

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Section I – Summary of Auditors' Results (Continued)

Dollar threshold used to distinguish between
Type A and Type B programs:

\$ 750,000

Auditee qualified as low-risk auditee pursuant
to Uniform Guidance?

 yes

 x no

Section II – Financial Statement Findings

Our audit did not disclose any matters required to be reported in accordance with *Government Auditing Standards*.

Section III – Findings and Questioned Costs – Major Federal Programs

2017-001

Federal agency: U.S. Department of Education

Federal program: Special Education Cluster

CFDA Number: 84.027, 84.173

Pass-Through Agency: Massachusetts State Department of Elementary and Secondary Education

Pass-Through Number(s): 240-101962-2017-0291

Award Period: July 1, 2016 – June 30, 2017

Type of Finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Compliance Requirement: Cash Management

Criteria or specific requirement: 2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* requires compliance with the provisions of cash management. The Town of Swampscott, Massachusetts should have internal controls designed to ensure compliance with those provisions.

Cash Management – The Town of Swampscott, Massachusetts is required to ensure that requests for funds are filed in a manner that minimizes the time elapsing between the receipt and the disbursement of funds and are properly supported by financial records.

Condition: Town of Swampscott, Massachusetts did not have adequate internal controls designed to ensure compliance with federal guidelines for cash management.

Questioned costs: None

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017**

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

Context: 1 of 6 requests for funds tested was not disbursed within a reasonable time period. Funds drawn were not expended until 135 days following receipt. In addition, 4 of 6 drawdown requests tested reported expenditures to date based on the fiscal year rather than expenditures matching the project duration. The sample was a statistically valid sample.

Cause: Procedures were not in place to ensure that funds are drawn based on immediate needs and properly supported.

Effect: Noncompliance

Recommendation: We recommend procedures be implemented to ensure that funds requested are for expended within a reasonable timeframe to minimize the time elapsing between the receipt and disbursement of funds and that expenditures are properly supported by the financial records.

Views of responsible officials: There is no disagreement with the audit finding.

2017-002

Federal agency: U.S. Department of Education

Federal program: Special Education Cluster

CFDA Number: 84.027, 84.173

Pass-Through Agency: Massachusetts State Department of Elementary and Secondary Education

Pass-Through Number(s): 240-101962-2017-0291

Award Period: July 1, 2016 – June 30, 2017

Type of Finding:

- Significant Deficiency in Internal Control over Compliance
- Other Matters

Compliance Requirement: Reporting

Criteria or specific requirement: 2 CFR Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Award* requires compliance with the provisions of Allowable Costs/Cost Principles. The Town of Swampscott, Massachusetts should have internal controls designed to ensure compliance with those provisions.

Town of Swampscott, Massachusetts is required to ensure that only allowable costs are charged to federal programs.

Condition: Internal controls were not in place to ensure only allowable costs are charged to federal programs.

Questioned costs: No reportable questioned costs

TOWN OF SWAMPSCOTT, MASSACHUSETTS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
YEAR ENDED JUNE 30, 2017

Section III – Findings and Questioned Costs – Major Federal Programs (Continued)

Context: 1 of 40 salary expenditures charged to the grant was determined to be unallowable. The sample was a statistically valid sample.

Cause: Procedures were not in place to ensure that only allowable costs are charged to federal programs.

Effect: The salary charge is unallowable and are considered a questioned cost.

Recommendation: We recommend procedures be implemented to ensure that funds received are spent only for allowable costs of the program.

Views of responsible officials: There is no disagreement with the audit finding.

CORRECTIVE ACTION PLAN

Town of Swampscott, Massachusetts respectfully submits the following corrective action plan for the year ended June 30, 2017.

Audit period: July 1, 2017 – June 30, 2017

The findings from the schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS—FEDERAL AWARD PROGRAMS AUDITS

DEPARTMENT OF EDUCATION

2017-001 Special Education Cluster – CFDA No. 84.027 and 84.173

Recommendation: We recommend procedures be implemented to ensure that funds requested are for expended within a reasonable timeframe to minimize the time elapsing between the receipt and disbursement of funds and that expenditures are properly supported by the financial records.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: OPEN

Name(s) of the contact person(s) responsible for corrective action: OPEN

Planned completion date for corrective action plan: OPEN

2017-002 Special Education Cluster – CFDA No. 84.027 and 84.173

Recommendation: We recommend procedures be implemented to ensure that funds received are spent only for allowable costs of the program.

Explanation of disagreement with audit finding: There is no disagreement with the audit finding.

Action taken in response to finding: OPEN

Name(s) of the contact person(s) responsible for corrective action: OPEN

Planned completion date for corrective action plan: OPEN

Any questions regarding this plan, please call Evan Katz, School Business Administrator, 781-596-8800 x390.

TOWN OF SWAMPSCOTT, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2017



CliftonLarsonAllen LLP
CLAconnect.com

Honorable Board of Selectmen
Town of Swampscott, Massachusetts

In planning and performing our audit of the financial statements of the Town of Swampscott, Massachusetts (Town) as of and for the year ended June 30, 2017, 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, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

However, during our audit we became aware of deficiencies in internal control (other than significant deficiencies and material weaknesses) that are opportunities to strengthen your internal control and improve the efficiency of your operations. We also want to make you aware of a recently issued accounting standard that will significantly impact your financial statements in future years. The memorandum that accompanies this letter summarizes our comments and recommendations regarding those matters. This letter does not affect our report dated March 28, 2018, on the financial statements of the Town.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and recommendations with Town personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.

The Town's written responses to the matters identified in our audit have not been subjected to the audit procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

This communication is intended solely for the information and use of management, the Board of Selectmen and others within the Town, and is not intended to be, and should not be, used by anyone other than these specified parties.

CliftonLarsonAllen LLP

Boston, Massachusetts
March 28, 2018

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TOWN OF SWAMPSCOTT, MASSACHUSETTS

MANAGEMENT LETTER

JUNE 30, 2017

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Comments and Recommendations

Information Technology

Comment

We evaluated the computer processing environment and general controls that help ensure the reliability of the business and financial systems that support business objectives and identified the following:

1. An IT General Controls Review, External Penetration Test, or Internal Vulnerability Assessment has never been performed by an independent third party.
2. There are no formal IT policies in place.
3. Data backups are not periodically tested for recoverability and readability.
4. The password policies in place do not currently meet best practice.
5. Although the majority of desktops have been upgraded to Windows 7, there remains computers utilizing Windows XP that are active on the network, which are no longer supported by Microsoft for security upgrades.
6. Functions are not disabled on workstations that allow peripheral devices (i.e., USB ports) to be used to download data and information.

Recommendation

We recommend the following:

1. The performance of an External Penetration Test and an Internal Vulnerability Assessment by an independent third party to identify potential areas of technical weaknesses to the IT environment. In addition, the Town should have a full scope IT General Controls Review performed to evaluate the effectiveness of the internal control structure of the IT environment.
2. Formal policies be developed to govern the IT department including, but not limited to, the following areas:
 - a. Vendor management
 - b. Physical and logical access
 - c. Change management
 - d. Data backup & storage
 - e. Information security incident response
 - f. Applications
 - g. Servers, workstations and network

The policies should be documented to reflect current practices, reviewed and updated by management on an annual basis, and communicated to appropriate employees.

3. All backup media should be tested on a semi-annual basis for recoverability and readability. Documentation of the testing should be retained by the IT department.

4. Implementation of stronger and more complex password parameters. Password settings should be to the following:
 - a. Password length of 8 characters
 - b. Complexity enforced (Upper case, lower case, alpha numeric, special character)
 - c. Change frequency of 90 days enforced
 - d. Password history of 12-24
 - e. Minimum password age of 1 day
 - f. Invalid login attempts set to 5
 - g. Users be required to change their passwords based on the above parameters and the IT Director only be able to provide temporary reset passwords
5. The upgrade of operating systems utilizing Windows XP since it is no longer supported by Microsoft for security upgrades. Upgrading the operating system will help mitigate the risk of malicious attack through vulnerabilities present in unsupported applications.
6. Enforcing restrictions on user workstations that allow only the use of IT-provisioned, encrypted peripheral devices. Such restrictions would prevent the use of peripheral storage devices that are not purchased and administered by IT.

Management's Response

- 1) Management will contract with our outside IT consultant and insurance carrier to procure services to complete an external penetration test and vulnerability assessment in FY19.
- 2) The Management team has worked to develop initial IT & Social Media Policies, a draft is attached. Current and new hires will receive a copy as part of their on-boarding process. The outside IT Consultant and the Management team will work over the next six months to address any other identified procedural changes with IT and will continue to update and add to the IT policies.
- 3) Data backups are verified automatically by the backup system for data integrity and accuracy, however a separate manual testing currently does not occur. Management will contract with our IT consultant to establish a manual testing in the next six months.
- 4) Management will implement stronger password parameters in conjunction with their IT consultant as outlined in the management comment in the next few days.
- 5) All of the desktops have been converted, except for one on the network at the Police Station, which will be converted this week.
- 6) Ensuring security with our data, but also accessibility to that information for presentations at boards and committees is important to the Management team. We will think about how best to address the security concerns, but still allow us to present information publicly in a secure and efficient manner.

Student Activity Funds

Comment

The Town maintains student activity funds at several of its schools. Massachusetts General Laws (MGL) Chapter 71, Section 47, which establishes various guidelines related to student activity funds, states the following:

"There shall be an annual audit of the student activity funds which shall be conducted in accordance with procedures as agreed upon between the school committee and the auditor based upon guidelines issued by the department of education."

Recommendation

We recommend the School Department develop a formal plan to comply with the annual audit and/or agreed upon procedures requirements of MGL Chapter 71, Section 47. Our experience has been that municipalities have been complying with these requirements either by having a third-party perform procedures every year, every other year or every 3 years. Some communities "rotate" sets of schools each year over a multi-year period to obtain coverage on all schools over a period of time. In years where a third party does not perform procedures, it is expected that the School Department will internally perform procedures on its student activity funds. Regardless of the approach, the School Department should develop a formal plan/schedule for compliance. If the School Department would like us to perform third-party procedures, we would gladly assist the School Department in developing a formal plan to cover all schools.

Management's Response

The school department will develop a formal plan to ensure they are complying with the annual audit and/or agreed upon procedures requirements of MGL Chapter 71, Section 47. The Management team recommends that the school department utilize the agreed upon procedures and audit guidelines that have been developed by the Massachusetts Department of Elementary and Secondary Education to conduct an internal audit of all of the student activity funds in the coming fiscal year. The guidelines that will be utilized are a vital resource for the school business office to provide them with a detailed framework to ensure the internal control system in place is functioning appropriately. This includes activities like reviewing current policies and procedures regarding the funds and administration of them and updating where necessary, utilizing inquiry and observation to verify that the accounting system is accurately recording and reporting cash receipts and disbursements and determining whether the individuals who process, record and report student activity possess the skills necessary to perform the duties in an adequate manner. Following audit guidelines and best practices standards is a focus of the town and school's leadership team and the school department is committed to conducting this audit at a minimum every three year as recommended by the auditors.

School Revolving Funds

Comment

Revolving Fund revenues are from specific sources, authorized by specific statutes and segregated from the General Fund. They may be spent without appropriation to support the activity, program or service that generated the revenue.

We identified the School Department consistently records the initial recording/posting of revolving fund expenditures to the General Fund throughout the year and reclassifies the expenditures to the applicable revolving fund (i.e., Drivers Education, Pre-School, Extended Day, etc.) at year-end.

The current process is deficient as expenditures are overstated in the General Fund throughout the year and expenditures and fund balances are understated in the revolving funds throughout the year. As a result, inaccurate financial reports are generated, which could negatively impact financial decisions made throughout the year.

Recommendation

We recommend procedures be implemented to charge expenditures to the appropriate fund at the initial transaction date.

Management's Response

The school department is committed to providing accurate financial reports and financial analysis throughout the year to ensure that financial decisions that are made during the year are accurate and as informed as possible.

The school department has created an allocation plan to charge the revolving expenditures related to indirect overhead to the appropriate funds on a monthly basis. It is based off of the current estimates for indirect overhead costs using an allocation methodology that appropriately charges the expenses at an appropriate ratio per revolving fund. All other direct costs will be directly charged to the revolving funds as they are incurred, on the initial transaction date. The school department will discontinue the practice of charging the general fund and re-classing the expenditures to the applicable revolving fund at year-end.

Credit Cards

Comment

During 2017 the Town had 4 credit cards issued to Town employees. We selected a sample of 6 transactions and identified the following:

1. 3 of the 6 transactions did not appear to be for a Town purpose
2. 3 of the 6 transactions lacked supporting documentation

Furthermore, the Town does not have a formal credit card policy.

Recommendation

We recommend the Town implement a formal credit card policy that is strictly enforced. At a minimum, all credit card transactions must require receipts to support the purchase and authorization from appropriate personnel. Failure to obtain such authorization or provide support for the transaction should result in a reimbursement from the employee.

Management's Response

Management has created and distributed a formal credit card policy, which requires proper support for all transactions. The Accounting office will not pay expenses that do not have the proper support. Management monitors and reconciles all credit card transactions that are charged, reconciling receipts and back-up to the monthly statements to ensure the charges are legitimate and that we have the proper support and back-up.

Census Data

Comment

During our testing of the other postemployment benefits (OPEB) census data, we selected a sample of 13 active employees and 12 retirees and identified the following:

- Three (3) instances where the enrollment election did not agree to the Town's personnel records
- Five (5) instances where the hire date or retirement date differed from the Town's personnel records

Proper internal controls require the timely reconciliation of census data between the Town's personnel records and the actuary.

Recommendation

We recommend the Town investigate and identify the cause of discrepancies in the census data provided to the actuary to ensure the accuracy of information and to ensure that personnel records are properly maintained and consistent with the census data file.

Management's Response

The Finance department and HR department are working with the actuary and retirement board administrator to resolve any discrepancies between the census file and the HR files. Conducting an audit and reconciliation of personnel files will be an area of focus for the HR Director in the next six months.

Bank Transfers and Certain Bank Reconciliations

Comment

During 2017, \$250,000 was voted at Town Meeting to be transferred from the General Fund to the Other Postemployment Benefits (OPEB) Trust. This transaction was recorded on the general ledger but the cash was not transferred to the separate OPEB Trust bank account at year-end. As a result, investment income was not distributed appropriately.

Recommendation

For funds that require (via law, trust, endowment, etc.) separate bank accounts, we recommend monthly reconciliations of bank balances to the general ledger to ensure all activity has been accounted for in both the accounting system and bank account(s).

Management's Response

Reconciliations are of the utmost importance to the Management team and are pivotal to ensuring financial accuracy and an area where fraud can occur. Given the importance of this responsibility we will reconcile all bank accounts monthly and perform those reconciliations within 30-days of the prior month's end.

Procurement Policy

Comment

Title 2 of the Code of Federal Regulations states that the non-federal entities receiving federal funds must have written procedures for procurement transactions. §200.318 states that the non-Federal entity must use its own documented procurement procedures which reflect applicable State and local laws and regulations, provided that the procurements conform to applicable Federal law and the standards. §200.318 describes the methods of procurement to be followed:

- a) Procurement by Micro-purchases. Aggregate dollar amount of which does not exceed \$3,000. To the extent practicable, the non-Federal entity must distribute micro-purchases equitably among qualified suppliers. Micro-purchases may be awarded without soliciting competitive quotations if the non-Federal entity considers the price to be reasonable.
- b) Procurement by small purchases. Small purchase procedures are those relatively simple and informal procurement methods for securing services, supplies, or other property that do not cost more than the Simplified Acquisition Threshold (currently \$150,000). If small purchase procedures are used, price or rate quotations must be obtained from an adequate number of qualified sources.
- c) Procurement by sealed bids and competitive proposals. Bids are publicly solicited and awarded for amounts in excess of Simplified Acquisition Threshold (currently \$150,000).
- d) Procurement by noncompetitive proposals (Sole Source). Procurement by non-competitive proposals is procurement through solicitation of a proposal from only one source when this source meets all the circumstances in §200.320 paragraph (f)(1-4).

The Town did not maintain a current procurement policy that met the criteria outlined by Title 2 of the Code of Federal Regulations §200.320.

Recommendation

We recommend the Town review current procurement policy and ensure that it includes all necessary federal requirements and are appropriately adhered to.

Management's Response

Management has an adopted procurement policy and will update the policy to reflect the Federal Regulation outlined by Title 2 of the Code of Federal Regulations §200.320.

Accounts Receivable – Parking Tickets and Police Detail

Comment

Consistent with prior year, procedures have not been developed and implemented to record (on the general ledger) the monthly amounts billed as accounts receivable (and the corresponding deferred revenue) related to parking tickets and police detail. As a result, monthly reconciliations of outstanding accounts receivable cannot be performed. Proper internal controls require all transactions related to accounts receivable to be accounted for and recorded on the general ledger.

In addition, an accounts receivable aging report is not maintained for the police detail receivables.

Recommendation

We recommend procedures be implemented where all billings for parking tickets and police detail be provided to the accounting office to enable the recording of the applicable accounts receivable on the general ledger. We recommend that all subsequent transactions related to the billings (cash receipts, write-offs and other adjustments) also be recorded (in summary) by the accounting office on the general ledger. The general ledger should serve as a control account for the parking tickets and police detail accounts receivable balances.

We also recommend the maintenance of a police detail aging report.

