

**NOTICE OF SALE AND PRELIMINARY OFFICIAL STATEMENT DATED MAY 27, 2016**

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

**\$3,699,890****TOWN OF SWAMPSCOTT  
Massachusetts****GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2016 BONDS****Dated: June 23, 2016****Due: June 15, 2017-2031****MATURITIES**

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price/ Yield</u>	<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Price/ Yield</u>
2017	\$354,890			2025	\$170,000		
2018	355,000			2026	170,000		
2019	355,000			2027	165,000		
2020	355,000			2028	165,000		
2021	325,000			2029	165,000		
2022	265,000			2030	165,000		
2023	265,000			2031	160,000		
2024	265,000						

Principal of the Bonds will be payable June 15 of the years in which the Bonds mature. Interest from the date of the Bonds will be payable on December 15, 2016 and semi-annually thereafter on each June 15 and December 15. The Bonds will be subject to redemption prior to their stated dates of maturity as described herein.

The Bonds are issuable only in fully registered form without coupons, and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof except for one denomination of \$4,890 of the Bonds maturing in 2017. (See "Book-Entry Transfer System" herein.)

The legality of the Bonds will be approved by Locke Lord LLP, Boston, Massachusetts, Bond Counsel to the Town. UniBank Fiscal Advisory Services, Inc., Whitinsville, Massachusetts, serves as financial advisor to the Town. It is expected that the Bonds, in definitive form, will be delivered to DTC, or the offices of its custodial agent, on or about June 23, 2016 against payment in federal reserve funds.

**ELECTRONIC BIDS RECEIVED**  
**12:00 Noon (Eastern Daylight Savings Time)**  
**Monday, June 6, 2016**



**UniBank Fiscal Advisory Services, Inc.**

## Table of Contents

	<u>Page</u>		<u>Page</u>		<u>Page</u>
Issue Summary Statement.....	iii	Five Years Outstanding Debt .....	14	Undesignated General Fund	
Notice of Sale.....	v	Bonded Debt vs. Population,		Balance and Free Cash .....	30
Official Statement .....	1	Valuations and Income.....	14	Stabilization Fund .....	31
Introduction.....	1	Annual Debt Service .....	15	Investments.....	31
<b>Part I. The Bonds</b> .....	2	Revenue Anticipation Borrowing	15	Collective Bargaining.....	31
Description of the Bonds .....	2	Contracts .....	15	Physical and Economic	
Record Date .....	2	Overlapping Debt.....	16	Characteristics .....	32
Book-Entry Transfer System	2	Retirement Plan.....	16	Principal Employers .....	32
Authorization and Use of		Other Post-Employment		Employment & Payrolls .....	33
Proceeds .....	4	Benefits.....	18	Building Permits.....	33
Optional Redemption.....	5	Property Taxation & Valuation..	18	Other Data (Demographics) .....	34
Mandatory Redemption.....	5	Valuations .....	19	Public School Enrollments .....	37
Security and Remedies .....	5	Tax Rates.....	19	Litigation .....	38
Opinion of Bond Counsel.....	7	Largest Taxpayers .....	20		
Tax Exemption .....	7	Tax Levies.....	20	<b>Appendix A. Financial</b>	
Rating .....	8	Calculation of Tax Levies and		Statements .....	A-1
Continuing Disclosure.....	8	Levy Limits .....	23	<b>Appendix B. 2014 Audited</b>	
<b>Part II. The Town</b> .....	9	Tax Collections and Abatements	24	Financial Statements .....	B-1
Constitutional Status and		Taxes Outstanding.....	25	<b>Appendix C. Proposed Form of</b>	
Form of Government .....	9	Town Finances .....	25	Legal Opinion.....	C-1
Governing Bodies and		Budget and Appropriation		<b>Appendix D. Proposed Form of</b>	
Officers .....	10	Process .....	25	Continuing Disclosure	
Services .....	10	Budget Comparison.....	26	Certificate .....	D-1
Authorization of General		State Aid.....	26		
Obligation Bonds & Notes ..	11	School Building Assistance.....	27		
Debt Limits.....	11	Motor Vehicle Excise.....	28		
Types of Obligations .....	11	Enterprise Funds.....	28		
Debt .....	13	Community Preservation Act.....	28		
Authorized Unissued Debt ...	13	Other Taxes .....	29		
		Tax Increment Financing .....	30		

The information and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale of the Bonds shall, under any circumstances, create any implication that there has been no material change in the affairs of the Town since the date of this Official Statement.

