. The remaining three-fourths are now enrolled in Medicare A and B and one of the City's Medicare extension plans. Prior to the City's adoption of M.G.L. Chapter 32B Section 18, only one-third of the City's pensioners were enrolled in Medicare. When the City adopted Section 18, effective July 1, 2002, it began to reimburse retirees for 75% of the cost of Medicare Part B. Even so, by the adopting of Section 18, the City achieved annual savings in fiscal 2008 of about \$6 million. This savings amount will grow over time as the penalty requirement is eliminated, and as employees retire in the future. Since 1987 all newly hired or rehired employees have paid the Medicare Tax, with the City matching, and so all of these employees will be Medicare eligible. Moreover, effective July 1, 2006, the City ceased to reimburse its current retirees for any portion of the Part B cost, except for fewer than 200 retirees whose incomes were 200% or less than the federal poverty rate, for whom the City continued to reimburse 75% of the cost. This decision also saved more than \$1.0 million in cost in each year since 2007. In July of 2006, the City bargained with each of its employees unions the proposal that no future Medicare B reimbursement would be provided to them upon their retirement. Unions representing employees have so agreed.

All of the City's employees currently pay 25% of the cost of the funding rate of health insurance plans, except for slightly more than 100 enrolled in the most expensive indemnity plan, who pay 30%. This percentage has been in effect since July 1, 2003, when it was increased from 20%, the rate which had been in effect for ten years. Effective July 1, 2004, almost all retirees also contribute 25% to the cost of their City health insurance plan. This contribution rate represented an increase from either 10% or 15%, depending on the plan. A few retirees were allowed to retain lower contribution rates because their incomes are 200% or less than the federal poverty rate.

The Governmental Accounting Standards Board ("GASB") promulgated its Statement Nos. 43 and 45, which will require public sector entities to report the future costs of these non-pension, post-employment benefits in their financial statements. These accounting standards do not require pre-funding the payment of these costs as the liability for such costs accrues, but the basis applied by the standard for measurement of costs and liabilities for these benefits is conservative if they continue to be funded on a pay-as-you-go basis and will result in larger yearly cost and liability

accruals than if the cost of such benefits were pre-funded in a trust fund in the same manner as traditional pension benefits. Cities and towns that choose to self-insure all or a portion of the cost of the health care benefits they provide to employees and retirees may establish a trust fund for the purpose of paying claims. In addition, cities and towns may establish a trust fund for the purpose of pre-funding other post-employment benefits liability in the same manner as traditional pension benefits.

The City is required to implement the new GASB reporting requirement for other post-employment requirement for other post-employment benefits. The City engaged Buck Consultants to perform its second OPEB valuation pursuant to the GASB requirements. The results are portrayed below using only the model for no pre-funding. The City has not adopted a funding schedule.

**Schedule of Funding Progress – Assumed interest rate of 4% in 2008 and 2012 & 4.25% in 2010**

	(a)	(b)	(b)-(a)	(a)/(b)	(c)	[(b)-(a)]/(c)
Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAL)	Annual Funded Ratio	Covered Payroll	UAL as Percentage of Covered Payroll
June 30, 2012	\$0	\$504.9 million	\$504.9 million	0%	\$173.4 million	291.2%
June 30, 2010	0	693.6 million	693.6 million	0	171.1 million	405.4
June 30, 2008	0	635.2 million	635.2 million	0	147.1 million	431.9

The tables below show funding schedules for selected fiscal years under both pre-funding and no-funding models.

Fiscal Year Ending In	Normal Cost*	Amortization of UAL*	ARC*	Expected Benefit Payments
2012	\$8,297,273	\$17,726,824	\$26,024,097	\$16,106,912
2013	8,670,650	18,258,629	26,929,279	16,938,232
2014	9,060,829	18,806,388	27,867,217	18,207,902
2015	9,468,566	19,370,580	28,839,146	19,197,491
2016	9,984,651	19,951,697	29,846,348	20,156,178

\*Assumed Full Prefunding Interest Rate of 7.5%.

Fiscal Year Ending In	Normal Cost*	Amortization of UAL*	ARC*	Expected Benefit Payments
2012	\$18,848,034	\$19,292,988	\$38,141,022	\$16,106,912
2013	19,696,196	20,187,384	39,883,580	16,938,232
2014	20,582,525	21,103,300	41,685,825	18,207,902
2015	21,508,739	22,054,099	43,562,838	19,197,491
2016	22,476,632	23,044,036	45,520,668	20,156,178

\*Assumed Pay-As-You-Go Interest Rate of 4.0%.

**OPEB Pay-As-You-Go Health Insurance**

Fiscal Year	OPEB Pay As You Go Budget
2013	\$16,938,232
2012	22,317,826
2011	20,173,835
2010	20,808,583
2009	15,808,378
2008	15,241,972

The source of all of the above tabular information is from the reports of the City's actuaries.