Management's Response

Management recognizes the importance of this finding and will develop a plan and process on how best to implement changes to ensure we are accounting for the receivables for parking tickets and police details over the next 12 months.

Risk Assessment and Monitoring

Comment

When internal controls are *initially* implemented, they are usually designed to adequately safeguard assets. However, over time, these controls can become ineffective due to changes in technology, operations, etc. In addition, changes in personnel and structure, as well as the addition of new programs and services, can add risks that previously did not exist. As a result, all municipalities must periodically perform a risk assessment to anticipate, identify, analyze and manage the risk of asset misappropriation. Risk assessment (which includes fraud risk assessment), is one element of internal control.

The risk assessment should be performed by management-level employees who have extensive knowledge of the Town's operations. Ordinarily, the management-level employees would conduct interviews or lead group discussions with personnel who have knowledge of the Town's operations, its environment, and its processes. The risk assessment process should consider the Town's vulnerability to misappropriation of assets. It should also address operations that involve heightened levels of risk. When conducting the assessment, the following questions should be considered:

- What assets are susceptible to misappropriation?
- What departments receive cash receipts?
- What departments have movable inventory?
- What operations are the most complex?
- How could assets be stolen?
- Are there any known internal control weaknesses that would allow misappropriation of assets to occur and remain undetected?
- How could potential misappropriation of assets be concealed?
- What prior internal control issues could still continue to be problematic?

Once the areas vulnerable to risks have been identified, a review of the Town's systems, procedures, and existing controls related to these areas should be conducted. The Town should consider what additional controls (if any) need to be implemented to reduce risk.

After risk has been assessed, periodic monitoring of the identified risk areas must be performed in order to evaluate the controls that have been implemented to mitigate the risks. Since control-related policies and procedures tend to deteriorate over time, the monitoring process ensures that controls are fully operational and effective.

Recommendation

We recommend management develop and implement a risk assessment program to periodically anticipate, identify, analyze, and manage the risk of asset misappropriation. The risk assessment program should be formally documented and become part of the Town's financial policies and procedures manual.

We further recommend management develop and implement a monitoring program to periodically evaluate the operational effectiveness of internal controls. The monitoring process should be documented in order to facilitate the evaluation of controls and to identify improvements that need to be made.

Management's Response

Management has included as part of their draft financial policies a section on risk management and assessment. As part of management's on-going fiscal responsibilities, the team is consistently monitoring and identifying where risks might be present and developing action plans where appropriate. The Management team developed a summary of enterprise risks that they identified and continue to monitor and mitigate where possible. Some of the mitigation techniques that have resulted from the risk monitoring over the past year are changes to policies & procedures, engaging the audit firm to conduct specialized audits and making strategic personnel decisions and changes to positions to mitigate some of the risk the Town has faced in prior years. Management is dedicated and focused on continuing to make enhancements, adjustments and changes. We will continue to develop our risk assessment model and mitigate risks where possible.

Water and Sewer Enterprise Funds

Comment

The water and sewer enterprise funds are charged for various indirect costs such as employee benefits and interdepartmental services (Town Administrator, Accountant, Treasurer/Collector, etc.).

The Massachusetts Department of Revenue (DOR) issued an "Informational Guideline Release" (IGR 08-101) in which the DOR recommends every community with an enterprise fund establish a written, internal policy regarding indirect cost allocations, which are to be reviewed annually. Consistent with prior years, we identified that the Town does not have a written policy related to the water and sewer enterprise funds' indirect cost allocations.

Recommendation

We recommend the Town implement the recommendations of the DOR as identified in IGR 08-101 by establishing a written internal policy regarding indirect cost allocation, which should be reviewed annually. In addition (and as stated in IGR 08-101), as part of the annual budgeting process, Town officials should understand and agree on what indirect costs are appropriated as part of the general fund operating budget and what percentage of these costs should be allocated to the water/sewer enterprise fund.

Management's Response

In the last six months Management performed an in-depth reconciliation of the enterprise funds and determined that over \$100,000 in costs needed to be shifted to the general fund to ensure we were meeting Massachusetts General Law standards. Ensuring the right allocations and charges are being expensed properly is of high priority to the Management team and has been an area of focus that we will continue to monitor and adjust. In addition, Management has developed a percentage allocation basis for how costs have been allocated to the enterprise funds and will work to develop the written policy in the next six months on the allocation methodology in accordance with the standards mentioned in the recommendation.

Financial Policies and Procedures Manual

Comment

As reported in prior years, we believe that preparation of a formal policy and procedures manual would improve and standardize the Town's financial policies and procedures. Inherent in any organization that operates without formalized written procedures are inconsistencies in everyday policies and procedures. The number of such inconsistencies can be minimized by the written codification of policies and procedures and insistence on adherence to them.

Such a manual should include policies and procedures relative to all financial functions and processes, including, but not limited to, the following:

- Cash receipts
- Purchase orders
- Cash disbursements
 - Payroll
 - Vendor
- Credit cards
- Administration of grants
- Administration of student activity funds
- Personnel (i.e., hiring, payroll and related changes, etc.)
- Month-end and year-end closing procedures
- Risk assessment

The manual should also clearly define the objectives, responsibilities and authorizations for all employees/job positions.

The use of written policies, procedures, and job descriptions in conjunction with specific assignment of responsibilities would increase supervisory personnel's effectiveness. Such written documents would decrease the time spent on supervision of clerical personnel and in attempts to define job responsibilities on each occasion of employee turnover.

Recommendation

It was communicated during the fiscal year 2017 audit, that a financial policies and procedures manual has been completed and is in draft form. We recommend management review and approve the formal financial policies and procedures manual.

Management's Response

Management recognizes the importance of financial policies and procedures and will finalize and approve the final manual in the next month.

Other Postemployment Benefits Accounting and Financial Reporting

Comment

In June of 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans other than Pension Plans*, which establishes new financial reporting requirements for governments that provide other postemployment benefits (OPEB) to its employees and retirees.

The implementation of this Statement will represent a significant change in the accounting and reporting of OPEB expense and the related liability. The implementation of this Statement will:

- Require the net OPEB liability to be measured as the total OPEB liability, less the amount of the OPEB plan's fiduciary net position
- Require that projections of benefits payments incorporate the effects of projected salary changes and service credits, as well as projected automatic postemployment benefit changes
- Require the use of the "entry age" actuarial cost allocation method, with each period's service cost determined by a level percentage of pay (referred to as attribution method)
- Expand OPEB related note disclosures
- Expand OPEB related required supplementary information disclosures

Given the significance of the net OPEB liability, the financial reporting impact under the new standard will significantly affect the Town's financial statements.

It should be noted that the implementation of GASB Statement No. 75 is strictly financial reporting standards and does not constitute a state or federal mandate regarding the funding of the net OPEB obligation.

The Town's required implementation date is fiscal year 2018.

Recommendation

We recommend management familiarize itself with GASB Statements No. 75 and prepare for implementation.

Management's Response

Management will familiarize themselves with GASB 75 and prepare for implementation.

TOWN OF SWAMPSCOTT, MASSACHUSETTS

**INDEPENDENT AUDITORS' REPORT ON
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION**

JUNE 30, 2017

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
BASIC FINANCIAL STATEMENTS AND
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

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INDEPENDENT AUDITORS' REPORT

Honorable Board of Selectmen
Town of Swampscott, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Swampscott, Massachusetts, as of and for the year ended June 30, 2017 (except for the Swampscott Contributory Retirement System, which is as of and for the year ended December 31, 2016), and the related notes to the financial statements, which collectively comprise the Town of Swampscott, Massachusetts' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Swampscott, Massachusetts, as of June 30, 2017 (except for the Swampscott Contributory Retirement System, which is as of and for the year ended December 31, 2016), and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 3 through 11) and general fund budget and actual comparison and certain pension and other postemployment benefits information (located on pages 71 through 80) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2018, on our consideration of the Town of Swampscott, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Swampscott, Massachusetts' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Swampscott, Massachusetts' internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Boston, Massachusetts
March 28, 2018

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

As management of the Town of Swampscott, Massachusetts (Town), we offer readers of these financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2017.

FINANCIAL HIGHLIGHTS

- The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$5,351,460 (net position). The Town's governmental activities has an unrestricted net deficit of \$58,043,080 and its business-type activities unrestricted net position totaled \$1,390,835.
- The Town's total net position decreased by \$4,142,890.
- As of the close of the fiscal year, the Town's governmental funds reported combined ending fund balances totaling \$15,523,769, a decrease of \$2,472,395 in comparison with the prior year. Approximately \$8,247,000 represents unassigned fund balance.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$8,379,915, or 12.7%, of total general fund expenditures and transfers out.
- The Town's total debt (excluding unamortized premiums) decreased by \$1,799,870 during the fiscal year.

OVERVIEW OF THE BASIC FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the *basic financial statements*, which consists of the following three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements.

This report also contains required supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

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

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

The **statement of activities** presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, accrued interest on long-term debt, etc.).

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Both of the government-wide financial statements distinguish functions of the Town 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*).

Governmental activities include general government, public safety, education, public works, health and human services, culture and recreation and debt service (interest). Business-type activities include the Town's water and sewer operations.

The government-wide financial statements can be found on pages 12 through 14 of this report.

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 Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into the following categories and are described below:

1. Governmental funds
2. Proprietary funds
3. 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 expendable resources, as well as on balances of expendable 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 effect of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Town maintains 192 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general and capital articles funds, each of which are considered to be major funds. Data from the other 190 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

The basic governmental fund financial statements can be found on pages 15 through 18 of this report.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Proprietary Funds

The Town maintains one type of proprietary fund.

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer operations, both of which are considered to be major funds.

The basic proprietary funds financial statements can be found on pages 19 through 21 of this report.

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 Town's programs. The accounting used for fiduciary funds is similar to that used for proprietary funds.

The fiduciary funds provide separate information for the Town's pension trust fund. Private-purpose trust funds and agency funds are reported and combined into a single, aggregate presentation in the fiduciary fund financial statements under the captions "private purpose trust funds" and "agency funds", respectively.

The basic fiduciary fund financial statements can be found on pages 22 and 23 of this report.

Notes to the 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. The notes to the financial statements can be found on pages 24 through 69 of this report.

Required Supplementary Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the budget comparison for the general fund and certain pension and other post-employment benefit information, which can be found on pages 71 through 80.

Government-Wide Financial Analysis

The following tables present current and prior year data on the government-wide financial statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Net Position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$5,351,460 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2017	2016	2017	2016	2017	2016
Assets						
Current Assets	\$ 20,297,386	\$ 22,558,609	\$ 5,208,393	\$ 5,095,917	\$ 25,505,779	\$ 27,654,526
Capital Assets (Net)	70,628,930	70,904,065	19,781,220	18,762,826	90,410,150	89,666,891
Total Assets	<u>90,926,316</u>	<u>93,462,674</u>	<u>24,989,613</u>	<u>23,858,743</u>	<u>115,915,929</u>	<u>117,321,417</u>
Deferred Outflows of Resources	<u>5,429,011</u>	<u>6,469,820</u>	<u>336,009</u>	<u>338,522</u>	<u>5,765,020</u>	<u>6,808,342</u>
Liabilities						
Current Liabilities (excluding debt)	3,335,828	3,437,098	277,098	297,751	3,612,926	3,734,849
Noncurrent Liabilities (excluding debt)	76,963,559	73,973,926	3,513,919	3,015,383	80,477,478	76,989,309
Current Debt	2,516,048	3,462,083	638,804	673,361	3,154,852	4,135,444
Noncurrent Debt	25,257,831	26,472,972	3,611,015	3,199,818	28,868,846	29,672,790
Total Liabilities	<u>108,073,266</u>	<u>107,346,079</u>	<u>8,040,836</u>	<u>7,186,313</u>	<u>116,114,102</u>	<u>114,532,392</u>
Deferred Inflows of Resources	<u>211,037</u>	<u>100,297</u>	<u>4,350</u>	<u>2,720</u>	<u>215,387</u>	<u>103,017</u>
Net Position						
Net Investment in Capital Asset	43,682,401	42,918,711	15,889,601	15,968,995	59,572,002	58,887,706
Restricted	2,431,703	4,671,258	-	-	2,431,703	4,671,258
Unrestricted	(58,043,080)	(55,103,851)	1,390,835	1,039,237	(56,652,245)	(54,064,614)
Total Net Position	<u>\$ (11,928,976)</u>	<u>\$ (7,513,882)</u>	<u>\$ 17,280,436</u>	<u>\$ 17,008,232</u>	<u>\$ 5,351,460</u>	<u>\$ 9,494,350</u>

The largest portion of the Town's net position (\$59,572,002) reflects its investment in capital assets (e.g., land, land improvements, buildings and improvements, machinery and equipment and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (\$2,431,703) represents resources that are subject to external restrictions on how they may be used. The remaining balance represents a net deficit of \$56,652,245. Of this amount, \$1,390,835 may be used to support business-type activities and (\$58,043,080) represents an unrestricted net deficit in governmental activities.

At the end of the current fiscal year, the Town reports positive balances in all categories of net position for business-type activities. For governmental activities, positive balances are reported in each category except for unrestricted net position. Such resources have been consumed with the recognition of pension and other postemployment benefit liabilities.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Changes in Net Position

For the fiscal year ended June 30, 2017, the Town's total net position decreased by \$4,142,890, compared to a decrease of \$1,863,504 in the prior fiscal year. These amounts are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2017	2016	2017	2016	2017	2016
Revenues						
<i>Program Revenues:</i>						
Charges for Services	\$ 4,544,194	\$ 4,784,324	\$ 6,439,015	\$ 5,916,119	\$10,983,209	\$ 10,700,443
Operating Grants and Contributions	12,413,629	10,360,485	14,619	5,467	12,428,248	10,365,952
Capital Grants and Contributions	734,135	354,699	-	-	734,135	354,699
<i>General Revenues:</i>						
Real Estate and Personal Property Taxes	48,152,283	46,926,722	-	-	48,152,283	46,926,722
Motor Vehicle and Other Excise Taxes	2,686,913	2,520,154	-	-	2,686,913	2,520,154
Penalties and Interest on Taxes	174,207	551,259	-	-	174,207	551,259
Grants and Contributions not Restricted to Specific Programs	1,323,748	1,198,274	-	-	1,323,748	1,198,274
Unrestricted Investment Income	117,518	56,368	-	-	117,518	56,368
Contributions to Permanent Funds	16,000	16,870	-	-	16,000	16,870
Other	-	223,513	-	-	-	223,513
Total revenues	<u>70,162,627</u>	<u>66,992,668</u>	<u>6,453,634</u>	<u>5,921,586</u>	<u>76,616,261</u>	<u>72,914,254</u>
Expenses						
General Government	5,008,662	3,955,000	-	-	5,008,662	3,955,000
Public Safety	14,028,024	13,647,024	-	-	14,028,024	13,647,024
Education	49,831,594	46,086,324	-	-	49,831,594	46,086,324
Public Works	3,266,237	3,274,579	-	-	3,266,237	3,274,579
Health and Human Services	954,052	948,180	-	-	954,052	948,180
Culture and Recreation	1,515,506	1,520,278	-	-	1,515,506	1,520,278
Debt Service - Interest	719,010	814,971	-	-	719,010	814,971
Water	-	-	2,994,533	2,728,836	2,994,533	2,728,836
Sewer	-	-	2,441,533	1,802,566	2,441,533	1,802,566
Total Expenses	<u>75,323,085</u>	<u>70,246,356</u>	<u>5,436,066</u>	<u>4,531,402</u>	<u>80,759,151</u>	<u>74,777,758</u>
Change in Net Position Before Transfers	(5,160,458)	(3,253,688)	1,017,568	1,390,184	(4,142,890)	(1,863,504)
Transfers, Net	<u>745,364</u>	<u>726,615</u>	<u>(745,364)</u>	<u>(726,615)</u>	<u>-</u>	<u>-</u>
Change in Net Position	(4,415,094)	(2,527,073)	272,204	663,569	(4,142,890)	(1,863,504)
Net Position - Beginning of Year	<u>(7,513,882)</u>	<u>(4,986,809)</u>	<u>17,008,232</u>	<u>16,344,663</u>	<u>9,494,350</u>	<u>11,357,854</u>
Net Position - End of Year	<u>\$ (11,928,976)</u>	<u>\$ (7,513,882)</u>	<u>\$17,280,436</u>	<u>\$17,008,232</u>	<u>\$ 5,351,460</u>	<u>\$ 9,494,350</u>

Governmental activities decreased the Town's net position by \$4,415,094. In the prior year, governmental activities decreased the Town's net position by \$2,527,073. The key element of this change is the contribution to OPEB trust fund of approximately \$1,580,000.

Business-type activities increased the Town's net position by \$272,204. In the prior year, business-type activities increased the Town's net position by \$663,569. The key element of this change is an increase of \$400,000 in pension expense allocations.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Fund Financial Statement Analysis

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

Governmental Funds

The focus of the governmental funds is to provide information on near-term inflows, outflows, and balances of expendable resources. Such information is useful in assessing the Town's financing requirements.

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$15,523,769, a decrease of \$2,472,395 in comparison with the prior year. Approximately \$8,247,000 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable (\$477,662)
- Restricted (\$2,782,552)
- Committed (\$3,746,938)
- Assigned (\$269,424)

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$8,379,915, while total fund balance was \$12,396,277. 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 general fund expenditures and transfers out. Unassigned fund balance represents 12.7% of total general fund expenditures and transfers out, while total fund balance represents 18.9% of that same amount.