## **ISSUE SUMMARY STATEMENT**

Issuer: Town of Swampscott, Massachusetts

Date of Sale: Monday, June 6, 2016 at 12:00 Noon (Eastern Daylight Savings Time)

Method of Sale: Electronic Bids via Parity

Minimum Bid: 101.25 percent of par (\$3,746,138.63) plus accrued interest to the date of delivery, if any.

Location of Sale: UniBank Fiscal Advisory Services, Inc., 49 Church St., Whitinsville, MA

Issue: \$3,699,890 General Obligation Municipal Purpose Loan of 2016 Bonds, Book-Entry Only (See “Book-Entry Transfer System”, herein.)

Purpose: Various capital improvements. (See “**AUTHORIZATION AND USE OF PROCEEDS**” herein.)

Dated Date of Bonds: June 23, 2016

Maturity Date of Bonds: Serially on June 15, 2017 – 2031, as detailed herein.

Redemption: The Bonds will be subject to redemption prior to their stated dates of maturity as described herein.

Credit Rating: Moody’s Investors Service rating is pending.

Security: The Bonds are valid general obligations of the Town of Swampscott, Massachusetts and the principal of and interest on the Bonds are payable from taxes which may be levied upon all property in the Town, subject to the limitations imposed by Chapter 59, Section 21C of the General Laws (Proposition 2½).

Basis of Award: Lowest true interest cost (TIC) as of the dated date.

Tax Exemption: Refer to “Tax Exemption” and Appendix C – “Proposed Form of Legal Opinion” herein.

Continuing Disclosure: Refer to “Continuing Disclosure” and Appendix D – “Proposed Form of Continuing Disclosure Certificate” herein.

Bank Qualification: **The Bonds will be designated as “qualified tax-exempt obligations” for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.**

Paying Agent: U.S. Bank National Association, Boston, Massachusetts

Legal Opinion: Locke Lord LLP, Boston, Massachusetts

Delivery and Payment: It is expected that the Bonds will be delivered to DTC, or the offices of its custodial agent, against payment to the account of the Town in federal reserve funds on or about June 23, 2016 against payment in federal reserve funds.

Issue Contacts: M. Ronald Mendes, Treasurer, Town of Swampscott, Massachusetts  
Telephone (781) 596-8852  
David M. Eisenthal, Vice President, UniBank Fiscal Advisory Services, Inc.,  
Telephone (508) 849-4222  
Richard A. Manley, Jr., Esq., Locke Lord LLP, Boston, Massachusetts.  
Telephone (617) 239-0384

Additional Information: Refer to the Preliminary Official Statement dated May 27, 2016.

## NOTICE OF SALE

### TOWN OF SWAMPSCOTT Massachusetts

**\$3,699,890**

### GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2016 BONDS

The Town of Swampscott, Massachusetts, will receive sealed and electronic proposals until 12:00 Noon (Eastern Daylight Savings Time), on

**Monday, June 6, 2016**

at UniBank Fiscal Advisory Services, Inc., Whitinsville, Massachusetts, for the purchase of the following described Bonds:

**\$3,699,890**      **GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2016 BONDS**, payable June 15 of the years and in the amounts as follows:

<u>Year</u>	<u>Principal Amount</u>	<u>Year</u>	<u>Principal Amount</u>
2017	\$354,890	2025	\$170,000
2018	355,000	2026	170,000
2019	355,000	2027	165,000
2020	355,000	2028	165,000
2021	325,000	2029	165,000
2022	265,000	2030	165,000
2023	265,000	2031	160,000
2024	265,000		

#### Details of the Bonds

The Bonds will be dated June 23, 2016. Interest from the date of the Bonds will be payable on December 15, 2016 and semi-annually thereafter on each June 15 and December 15. Principal of and interest on the Bonds will be paid as described below. The Bonds will be subject to redemption prior to their stated dates of maturity.