## STATUS OF UNION CONTRACTS

The City employs approximately 4,250 full-time and part-time workers, 3,522 of whom are employed at the school department, 191 at the police department, 186 at the fire department, 111 at the public works department and the balance of 216 persons in various other departments of the City. City employees (other than managerial and confidential employees) are entitled to join unions and to bargain collectively on questions of wages, hours and other terms and conditions of employment. Approximately 4,159 City employees are represented by unions including employees of the school, police, fire, public works and various other departments. The following are the bargaining units for City employees:

Union	Expiration Date (1)	Approximate Number of Employees
<b>City:</b>		
Brockton Association of Engineers, Technicians and Inspectors	6/30/2013	22
Brockton Building and Construction Trades Council	6/30/2013	9
Brockton City Employees Union	6/30/2013	41
Brockton City Hall Administrative Services Association	6/30/2013	65
Brockton Department Heads' Association - SEIU Local #888	6/30/2013	12
Brockton Laborers' Local #1162	6/30/2013	58
Brockton Laborers' Local #1162 - Water/Sewer	6/30/2013	46
Brockton Police Association	6/30/2010	131
Brockton Police Supervisors' Union	6/30/2013	38
Brockton Public Library Association - Full Time	6/30/2013	16
Brockton Public Library Association - Part Time	6/30/2013	16
Fire - Local #144	6/30/2010	183
<b>School:</b>		
Brockton Education Association	6/30/2014	1391
Brockton School Custodians Association	6/30/2013	122
Independent Brockton Admin. Assistants & Technical Employee Assoc - IBAA & TEA	6/30/2013	89
International Brotherhood of Police Officers Local 566	6/30/2013	10
Brockton Food Service SEIU, Local 888	6/30/2013	149
Brockton Education Paraprofessional Association	6/30/2013	350
Principals & Associate Principals	6/30/2013	28
Central Office Administration	6/30/2013	23
Monitor Teacher Assistants	6/30/2013	113
Non-Union	6/30/2013	1202
School Year Non-Union	6/30/2013	19
School Lunch Aides	6/30/2013	26
<b>Total:</b>		4159

(1) Expired contracts are currently in negotiations.

## LITIGATION

At present there are various cases pending in various courts throughout the Commonwealth where the City of Brockton is a defendant. In the opinion of the City Solicitor for the City of Brockton, none of the pending litigation is likely to result, either individually or in the aggregate, in final judgments against the City that would materially affect its financial position.

CITY OF BROCKTON, MASSACHUSETTS  
/s/ Martin Brophy, Treasurer

May 30, 2013



**CITY OF BROCKTON, MASSACHUSETTS**

Basic Financial Statements and  
Required Supplementary Information

June 30, 2012

(With Independent Auditors' Report Thereon)

## CITY OF BROCKTON, MASSACHUSETTS

### Table of Contents

	<b>Page(s)</b>
Independent Auditors' Report	1 – 2
Management's Discussion and Analysis	3 – 17
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets	18
Statement of Activities	19
Fund Financial Statements:	
Balance Sheet – Governmental Funds	20
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	21
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	22
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	23
Statement of Net Assets – Proprietary Funds	24
Statement of Revenues, Expenses, and Changes in Net Assets – Proprietary Funds	25
Statement of Cash Flows – Proprietary Funds	26
Statement of Net Assets – Fiduciary Funds	27
Statement of Changes in Net Assets – Fiduciary Funds	28
Notes to Basic Financial Statements	29 – 58
<b>Required Supplementary Information</b>	
Budgetary Comparison Schedule – General Fund	59
Notes to Required Supplementary Information	60 – 61
Schedules of Funding Progress and Contributions from Employers	62



KPMG LLP  
Two Financial Center  
60 South Street  
Boston, MA 02111

## Independent Auditors' Report

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

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

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

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

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



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

KPMG LLP

March 25, 2013

## CITY OF BROCKTON, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2012

(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, 2012.

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

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

#### Financial Highlights

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

#### Overview of the Financial Statements

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

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

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

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

## CITY OF BROCKTON, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2012

(Unaudited)

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

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

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

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

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

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

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

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

## CITY OF BROCKTON, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2012

(Unaudited)

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

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

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

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

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

#### **Government-Wide Financial Analysis**

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

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

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

**CITY OF BROCKTON, MASSACHUSETTS**

Management's Discussion and Analysis

June 30, 2012

(Unaudited)

**Condensed Statement of Net Assets**

(In thousands)

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

**Total Net Assets**

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

**Governmental Activities – Assets**

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

**Governmental Activities – Liabilities**

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

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

## CITY OF BROCKTON, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2012

(Unaudited)

#### ***Business Type Activities – Assets***

For business type activities, there was an increase in net assets of \$3.7 million. Current and other assets decreased by \$1.0 million, while capital assets increased by \$1.4 million, and total assets increased by \$313 thousand. The decrease in current and other assets was due primarily to the decrease in the recognition of intergovernmental receivables related to the major ongoing investment in and upgrade of the wastewater and water treatment plant. The increase in capital assets is due to the City's continued investment in capital spending that has been funded with borrowings from the Massachusetts Water Pollution Abatement Trust (MWPAT). In 2012, additions to business type activities capital assets totaled \$34.4 million, which is reflected in construction in progress, buildings, machinery and equipment and infrastructure. The work, when completed, will have improved the processing capability and increased the throughput capacity of the plant.