The balance of the Town's general fund decreased by \$638,303 during fiscal year 2017. The Town recognized an approximate \$1,507,000 budgetary surplus (excluding encumbrances and continuing appropriations), and anticipated utilizing approximately \$2,090,000 of reserves during the year.

Financial highlights of the Town's other major governmental funds are as follows:

The fund balance of the capital articles fund decreased by \$1,042,048 during the current fiscal year. The fund recognized \$100 from contributions, and incurred \$2,869,590 of expenditures.

Proprietary Funds

The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the water and sewer enterprise funds at the end of the year amounted to \$623,160 and \$767,675, respectively. The water enterprise fund had an increase in net position for the year totaling \$651,189 and the sewer enterprise fund had a decrease in net position for the year totaling \$378,985. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

General Fund Budgetary Highlights

The original general fund budget of \$59,885,655 was increased by \$673,890 (1.1%) during the year. The following table summarizes the increase:

Purpose of Increase	Amount	Funding Source
Debt Principal and Interest	\$ 317,220	Unassigned fund balance
Coastal Resiliency Planning	128,750	Unassigned fund balance, Grant revenue
Rubbish and Recyclables Collections	115,000	Unassigned fund balance
Pension COLA Reimbursement	91,554	Unassigned fund balance
National Grid Streetlight Poles	21,366	Unassigned fund balance
Total Increase, Net	<u>\$ 673,890</u>	

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Town's investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$90,410,150 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, machinery and equipment and infrastructure. The total decrease in the investment in capital assets for the current fiscal year totaled \$743,259 or 0.8%.

Major capital asset events that occurred during the current fiscal year include the following:

- Infrastructure (\$1,094,000)
- Field Renovations (\$797,000)
- Sewer Improvements (\$682,000)

The following table summarizes the Town's capital assets (net of accumulated depreciation):

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2017	2016	2017	2016	2017	2016
Land	\$ 4,420,080	\$ 4,420,080	\$ 252,182	\$ 252,182	\$ 4,672,262	\$ 4,672,262
Construction in Progress	870,057	-	1,671,385	1,011,942	2,541,442	1,011,942
Land Improvements	609,797	594,510	1,050	1,350	610,847	595,860
Buildings	53,608,485	55,138,725	516,232	536,331	54,124,717	55,675,056
Machinery and Equipment	1,460,362	1,557,490	420,930	559,336	1,881,292	2,116,826
Infrastructure	9,660,149	9,193,260	16,919,441	16,401,685	26,579,590	25,594,945
Total Capital Assets	<u>\$ 70,628,930</u>	<u>\$70,904,065</u>	<u>\$19,781,220</u>	<u>\$18,762,826</u>	<u>\$ 90,410,150</u>	<u>\$89,666,891</u>

Additional information on the Town's capital assets can be found in Note 5 on pages 43 and 44 of this report.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Long-Term Debt

At the end of the current fiscal year, total debt outstanding was \$31,544,648, which is backed by the full faith and credit of the Town, and is summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$ 27,344,449	\$29,471,339	\$ 1,383,094	\$ 1,489,990	\$28,727,543	\$ 30,961,329
MWRA Notes	-	-	2,737,185	2,146,293	2,737,185	2,146,293
MCWT Notes	-	-	79,920	236,896	79,920	236,896
Total Bonds and Notes	<u>\$ 27,344,449</u>	<u>\$29,471,339</u>	<u>\$ 4,200,199</u>	<u>\$ 3,873,179</u>	<u>\$31,544,648</u>	<u>\$ 33,344,518</u>

The Town's total debt (excluding unamortized premiums) decreased by \$1,799,890 (9.4%).

The Town's bond rating from Moody's Investor Services for the January 2018 bond issuance was Aa+.

Additional information on the Town's long-term debt can be found in Note 9 on pages 48 through 51 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The fiscal year 2018 Budget for the Town of Swampscott totals \$66.57M, inclusive of debt exclusions for the new police station and the new high school of \$1.797M. Swampscott's total budget as presented in this document is comprised of a General Fund component and the Water and Sewer Enterprise Fund component. The General Fund Budget for fiscal year 2018 totals \$66.57M inclusive of the debt exclusions previously mentioned. This projected level of spending is \$1.3M more than the fiscal year 2017 budget. The Enterprise Fund Budget for fiscal year 2018 totals \$6.02M, an increase of \$70,834 as compared to the fiscal year 2017 Enterprise Fund Budget. The following is a discussion of several highlights in each component.

The General Fund Budget supports the operations of all Town departments as well as fixed costs such as non-Enterprise Fund Debt Service, Employee Benefits and Insurance, and the Town's contribution to the School Department. The total appropriation required to support Town departments, excluding schools, and shared expenses such as employee benefits and the Town's contribution to the Retirement System, is approximately \$13,851,622 for fiscal year 2018, an increase of \$717,969 from fiscal year 2017. This includes projected salary step increases within existing collective bargaining agreements and an assumption of a 1% cost of living increase for non-contract employees. General Fund Debt Service included in the fiscal year 2018 budget totals \$3.194M. Approximately \$1.797 of this line item represents principal and interest payments outstanding on debt exclusions for the new high school and new police station. Increases in the Town's contribution to the Town's Retirement System and payments to the Non-Contributory Retirees will exceed \$383,000. State Assessments, or charges, are projected to increase by approximately \$61,974 in fiscal year 2018. In addition, a \$2,000,000 appropriation is being made to the Town's stabilization funds and OPEB Trust Fund in fiscal year 2018.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Funding for Education, which includes the Town's contribution to the School Department and the new Essex North Shore Agricultural and Technical School District, is anticipated to be \$28,527,252 for fiscal year 2018. Included in this line item is a projected increase of \$950,000 for the Swampscott School Department. The vocational school appropriation is projected to decrease by \$122,468 at this time.

The Enterprise Fund Budget for fiscal year 2018 totals \$6.02M, representing a 1.2% increase from fiscal year 2017. Approximately \$3.6M, or 59.7% of total expenditures, will be funded through water user charges and \$2.4M or 40.3%, funded through sewer user charges. Reserves established in these funds resulting from efficiencies implemented during the past several years will continue to be used to help mitigate rate increases due to the increase in requested appropriations.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in its finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, Administrative Offices, 22 Monument Avenue, Swampscott, Massachusetts 01907.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
STATEMENT OF NET POSITION
JUNE 30, 2017

ASSETS	Primary Government		
	Governmental Activities	Business-type Activities	Total
Current Assets:			
Cash and Cash Equivalents	\$ 14,813,334	\$ 2,841,652	\$ 17,654,986
Restricted Cash and Cash Equivalents	3,482,510	386,099	3,868,609
Receivables, Net of Allowance for Uncollectible Amounts:			
Real Estate and Personal Property Taxes	521,871	-	521,871
Tax and Utility Liens	1,050,492	102,283	1,152,775
Motor Vehicle and Other Excise Taxes	180,512	-	180,512
Water	-	1,098,222	1,098,222
Sewer	-	780,137	780,137
Departmental and Other	58,591	-	58,591
Intergovernmental	190,076	-	190,076
Total Current Assets	20,297,386	5,208,393	25,505,779
Noncurrent Assets:			
Capital Assets Not Being Depreciated	5,290,137	1,923,567	7,213,704
Capital Assets, Net of Accumulated Depreciation	65,338,793	17,857,653	83,196,446
Total Noncurrent Assets	70,628,930	19,781,220	90,410,150
Total Assets	90,926,316	24,989,613	115,915,929
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	5,331,458	336,009	5,667,467
Losses from Debt Refundings	97,553	-	97,553
Total Deferred Outflows of Resources	5,429,011	336,009	5,765,020
LIABILITIES			
Current Liabilities:			
Warrants Payable	441,916	254,275	696,191
Accrued Payroll	1,546,696	20,179	1,566,875
Tax Refunds Payable	131,700	-	131,700
Other Liabilities	372,952	-	372,952
Accrued Interest	188,857	1,841	190,698
Capital Lease Obligations	38,490	-	38,490
Workers' Compensation Claims	73,088	-	73,088
Compensated Absences	158,720	803	159,523
Short-Term Notes Payable	383,409	-	383,409
Long-Term Bonds and Notes Payable	2,516,048	638,804	3,154,852
Total Current Liabilities	5,851,876	915,902	6,767,778
Noncurrent Liabilities:			
Workers' Compensation Claims	657,782	-	657,782
Compensated Absences	1,428,492	7,229	1,435,721
Net OPEB Obligation	30,595,710	715,896	31,311,606
Net Pension Liability	44,281,575	2,790,794	47,072,369
Long-Term Bonds and Notes Payable	25,257,831	3,611,015	28,868,846
Total Noncurrent Liabilities	102,221,390	7,124,934	109,346,324
Total Liabilities	108,073,266	8,040,836	116,114,102
DEFERRED INFLOWS OF RESOURCES			
Pension Related	69,021	4,350	73,371
Taxes Collected in Advance	142,016	-	142,016
Total Deferred Inflow of Resources	211,037	4,350	215,387
NET POSITION			
Net Investment in Capital Assets	43,682,401	15,889,601	59,572,002
Restricted for:			
Permanent Funds:			
Expendable	186,954	-	186,954
Nonexpendable	477,662	-	477,662
Other Specific Purposes	1,767,087	-	1,767,087
Unrestricted	(58,043,080)	1,390,835	(56,652,245)
Total Net Position	\$ (11,928,976)	\$ 17,280,436	\$ 5,351,460

See accompanying Notes to Financial Statements.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2017

		Program Revenues			
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense)/ Revenue
Primary Government:					
Governmental Activities:					
General Government	\$ 5,008,662	233,710	\$ 318,476	\$ 523,357	\$ (3,933,119)
Public Safety	14,028,024	895,549	13,924	5,000	(13,113,551)
Education	49,831,594	2,925,991	11,807,056	-	(35,098,547)
Public Works	3,266,237	128,899	129,239	205,778	(2,802,321)
Health and Human Services	954,052	68,801	109,977	-	(775,274)
Culture and Recreation	1,515,506	291,244	34,957	-	(1,189,305)
Debt Service-Interest	719,010	-	-	-	(719,010)
Total Governmental Activities	75,323,085	4,544,194	12,413,629	734,135	(57,631,127)
Business-Type Activities:					
Water	2,994,533	3,997,689	4,879	-	1,008,035
Sewer	2,441,533	2,441,326	9,740	-	9,533
Total Business-Type Activities	5,436,066	6,439,015	14,619	-	1,017,568
Total Primary Government	\$ 80,759,151	\$ 10,983,209	\$ 12,428,248	\$ 734,135	\$ (56,613,559)

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
STATEMENT OF ACTIVITIES (CONTINUED)
YEAR ENDED JUNE 30, 2017**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
CHANGES IN NET POSITION			
Net (Expense) Revenue (From Previous Page)	<u>\$ (57,631,127)</u>	<u>\$ 1,017,568</u>	<u>\$ (56,613,559)</u>
General Revenues:			
Real Estate and Personal Property Taxes	48,152,283	-	48,152,283
Motor Vehicle and Other Excise Taxes	2,686,913	-	2,686,913
Penalties and Interest on Taxes	174,207	-	174,207
Grants and Contributions not Restricted to Specific Programs	1,323,748	-	1,323,748
Unrestricted Investment Income	117,518	-	117,518
Contributions to Permanent Funds	16,000	-	16,000
Transfers, Net	745,364	(745,364)	-
Total General Revenues and Transfers	<u>53,216,033</u>	<u>(745,364)</u>	<u>52,470,669</u>
CHANGE IN NET POSITION	(4,415,094)	272,204	(4,142,890)
Net Position - Beginning of Year	<u>(7,513,882)</u>	<u>17,008,232</u>	<u>9,494,350</u>
NET POSITION - END OF YEAR	<u><u>\$ (11,928,976)</u></u>	<u><u>\$ 17,280,436</u></u>	<u><u>\$ 5,351,460</u></u>

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2017**

ASSETS	General	Capital Articles	Nonmajor Governmental Funds	Total Governmental Funds
Cash and Cash Equivalents	\$ 14,813,334	\$ -	\$ -	\$ 14,813,334
Receivables, Net of Allowance for Uncollectible Amounts:				
Real Estate and Personal Property Taxes	521,871	-	-	521,871
Tax Liens	1,050,492	-	-	1,050,492
Motor Vehicle and Other Excise taxes	180,512	-	-	180,512
Departmental and Other	20,785	-	37,806	58,591
Intergovernmental	-	-	190,076	190,076
Restricted Assets:				
Cash and Cash Equivalents	-	1,235,531	2,246,979	3,482,510
Total Assets	<u>\$ 16,586,994</u>	<u>\$ 1,235,531</u>	<u>\$ 2,474,861</u>	<u>\$ 20,297,386</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
LIABILITIES				
Warrants Payable	\$ 300,446	\$ 104,349	\$ 37,121	\$ 441,916
Accrued Payroll	1,526,481	-	20,215	1,546,696
Tax Refunds Payable	131,700	-	-	131,700
Other Liabilities	372,952	-	-	372,952
Short-Term Notes Payable	-	383,409	-	383,409
Total Liabilities	<u>2,331,579</u>	<u>487,758</u>	<u>57,336</u>	<u>2,876,673</u>
DEFERRED INFLOWS OF RESOURCES				
Unavailable Revenue	1,717,122	-	37,806	1,754,928
Taxes Collected in Advance	142,016	-	-	142,016
Total Deferred Inflows of Resources	<u>1,859,138</u>	<u>-</u>	<u>37,806</u>	<u>1,896,944</u>
FUND BALANCES				
Nonspendable	-	-	477,662	477,662
Restricted	-	831,317	1,951,235	2,782,552
Committed	3,746,938	-	-	3,746,938
Assigned	269,424	-	-	269,424
Unassigned	8,379,915	(83,544)	(49,178)	8,247,193
Total Fund Balances	<u>12,396,277</u>	<u>747,773</u>	<u>2,379,719</u>	<u>15,523,769</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 16,586,994</u>	<u>\$ 1,235,531</u>	<u>\$ 2,474,861</u>	<u>\$ 20,297,386</u>

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2017**

	General	Capital Articles	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Real Estate and Personal Property Taxes	\$ 47,763,141	-	-	\$ 47,763,141
Motor Vehicle and Other Excise Taxes	2,642,922	-	-	2,642,922
Tax Liens	162,699	-	-	162,699
Charges for Services	-	-	1,785,087	1,785,087
Intergovernmental	11,128,945	-	2,540,159	13,669,104
Penalties and Interest on Taxes	174,207	-	-	174,207
Licenses and Permits	426,919	-	-	426,919
Fines and Forfeitures	81,001	-	-	81,001
Departmental and Other	2,235,862	-	936,714	3,172,576
Contributions	500	100	30,624	31,224
Investment Income	141,797	-	2,192	143,989
Total Revenues	<u>64,757,993</u>	<u>100</u>	<u>5,294,776</u>	<u>70,052,869</u>
EXPENDITURES				
Current:				
General Government	2,863,252	310,919	401,379	3,575,550
Public Safety	7,798,388	184,707	502,513	8,485,608
Education	27,896,247	622,006	4,269,113	32,787,366
Public Works	2,301,129	1,751,958	408,202	4,461,289
Health and Human Services	352,677	-	54,724	407,401
Culture and Recreation	769,104	-	263,857	1,032,961
Pension Benefits	10,835,360	-	-	10,835,360
Employee Benefits	7,496,742	-	-	7,496,742
Property and Liability Insurance	558,831	-	-	558,831
State and County Charges	683,482	-	-	683,482
Debt Service:				
Principal	3,427,797	-	-	3,427,797
Interest	829,148	-	-	829,148
Total Expenditures	<u>65,812,157</u>	<u>2,869,590</u>	<u>5,899,788</u>	<u>74,581,535</u>
(DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1,054,164)</u>	<u>(2,869,490)</u>	<u>(605,012)</u>	<u>(4,528,666)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds of Bonds and Notes	-	1,300,907	-	1,300,907
Sale of Capital Assets	-	-	10,000	10,000
Transfers In	821,431	526,812	35,000	1,383,243
Transfer Out	(405,570)	(277)	(232,032)	(637,879)
Total Other Financing Sources (Uses)	<u>415,861</u>	<u>1,827,442</u>	<u>(187,032)</u>	<u>2,056,271</u>
NET CHANGE IN FUND BALANCES	<u>(638,303)</u>	<u>(1,042,048)</u>	<u>(792,044)</u>	<u>(2,472,395)</u>
Fund Balances - Beginning of Year	<u>13,034,580</u>	<u>1,789,821</u>	<u>3,171,763</u>	<u>17,996,164</u>
FUND BALANCES - END OF YEAR	<u>\$ 12,396,277</u>	<u>\$ 747,773</u>	<u>\$ 2,379,719</u>	<u>\$ 15,523,769</u>

See accompanying Notes to Financial Statements.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2017

Total Governmental Fund Balances (Page 15)	\$ 15,523,769
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	70,628,930
Other assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds	1,754,928
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due	(188,857)
Deferred losses on refunded bonds payable are reported as deferred outflows of resources on the statement of net position	97,553
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.	
Bonds and Notes Payable	(27,773,879)
Capital Lease Obligations	(38,490)
Workers' Compensation Claims	(730,870)
Compensated Absences	(1,587,212)
Net OPEB Obligation	(30,595,710)
Net Pension Liability	(44,281,575)
In the statement of net position, deferred outflows of resources and deferred inflows of resources are reported for amounts related to pensions	5,262,437
Net Position of Governmental Activities (Page 12)	<u>\$ (11,928,976)</u>

**TOWN OF SWAMPSCOTT, 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, 2017**

Net Change in Fund Balances - Total Governmental Funds (Page 16) \$(2,472,395)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.