The Bonds will be issued by means of a book-entry system with no physical distribution of the Bonds made to the public. One certificate for each maturity of the Bonds will be issued to The Depository Trust Company, New York, New York, (DTC), or its custodial agent, and immobilized in its custody. A book-entry system will be employed, evidencing ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof except for one denomination of \$4,890 of the Bonds maturing in 2017, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures adopted by DTC and its participants. The winning bidder, as a condition to delivery of the Bonds, shall be required to deposit the Bonds with DTC, registered in the name of Cede & Co. Principal of and interest on the Bonds will be payable to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to beneficial owners by participants of DTC will be the responsibility of such participants and other nominees of beneficial owners. Neither the Town nor the Paying Agent will be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants.

#### Bank Qualification

The Bonds will be designated "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.

## Redemption of the Bonds

The Bonds maturing in the years 2017 through 2024, inclusive, are not subject to redemption prior to their stated dates of maturity. The Bonds maturing on and after June 15, 2025, are subject to redemption prior to their stated dates of maturity, at the option of the Town, on and after June 15, 2024, either in whole or in part at any time, and if in part, by lot within a maturity, at par plus accrued interest to the date set for redemption.

## Term Bonds

For Bonds maturing on and after June 15, 2025, bidders may specify that all of the principal amount of such Bonds having two consecutive maturities, may in lieu of having separate maturity dates, be combined to comprise one or more Term Bonds, and shall be subject to mandatory redemption or mature at par as described above, in each of the years and in the principal amounts specified in the foregoing maturity schedule. Each mandatory redemption shall be allocated to the payment of the Term Bond having the nearest subsequent maturity date.

Term Bonds, if any, shall be subject to mandatory redemption on June 15 in the year immediately prior to the stated maturity of such Term Bond (the particular Bonds of such maturity to be redeemed to be selected by lot), as indicated in the foregoing maturity schedule at the principal amount thereof plus accrued interest to the redemption date, without premium.

## Form of Bid and Basis of Award

Electronic proposals will be submitted through *i-Deal*<sup>®</sup>. If any provisions in this Notice of Sale conflict with information provided by *i-Deal*<sup>®</sup>, this Notice of Sale shall control. Further information about *i-Deal*<sup>®</sup>, including any fees charged, may be obtained from *i-Deal*<sup>®</sup> at (212) 849-5000. The Town assumes no responsibility or liability for bids submitted through *i-Deal*<sup>®</sup>. An electronic bid made in accordance with this Notice of Sale shall be deemed an irrevocable offer to purchase the Bonds in accordance with the terms provided in this Notice of Sale and shall be binding upon the bidder as if made by a signed and sealed written bid delivered to the Town. A good faith deposit is not required.

Bidders shall state the rate or rates of interest per annum which the Bonds are to bear in a multiple of 1/8th or 1/20th of 1% but shall not state (a) more than one interest rate for any Bonds having a like maturity, and (b) any interest rate which exceeds the interest rate stated for any other Bonds by more than 3%. **No bid of less than 101.25 percent of par (\$3,746,138.63) and accrued interest to date of delivery, if any, will be considered.**

As between proposals which comply with this Notice of Sale, the award will be to the bidder who offers to purchase all the Bonds at the lowest net effective interest rate to the Town. Such interest rate shall be determined on a true interest cost (TIC) basis, which shall mean that rate which, as of June 23, 2016, discounts semi-annually all future payments on account of principal and interest to the price bid, not including interest accrued to the date of delivery, which accrued interest shall be paid by the successful bidder. The award of the Bonds to the winning bidder will not be effective until the bid has been approved by the Treasurer and the Board of Selectmen of the Town.