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

Business type activities liabilities decreased by \$3.4 million. There was an increase of \$1.4 million in other liabilities and a decrease of \$4.8 million in long-term debt outstanding. The decrease of the long-term debt was the result of yearly required debt service payments exceeding new issuances.

#### ***Governmental Activities – Statement of Activities***

Gross expenses for governmental activities were \$371.6 million for fiscal year 2012. This reflected a decrease of \$1.6 million, or less than 1.0%. Included in this net decrease is the City's recognition of \$23.3 million of additional expense across all category of governments related to the increase in the City's OPEB net obligation.

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

In assessing the City's revenue adequacy to finance governmental activities, it is important to acknowledge the criticality of payments from outside agencies, especially from state and federal programs. Total revenues for governmental activities were \$359.7 million. Of this total almost \$193.8 million, or 53.8%, is from operating/capital grants contributions as well as charges for services, which is mainly from state and federal aid. Further, the City received \$35.1 million in intergovernmental aid that is classified as general revenue. An additional 30.0% of the total is derived from the City's property tax. The severe constraints on the City's revenue flexibility to pay for governmental activities is demonstrated by the fact that almost 90% of its revenues are obtained from either intergovernmental sources over which the City has no control, or from the property tax, a source whose growth is limited by state law.

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

## CITY OF BROCKTON, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2012

(Unaudited)

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

#### *Business Type Activities – Statement of Activities*

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

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

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

**CITY OF BROCKTON, MASSACHUSETTS**

Management's Discussion and Analysis

June 30, 2012

(Unaudited)

**Condensed Statement of Changes in Net Assets**  
(In thousands)

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

## CITY OF BROCKTON, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2012

(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, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the fiscal year 2012, the City's governmental funds reported combined fund balances of approximately \$94.6 million, a decrease of approximately \$9.4 million, or 9.0%, in comparison with the prior year. The general fund balance decreased by \$4.2 million, from \$77.8 million to \$73.6 million, the school roof repairs fund decreased by \$6.8 million, from \$220 thousand to (\$6.6) million and the combined fund balances for all the other funds increased by \$1.5 million, from \$26.0 million to \$27.6 million.

In assessing these balances, it is important to note that the "Balance Sheet – Governmental Funds" does not include capital assets or bonded indebtedness. Please refer to the "Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities" and the "Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets." These reconciliations will demonstrate that essentially the City's decrease in fund balances of \$9.4 million, compared to its decrease in net assets of \$11.5 million, a difference of \$2.1 million, is explained largely by the following factors:

1. \$900 thousand – the positive effect of revenue accruals.
2. \$19.6 million – the positive effect of the amount by which capital assets was increased, net of depreciation expense.
3. \$900 thousand – the amortization effect of the pension asset in the statement of activities, which is not included in the operating statement of the governmental funds.
4. \$22.3 million – the negative effect of increases in other liabilities, primarily OPEBs, which did not require the use of current resources.
5. \$2.6 million – the negative effect of the collection of the long-term intergovernmental receivable that is recorded as revenue in the governmental funds.
6. \$450 thousand – the negative effect of the amount by which the amortization of deferred losses on refundings and bond issue costs exceed bond premiums.
7. \$1.9 million – the positive effect of the amount by which the repayment of bond principal are expenditures in the governmental funds but reduce long-term liabilities in the statement of net assets.

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

## CITY OF BROCKTON, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2012

(Unaudited)

constitutes "restricted for" fund balance, which are amounts the use of which is subject to constraints imposed by external parties, including creditors, grantors, and laws and regulations of other governments, or imposed by City Charter or enabling legislation. \$7.0 million constitutes "committed to" fund balance, amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. For the City, this formal action takes the form of statutes, which are passed by the City Council and approved by the Mayor. \$19.1 million constitutes "assigned to" fund balance, amounts that are constrained by the City's intent for use for specific purposes, but are considered neither restricted nor committed. \$22.7 million constitutes "unassigned" fund balance, amounts in the general fund that are not otherwise constrained for a specific purpose more narrow than the general operations of the City.