Capital Outlays	2,836,106
Depreciation	(2,494,851)

In the statement of activities, the loss on the disposals of capital assets is reported, whereas in the governmental funds the disposals are not reported as financial resources. As a result, the change in net position differs from the change in fund balance by the net book value of the capital assets disposed (616,390)

Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflows of resources in the governmental funds. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred inflows of resources. 109,761

The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities. These amounts represent the related activity of the current period.

Proceeds of Bonds	(1,300,907)
Bond Maturities	3,427,797
Amortization of Bond Premiums	34,286
Amortization of Deferred Losses on Refundings	(21,679)
Capital Lease Maturities	36,605

In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable 97,531

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.

These amounts represent the net changes:

Workers' Compensation	80,179
Compensated Absences	62,641
Net OPEB Obligation	(3,265,913)
Net Pension Liability	109,251

In the statement of activities, deferred outflows and inflows related to pensions are amortized and recognized as pension expense. This amount represents the net change in deferred outflows and inflows related to pensions. (1,037,116)

Changes in Net Position of Governmental Activities (Page 14) \$(4,415,094)

TOWN OF SWAMPSCOTT, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF FUND NET POSITION
JUNE 30, 2017

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 1,064,802	\$ 1,776,850	\$ 2,841,652
Restricted Cash and Cash Equivalents	165,009	221,090	386,099
Receivables, Net of Allowance for Uncollectible Amounts:			
User Charges	1,098,222	780,137	1,878,359
Utility Liens	46,497	55,786	102,283
Total Current Assets	<u>2,374,530</u>	<u>2,833,863</u>	<u>5,208,393</u>
Noncurrent Assets:			
Capital Assets not being Depreciated	1,673,927	249,640	1,923,567
Capital Assets, Net of Accumulated Depreciation	5,554,590	12,303,063	17,857,653
Total Noncurrent Assets	<u>7,228,517</u>	<u>12,552,703</u>	<u>19,781,220</u>
Total Assets	<u>9,603,047</u>	<u>15,386,566</u>	<u>24,989,613</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Related	<u>166,896</u>	<u>169,113</u>	<u>336,009</u>
LIABILITIES			
Current Liabilities:			
Warrants Payable	2,759	251,516	254,275
Accrued Payroll	11,512	8,667	20,179
Accrued Interest	1,088	753	1,841
Compensated Absences	711	92	803
Long-Term Bonds and Notes Payable	495,081	143,723	638,804
Total Current Liabilities	<u>511,151</u>	<u>404,751</u>	<u>915,902</u>
Noncurrent Liabilities:			
Compensated Absences	6,401	828	7,229
Net OPEB Obligation	342,437	373,459	715,896
Net Pension Liability	1,386,188	1,404,606	2,790,794
Long-Term Bonds and Notes Payable	2,314,104	1,296,911	3,611,015
Total Noncurrent Liabilities	<u>4,049,130</u>	<u>3,075,804</u>	<u>7,124,934</u>
Total Liabilities	<u>4,560,281</u>	<u>3,480,555</u>	<u>8,040,836</u>
DEFERRED INFLOWS OF RESOURCES			
Related to Pensions	<u>2,161</u>	<u>2,189</u>	<u>4,350</u>
FUND NET POSITION			
Net Investment in Capital Assets	4,584,341	11,305,260	15,889,601
Unrestricted	<u>623,160</u>	<u>767,675</u>	<u>1,390,835</u>
Total Net Position	<u>\$ 5,207,501</u>	<u>\$ 12,072,935</u>	<u>\$ 17,280,436</u>

See accompanying Notes to Financial Statements.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
YEAR ENDED JUNE 30, 2017

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
OPERATING REVENUES			
Charges for Services	\$ 3,940,247	\$ 2,401,479	\$ 6,341,726
Penalties and Interest	57,442	39,847	97,289
Total Operating Revenues	<u>3,997,689</u>	<u>2,441,326</u>	<u>6,439,015</u>
OPERATING EXPENSES			
Cost of Service and Administration	888,687	1,193,304	2,081,991
MWRA Assessment	1,846,291	-	1,846,291
City of Lynn Assessment	-	540,878	540,878
Depreciation	255,957	526,953	782,910
Total Operating Expenses	<u>2,990,935</u>	<u>2,261,135</u>	<u>5,252,070</u>
OPERATING INCOME	<u>1,006,754</u>	<u>180,191</u>	<u>1,186,945</u>
NONOPERATING REVENUES (EXPENSES)			
Investment Income	4,879	9,740	14,619
Interest Expense	(3,598)	(32,815)	(36,413)
Loss on Disposal of Capital Assets	-	(147,583)	(147,583)
Total Nonoperating Revenues (Expenses), Net	<u>1,281</u>	<u>(170,658)</u>	<u>(169,377)</u>
INCOME BEFORE TRANSFERS	<u>1,008,035</u>	<u>9,533</u>	<u>1,017,568</u>
Transfers In	53,154	21,482	74,636
Transfers Out	(410,000)	(410,000)	(820,000)
Total Transfers, Net	<u>(356,846)</u>	<u>(388,518)</u>	<u>(745,364)</u>
CHANGE IN FUND NET POSITION	651,189	(378,985)	272,204
Fund Net Position - Beginning of Year	<u>4,556,312</u>	<u>12,451,920</u>	<u>17,008,232</u>
FUND NET POSITION - END OF YEAR	<u>\$ 5,207,501</u>	<u>\$ 12,072,935</u>	<u>\$ 17,280,436</u>

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2017**

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from Customers and Users	\$ 3,785,294	\$ 2,302,312	\$ 6,087,606
Payments to Vendors	(2,194,779)	(1,038,130)	(3,232,909)
Payments to Employees	(366,819)	(381,786)	(748,605)
Net Cash Provided by Operating Activities	1,223,696	882,396	2,106,092
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers In	53,154	21,482	74,636
Transfers Out	(410,000)	(410,000)	(820,000)
Net Cash Used by Noncapital Financing Activities	(356,846)	(388,518)	(745,364)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from the Issuance of Bonds and Notes	1,000,000	50,000	1,050,000
Acquisition and Construction of Capital Assets	(997,400)	(951,487)	(1,948,887)
Principal Payments on Bonds and Notes	(490,591)	(179,094)	(669,685)
Interest Paid	(4,603)	(41,105)	(45,708)
Net Cash Used by Capital and Related Financing Activities	(492,594)	(1,121,686)	(1,614,280)
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment Income	4,879	9,740	14,619
NET CHANGE IN CASH AND CASH EQUIVALENTS	379,135	(618,068)	(238,933)
Cash and Cash Equivalents - Beginning of Year (Includes \$198,794 and \$880,554 Reported as Restricted in the Water Enterprise Fund and Sewer Enterprise Fund, Respectively)	850,676	2,616,008	3,466,684
CASH AND CASH EQUIVALENTS AT END OF YEAR (Includes \$165,009 and \$221,090 Reported as Restricted in the Water Enterprise Fund and Sewer Enterprise Fund, Respectively)	\$ 1,229,811	\$ 1,997,940	\$ 3,227,751
RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES			
Operating Income	\$ 1,006,754	\$ 180,191	\$ 1,186,945
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Adjustments not Requiring Current Cash Flows:			
Depreciation	255,957	526,953	782,910
Net OPEB Obligation	(1,380)	75,957	74,577
Net Pension Liability	212,078	216,577	428,655
Effect of Changes in Operating Assets and Liabilities:			
Utility Liens	(27,156)	(41,858)	(69,014)
Water Receivables	(185,239)	-	(185,239)
Sewer Receivables	-	(97,156)	(97,156)
Warrants Payable	(33,881)	20,173	(13,708)
Accrued Payroll	(1,902)	639	(1,263)
Compensated Absences	(1,535)	920	(615)
Total Adjustments	216,942	702,205	919,147
Net Cash Provided by Operating Activities	\$ 1,223,696	\$ 882,396	\$ 2,106,092

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2017**

ASSETS	Pension Trust Fund (as of December 31, 2016)	OPEB Trust	Private Purpose Trust Funds	Agency Funds
Cash and Cash Equivalents	\$ 2,677,240	\$ 1,517,772	\$ 279,056	\$ 190,812
Investments				
External Investment Pool (PRIT)	38,455,772	-	-	-
Collective Investment Trust Fund	7,326,719	-	-	-
Real Estate	181,734	-	-	-
Private Equity	273,664	-	-	-
Interest and Dividends	1,609	-	-	-
Receivables, Net of Allowance for Uncollectible Amounts:				
Other	1,505	-	-	-
Total Assets	<u>48,918,243</u>	<u>1,517,772</u>	<u>279,056</u>	<u>190,812</u>
 LIABILITIES				
Warrants Payable	12,291	-	13,502	-
Liabilities Due Depositors	<u>-</u>	<u>-</u>	<u>-</u>	<u>190,812</u>
Total Liabilities	<u>12,291</u>	<u>-</u>	<u>13,502</u>	<u>\$ 190,812</u>
 NET POSITION				
Restricted for Pension Benefits, OPEB and Other Purposes	<u>\$ 48,905,952</u>	<u>\$ 1,517,772</u>	<u>\$ 265,554</u>	

See accompanying Notes to Financial Statements.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2017

	Pension Trust Fund (Year Ended December 31, 2016)	OPEB Trust	Private Purpose Trust Funds
ADDITIONS			
Contributions:			
Employer	\$ 5,012,346	\$ 4,471,856	\$ -
Plan Members	1,245,816	-	-
Private Donations	-	-	2,181
Total Contributions	6,258,162	4,471,856	2,181
Net Investment Income:			
Net Depreciation in Fair Value of Investments	1,621,282	-	-
Interest	1,216,811	-	307
Total Investment Income	2,838,093	-	307
Less: Investment Expense	(264,424)	-	-
Net Investment Income	2,573,669	-	307
Total Additions	8,831,831	4,471,856	2,488
DEDUCTIONS			
Administration	160,268	-	-
Retirement Benefits and Refunds	5,359,288	2,954,084	-
Scholarships Awarded	-	-	32,467
Total Deductions	5,519,556	2,954,084	32,467
CHANGE IN NET POSITION	3,312,275	1,517,772	(29,979)
Net Position - Beginning of Year	45,593,677	-	295,533
NET POSITION - END OF YEAR	<u>\$ 48,905,952</u>	<u>\$ 1,517,772</u>	<u>\$ 265,554</u>

See accompanying Notes to Financial Statements.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. General

The basic financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

B. Reporting Entity

The Town of Swampscott, Massachusetts (Town) is a municipal corporation that is governed by an elected Board of Selectmen.

For financial reporting purposes, the basic financial statements include all funds, organizations, agencies, boards, commissions and institutions that are not legally separate from the Town.

The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and/or significance of their relationship with the Town are such that exclusion would cause the Town's basic financial statements to be misleading or incomplete.

Fiduciary Fund

The Town has included the Swampscott Contributory Retirement System (System) as a fiduciary fund in the reporting entity because of the significance of its operational and financial relationship with the Town. Fiduciary funds are entities that are legally separate from the Town, but are so related that they are, in substance, the same as the Town or entities providing services entirely or almost entirely for the benefit of the Town.

The System was established to provide retirement benefits to Town employees, the Swampscott Housing Authority employees, and their beneficiaries. The System is governed by a five-member board comprised of the Town Accountant (ex-officio), two members elected by the System's participants, one member appointed by the Town's Board of Selectmen and one member appointed by the System's four other Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary funds financial statements.

Joint Venture

A joint venture is an organization (resulting from a contractual arrangement) that is owned, operated or governed by two or more participants as a separate and specific activity subject to joint control in which the participants retain an ongoing financial interest or ongoing financial responsibility. Joint control means that no single participant has the ability to unilaterally control the financial or operating policies of the joint venture.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Reporting Entity (Continued)

Joint Venture (Continued)

The Town participates in one joint venture with other municipalities to pool resources and share the costs, risks and rewards of providing goods and services to venture participants directly, or for the benefit of the general public or specified recipients.

North Shore Technical School

The North Shore Technical School is governed by a sixteen member school district committee consisting of one elected representative of the Town. The Town is indirectly liable for the North Shore Technical School debt and expenditures and is assessed annually for its share of operating and capital costs. For the fiscal year ended June 30, 2017, the Town's assessment totaled approximately \$425,000. Separate financial statement may be obtained in writing to the Treasurer of the North Shore Technical School at 30 Log Bridge Road, Middleton, Massachusetts, 01949.

C. Implementation of New Accounting Principles

For the year ending June 30, 2017, the Town implemented the following pronouncements issued by the GASB:

- GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
- GASB Statement No. 77, *Tax Abatement Disclosures*
- GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*
- GASB Statement No. 80, *Blending Requirements for Certain Component Units – an amendment to GASB Statement No. 14*
- GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*

The implementation of GASB Statement No.'s 77, 78, 80, and 82 had no reporting impact for the Town. The implementation of GASB Statement No. 74 enhances the Town's disclosures and schedules of required supplementary information related to Other Post Employment Benefits (OPEB).

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (statement of net position and the statement of activities) report information on all non-fiduciary activities of the primary government. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are primarily supported by user fees.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though fiduciary funds are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and displayed in a single column.

Fiduciary funds are reported by fund type.

E. Measurement Focus, Basis of Accounting and Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of activities demonstrates the degree to which the direct expenses of a function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

- Charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment
- Grants and contributions that are restricted to meeting the operational requirements of a specific function or segment
- Grants and other contributions that are restricted to meeting the capital requirements of a specific function or segment

Taxes and other items not identifiable as program revenues are reported as general revenues. Except for charges between the general fund and enterprise funds, the effect of interfund activity has been eliminated from the government-wide financial statements. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Fund Financial Statements

Governmental funds financial statements are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for unmatured interest on general long-term debt which is recognized when due, and certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

Real estate and personal property tax revenues are considered available if they are collected within 60-days after the end of the fiscal year. Investment income is susceptible to accrual. Other receipts and tax revenues become measurable and available when the cash is received and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The following major governmental funds are reported:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund.

The *capital articles fund* is a capital projects fund used to accumulate financial resources for various bonded construction projects.

The nonmajor governmental funds consist of other special revenue, capital projects, debt service and permanent funds that are aggregated and presented in the *nonmajor governmental funds* column on the governmental funds financial statements. The following describes the general use of these fund types:

Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

Capital projects funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital projects funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. Measurement Focus, Basis of Accounting and Basis of Presentation (Continued)

Fund Financial Statements (Continued)

Permanent funds are used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the government's programs and benefit the government or its citizenry.

Proprietary funds financial statements are reported using the flow of economic resources measurement focus and the accrual basis of accounting, whereby revenues are recorded when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following proprietary funds are reported:

The *water* enterprise fund is used to account for the Town's water activities.

The *sewer* enterprise fund is used to account for the Town's sewer activities.

Fiduciary funds financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the government's programs.

The following fiduciary fund types are reported:

The *pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *OPEB trust fund* is used to accumulate resources to provide funding for future OPEB (other postemployment benefits) liabilities.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefits individuals, private organizations, or other governments.

The *agency fund* is used to account for assets held in a strictly custodial capacity. Such assets consist primarily of student activity funds. Agency funds do not present the results of operations or have a measurement focus.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Deposits and Investments

Government-Wide and Fund Financial Statements

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition.

Investments are carried at fair value, net asset value (NAV), or amortized cost, as further discussed in Note 3.

G. Accounts Receivable

Government-Wide and Fund Financial Statements

The recognition of revenue related to accounts receivable reported in the government-wide, proprietary funds and fiduciary funds financial statements are reported under the accrual basis of accounting. The recognition of revenue related to receivables in the governmental funds financial statements are reported under the modified accrual basis of accounting.

Real Estate Taxes, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are levied and based on values assessed on January 1st of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on August 1st, November 1st, February 1st and May 1st and are subject to penalties and interest if they are not paid by the respective due date.

Real estate tax liens are processed during the fourth quarter of every year on delinquent properties and are recorded as receivables in the fiscal year they are processed.

Motor Vehicle Excise Taxes

Motor vehicle excise taxes are assessed annually for each vehicle registered in the Town and are recorded as receivables in the fiscal year of the levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair values of those vehicles to the Town. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

User Charges (Water and Sewer)

User fees are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Water and sewer liens are processed annually in December and are included as a lien on the property owner's tax bill. Water and sewer charges are recorded as receivables in the fiscal year of the commitment.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Accounts Receivable (Continued)

Intergovernmental

Various state and federal operating and capital grants are applied for and received annually. For non-expenditure driven grants, revenue is recognized as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, revenue is recognized when the qualifying expenditures are incurred and all other grant requirements are met.

Departmental and Other

Departmental and Other receivables primarily represent amounts due for parking tickets and police detail and are recorded as receivables in the fiscal year accrued.