## Bond Insurance

The Town has not contracted for the issuance of any policy of municipal bond insurance for the Bonds. If the Bonds qualify for issuance of any such policy or commitment therefor, any purchase of such insurance or commitment shall be at the sole option and expense of the bidder. Proposals shall not be conditioned upon the issuance of any such policy or commitment. Any failure of the Bonds to be so insured or of any such policy or commitment to be issued shall not in any way relieve the purchaser of its contractual obligations arising from the acceptance of a proposal for the purchase of the Bonds. Should the successful bidder purchase municipal bond insurance, all expenses associated with such policy or commitment will be borne by the successful bidder, except for the fee paid to Moody's Investors Service for the rating of the Bonds. Any such fee paid to Moody's Investors Service would be borne by the Town.

## Certificate of the Successful Bidder

On or prior to the date of delivery of the Bonds, the successful bidder shall furnish to the Town a certificate acceptable to Bond Counsel generally to the effect that (i) as of June 6, 2016 (the "Sale Date"), the Purchaser had offered or reasonably

expected to offer all of the Bonds to the general public (excluding bond houses, brokers, or similar persons acting in the capacity of underwriters or wholesalers) in a bona fide public offering at the prices set forth in such certificate, plus accrued interest, if any, (ii) such prices represent fair market prices of the Bonds as of the Sale Date, and (iii) as of the date of such certificate, all of the Bonds have been offered to the general public in a bona fide offering at the prices set forth in such certificate, and at least 10% of each maturity of the Bonds actually has been sold to the general public at such prices. To the extent the certifications described in the preceding sentence are not factually accurate with respect to the reoffering of the Bonds, Bond Counsel should be consulted by the bidder as to alternative certifications that will be suitable to establish the “issue price” of the Bonds for federal tax law purposes. If a municipal bond insurance policy or similar credit enhancement is obtained with respect to the Bonds by the successful bidder, such bidder will also be required to certify as to the net present value savings on the Bonds resulting from payment of insurance premiums or other credit enhancement fees.

### **Legal Opinion**

The legality of the Bonds will be approved by Locke Lord LLP, Boston, Massachusetts, whose opinion will be furnished to the purchaser without charge.

### **Documents to be Delivered at Closing**

It shall be a condition to the obligation of the successful bidder to accept delivery of and pay for the Bonds that the bidder shall be furnished, without cost, with (a) the approving opinion of the firm of Locke Lord LLP of Boston, Massachusetts, substantially in the form of Appendix C of the Preliminary Official Statement dated May 27, 2016 included herein, (see “Tax Exemption” and Appendix C in the Preliminary Official Statement), (b) a certificate in form satisfactory to said firm dated as of the date of delivery of the Bonds and receipt of payment therefor to the effect that there is no litigation pending or, to the knowledge of the signers thereof, threatened affecting the validity of the Bonds or the power of the Town to levy and collect taxes to pay them, (c) a certificate of the Town Treasurer to the effect that, to the best of his knowledge and belief, the Preliminary Official Statement referred to below both as of its date and the date of sale of the Bonds, and the Official Statement referred to below as of its date and the date of delivery do not contain any untrue statement of a material fact and do not omit to state a material fact necessary to make the statements made therein, in the light of the circumstances under which they were made, not misleading; and (d) a Continuing Disclosure Certificate to be dated as of the date of the Bonds and incorporated by reference in the Bonds.

### **CUSIP Identification Numbers**

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such numbers on any bond, nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Bonds. All expenses in relation to the printing of CUSIP numbers on the Bonds shall be paid for by the Town; provided, however that the Town assumes no responsibility for any CUSIP Service Bureau or other charge that may be imposed for the assignment of such numbers.

### **Continuing Disclosure**

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

**Delivery**

The Bonds, in definitive form, will be delivered to the purchaser at DTC, or the offices of its custodial agent, on or about June 23, 2016.