The general fund is the chief operating fund of the City. Total fund balance was approximately \$73.6 million, a decrease of \$4.2 million. This decrease in fund balance was largely driven by a deficiency of revenues and other financing sources over expenditures and other financing uses.

As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 9.5% of total general fund expenditures, while total fund balance represents 24.0% of that same amount.

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

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

### **Proprietary Funds**

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

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

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

## CITY OF BROCKTON, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2012

(Unaudited)

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

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

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

#### **Budgetary Highlights**

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

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

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

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

**CITY OF BROCKTON, MASSACHUSETTS**

Management's Discussion and Analysis

June 30, 2012

(Unaudited)

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

As a result of the revenue and expenditure positive variances, the City's fiscal year 2012 general fund operations estimated to create free cash of approximately \$11.7 million to be used in the FY 2013 budget.

**Capital Assets and Debt Administration**

**Capital Assets** – The City's investment in capital assets for its governmental and business-type activities as of June 30, 2012 amounted to approximately \$374.1 million (net of accumulated depreciation). This investment in capital assets includes land, land improvements, construction-in-progress, buildings, machinery and equipment, infrastructure, and historical works of art. The total increase in the City's investment in capital assets of \$20.9 million for fiscal year 2012 represented an increase of 5.9%. Capital assets for governmental activities increased by \$19.6 million, or 11.5%, while capital assets for business-type activities increased by \$1.4 million, or less than 1%. The increase in capital assets for business-type activities was primarily caused by construction in progress, both in water and sewer enterprise funds, but especially for the project to upgrade the water and sewer treatment plants. The increase in capital assets for governmental activities is the result of capital additions exceeding depreciation. With the completion of construction activities for two schools in FY 2012, the City has started an approximately \$35.8 million Green Repair project to rehab several school roofs, boilers and windows.

Major capital assets included the following:

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

**CITY OF BROCKTON, MASSACHUSETTS**

Management's Discussion and Analysis

June 30, 2012

(Unaudited)

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

	<b>Outstanding Debt</b> (In thousands)					
	<b>Governmental activities</b>		<b>Business-type activities</b>		<b>Total</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
General obligation bonds, net	\$ 129,790	131,393	110,558	115,369	240,348	246,762
Total	\$ 129,790	131,393	110,558	115,369	240,348	246,762

The overall net increase is attributable to the following factors:

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

Total long-term debt of the City represents a claim of about 64.2% of the City's total capital assets, and a claim of about 35.6% of the City's total assets. As a percentage of the fair value of taxable property in the City, the long-term debt comprises only 4.3%.

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

**Economic Factors and Next Year's Budgets**

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

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

## CITY OF BROCKTON, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2012

(Unaudited)

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

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

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

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

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

## CITY OF BROCKTON, MASSACHUSETTS

### Management's Discussion and Analysis

June 30, 2012

(Unaudited)

The City's overall assessed value declined from FY 2012 to FY 2013 by \$148.4 million, or 2.6%. However, there has been some significant activity in recent years. The Bernardi Auto Group has redeveloped a large parcel off Route 24 to create two separate dealerships, a Hyundai and a Honda, with an investment of \$24 million. This project was granted a substantial Tax Incentive Financing agreement, but in future years it will provide healthy growth in property tax revenue. The Cerberus private equity fund in December 2010 closed on the acquisition of the Good Samaritan Medical Center as part of its acquisition of the Caritas Catholic hospital chain. This ownership has converted the property from tax exempt to taxable. In addition, the ownership is making substantial, on-going improvements to the facility. The revenues will be a significant addition to the City's tax levy of about \$1.3 million. As expected, the hospital has challenged the City's assessment, but the City has increased its reserve for abatements to protect against losing that challenge. The City's valuation was the result of the independent work of an expert consultant, and the City is confident in the value developed by the consultant. In the past few months, the Trinity Financial Corp. has proposed the redevelopment of an entire City block in the downtown area. The project will be developed in two phases and will be comprised of mixed use residential housing, commercial space, and parking. The project blends private risk capital, both debt and equity, with public financing, including some City land for parking and a \$4 million state grant. When both phases have been completed, the project will have cost \$100 million, which represents the largest investment in downtown Brockton in memory.

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

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

In February 2012, the mayor requested that the City Council approve a local option statute, which would have removed the issue of health insurance benefit plan design from collective bargaining for all City and school workers and retirees by either joining the state's Group Insurance Commission plans or adopting new City plan designs with similar benefits. Although substantial savings were projected for this step, the initiative was opposed by union members and retirees, who pledged in public to engage in good faith bargaining over plan

## **CITY OF BROCKTON, MASSACHUSETTS**

### **Management's Discussion and Analysis**

June 30, 2012

(Unaudited)

design. The City Council unanimously voted to not accept the statute. Subsequently, the City and all of its school and municipal unions engaged in prolonged and substantive bargaining under a separate provision of state law which permits the union and retirees to bargain as a coalition of interests on proportionately weighted vote. With this process, the coalition of all employees/retirees and the City reached agreement on new plan designs with significantly increased co-payments. However, unlike the GIC plans, the new City plans do not contain annual deductibles. The plans for active employees and retirees who are not eligible for Medicare are effective on July 1, 2013, and the plan for Medicare eligible retirees was effective on January 1, 2013. The coalition and the plans are in effect for four years. The plans are expected to save an estimated \$4.7 million annually in costs to the City, based on cost of the plans in effect on July 1, 2012, which are being replaced. The retiree plans also significantly reduced the City's OPEB estimate.