H. Allowance for Uncollectible Amounts

The allowance for uncollectible amounts is estimated based on historical trends and specific account analysis for the following accounts receivable:

- Personal property taxes
- Motor vehicle and other excise taxes
- Departmental and other

As of June 30, 2017, the allowance related to departmental and other receivables are immaterial and therefore are not reported.

The following types of accounts receivable are secured via the lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible amounts is not reported.

- Real estate taxes and tax liens
- User charges (water and sewer, including liens)

Intergovernmental receivables are considered 100% collectible.

I. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories consist primarily of supplies and are not material in total to the respective financial statements and therefore are not reported.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. Restricted Assets

Government-Wide and Fund Financial Statements

Assets are reported as restricted when limitations on their use change the nature of the availability of the asset. Such constraints are either externally imposed by creditors, contributors, grantors, or laws of other governments, or are imposed by law through constitutional provisions or enabling legislation.

K. Capital Assets

Government-Wide and Proprietary Funds Financial Statements

Capital assets, which consist of land, land improvements, buildings and improvements, machinery and equipment, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activities column of the government-wide financial statements and the proprietary funds financial statements.

Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All individual purchases and construction costs in excess of \$25,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of capital assets are as follows:

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Land improvements	20 - 30
Buildings and improvements	7 - 50
Machinery and equipment	3 - 20
Infrastructure	20 - 60

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. All improvements are capitalized.

Governmental Fund Financial Statements

Capital asset costs are recorded as expenditures in the acquiring fund in the fiscal year of the purchase.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Interfund Receivables and Payables

During the course of its operations, transactions occur between funds that may result in amounts owed between funds.

Government-Wide Financial Statements

Transactions of a buyer/seller nature between governmental funds are eliminated from the governmental activities in the statement of net position. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of net position as "internal balances".

Fund Financial Statements

Transactions of a buyer/seller nature between funds are not eliminated from the individual fund statements. Receivables and payables resulting from these transactions are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

M. Interfund Transfers

During the course of its operations, resources are permanently reallocated between funds.

Government-Wide Financial Statements

Transfers between governmental funds are eliminated from the governmental activities in the statement of activities. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers, net".

Fund Financial Statements

Transfers between funds are not eliminated from the individual fund statements and are reported as transfers in and transfers out.

N. Deferred Outflows of Resources

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

The Town has two items that qualify for reporting in this category:

Deferred outflows of resources related to deferred losses from debt refunding transactions is reported in the government-wide statement of net position.

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

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

O. Deferred Inflows of Resources

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

The Town has three items that qualify for reporting in this category:

Deferred inflow of resources related to unavailable revenue is reported in the governmental funds balance sheet. Unavailable revenue represents billed receivables that do not meet the availability criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting.

Deferred inflow of resources related to taxes collected in advance is reported in both the government-wide statement of net position and governmental funds balance sheet. Taxes collected in advance represent amounts collected related to the fiscal year 2018 tax levy.

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

P. Net Position and Fund Balances

Government-Wide Financial Statements and Proprietary Funds Financial Statements (Net Position)

Net position represents the residual difference between assets and deferred outflows less liabilities and deferred inflows.

Net position is reported as restricted when amounts are restricted by outside parties for a specific future use.

Net position has been "restricted" for the following:

"Permanent funds – expendable" represents amounts held in trust for which the expenditures are restricted by various trust agreements.

"Permanent funds – nonexpendable" represents amounts held in trust for which only investment earnings may be expended.

"Other specific purposes" represents restrictions placed on assets from outside parties.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Net Position and Fund Balances (Continued)

Governmental Funds Financial Statements (Fund Balances)

The following fund balance classifications describe the relative strength of the spending constraints:

Nonspendable – represents amounts that cannot be spent either because they are in nonspendable form (i.e., prepaid amounts) or because they are legally or contractually required to be maintained intact (i.e., principal of permanent fund).

Restricted – represents amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – represents amounts that can be used only for specific purposes imposed by a formal action of Town Meeting, which is the highest level of decision-making authority for the Town. Committed amounts may be established, modified, or rescinded only through actions approved by Town Meeting.

Assigned – represents amounts that do not meet the criteria to be classified as restricted or committed but are intended to be used for specific purposes. Under the Town's structure, authorized assignments for non-contractual encumbrances can be made by individual department heads.

Unassigned – represents the residual fund balance for the General Fund and the negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting assigned fund balance amounts.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned and unassigned.

Encumbrance amounts have been assigned for specific purposes for which resources already have been allocated.

Q. Long-Term Debt

Government-Wide and Proprietary Fund Financial Statements

Long-term debt is reported as liabilities in the government-wide and proprietary funds statements of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. Long-Term Debt (Continued)

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources when the debt is issued. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

R. Investment Income

Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Law (MGL). Investment income from permanent funds is retained in the funds.

Investment income derived from the proprietary and fiduciary funds is retained in the funds.

S. Compensated Absences

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements, state laws and executive policies.

Government-Wide and Proprietary Fund Financial Statements

Vested or accumulated vacation and sick leave are reported as liabilities and expensed as incurred.

Governmental Fund Financial Statements

Vested or accumulated vacation and sick leave, which will be liquidated with expendable available financial resources, are reported as expenditures and fund liabilities upon employee retirements and resignations.

T. Pensions

Government-Wide and Proprietary Fund Financial Statements

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the System and additions to/deductions from the System's fiduciary net position have been determined on the same basis as they are reported by the System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value, NAV, or amortized cost, as further discussed in Note 3.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

U. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits and as more fully described in Note 11, the Town provides health and life insurance coverage for current and future retirees and their spouses.

V. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

W. Total Column

Government-Wide Financial Statements

The total column presented on the government-wide financial statements represents consolidated financial information.

Fund Financial Statements

The total column presented on the fund financial statements is presented only to facilitate financial analysis. Data in this column is not the equivalent of consolidated financial information.

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

Municipal Law requires the adoption of a balanced budget that is approved by Town Meeting vote. The Finance Committee presents an annual budget to Town Meeting, which includes estimates of revenues and other financing sources and recommendations of expenditures and other financing uses. Town Meeting, which has full authority to amend and/or reject the budget or any line item, adopts the expenditure budget by majority vote. Increases or transfers between departments subsequent to the approval of the annual budget require Special Town Meeting approval.

The majority of appropriations are non-continuing which lapse at the end of each fiscal year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior fiscal year be carried forward and made available for spending in the current fiscal year.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. Budgetary Information (Continued)

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the Town is statutorily required to pay debt service and other certain amounts, regardless of whether such amounts are appropriated.

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2017 approved budget for the general fund authorized \$59,885,655 in appropriations. During fiscal year 2017, supplemental appropriations totaling \$673,890 were authorized.

The Accountant's office has the responsibility to ensure that budgetary control is maintained. Budgetary control is exercised through the accounting system.

B. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2017, expenditures exceeded appropriations for debt service interest.

C. Fund Deficits

At June 30, 2017, the following fund deficits exist:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
Capital Articles (Major Fund)	\$ 83,544	Issuance of Long-Term Debt/Available Fund:
Other Funds	49,178	Grant Proceeds/Available Funds
Total Deficits	<u>\$ 132,722</u>	

NOTE 3 DEPOSITS AND INVESTMENTS

Town (excluding the Pension and OPEB Trust Funds)

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

The MMDT is an external investment pool that meets the criteria established under GASB 79 to report its investments at amortized cost. As such, the City reports its investments in MMDT at amortized cost which approximates the net asset value of \$1.00 per share.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

A cash and investment pool is maintained that is available for use by all funds with unrestricted cash and investments. The deposits and investments of the permanent, private purpose trust and pension trust funds are held separately from other Town funds.

Deposits – Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2017, \$3,535,706 of the Town's bank balance of \$14,334,136 was uninsured and uncollateralized. The carrying value of the Town's deposits totaled \$12,196,167 at June 30, 2017.

Investments Summary

The Town's investment at June 30, 2017, consisted of \$9,797,294 in MMDT and is reported as cash and cash equivalents.

Investments – Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Town does not have a policy for interest rate risk of debt securities.

Investments – Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the Town will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Town does not have a policy for custodial credit risk of investments. As of June 30, 2017, the Town's investment in MMDT was not exposed to custodial credit risk.

Investments – Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The Town does not have a policy for credit risk of debt securities. The Town's investment in MMDT was unrated by a national credit rating organization.

Investments – Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town does not have a policy for concentration of credit risk. As of June 30, 2017, the Town was not exposed to concentration of credit risk.

Investments – Fair Value Measurements

The Town categorizes its fair value measurements within the fair value hierarchy established by GAAP. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

The Town's only investment at June 30, 2017 consisted of \$9,797,294 in MMDT, which is measured at amortized cost.

Pension Trust Fund (The System)

The System has expanded investment powers, including the ability to invest in equity securities, corporate bonds and other specified investments.

The System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee and provides regulatory oversight. PRIT is administered by the Pension Reserves Investment Management Board. The reported value of the pool is the same as the fair value of the System's position in pool shares.

Deposits – Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the System's deposits may not be recovered. The System does not have a policy for custodial credit risk of deposits. As of December 31, 2016, the System was not exposed to custodial credit risk. The carrying value of the System's deposits totaled \$341,481 at December 31, 2016.

Investments Summary

The System's investments at December 31, 2016 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

Investment Type	Total Amount	Investment Maturities (in Years) <hr/> Less Than 1
<u>Debt Securities:</u>		
Money Market Mutual Funds	\$ 2,335,759	\$ 2,335,759
External Investment Pool (PRIT)	38,455,772	38,455,772
Total Debt Securities	40,791,531	<u>\$ 40,791,531</u>
<u>Other Investments:</u>		
Real Estate	181,734	
Collective Investment Trust Fund	7,326,719	
Private Equity	273,664	
Total Other Investments	7,782,117	
Total Investments	<u>\$ 48,573,648</u>	

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments – Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The System does not have a policy for interest rate risk of debt securities.

Investments – Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System does not have a policy for custodial credit risk of investments. As of December 31, 2016, the System's investments were not exposed to custodial credit risk.

Investments – Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The System does not have a policy for credit risk of debt securities. As of December 31, 2016, the System's debt securities were unrated.

Investments – Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System does not have a policy for concentration of credit risk. As of December 31, 2016, the System's exposure to concentration of credit risk was as follows:

Issuer	Total Amount	Percentage of Total Investments
SEI Trust Company - Collective Investment Trust	\$ 7,326,719	15.1%

Investments – Fair Value Measurements

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

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments – Fair Value Measurements (Continued)

The System has the following recurring fair value measurements as of December 31, 2016:

Investments Measured at the NAV:

External Investment Pool (PRIT)	\$38,455,772
Collective Investment Trust Fund	7,326,719
Real Estate	181,734
Private Equity	273,664
Total Investments Measured at the NAV	<u>46,237,889</u>
Total Investments	<u><u>\$46,237,889</u></u>

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

	Total Amount	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
External Investment Pool (PRIT) (1)	\$38,455,772	\$ -	Monthly	24 Hours
Collective Investment Trust Fund (2)	7,326,719	-	Daily	Daily
Real Estate (3)	181,734	-	N/A	N/A
Private Equity (4)	273,664	-	N/A	N/A
Total Investments Measured at the NAV	<u><u>\$46,237,889</u></u>			

- (1) External Investment Pool (PRIT): The system is a participating retirement system in the PRIT fund. The system owns units, or shares in the PRIT fund, which is a pooled investment trust. The values of the investments in this type have been determined using the NAV per share (or its equivalent) of the System's ownership in the pool.
- (2) Collective Investment Trust Fund: This type includes a fund with an investment object to seek capital appreciation by investing a substantial portion of the fund's assets in equity securities of companies that demonstrate promising growth potential. The value of the investment in this type has been determined using the NAV per share (or its equivalent) of the System's ownership interest in the net assets of the fund.
- (3) Real Estate: This type includes an investment in a partnership that invests primarily in U.S. commercial real estate. The value of the investment in this type have been determined using the NAV per share (or its equivalent) of the System's ownership interest in partners' capital. The investments can never be redeemed with the funds. Distributions from each of these funds will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 1 to 3 years.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)

Investments – Fair Value Measurements (Continued)

(4) Private Equity: This type includes two funds with an investment in a partnership with an investment objective to private equity funds, primarily comprised of venture capital funds and domestic leverage buyout funds. The value of the investment in this type has been determined using the NAV per share (or its equivalent) of the System's ownership interest in partners' capital. The investment can never be redeemed with the funds. Distributions from the funds will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 1 to 3 years.

OPEB Trust Fund (Trust)

The OPEB trust fund investments are currently in cash as the fund was established and contributions were made on June 21, 2017. An investment policy has not been adopted as of June 30, 2017.

Deposits – Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Trust's deposits may not be recovered. The Trust does not have a policy for custodial credit risk of deposits. As of December 31, 2016, the System was not exposed to custodial credit risk. The carrying value of the Trust's deposits totaled \$1,517,772 at June 30, 2017.

NOTE 4 ACCOUNTS RECEIVABLE

At June 30, 2017, receivables for the individual major governmental funds and nonmajor governmental and fiduciary funds in the aggregate, including the applicable allowances for uncollectible amounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real Estate and Personal Property Taxes	\$ 555,504	\$ (33,633)	\$ 521,871
Tax Liens	1,050,492	-	1,050,492
Motor Vehicle and Other Excise Taxes	310,646	(130,134)	180,512
Departmental and Other	60,096	-	60,096
Intergovernmental	190,076	-	190,076
	<u>\$ 2,166,814</u>	<u>\$ (163,767)</u>	<u>\$ 2,003,047</u>

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 4 ACCOUNTS RECEIVABLE (CONTINUED)

At June 30, 2017, receivables for the water and sewer enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water	\$ 1,098,222	-	\$ 1,098,222
Sewer	780,137	-	780,137
Liens	102,283	-	102,283
	<u>\$ 1,980,642</u>	<u>\$ -</u>	<u>\$ 1,980,642</u>

NOTE 5 CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2017 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital Assets Not Being Depreciated:</u>				
Land	\$ 4,420,080	\$ -	\$ -	\$ 4,420,080
Construction in Progress	-	870,057	-	870,057
Total Capital Assets Not Being Depreciated	<u>4,420,080</u>	<u>870,057</u>	<u>-</u>	<u>5,290,137</u>
<u>Capital Assets Being Depreciated:</u>				
Land Improvements	1,764,908	80,202	-	1,845,110
Buildings and Improvements	79,313,100	568,579	(2,255,613)	77,626,066
Machinery and Equipment	5,403,058	223,454	(117,558)	5,508,954
Infrastructure	10,948,503	1,093,814	(495,709)	11,546,608
Total Capital Assets Being Depreciated	<u>97,429,569</u>	<u>1,966,049</u>	<u>(2,868,880)</u>	<u>96,526,738</u>
<u>Less Accumulated Depreciation For:</u>				
Land Improvements	(1,170,399)	(64,914)	-	(1,235,313)
Buildings and Improvements	(24,174,375)	(1,860,447)	2,017,241	(24,017,581)
Machinery and Equipment	(3,845,567)	(320,583)	117,557	(4,048,593)
Infrastructure	(1,755,243)	(248,907)	117,692	(1,886,458)
Total Accumulated Depreciation	<u>(30,945,584)</u>	<u>(2,494,851)</u>	<u>2,252,490</u>	<u>(31,187,945)</u>
Total Capital Assets Being Depreciated, Net	<u>66,483,985</u>	<u>(528,802)</u>	<u>(616,390)</u>	<u>65,338,793</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 70,904,065</u>	<u>\$ 341,255</u>	<u>\$ (616,390)</u>	<u>\$ 70,628,930</u>

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 5 CAPITAL ASSETS (CONTINUED)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-Type Activities:				
<u>Capital Assets Not Being Depreciated:</u>				
Land	\$ 252,182	-	-	\$ 252,182
Construction in Progress	1,011,942	997,400	(337,957)	1,671,385
Total Capital Assets Not Being Depreciated	<u>1,264,124</u>	<u>997,400</u>	<u>(337,957)</u>	<u>1,923,567</u>
<u>Capital Assets Being Depreciated:</u>				
Land Improvements	6,000	-	-	6,000
Buildings and Improvements	2,785,115	-	-	2,785,115
Machinery and Equipment	1,989,450	32,077	-	2,021,527
Infrastructure	29,877,163	1,257,367	(673,190)	30,461,340
Total Capital Assets Being Depreciated	<u>34,657,728</u>	<u>1,289,444</u>	<u>(673,190)</u>	<u>35,273,982</u>
<u>Less Accumulated Depreciation For:</u>				
Land Improvements	(4,650)	(300)	-	(4,950)
Buildings and Improvements	(2,248,784)	(20,099)	-	(2,268,883)
Machinery and Equipment	(1,430,114)	(170,483)	-	(1,600,597)
Infrastructure	(13,475,478)	(592,028)	525,607	(13,541,899)
Total Accumulated Depreciation	<u>(17,159,026)</u>	<u>(782,910)</u>	<u>525,607</u>	<u>(17,416,329)</u>
Total Capital Assets Being Depreciated, Net	<u>17,498,702</u>	<u>506,534</u>	<u>(147,583)</u>	<u>17,857,653</u>
Total Business-Type Activities Capital Assets, Net	<u>\$ 18,762,826</u>	<u>\$ 1,503,934</u>	<u>\$ (485,540)</u>	<u>\$ 19,781,220</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	\$ 122,125
Public Safety	345,477
Education	1,559,221
Public Works	402,576
Health and Human Services	1,862
Culture and Recreation	63,590
Total Depreciation Expense - Governmental Activities	<u>\$2,494,851</u>
Business-Type Activities:	
Water	\$ 255,957
Sewer	526,953
Total Depreciation Expense - Business-Type Activities	<u>\$ 782,910</u>

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 6 INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2017 are summarized as follows:

Transfers Out:	Transfers In:					Total
	General Fund	Capital Articles Fund	Nonmajor Governmental Funds	Water Enterprise Fund	Sewer Enterprise Fund	
General Fund	\$ -	\$ 301,000	\$ 35,000	\$ 53,088	\$ 16,482	\$ 405,570 (1)
Capital Articles Fund	277	-	-	-	-	277 (2)
Nonmajor Governmental Funds	1,154	225,812	-	66	5,000	232,032 (2)
Water Enterprise Fund	410,000	-	-	-	-	410,000 (3)
Sewer Enterprise Fund	410,000	-	-	-	-	410,000 (3)
	<u>\$821,431</u>	<u>\$ 526,812</u>	<u>\$ 35,000</u>	<u>\$ 53,154</u>	<u>\$ 21,482</u>	<u>\$1,457,879</u>

- (1) Represents budgeted transfer for the turf field capital project (\$301,000), subsidy of debt service principal and interest (\$69,570), and appropriation to purchase National Grid streetlight poles (\$35,000).
- (2) Represents budgeted transfer from the sale of land to the turf field capital project (\$114,000), appropriation from the sale of cemetery lots for equipment replacement (\$106,000), and transfers to closeout funds no longer in use (\$12,032) and (\$277).
- (3) Represents budgeted transfers for indirect costs.