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

#### **Requests for Information**

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

**CITY OF BROCKTON, MASSACHUSETTS**

Statement of Net Assets

June 30, 2012

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

See accompanying notes to basic financial statements.

CITY OF BROCKTON, MASSACHUSETTS

Statement of Activities

Year ended June 30, 2012

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net assets		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities:							
General government	\$ 24,098,874	4,595,642	9,510,917	369,933	(9,622,382)	—	(9,622,382)
Public safety	63,406,872	2,650,948	4,012,397	—	(56,743,527)	—	(56,743,527)
Education	253,761,408	5,123,643	176,818,129	—	(71,819,636)	—	(71,819,636)
Public works	9,798,583	152,076	2,919,088	—	(6,727,419)	—	(6,727,419)
Human services	3,492,110	296,666	372,056	—	(2,823,388)	—	(2,823,388)
Culture and recreation	3,677,746	53,159	203,960	—	(3,420,627)	—	(3,420,627)
State and county assessments	6,022,609	—	—	—	(6,022,609)	—	(6,022,609)
Court judgments	161,056	—	—	—	(161,056)	—	(161,056)
Interest on long-term debt	7,188,023	—	—	—	(7,188,023)	—	(7,188,023)
Total governmental activities	371,607,281	12,872,131	193,836,547	369,933	(164,528,667)	—	(164,528,667)
Business-type activities:							
Water	16,039,531	15,082,600	304,297	43,348	—	(639,286)	(639,286)
Sewer	14,888,644	18,841,823	349,424	432,842	—	4,735,445	4,735,445
Other	8,558,206	8,338,697	212,684	—	—	(6,832)	(6,832)
Total business-type activities	39,486,381	42,233,113	866,405	476,190	—	4,089,327	4,089,327
Total primary government	\$ 411,093,662	55,105,247	194,702,952	846,123	(164,528,667)	4,089,327	(160,439,340)
General revenues:							
Property taxes, levied for general purposes, net					\$ 107,884,742	—	107,884,742
Excises					6,775,668	—	6,775,668
Payments in lieu of taxes					188,881	—	188,881
Penalties and interest on taxes					1,694,109	—	1,694,109
Other					234,889	—	234,889
Intergovernmental					35,118,890	—	35,118,890
Investment income					695,636	—	695,636
Transfers					(402,768)	—	(402,768)
Total general revenues and transfers					152,993,583	(402,768)	152,590,815
Change in net assets					(11,535,084)	3,686,559	(7,848,525)
Net assets, beginning of year					105,675,862	103,010,858	208,686,720
Net assets, end of year					\$ 94,140,778	106,697,417	200,838,195

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**

Balance Sheet – Governmental Funds

June 30, 2012

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

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**

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

June 30, 2012

Total fund balance – governmental funds	\$ 94,623,935
Amounts reported for governmental activities in the statements of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds	188,732,076
Revenue is recorded on an accrual basis	29,447,099
Bond issuance costs are capitalized in the government-wide statements	1,567,658
Pension asset is not a financial resource and therefore not reported in the funds	87,442,640
Other costs are capitalized in the government-wide statements	135,805
Some liabilities are not due and payable in the current period and therefore are not reported in the funds. Those liabilities consist of:	
Taxable bonds	(96,145,000)
Other general obligation bonds	(32,819,550)
Bond premiums	(1,389,073)
Deferred bond gains (losses)	563,219
Other post employment benefits	(159,652,673)
Accrued interest on bonds	(2,378,267)
Landfill and postclosure care costs	(3,035,955)
Compensated absences and claims	(12,951,136)
	<u>(307,808,435)</u>
Net assets of governmental activities	\$ <u>94,140,778</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, 2012

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

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**

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

Year ended June 30, 2012

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

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**

Statement of Net Assets – Proprietary Funds

June 30, 2012

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

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**

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

Year ended June 30, 2012

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

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2012

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

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**

Statement of Net Assets – Fiduciary Funds

June 30, 2012

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

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

See accompanying notes to basic financial statements.

**CITY OF BROCKTON, MASSACHUSETTS**  
Statement of Changes in Net Assets – Fiduciary Funds  
Year ended December 31, 2011

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

See accompanying notes to basic financial statements.

## CITY OF BROCKTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2012

#### (1) Financial Statement Presentation

The City of Brockton (the City) is governed by an elected mayor, who has general supervision of and control over the City's boards, commissions, officers and departments. The legislative body of the City is the City Council, which consists of eleven elected members serving two-year terms. U.S. generally accepted accounting principles (GAAP) requires that the accompanying basic financial statements present the City of Brockton (the primary government) and its component units. Component units are included in the City's reporting entity if their operational and financial relationships with the City are significant. Pursuant to this criteria, the City of Brockton Retirement System (the System) has been identified as a component unit. The System was established under the authority of Chapter 32 of the Massachusetts General Laws (MGL), as amended, and is an independent contributory retirement system available to employees of the City. The powers of the System are vested in the Retirement Board. The System has been included in the City's fiduciary funds as a pension trust fund for reporting purposes. A complete set of financial statements of the System for the fiscal year ended December 31, 2011 can be obtained by contacting the Brockton Retirement Board at 15 Christy's Drive, Brockton, MA 02301.

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

The City has entered into joint ventures with other municipalities to pool resources and share the costs, risks, and rewards of providing goods or services to venture participants directly, or for the benefit of the general public or specified service recipients. The following is a list of the City's joint ventures, their purpose, the address where the joint venture financial statements are available, and the annual assessment paid by the City in 2012:

<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	\$ 1,954,295
Southeastern Regional School District 250 Foundry Street South Easton, MA 02375	To provide educational services	2,702,679

## CITY OF BROCKTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2012

#### (2) Summary of Significant Accounting Policies

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

##### (a) Basis of Presentation

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

##### Government-Wide Statements

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

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

##### Fund Financial Statements

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All

## CITY OF BROCKTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2012

revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major governmental fund:

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

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

The City reports the following major enterprise funds:

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

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

Additionally, the City reports the following fund types:

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

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

#### **(b) Measurement Focus, Basis of Accounting**

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

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

## CITY OF BROCKTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2012

debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Tax abatement refunds are recognized as fund liabilities for refunds filed prior to year-end and paid within a year. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financial sources.

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

**(c) *Deferred Revenue***

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

**(d) *Cash and Cash Equivalents***

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

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

**(e) *Investment Valuation***

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

**(f) *Compensated Absences***

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

**(g) *Capital Assets***

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

## CITY OF BROCKTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2012

reported both in the business-type activities column of the government-wide statements of net assets and in the respective funds.

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

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

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

#### **(h) Net Assets and Fund Balance**

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

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

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

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

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

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

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

## CITY OF BROCKTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2012

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

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

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

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

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

The City maintains a stabilization account in accordance with MGL Chapter 40 Section 5B that is reported as unassigned fund balance in the general fund. The City may appropriate in any year an amount not exceeding 10% of the amount raised in the preceding fiscal year from real and personal property taxes, or a larger amount as approved by the Department of Revenue. Further, the stabilization account may not exceed 10% of the City's equalized valuation as defined in MGL Chapter 44 Section 1. Funds can be appropriated from or added to the stabilization account by 2/3 vote of City Council. The balance of the stabilization accounts was \$7,721,213 at June 30, 2012 and is classified as unassigned.

**(i) Net Assets**

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

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

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

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

## CITY OF BROCKTON, MASSACHUSETTS

### Notes to Basic Financial Statements

June 30, 2012

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

**(k) Use of Estimates**

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

**(3) Receivables**

**(a) Property Taxes**

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

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

**(b) Note Receivable**

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

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

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

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

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

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

The Note provides that in the event that the project revenues are insufficient to fully satisfy both principal and interest payments due for a particular a year, the City will look to the amount of the hotel motel excise tax receipts of the previous year for a mechanism to provide a credit (available hotel/motel tax) to apply to the shortfall. Specifically, the Agreement specifies that the amount of loan repayment shortfall should be treated as having been paid up to the amount of the available hotel/motel tax. This amount is defined as ninety percent of the hotel/motel tax receipts of the prior fiscal year up to and including the first \$500,000 and fifty percent of the amount above \$500,000. It has been the City's practice to apply cash loan repayments from the Corporation first to principal amounts due and then to interest amounts due. The available hotel/motel tax subsidy is then applied. Through FY 2012, the available hotel/motel tax has been applied exclusively to interest payments due, as the cash payments had always been sufficient to satisfy the principal amounts.