NOTE 7 SHORT-TERM FINANCING

Short-term debt may be authorized and issued to fund the following:

- Current operating costs prior to the collection of revenues through issuance of revenue anticipation notes (RAN) or tax anticipation notes (TAN).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BAN) or grant anticipation notes (GAN).

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the general fund and enterprise funds, respectively.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 7 SHORT-TERM FINANCING (CONTINUED)

Details related to the short-term debt activity for the fiscal year ended June 30, 2017 is as follows:

Notes Payable – Governmental Funds

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017
BAN	Police Department Technology Upgrade	6/24/16	6/24/17	0.75%	\$ 24,563	\$ -	\$ (24,563)	\$ -
BAN	Police Department Radio Upgrade	6/24/16	6/24/17	0.75%	25,000	-	(25,000)	-
BAN	Open Space Improvement	6/24/16	6/24/17	0.75%	50,000	-	(50,000)	-
BAN	Purchase of Rescue Boat	6/24/16	6/24/17	0.75%	48,301	-	(48,301)	-
BAN	School Technology Upgrades	6/24/16	6/24/17	0.75%	44,000	-	(44,000)	-
BAN	DPW Wood Chipper	6/24/16	6/24/17	0.75%	40,000	-	(40,000)	-
BAN	Purchase of Police Ballistic Vests	6/24/16	6/24/17	0.75%	30,600	-	(30,600)	-
BAN	Purchase of Police License Plate Reader	6/24/16	6/24/17	0.75%	20,945	-	(20,945)	-
BAN	Police Department Technology Upgrade	6/23/17	1/25/18	1.20%	-	24,563	-	24,563
BAN	Police Department Radio Upgrade	6/23/17	1/25/18	1.20%	-	25,000	-	25,000
BAN	Open Space Improvement	6/23/17	1/25/18	1.20%	-	50,000	(50,000) *	-
BAN	Purchase of Rescue Boat	6/23/17	1/25/18	1.20%	-	48,301	-	48,301
BAN	School Technology Upgrades	6/23/17	1/25/18	1.20%	-	44,000	-	44,000
BAN	DPW Wood Chipper	6/23/17	1/25/18	1.20%	-	40,000	-	40,000
BAN	Purchase of Police Ballistic Vests	6/23/17	1/25/18	1.20%	-	30,600	-	30,600
BAN	Purchase of Police License Plate Reader	6/23/17	1/25/18	1.20%	-	20,945	-	20,945
BAN	Roadway Paving	6/23/17	1/25/18	1.20%	-	425,000	(325,000) *	100,000
BAN	Street Lighting	6/23/17	1/25/18	1.20%	-	404,000	(404,000) *	-
BAN	Department Equipment	6/23/17	1/25/18	1.20%	-	140,907	(140,907) *	-
BAN	Salt Storage	6/23/17	1/25/18	1.20%	-	100,000	(100,000) *	-
BAN	Security System	6/23/17	1/25/18	1.20%	-	70,000	(70,000) *	-
BAN	School Department Technology	6/23/17	1/25/18	1.20%	-	60,000	(60,000) *	-
BAN	Open Space Improvement	6/23/17	1/25/18	1.20%	-	50,000	-	50,000
BAN	Old Police Station	6/23/17	1/25/18	1.20%	-	41,000	(41,000) *	-
BAN	Public Building Repair	6/23/17	1/25/18	1.40%	-	110,000	(110,000) *	-
Total					<u>\$ 283,409</u>	<u>\$1,684,316</u>	<u>\$(1,584,316)</u>	<u>\$ 383,409</u>

Notes Payable – Sewer Enterprise Fund

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2016	Increases	Decreases	Balance at June 30, 2017
BAN	Lift Station	6/23/17	1/25/18	1.20%	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ (50,000) *</u>	<u>\$ -</u>

Subsequent Events

*On January 11, 2018, the Town issued \$5,545,000 of General Obligation Bonds. A portion of the proceeds were used to retire BAN's outstanding at June 30, 2017. Accordingly, the liabilities are reported as a long-term obligation at June 30, 2017.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 8 LONG-TERM OBLIGATIONS

The following represents a summary of changes that occurred in long-term obligations during the fiscal year ended June 30, 2017:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
Governmental Activities:					
Bonds and Notes Payable	\$ 29,471,339	\$ 1,300,907	\$ (3,427,797)	\$ 27,344,449	\$ 2,481,762
Unamortized Bond Premiums	463,716	-	(34,286)	429,430	34,286
Total Bonds and Notes Payable	29,935,055	1,300,907	(3,462,083)	27,773,879	2,516,048
Workers' Compensation Claims	811,049	318,557	(398,736)	730,870	73,088
Capital Lease Obligations	75,000	-	(36,605)	38,490	38,490
Net Pension Liability	44,200,026	4,545,339	(4,654,590)	44,281,575	-
Net OPEB Obligation	27,329,797	7,705,461	(4,439,548)	30,595,710	-
Compensated Absences	1,649,853	-	(62,641)	1,587,212	158,720
Total	<u>\$104,191,675</u>	<u>\$13,870,264</u>	<u>\$(13,054,203)</u>	<u>\$105,007,736</u>	<u>\$2,786,346</u>
Business-type Activities:					
Bonds and Notes Payable	\$ 3,819,884	\$ 1,050,000	\$ (669,685)	\$ 4,200,199	\$ 635,128
Unamortized Bond Premiums	53,295	-	(3,675)	49,620	3,676
Total Bonds and Notes Payable	3,873,179	1,050,000	(673,360)	4,249,819	638,804
Net OPEB Obligation	641,319	106,885	(32,308)	715,896	-
Net Pension Liability	2,366,282	717,862	(293,350)	2,790,794	-
Compensated Absences	8,647	-	(615)	8,032	803
Total	<u>\$ 6,889,427</u>	<u>\$ 1,874,747</u>	<u>\$ (999,633)</u>	<u>\$ 7,764,541</u>	<u>\$ 639,607</u>

The governmental activities long-term liabilities are generally liquidated by the general fund.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 LONG-TERM DEBT

Details related to the outstanding indebtedness at June 30, 2017 and the debt service requirements are as follows:

Bonds and Notes Payable – Governmental Funds

Project	Maturity Date	Interest Rate	Outstanding at June 30, 2016	Issued	Redeemed	Outstanding at June 30, 2017
Municipal Purpose Loan of 2008	08/15/19	3.0 - 4.5%	\$ 335,000	\$ -	\$ (120,000)	\$ 215,000
School Construction	11/01/29	2.00%	4,933,144	-	(352,367)	4,580,777
Municipal Purpose Loan of 2010	09/15/22	2.5 - 3.0%	925,000	-	(145,000)	780,000
Municipal Purpose Loan of 2013	08/15/32	2.0 - 2.5%	2,870,260	-	(467,180)	2,403,080
General Obligation Refunding Bonds	04/15/25	2.0 - 3.0%	2,495,000	-	(290,000)	2,205,000
Police Station	09/15/28	2.0 - 4.25%	2,100,000	-	(175,000)	1,925,000
Municipal Purpose Loan of 2014	01/15/24	2.0 - 4.0%	1,385,000	-	(220,000)	1,165,000
General Obligation Refunding Bonds 2015 (A)	01/15/35	2.5%-4.0%	6,463,535	-	(773,535)	5,690,000
General Obligation Refunding Bonds 2015 (B)	05/15/26	3%-3.5	5,315,000	-	(600,000)	4,715,000
Municipal Purpose Loan of 2016	06/16/31	2%-4%	2,649,400	-	(284,715)	2,364,685
Municipal Purpose Loan of 2018	01/15/38	3%- 5%	-	1,300,907	-	1,300,907
Total Governmental Funds			<u>\$ 29,471,339</u>	<u>\$ 1,300,907</u>	<u>\$ (3,427,797)</u>	<u>\$ 27,344,449</u>

Debt service requirements for principal and interest for governmental bonds and notes payable in future fiscal years as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 2,481,762	\$ 763,216	\$ 3,244,978
2019	2,329,752	757,691	3,087,443
2020	2,149,751	692,404	2,842,155
2021	2,128,497	626,289	2,754,786
2022	2,048,615	557,154	2,605,769
2023	2,048,615	492,898	2,541,513
2024	1,868,215	434,924	2,303,139
2025	1,634,465	383,623	2,018,088
2026	1,394,463	341,242	1,735,705
2027	1,404,962	302,803	1,707,765
2028	1,368,408	264,515	1,632,923
2029	1,202,678	193,862	1,396,540
2030	1,222,678	162,958	1,385,636
2031	890,310	130,562	1,020,872
2032	814,978	103,669	918,647
2033	811,050	78,029	889,079
2034	736,050	52,844	788,894
2035	761,050	28,064	789,114
2036	16,050	1,505	17,555
2037	16,050	1,003	17,053
2038	16,050	502	16,552
Total	<u>\$ 27,344,449</u>	<u>\$ 6,369,756</u>	<u>\$ 33,714,205</u>

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 LONG-TERM DEBT (CONTINUED)

Bonds and Notes Payable – Water Enterprise

Project	Maturity Date	Interest Rate	Outstanding at June 30, 2016	Issued	Redeemed	Outstanding at June 30, 2017
Water (MWRA)	08/15/16	0.0%	\$ 56,027	\$ -	\$ (56,027)	\$ -
Water (MWRA)	08/15/17	0.0%	112,054	-	(56,027)	56,027
Municipal Purpose Loan of 2008	08/15/18	3.0 - 4.5%	90,000	-	(30,000)	60,000
Water (MWRA)	08/15/19	0.0%	48,220	-	(12,055)	36,165
Water (MWRA)	08/15/20	0.0%	499,992	-	(99,999)	399,993
Water (MWRA)	08/15/21	0.0%	150,000	-	(25,000)	125,000
Municipal Purpose Loan of 2013	08/15/17	2.0 - 2.5%	35,250	-	(23,250)	12,000
Water (MWRA)	05/15/24	0.00%	1,280,000	-	(160,000)	1,120,000
General Obligation Refunding Bonds of 2015	01/15/17	4.00%	28,233	-	(28,233)	-
Water (MWRA)	08/15/26	0.00%	-	1,000,000	-	1,000,000
Total Water Enterprise Fund			<u>\$ 2,299,776</u>	<u>\$1,000,000</u>	<u>\$ (490,591)</u>	<u>\$2,809,185</u>

Debt service requirements for principal and interest for water enterprise fund bonds and notes payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 495,081	\$ 1,918	\$ 496,999
2019	427,054	560	427,614
2020	397,054	-	397,054
2021	384,996	-	384,996
2022	285,000	-	285,000
2023	260,000	-	260,000
2024	260,000	-	260,000
2025	100,000	-	100,000
2026	100,000	-	100,000
2027	100,000	-	100,000
Total	<u>\$ 2,809,185</u>	<u>\$ 2,478</u>	<u>\$ 2,811,663</u>

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 LONG-TERM DEBT (CONTINUED)

Bonds and Notes Payable – Sewer Enterprise Fund

Project	Maturity Date	Interest Rate	Outstanding at June 30, 2016	Issued	Redeemed	Outstanding at June 30, 2017
Municipal Purpose Loan of 2008	08/15/18	3.0 - 4.5%	\$ 90,000	\$ -	\$ (30,000)	\$ 60,000
Sewer 07-22 (MCWT)	07/15/28	2.00%	236,896	-	(16,117)	220,779
Municipal Purpose Loan of 2013	08/15/22	2.0 - 2.5%	114,490	-	(34,570)	79,920
General Obligation Refunding Bonds of 2011	01/15/17	4.00%	28,232	-	(28,232)	-
General Obligation Bonds of 2016	06/23/31	2.0 -4.0%	1,050,490	-	(70,175)	980,315
General Obligation Bonds of 2018	1/15/38	3.0-5.0%	-	50,000	-	50,000
Total Sewer Enterprise Fund			<u>\$1,520,108</u>	<u>\$ 50,000</u>	<u>\$ (179,094)</u>	<u>\$1,391,014</u>

Debt service requirements for principal and interest for sewer enterprise fund bonds and notes payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2018	\$ 140,047	\$ 34,142	\$ 174,189
2019	130,880	32,681	163,561
2020	101,219	30,072	131,291
2021	102,814	26,563	129,377
2022	103,049	23,000	126,049
2023	103,409	19,430	122,839
2024	92,456	15,969	108,425
2025	91,580	12,614	104,194
2026	91,963	10,703	102,666
2027	91,853	8,784	100,637
2028	92,251	6,919	99,170
2029	92,657	5,044	97,701
2030	72,168	3,370	75,538
2031	67,168	1,903	69,071
2032	2,500	534	3,034
2033	2,500	459	2,959
2034	2,500	384	2,884
2035	2,500	309	2,809
2036	2,500	234	2,734
2037	2,500	156	2,656
2038	2,500	78	2,578
Total	<u>\$ 1,391,014</u>	<u>\$ 233,348</u>	<u>\$ 1,624,362</u>

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 9 LONG-TERM DEBT (CONTINUED)

The Massachusetts Water Resource Authority (MWRA) operates an Infiltration/Inflow Financial Assistance Program for community owned collection systems. For each community approved for the project, financial assistance received from the MWRA consists of a non-interest bearing loan (payable in five or ten equal annual installments). At June 30, 2017, the outstanding principal amount of these loans totaled \$2,737,185.

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2017, the Town had the following authorized and unissued debt:

Purpose	Amount
Sewer Loan	\$ 2,000,000
MWRA Water Main Replacement	1,000,000
Construction of Turf Field	850,000
Rail Trail Acquisition	850,000
Fire Engine	645,000
Clarke, Stanley, Hadley Heating System Repairs	214,000
Non-Chapter 90 Road Repairs	200,000
DPW Replacement of Loader	160,000
Open Space Improvements	115,000
Clarke Fire Alarm Sprinkler	61,000
Library Install of Restroom and Kitchenette	50,000
Field House Facility Repairs	42,000
Clarke, Stanley Electrical Distribution Equipment	40,000
Stanley School Hot Water Heater Replacement	26,600
High School Gym Sprinkler	22,000
Total	<u>\$ 6,275,600</u>

Subsequent Event

On January 11, 2018, the Town issued \$5,545,000 of General Obligation Bonds. A portion of the proceeds were used to retire \$1,350,907 in BAN's outstanding at June 30, 2017. Accordingly, those amounts are reported as long-term debt at June 30, 2017. The remaining proceeds of \$4,194,093 were restricted for sewer projects, city projects and equipment.

NOTE 10 CAPITAL LEASES

The Town has entered into a capital lease agreement for a fire truck under which the fire truck will become property of the Town when all terms of the lease agreement are met. The agreement also contains early purchase options which would allow the Town to purchase the fire truck before the end of the lease term.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 10 CAPITAL LEASES (CONTINUED)

The following schedule represents the future minimum lease payments as of June 30, 2017:

<u>Fiscal Years</u> <u>Ending June 30</u>	<u>Governmental</u> <u>Activities</u>
2018	\$ 40,472
Less: Amounts Representing Interest	(1,982)
Present Value of Minimum Lease Payments	<u>\$ 38,490</u>

The fire truck and the related accumulated amortization under capital leases are as follows:

<u>Asset:</u>	<u>Governmental</u> <u>Activities</u>
Machinery and Equipment	\$ 300,000
Less: Accumulated Amortization	(192,241)
Total	<u>\$ 107,759</u>

Expenditures are reported as Public Safety in the financial statements.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS

Plan Description

The Town provides health and life insurance coverage for its retirees and their survivors (hereinafter referred to as the Plan) as a single-employer defined benefit Other Post Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. Changes to plan design and contribution rates must be accomplished through the collective bargaining process. The Plan does not issue a standalone, GAAP-basis audited financial report.

The OPEB trust fund was established on June 21, 2017 and is reported in the fiduciary funds financial statements is reported using the flow of economic resources measurement focus and uses the accrual basis of accounting. Contributions are recognized as additions in the period when they become due pursuant to formal commitments, statutory or contractual requirements. Benefits and refunds are recognized as deductions when incurred.

Plan assets are managed by the Town with the Town Treasurer serving as the custodian and trustee of the fund. Investment policies and objectives are established by trust agreement.

Plan membership as of June 30, 2017 is as follows:

Active Plan Members	470
Inactive Plan Members	8
Retired, Disabled, Survivors and Beneficiaries	367
Total	<u>845</u>

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Benefits provided – The Town provides health insurance coverage for its retirees and survivors. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions.

Contributions – The contribution requirements of Plan members and the Town are established and may be amended by the Town. The required health insurance contribution rates of Plan members and the Town (including Medicare Part B) are 40% and 60%, respectively. Also, Plan members and the Town contribute 40% and 60%, respectively, towards a \$2,000 term life insurance policy. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

For the fiscal year ended June 30, 2017, the employer contributions totaled \$4,471,856. The Trust did not receive contributions from any other sources.

Net Other Post Employment Benefits Liability (Plan)

The components of the net OPEB liability of the Plan as of June 30, 2017, were as follows (in thousands):

Total OPEB Liability	\$ 116,327
Fiduciary Net Position	(1,518)
Net OPEB Liability	<u>\$ 114,809</u>

Fiduciary Net Position as a Percentage of the Total OPEB Liability	1.30%
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Methods and Assumptions – Projections of benefits for financial reporting purposes do not explicitly incorporate the potential effect of legal or contractual funding limitations, are based on the substantive Plan (the Plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefits costs between the employer 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.

The significant methods and assumptions as of the latest actuarial valuation are as follows:

Valuation date:	July 1, 2016
Discount rate:	3.65%, net of investment expenses

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Healthcare Cost Trend Rates:	Commercial Managed Care: 8.76% in 2018 decreasing annually to an ultimate rate of 5.00% in 2024 and later years. Commercial Indemnity: 9.00% in 2018 decreasing annual to an ultimate rate of 5.00% in 2035 and later years. Medicare Managed Care: 7.75% in 2018 decreasing annually to an ultimate rate of 5.00% in 2022 and later years. Medicare Indemnity: 8.00% in 2018 decreasing annually to an ultimate rate of 5.00 in 2044 and later years.
Pre-Retirement Mortality:	RP-2014 adjusted to 2006 and projected generationally using MP-2016
Post-Retirement Mortality:	RP-2014 adjusted to 2006 and projected generationally using MP-2016
Disabled Mortality:	RP-2014 adjusted to 2006 and projected generationally using MP-2016, set forward 2 years

Investment Policies and Rates of Return – The OPEB trust fund investments are currently in cash as the fund was established and contributions were made on June 21, 2017. An investment policy has not been adopted as of June 30, 2017.

For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 0.0 percent. The money-weighted rate of return expresses investment performance, net of investment expense.

The long-term expected real rate of return reflects the expected rate of return on plan assets minus the expected rate of inflation. Note that the discount rate includes the effect of inflation. The long-term real rate of return removes the effect of inflation on the return amounts. It is a long-term assumption and is meant to reflect a best estimate of future experience, based on the expected asset allocation. Best estimates of arithmetic real rates of return for each major asset class included in the target asset allocation as of June 30, 2017 are 0% as the target allocation is 100% in cash.

Discount rate. The discount rate used to measure the total OPEB liability was 3.65%. The discount rate was selected using a blend of the Municipal Bond Index Rate (3.58% at June 30, 2017) for unfunded periods and the Investment Rate of Return (7.00% at June 30, 2017) for periods where funds are expected to be available.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents the net OPEB liability calculated using the discount rate of 3.65%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.65%) or 1-percentage-point higher (4.65%) than the current rate (in thousands):

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

	1% Decrease (2.65%)	Discount Rate (3.65%)	1% Increase (4.65%)
Net OPEB Liability	\$ 135,900	\$ 114,809	\$ 98,215

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rates. The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using healthcare cost trend rates that is 1-percentage-point lower or 1-percentage-point higher than the current rates (in thousands):

	1% Decrease	Current Trend Rates	1% Increase
Net OPEB Liability	\$ 95,404	\$ 114,809	\$ 140,290

Net Other Post Employment Benefits Liability (Town)

Annual OPEB Cost and Net OPEB Obligation - The Town's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with the parameters set forth in GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table identifies the components of the Town's annual OPEB cost for the year, the actual amount contributed to the plan, and changes in the Town net OPEB obligation:

	Amount
Annual Required Contribution	\$ 7,769,264
Interest on Net OPEB Obligation	1,104,859
Adjustment to Annual Required Contribution	(1,061,777)
Annual OPEB Cost	7,812,346
Contributions Made	(4,471,856)
Increase in Net OPEB Obligation	3,340,490
Net OPEB Obligation at Beginning of Year	27,971,116
Net OPEB Obligation at End of Year	<u>\$ 31,311,606</u>

Trend information regarding annual pension cost, the percentage of the annual pension cost contributed and the net pension obligation is as follows:

Dollar Amounts in Thousands

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2015	\$ 6,804,231	30.1%	\$ 23,021,862
June 30, 2016	7,113,146	31.8%	27,971,116
June 30, 2017	7,812,346	57.2%	31,311,606

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Funded Status and Funding Progress – The funded status of the Plan at July 1, 2016, the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/16	\$ -	\$103,345,845	\$103,345,845	0.00%	\$ 27,989,000	369.2%

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 employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information that show whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive Plan (the Plan as understood by the employer 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 employer 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.

The significant methods and assumptions as of the latest actuarial valuation are as follows:

Valuation date:	July 1, 2016
Actuarial cost method:	Projected Unit Credit
Amortization method:	Level Percentage of Payroll, Increasing rate of 3.00% annually
Remaining amortization period:	Closed 30 years
Interest discount rate:	3.95%
Healthcare/Medical cost trend rate:	Varying rates depending on type of plan to an ultimate level of 5.00%

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Allocation of AOPEBC – AOPEBC costs were allocated to the Town's functions as follows:

Governmental Activities:

General Government	\$ 399,746
Public Safety	1,742,787
Education	5,208,911
Public Works	119,792
Health and Human Services	74,119
Culture and Recreation	160,106
Total AOPEBC - Governmental Activities	<u>7,705,461</u>

Business-Type Activities:

Water	42,868
Sewer	64,017
Total AOPEBC - Business-Type Activities	<u>106,885</u>
Total AOPEBC	<u><u>\$ 7,812,346</u></u>

NOTE 12 PENSION PLAN – SCRS

General Information about the Pension Plan

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

Membership in the System was as follows at December 31, 2016:

Active Members	250
Inactive Members	166
Retirees and Beneficiaries currently receiving benefits	197
Total	<u><u>613</u></u>

As indicated in Note 1, the System is reported as a pension trust fund in these financial statements. The System also issues a publicly available report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by contacting the System located at 22 Monument Avenue, Swampscott, Massachusetts 01907.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 12 PENSION PLAN – SCRS (CONTINUED)

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

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

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

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

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

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

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 12 PENSION PLAN – SCRS (CONTINUED)

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

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

For the year ended December 31, 2016, active member contributions totaled \$1,245,816 and employer contributions totaled \$5,012,346. Contributions to the System from the Town were \$4,947,940 for the year ended June 30, 2017.

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

The components of the net pension liability of the System at December 31, 2016, were as follows:

Total Pension Liability	\$ 96,567,330
Plan Fiduciary Net Position	(48,905,952)
Net Pension Liability	<u>\$ 47,661,378</u>

Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	50.64%
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At June 30, 2017, the Town reported a liability of \$47,072,369 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 for which update procedures were used to roll forward the total pension liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2016, the Town's proportion was 98.7642%, which decreased by 0.1093% (98.8735%) from its proportion measured as of December 31, 2015.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 12 PENSION PLAN – SCRS (CONTINUED)

For the year ended June 30, 2017, the Town recognized pension expense of \$6,304,460. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ 2,628,987	\$ -
Changes in Assumptions	2,000,416	-
Differences between expected and actual experience	1,036,084	-
Changes in Proportion	1,980	73,371
	<u>\$ 5,667,467</u>	<u>\$ 73,371</u>

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

<u>Year Ended June 30</u>	
2018	\$ 1,392,575
2019	1,392,575
2020	1,392,575
2021	1,416,371
Total	<u>\$ 5,594,096</u>

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 12 PENSION PLAN – SCRS (CONTINUED)

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

Methods:

Actuarial Cost Method	Entry Age Normal Cost
Asset Valuation Method	Fair Value

Assumptions:

Salary Increases	3.75% Ultimate rate, plus the following steps and longevity, based on years of service. Ranges from 1.25% to 4.25% over 5 years of service for Group 1 and 2 employees, from 4.25% to 9.25% over 5 years of service for Police employees; and from 3.25% to 5.25% over 5 years of service for Fire employees
Investment Rate of Return	8.00%
Interest Rate Credited to Annuity Savings Fund	2.00%
Cost of Living Adjustment	3.0% of first \$13,000 Annually
Mortality	RP-2000 table projected with Generational Mortality, Scale BB. For members retired under an Accidental Disability (job-related), 40% of deaths are assumed to be from the same cause as the disability. Disabled mortality RP-2000 table projected with Generational Mortality, Scale BB, ages set forward 2 years.
Retirement Rates	General Employees (Group 1 and 2) - 1.0% and 1.5% for males and females, respectively, beginning at age 50 ranging to 100% for both males and females ending at age 70 Police and Fire (Group 4) - 2.0% beginning at age 50 ranging to 100.0% at age 65

The actuarial assumptions used in the January 1, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2013 to December 31, 2014.

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

Approximately 83% of the System's investments are in the Pension Reserve Investment Trust (PRIT), which was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board. The System does not have the ability to control any of the investment decisions relative to its funds in PRIT.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 12 PENSION PLAN – SCRS (CONTINUED)

The System's annual money-weighted rate of return on pension plan investments was 4.07%. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested, measured monthly.

The long-term expected real rate of return reflects the expected rate of return on plan assets minus the expected rate of inflation. Note that the discount rate includes the effect of inflation. The long-term real rate of return removes the effect of inflation on the return amounts. It is a long-term assumption and is meant to reflect a best estimate of future experience, based on the expected asset allocation. The allocation percentages are based on information provided by the Swampscott Retirement System and NEPC. The portion of the portfolio which is not in PRIT is allocated in the same percentage as PRIT's subsectors when we are unclear of the actual breakdown. The real rates of return below are based on 30-year return estimates provided by NEPC, adjusted using 3.00% inflation assumption. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	46.4%	5.52%
Core Fixed Income	9.4%	0.83%
Value-Added Fixed Income	7.9%	3.90%
Private Equity	9.2%	6.31%
Real Estate	8.2%	3.40%
Timberland	3.2%	2.91%
Hedge Funds	15.0%	3.38%
Cash/Portfolio Completion	0.7%	0.00%
Totals	<u>100.0%</u>	

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

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 12 PENSION PLAN – SCRS (CONTINUED)

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
System's Net Pension Liability	\$ 56,694,551	\$ 47,661,378	\$ 40,462,348

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

	1% Decrease (7.00%)	Current Discount Rate (8.00%)	1% Increase (9.00%)
Town's Proportionate Share of the Net Pension Liability	\$ 55,993,909	\$ 47,072,369	\$ 39,962,306

Legally Required Reserve Accounts. The balance in the System's legally required reserves as of December 31, 2016 are as follows:

Description	Amount	Purpose
Annuity Savings Fund	\$ 14,089,190	Active members' contribution balance
Annuity Reserve Fund	2,607,108	Retired members' contribution account
Pension Reserve Fund	29,457,620	Amounts appropriated to fund future retireme
Pension Fund	2,752,034	Remaining Net Position
Total	<u>\$ 48,905,952</u>	

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

Pension plan fiduciary net position. Detailed information about the pension plan's fiduciary net position is available in this financial report.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 13 MASSACHUSETTS TEACHERS RETIREMENT SYSTEM

General Information about the Pension Plan

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

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

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

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

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

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

Since the Town does not contribute directly to MTRS, the Town does not report a proportionate share of the net pension liability of the MTRS at June 30, 2017. The Commonwealth's net pension liability associated with the Town was \$60,255,663.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017**

NOTE 13 MASSACHUSETTS TEACHERS RETIREMENT SYSTEM (CONTINUED)

The MTRS' net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016.

For the year ended June 30, 2017, the Town recognized pension expense of \$6,146,473 associated with MTRS and revenue of the same amount for support provided by the Commonwealth.

Actuarial assumptions. The MTRS' total pension liability for the June 30, 2016 measurement date was determined by an actuarial valuation as of January 1, 2016 rolled forward to June 30, 2016. This valuation used the following assumptions:

Investment Rate of Return	7.5%
Salary Increases	Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service
Mortality Rates	<p>Pre-retirement - reflects RP-2014 Employees table projected generationally with Scale BB and a base year of 2014 (gender distinct)</p> <p>Post-retirement - reflects RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 (gender distinct)</p> <p>Disability – assumed to be in accordance with RP-2014 Healthy Annuitant table projected generationally with Scale BB and a base year of 2014 set forward 4 years</p>
Other	<p>3.5% interest rate credited to the annuity savings fund</p> <p>3.0% cost of living increase per year</p>

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 13 MASSACHUSETTS TEACHERS RETIREMENT SYSTEM (CONTINUED)

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	40%	6.9%
Core Fixed Income	13%	1.6%
Private Equity	10%	8.7%
Real Estate	10%	4.6%
Value Added Fixed Income	10%	4.8%
Hedge Funds	9%	4.0%
Portfolio Completion Strategies	4%	3.6%
Timber/Natural Resources	4%	5.4%
Totals	<u>100%</u>	

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

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

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 14 FUND BALANCES

The constraints on fund balances as listed in aggregate in the Governmental Funds Balance Sheet are detailed as follows:

	<u>General</u>	<u>Capital Articles</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable:				
Permanent Fund Principal	\$ -	\$ -	\$ 477,662	\$ 477,662
Restricted:				
Capital	-	831,317	-	831,317
Municipal Television Access	-	-	21,540	21,540
Sale of Land	-	-	70,840	70,840
Circuit Breaker	-	-	318,868	318,868
Discretionary Donations	-	-	9,805	9,805
Harbor Dredging	-	-	45,614	45,614
Sale of Cemetery Lots	-	-	142,042	142,042
Recreation Revolving	-	-	234,087	234,087
School Lunch	-	-	83,327	83,327
General Government	-	-	363,310	363,310
Public Safety	-	-	155,273	155,273
Education	-	-	180,354	180,354
Public Works	-	-	185,778	185,778
Health and Human Services	-	-	39,397	39,397
Culture and Recreation	-	-	101,000	101,000
Other Post Employment Benefits	-	-	-	-
Sub-total - Restricted	<u>-</u>	<u>831,317</u>	<u>1,951,235</u>	<u>2,782,552</u>
Committed:				
Subsequent Year's Expenditures	3,391,648	-	-	3,391,648
Capital	355,290	-	-	355,290
Sub-total - Committed	<u>3,746,938</u>	<u>-</u>	<u>-</u>	<u>3,746,938</u>
Assigned:				
Encumbrances	<u>269,424</u>	<u>-</u>	<u>-</u>	<u>269,424</u>
Unassigned	8,379,915	(83,544)	(49,178)	8,247,193
Total Fund Balances	<u>\$ 12,396,277</u>	<u>\$ 747,773</u>	<u>\$ 2,379,719</u>	<u>\$ 15,523,769</u>

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 15 STABILIZATION FUNDS

The Town maintains general and capital stabilization funds that were established under MGL Chapter 40, Section 5B. Appropriations in and out of these stabilization funds require two-thirds vote of Town meeting. Investment income is retained by the funds.

The balances of the general and capital stabilization funds at June 30, 2017 total \$3,529,485 and \$355,290, respectively, and are reported in the general fund as unassigned and committed fund balances, respectively.

NOTE 16 RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The Town participates in the Commonwealth's Grouping Insurance Commission (GIC), which offers a variety of premium based health insurance plans for the Town's employees and retirees. The amount of claim settlements has not exceeded insurance coverage in any of the previous three fiscal years.

The Town participates in a premium-based workers' compensation plan. In prior years, the Town was self-insured for workers' compensation and is liable for the payment of certain claims from those periods. The claims are administered by a third party administrator and are funded on a pay-as-you-go basis from annual appropriations. The estimated future liability is based on history and injury type. The estimated liability at June 30, 2017, totaled \$730,870.

	Balance at Beginning of Fiscal Year	Current Year Claims and Changes in Estimate	Claims Payments	Balance at Fiscal Year-end
Fiscal Year 2016	\$ 827,289	\$ 377,075	\$ (393,315)	\$ 811,049
Fiscal Year 2017	811,049	318,557	(398,736)	730,870

NOTE 17 COMMITMENTS

In September of 2015 the Town entered into a Consent Decree agreeing to pay a \$65,000 civil penalty and to take critical remedial measures to address pollution the Town discharged from its storm sewer system, which violated the Clean Water Act and the terms and conditions of its National Pollutant Discharge Elimination System (NPDES) permit. The Consent Decree requires, among other things, the Town to (1) identify and eliminate unauthorized discharges of non-stormwater to waters of the United States in accordance with timeframes established by the decree and (2) design and implement infrastructure improvements necessary to prevent non-stormwater from entering the system. Failure to comply with the Consent Decree and its established timeframes could potentially result in more penalties.