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

**(c) Long-Term Receivable**

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

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

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

**(d) Intergovernmental Receivables**

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

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

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

**Massachusetts School Building Authority (MSBA)**

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

**(4) Capital Assets**

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

*Primary Government*

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

Depreciation expense was charged to governmental functions as follows:

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

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Less accumulated depreciation for:				
Buildings	\$ 504,842	17,727	—	522,569
Land improvements	31,989,544	46,175	—	32,035,719
Machinery and equipment	2,117,606	101,639	—	2,219,245
Infrastructure	2,589,317	114,928	—	2,704,245
Total accumulated depreciation	<u>37,201,309</u>	<u>280,469</u>	<u>—</u>	<u>37,481,778</u>
Total capital assets being depreciated, net	<u>5,407,559</u>	<u>(22,530)</u>	<u>—</u>	<u>5,385,029</u>
Other capital assets, net	<u>5,570,268</u>	<u>10,595</u>	<u>32,350</u>	<u>5,548,513</u>
Business-type activities capital assets, net	\$ <u>184,054,612</u>	<u>28,543,639</u>	<u>27,188,649</u>	<u>185,409,602</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, 2012, the City's bank balances of uninsured and uncollateralized deposits totaled \$114,796,208. All of the System's deposits are fully insured by FDIC insurance or collateralized with securities held by the System or the System's agent in the System's name.

**(b) Investment Policy**

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

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

**(c) Interest Rate Risk**

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

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

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

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

**(d) Credit Risk**

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

The City's fixed-income investments as of June 30, 2012 for the primary government and December 31, 2011 for the retirement system were rated by Standard & Poor's and/or an equivalent

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

national rating organization, and the ratings are presented below using the Standard and Poor's rating scale (in thousands):

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

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

**(e) Concentration Risk**

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

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

**(f) Foreign Currency Risk**

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

Risk of loss arises from changes in currency exchange rates. Although the System does not have investments denominated in foreign currencies, the System's exposure to fluctuations in foreign

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

currency for investments denominated in U.S. dollars includes \$20,403,505 and \$50,932,057 in international pooled fixed income and equity funds, respectively.

**(6) Retirement System**

**(a) Plan Description**

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

**(b) Basis of Accounting**

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

Investments of the System are stated as follows:

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

**(c) Membership**

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

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

**(d) Contributions**

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

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

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

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

**(e) Legally Required Reserve Accounts**

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

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

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

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

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

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

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

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

**(7) Long-Term Obligations**

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

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

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

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

On November 3, 2011, the City issued a total of \$6,560,000 General Obligation Municipal Purpose Bonds. The bonds funded \$1,200,000 in High School Stadium Renovations and \$5,360,000 in Refunding Bonds, of which \$997,750 relates to the Sewer fund. The refunding bonds will be used to advanced refund a portion of the City's \$15,616,000 General Obligation Municipal Purpose Loan of 2002 Bonds. Interest on

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

the bonds will be payable semiannually on June 15 and December 15, commencing on June 15, 2012. The interest rates range from 2% to 5% and are due serially through June 15, 2022.

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

***Maturity of Bond Indebtedness***

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

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

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

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

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

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

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

As of June 30, 2012, the City may issue approximately \$298.2 million of additional general-obligation debt under the normal debt limit. The City has approximately \$219.5 million of debt exempt from the debt limit.

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

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

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

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

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

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

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

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

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

The estimated total current cost of the landfill closure and postclosure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

were acquired as of June 30, 2012. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

**(9) Temporary Borrowings**

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

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

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

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

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

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

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

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

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

**(11) Other Postemployment Benefit (OPEB) Disclosures**

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

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

As of June 30, 2012, the valuation date, 2,913 retirees and 2,936 active members meet the eligibility requirements as put forth in Chapter 32B of MGL. The City sponsors and participates in a single employer

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

defined benefit OPEB plan. The OPEB plan is administered by the City and does not issue a stand-alone financial report.

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

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

**(a) Funding Policy**

Employer and employee contribution rates are governed by the respective collective bargaining agreements. The City currently funds the plan on a pay-as-you-go basis. The City and plan members share the cost of benefits. As of June 30, 2012, the valuation date, the plan members contribute 10% to 25% of the monthly premium cost, depending on the plan in which they are enrolled. The City contributes the balance of the premium cost.

**(b) Annual OPEB Cost and Net OPEB Obligation**

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

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

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:			
2012	\$ 38,384,726	39.25%	\$ 159,652,673

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

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

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

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

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

**(d) Actuarial Methods and Assumptions**

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

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

**(12) Risk Management**

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

Buildings and property are insured against fire, theft, and natural disaster to the extent that losses exceed a deductible of \$100,000 per incident. Vehicle damage and loss is insured to \$1,000,000 with a deductible of \$1,000.

The City is self insured for workers' compensation and unemployment claims. The City is also self insured for those employees participating in the City's Health Care Plans (Health Care Plans). Approximately 60% of the City's employees participate in preferred provider Health Care Plans.