Other significant commitments include the encumbrances and continuing appropriations outstanding for the general fund, which totaled \$269,425 at June 30, 2017.

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

NOTE 18 CONTINGENCIES

Various legal actions and claims are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual litigated matters is not always predictable. Although the amount of liability, if any, at June 30, 2017, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2017.

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) through June 30, 2017, these programs are still subject to financial and compliance audits by federal agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

NOTE 19 FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS

The GASB has issued the following statements:

- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, which is required to be implemented during fiscal year 2018. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 81, *Irrevocable Split-Interest Agreements*, which is required to be implemented during fiscal year 2018. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 83, *Certain Asset Retirement Obligations*, which is required to be implemented during fiscal year 2019. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 84, *Fiduciary Activities*, which is required to be implemented during fiscal year 2020. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 85, *Omnibus 2017*, which is required to be implemented during fiscal year 2018. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 86, *Certain Debt Extinguishment Issues*, which is required to be implemented during fiscal year 2018. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 87, *Leases*, which is required to be implemented during fiscal year 2021. Management is evaluating the Statement's future impact on the basic financial statements.

These pronouncements will be implemented by their respective implementation dates.

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**TOWN OF SWAMPSCOTT, MASSACHUSETTS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2017**

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
REVENUES				
Real Estate and Personal Property Taxes	\$ -	\$ 47,200,239	\$ 663,891	\$ 47,864,130
Motor Vehicle and Other Excise Taxes	-	2,418,000	-	2,418,000
Tax Liens	-	-	-	-
Intergovernmental	-	4,859,991	-	4,859,991
Penalties and Interest on Taxes	-	125,000	-	125,000
Licenses and Permits	-	325,000	-	325,000
Fines and Forfeitures	-	65,000	-	65,000
Departmental and Other	-	1,944,465	-	1,944,465
Investment Income	-	38,000	-	38,000
Total Revenues	-	56,975,695	663,891	57,639,586
EXPENDITURES				
Current:				
General Government	39,973	2,782,860	108,228	2,931,061
Public Safety	66,605	7,705,969	185,917	7,958,491
Education	71,145	27,699,720	362,600	28,133,465
Public Works	80,034	2,188,725	169,830	2,438,589
Health and Human Services	277	384,741	(19,951)	365,067
Culture and Recreation	-	831,358	(43,442)	787,916
Pension Benefits	-	4,690,025	(1,100)	4,688,925
Employee Benefits	-	6,330,000	(350,403)	5,979,597
Property and Liability Insurance	-	595,000	(35,761)	559,239
State and County Charges	-	600,318	83,235	683,553
Debt Service:				
Principal	-	3,356,152	176,609	3,532,761
Interest	-	770,787	38,128	808,915
Total Expenditures	258,034	57,935,655	673,890	58,867,579
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(258,034)</u>	<u>(959,960)</u>	<u>(9,999)</u>	<u>(1,227,993)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	-	820,000	-	820,000
Transfers Out	-	(1,950,000)	-	(1,950,000)
Total Other Financing Sources (Uses)	-	(1,130,000)	-	(1,130,000)
NET CHANGE IN FUND BALANCE	<u>(258,034)</u>	<u>(2,089,960)</u>	<u>(9,999)</u>	<u>(2,357,993)</u>
Fund Balance - Beginning of Year	<u>9,634,859</u>	<u>9,634,859</u>	<u>9,634,859</u>	<u>9,634,859</u>
FUND BALANCE - END OF YEAR	<u>\$ 9,376,825</u>	<u>\$ 7,544,899</u>	<u>\$ 9,624,860</u>	<u>\$ 7,276,866</u>

See Accompanying Notes to Required Supplementary Information.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE BUDGET AND ACTUAL (NON-GAAP
BUDGETARY BASIS)
YEAR ENDED JUNE 30, 2017**

<u>Actual</u>	<u>Current Year Encumbrances and Continuing Appropriations</u>	<u>Actual and Encumbrances and Continuing Appropriations</u>	<u>Variance Positive/ (Negative)</u>
\$ 48,041,395	\$ -	\$ 48,041,395	\$ 177,265
2,642,922	-	2,642,922	224,922
162,699	-	162,699	162,699
4,982,472	-	4,982,472	122,481
174,207	-	174,207	49,207
426,919	-	426,919	101,919
81,001	-	81,001	16,001
2,236,147	-	2,236,147	291,682
117,518	-	117,518	79,518
<u>58,865,780</u>	<u>-</u>	<u>58,865,780</u>	<u>1,226,194</u>
2,897,564	8,888	2,906,452	24,609
7,945,393	9,149	7,954,542	3,949
27,971,464	162,001	28,133,465	-
2,320,414	89,386	2,409,800	28,789
357,618	-	357,618	7,449
787,227	-	787,227	689
4,688,887	-	4,688,887	38
5,978,970	-	5,978,970	627
558,831	-	558,831	408
683,482	-	683,482	71
3,464,401	-	3,464,401	68,360
829,148	-	829,148	(20,233)
<u>58,483,399</u>	<u>269,424</u>	<u>58,752,823</u>	<u>114,756</u>
<u>382,381</u>	<u>(269,424)</u>	<u>112,957</u>	<u>1,340,950</u>
821,147	-	821,147	1,147
(2,054,570)	-	(2,054,570)	(104,570)
<u>(1,233,423)</u>	<u>-</u>	<u>(1,233,423)</u>	<u>(103,423)</u>
(851,042)	(269,424)	(1,120,466)	1,237,527
<u>9,634,859</u>	<u>-</u>	<u>9,634,859</u>	<u>-</u>
<u>\$ 8,783,817</u>	<u>\$ (269,424)</u>	<u>\$ 8,514,393</u>	<u>\$ 1,237,527</u>

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

**SCHEDULES OF CHANGES IN EMPLOYERS' NET PENSION LIABILITY AND RELATED RATIOS
SWAMPSCOTT CONTRIBUTORY RETIREMENT SYSTEM (1)**

	2016	2015	2014
<u>Total Pension Liability</u>			
Service Cost	\$ 1,691,507	\$ 1,630,367	\$ 1,486,863
Interest	7,351,628	6,641,295	6,409,281
Difference between expected and actual experience	-	1,961,264	-
Change in assumptions	-	3,786,705	-
Benefit Payments, including refunds of member contributions, net of transfers (to)/from other systems and intergovernmental reimbursements	(5,359,288)	(5,043,935)	(5,235,027)
Net Change in Total Pension Liability	3,683,847	8,975,696	2,661,117
Total Pension Liability - Beginning	92,883,483	83,907,787	81,246,670
Total Pension Liability - Ending (a)	<u>\$ 96,567,330</u>	<u>\$92,883,483</u>	<u>\$83,907,787</u>
<u>Plan Fiduciary Net Position</u>			
Contributions - Employer	\$ 5,012,346	\$ 4,711,121	\$ 4,543,164
Contributions - Member	1,245,816	1,192,683	1,461,902
Net Investment Income	2,573,669	409,071	3,565,866
Benefit Payments, including refunds of member contributions, net of transfers (to)/from other systems and intergovernmental reimbursements	(5,359,288)	(5,043,935)	(5,235,027)
Administrative Expense	(160,268)	(141,568)	(178,827)
Net Change in Plan Fiduciary Net Position	3,312,275	1,127,372	4,157,078
Plan Fiduciary Net Position - Beginning	45,593,677	44,466,305	40,309,227
Plan Fiduciary Net Position - Ending (b)	<u>\$ 48,905,952</u>	<u>\$45,593,677</u>	<u>\$44,466,305</u>
Net Pension Liability - Ending (a) - (b)	<u>\$ 47,661,378</u>	<u>\$47,289,806</u>	<u>\$39,441,482</u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	50.64%	49.09%	52.99%
Covered Payroll	\$ 13,378,626	\$12,837,003	\$11,965,292
Net Pension Liability as a Percentage of Covered Payroll	356.3%	368.4%	329.6%

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS
SWAMPSCOTT CONTRIBUTORY RETIREMENT SYSTEM**

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Actuarially Determined Contribution	\$ 5,012,346	\$ 4,711,121	\$ 4,543,164	\$ 4,381,537	\$ 3,955,463
Contributions in Relation to the					
Actuarially Determined Contribution	<u>5,012,346</u>	<u>4,711,121</u>	<u>4,543,164</u>	<u>4,381,537</u>	<u>3,955,463</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 13,378,626	\$ 12,837,003	\$ 11,965,292	\$ 11,089,580	\$ 11,089,580
Contributions as a Percentage of					
Covered Payroll	37.47%	36.70%	37.97%	39.51%	35.67%

(Continued)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Actuarially Determined Contribution	\$ 3,739,031	\$ 3,508,981	\$ 3,360,532	\$ 2,997,268	\$ 2,880,573
Contributions in Relation to the					
Actuarially Determined Contribution	<u>3,739,031</u>	<u>3,508,981</u>	<u>3,360,532</u>	<u>2,997,268</u>	<u>2,880,573</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 10,858,678	\$ 10,654,167	\$ 10,747,973	\$ 10,747,973	\$ 9,924,644
Contributions as a Percentage of					
Covered Payroll	34.43%	32.94%	31.27%	27.89%	29.02%

(Concluded)

**SCHEDULE OF INVESTMENT RETURNS
SWAMPSCOTT CONTRIBUTORY RETIREMENT SYSTEM (1)**

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	4.07%	0.40%	8.75%

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

**SCHEDULE OF TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
SWAMPSCOTT CONTRIBUTORY RETIREMENT SYSTEM (1)(2)**

	2017	2016	2015
Town's Proportion of the Net Pension Liability	98.7642%	98.8735%	99.0500%
Town's Proportionate Share of the Net Pension Liability	\$ 47,072,369	\$46,757,108	\$39,066,787
Town's Covered Payroll	\$ 13,210,906	\$12,677,254	\$11,861,620
Town's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	356.31%	368.83%	329.35%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	50.06%	49.09%	52.99%

(1) Amounts presented were determined as of December 31

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

**SCHEDULE OF TOWN CONTRIBUTIONS
SWAMPSCOTT CONTRIBUTORY RETIREMENT SYSTEM**

	2017	2016	2015	2014	2013
Actuarially Required Contribution	\$ 4,947,940	\$ 4,655,413	\$ 4,496,769	\$ 4,335,836	\$ 3,995,894
Contributions in Relation to the Actuarially Required Contribution	4,947,940	4,655,413	4,496,769	4,335,836	3,995,894
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's Covered Payroll	\$ 13,210,906	\$12,677,254	\$11,861,620	\$11,186,504	\$11,186,504
Contributions as a Percentage of Covered Payroll	37.45%	36.72%	37.91%	38.76%	35.72%

(Continued)

	2012	2011	2010	2009	2008
Actuarially Required Contribution	\$ 3,779,980	\$ 3,548,971	\$ 3,403,534	\$ 3,028,416	\$ 2,905,395
Contributions in Relation to the Actuarially Required Contribution	3,779,980	3,548,971	3,403,534	3,028,416	2,905,395
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's Covered Payroll	\$ 10,953,584	\$10,747,286	\$10,841,912	\$10,841,912	\$10,011,387
Contributions as a Percentage of Covered Payroll	34.51%	33.02%	31.39%	27.93%	29.02%

(Concluded)

See accompanying independent auditors' report.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017**

**SCHEDULE OF SPECIAL FUNDING AMOUNTS OF THE NET PENSION LIABILITY
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM (1) (2)**

	2017	2016	2015
Town's Share of Net Pension Liability	\$ 60,255,663	\$51,372,339	\$42,970,408
Commonwealth's Share of the Town's Net Pension Liability	60,255,663	51,372,339	42,970,408
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's Expense and Revenue Recognized for the Commonwealth's Support	\$ 6,146,473	\$ 4,166,754	\$ 2,985,360
Plan Fiduciary Net Position as a Percentage of Total Net Pension Liability	52.73%	55.38%	61.64%

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

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

OTHER POST EMPLOYMENT BENEFITS SCHEDULES

**SCHEDULE OF CHANGES IN THE TOWN'S NET OPEB LIABILITY
AND RELATED RATIOS (PLAN) (1)**

	<u>2017</u>
<u>Total OPEB Liability</u>	
Service Cost	\$ 3,727,000
Interest	4,149,000
Benefit Payments	<u>(2,954,000)</u>
Net Change in OPEB Liability	4,922,000
 Total OPEB Liability - Beginning	 111,405,000
Total OPEB Liability - Ending (a)	<u><u>\$116,327,000</u></u>
 <u>Plan Fiduciary Net Position</u>	
Contributions - Employer	\$ 4,471,856
Benefit Payments	<u>(2,954,084)</u>
Net Change in Plan Fiduciary Net Position	1,517,772
 Plan Fiduciary Net Position - Beginning	 -
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 1,517,772</u></u>
 Net OPEB Liability - Ending (a) - (b)	 <u><u>\$114,809,228</u></u>
 Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	 1.30%
Covered Payroll	\$ 27,989,000
Net OPEB Liability as a Percentage of Covered Payroll	410.2%

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

SCHEDULE OF CONTRIBUTIONS (PLAN) (1)

	<u>2017</u>
Actuarially Required Contribution	\$ 7,769,264
Contributions in Relation to the Actuarially Required Contribution	4,471,856
Contribution Deficiency / (Excess)	<u><u>\$ 3,297,408</u></u>
 Town's Covered Payroll	 \$ 27,989,000
Contributions as a Percentage of Covered Payroll	27.76%

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

See accompanying independent auditors' report.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2017**

SCHEDULE OF INVESTMENT RETURNS (PLAN) (1)

2017

Annual money-weighted rate of return, net of investment expense 0.00%

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

SCHEDULES OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
07/01/16	\$ -	\$ 103,345,845	\$ 103,345,845	0.00%	\$ 27,989,000	369.2%
07/01/14	-	97,874,411	97,874,411	0.00%	\$ 26,614,036	367.8%
07/01/12	-	55,970,796	55,970,796	0.00%	\$ 24,654,366	227.0%

The significant changes to the methods and assumptions used in the July 1, 2016 actuarial valuation identified above that impact the trends in the schedules of funding progress are as follows:

- Change in mortality assumption from RP-2000, base year 2000 to RP-2014, based year 2006
- Change from a 3.5% increasing amortization to a 3% increased amortization

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

NOTE A BUDGETARY – GAAP RECONCILIATION

For budgetary financial reporting purposes, the Uniform Massachusetts Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2017 is presented below:

	Revenues	Expenditures	Other Financing Sources (Uses)	Fund Balance
Budgetary Basis as Reported on the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	\$ 58,865,780	\$ 58,752,823	\$ (1,233,423)	\$ 8,514,393
<u>Reclassifications and Adjustments:</u>				
Capital Stabilization Fund Recorded in the General Fund for GAAP Purposes	2,629	-	(51,000)	355,290
Stabilization Fund Recorded in the General Fund for GAAP Purposes	13,454	-	1,450,000	3,529,485
OPEB Fund Recorded in the General Fund for GAAP purposes until legal trust established in June 2017	8,196	1,517,772	250,000	-
Net Change in Recording 60-day Receipts	(25,438)	-	-	56,539
To Record MTRS On-Behalf Payments	6,146,473	6,146,473	-	-
Net Change in Recording Tax Refunds Payable	(110,800)	-	-	(131,700)
Net Change in Recording Other Revenues	(142,017)	-	-	(142,017)
Net Change in Recording Other Expenditures	(284)	(335,487)	284	(55,137)
To Record Encumbrances and Continuing Appropriations	-	(269,424)	-	269,424
GAAP Basis as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u>\$ 64,757,993</u>	<u>\$ 65,812,157</u>	<u>\$ 415,861</u>	<u>\$ 12,396,277</u>

TOWN OF SWAMPSCOTT, MASSACHUSETTS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2017

NOTE B SCHEDULE OF EMPLOYER CONTRIBUTIONS

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

Methods:

Actuarial Cost Method	Entry Age Normal Cost
Asset Valuation Method	Fair Value

Assumptions:

Salary Increases	3.75% Ultimate rate, plus the following steps and longevity, based on years of service. Ranges from 1.25% to 4.25% over 5 years of service for Group 1 and 2 employees, from 4.25% to 9.25% over 5 years of service for Police employees; and from 3.25% to 5.25% over 5 years of service for Fire employees
Investment Rate of Return	8.00%
Interest Rate Credited to Annuity Savings Fund	2.00%
Cost of Living Adjustment	3.0% of first \$13,000 Annually
Mortality	RP-2000 table projected with Generational Mortality, Scale BB. For members retired under an Accidental Disability (job-related), 40% of deaths are assumed to be from the same cause as the disability. Disabled mortality RP-2000 table projected with Generational Mortality, Scale BB, ages set forward 2 years.
Retirement Rates	General Employees (Group 1 and 2) - 1.0% and 1.5% for males and females, respectively, beginning at age 50 ranging to 100% for both males and females ending at age 70 Police and Fire (Group 4) - 2.0% beginning at age 50 ranging to 100.0% at age 65