Both employees and the City contribute to the Health Care Plans based upon a percentage formula, 75% (City) and 25% (employee), with the exception of Blue Cross Blue Shield Master Medical, which is 70% City and 30% employee. The retirees' contribution rate is 25%, except for those retirees who were 65 or older as of July 1, 2003 and whose annual household income was \$22,340 or less for a single person over 65 years of age, or \$30,260 for a two person household with one person over 65 years of age. For these retirees, the contribution rates are 15% for Blue Cross Blue Shield (BCBS) Master Medical, BCBS Master Medical Carve Out A&B, BCBS Medex III, and BCBS Choice and 10% for HMO Blue, Harvard Pilgrim Healthcare, and Harvard Pilgrim Enhanced. The 15% and 10% rates were established through a Home Rule Petition voted and approved by the City Council and the Massachusetts General Court. Stop loss insurance is carried on the Health Care Plans for claims in excess of \$300,000 per covered person and \$2,000,000 maximum per covered person. The City maintains a working deposit with the administrator of its Blue Cross Blue Shield Health Care Plans. At June 30, 2012, that deposit was \$250,000, which includes Dental insurance. The financial arrangement with Harvard Pilgrim is monthly level funding of \$1,375,000 with quarterly adjustments if necessary.

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

Liabilities for self-insured claims are reported if it is probable that a loss has been incurred and the amount can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Changes in the self-insurance liability for the years ended June 30, 2012 and 2011 were as follows:

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

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

**(13) Commitments**

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

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

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

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

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

term purchasers or the right to reduce by about 50%, on a gallon for gallon basis, its fixed price for its fixed volume commitment.

The rate charged to the City for the Firm Commitment is a fixed annual charge of \$167,480 per year per 0.1 MGD of the City's Firm Commitment; this charge is incurred regardless of whether the City takes the water. In addition, the City incurs an additional charge of \$1.23 per 1,000 gallons for water actually delivered. For example, with a firm commitment of 2.0 MGD plus actual usage of 1.0 MGD for an entire year, the City would pay nearly \$3.8 million. The financial obligation is primarily attached to the fixed price component. The rate structure is permitted to escalate with the Producer Price Index for Finished Goods, excluding food after three years of water delivery. Accordingly, escalation will begin, in the fourth year of the contract, which is at the end of 2012. Fixed and variable charges are recorded in the major Water fund when incurred, which totaled \$5.4 million in fiscal year 2012.

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

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

**(14) Fund Deficits**

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

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

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Basic Financial Statements

June 30, 2012

**(15) Fund Balance Classification Details**

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

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

**CITY OF BROCKTON, MASSACHUSETTS**

Budgetary Comparison Schedule – General Fund  
Required Supplementary Information

June 30, 2012

(Unaudited)

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

See notes to required supplementary information.

See accompanying independent auditors' report.

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Required Supplementary Information

June 30, 2012

**(1) Budgetary Basis of Accounting**

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

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

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

- (a) Budgeted revenues are recorded when cash is received, except for real estate and personal property taxes, which are recorded as revenue when levied (budget), as opposed to when susceptible to accrual (GAAP).
- (b) Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget), as opposed to a reservation of fund balance (GAAP).

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

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

**CITY OF BROCKTON, MASSACHUSETTS**

Notes to Required Supplementary Information

June 30, 2012

**(3) Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures – General Fund**

Budgetary inflows and GAAP revenues:

Actual amounts (budgetary basis) “amounts available for appropriation” from the budgetary comparison schedule	\$ 289,533,679
Differences – budget to GAAP:	
Property and excise taxes and intergovernmental revenues are reported as a budgetary resource on the cash basis, rather than on the modified accrual basis	511,587
Contributions for health claims are not reported as a budgetary resource	14,195,703
Stabilization fund earnings	134,786
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	<u>(2,345,670)</u>
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances	<u>\$ 302,030,085</u>

Budgetary outflows and GAAP expenditures:

Actual amounts (budgetary basis) “total charges to appropriation” from the budgetary comparison schedule	\$ 294,585,046
Differences – budget to GAAP:	
Enterprise fund related budgetary expenditures are recorded as reductions to transfers for GAAP purposes	(2,562,176)
Health claims expenditures and accruals are not reported as charges to appropriations on a budgetary basis	23,685,581
Adjustments for expenditures, encumbrances, and accruals, net	(2,933,968)
Transfers to other funds are outflows of budgetary appropriations but are not expenditures for financial reporting purposes	<u>(5,814,784)</u>
Total expenditures as reported on the statements of revenues, expenditures and changes in fund balances	<u>\$ 306,959,699</u>

**CITY OF BROCKTON, MASSACHUSETTS**  
Schedules of Funding Progress and Contributions from Employers  
June 30, 2012  
(Unaudited)  
(Dollar amounts in thousands)

**Schedules of Funding Progress**

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

**Schedule of Contributions from City – Pension**

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

See accompanying independent auditors' report.