**Additional Information and Copies of the Official Statement**

Additional information concerning the Town of Swampscott and the Bonds is contained in the Preliminary Official Statement dated May 27, 2016, to which prospective bidders are directed. The Preliminary Official Statement is provided for informational purposes only and is not a part of this Notice of Sale. Such Preliminary Official Statement is deemed final by the Town as of its date for purposes of SEC Rule 15c 2-12(b)(1). Copies of the Preliminary Official Statement and a suggested form of proposal for the Bonds may be obtained from David M. Eisenthal, Vice President, UniBank Fiscal Advisory Services, Inc., 49 Church Street, Whitinsville, Massachusetts 01588, telephone (508) 849-4222. Within seven (7) business days following award of the Bonds in accordance herewith, 25 copies of a Final Official Statement will be furnished to the successful bidder. Additional copies may be obtained at the successful bidder's expense.

The right is reserved to reject any or all bids and to reject any bid not complying with this Notice of Sale and, so far as permitted by law, to waive any irregularity with respect to any proposal.

**TOWN OF SWAMPSCOTT**  
**Massachusetts**

/s/ M. Ronald Mendes  
Treasurer

Dated: May 27, 2016



# **OFFICIAL STATEMENT**

## **TOWN OF SWAMPSCOTT MASSACHUSETTS**

**\$3,699,890**

### **GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2016 BONDS**

#### **INTRODUCTION**

This Official Statement is provided for the purpose of presenting certain information relating to the Town of Swampscott, Massachusetts (the “Town”) in connection with the sale of the \$3,699,890 General Obligation Municipal Purpose Loan of 2016 Bonds, (the “Bonds”) dated June 23, 2016.

The Bonds are being offered for sale at public bidding and a Notice of Sale dated May 27, 2016, has been furnished to prospective bidders. Reference is hereby made to the Notice of Sale for the terms and conditions of bidding.

The Bonds will be general obligations of the Town for which its full faith and credit are pledged. They are not guaranteed by The Commonwealth of Massachusetts (the “Commonwealth”) or any other entity. The security for the Bonds is more fully described under the caption Security and Remedies herein. See also the caption Opinion of Bond Counsel herein.

Questions regarding information contained in this Official Statement or other matters should be directed to M. Ronald Mendes, Town Treasurer (781) 596-8852, David M. Eisenthal, Vice President, UniBank Fiscal Advisory Services, Inc. (508) 849-4222, or Richard A. Manley, Jr. Esq., Locke Lord LLP (617) 239-0384.

The information contained herein has been obtained from the sources indicated or from the Town.

**PART I**  
**THE BONDS**

**DESCRIPTION OF THE BONDS**

The Bonds will be dated June 23, 2016 and will mature on June 15 of the years and in the principal amounts as follows:

<b><u>Due</u></b> <b><u>June 15</u></b>	<b><u>Principal</u></b> <b><u>Amount</u></b>	<b><u>Due</u></b> <b><u>June 15</u></b>	<b><u>Principal</u></b> <b><u>Amount</u></b>
2017	\$354,890	2025	\$170,000
2018	355,000	2026	170,000
2019	355,000	2027	165,000
2020	355,000	2028	165,000
2021	325,000	2029	165,000
2022	265,000	2030	165,000
2023	265,000	2031	160,000
2024	265,000		

The Bonds will bear interest at the rate or rates per annum specified by the successful bidder.

Principal and semi-annual interest will be paid by U.S. Bank National Association, Boston, Massachusetts, or its successor, acting as paying agent (the “Paying Agent”). Interest from the date of the Bonds will be payable on December 15, 2016 and semi-annually thereafter on each June 15 and December 15. So long as The Depository Trust Company (“DTC”), New York, New York or its nominee, Cede & Co., is the Bondowner, such payments of principal and interest on the Bonds will be made directly to such Bondowner. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described herein.

The Bonds are issuable only in fully registered form without coupons, and, when issued, will be registered in the name of Cede & Co., as Bondowner and nominee for DTC. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form, in the denomination of \$5,000 or any integral multiple thereof except for one denomination of \$4,890 of the Bonds maturing in 2017. So long as Cede & Co. is the Bondowner, as nominee of DTC, references herein to the Bondowners or registered owner shall mean Cede & Co., as aforesaid, and shall not mean the Beneficial Owners (as defined herein) of the Bonds. (See Book-Entry Transfer System herein.)

**Record Date**

The record date for each payment of interest on the Bonds (the “Record Date”) is the last business day of the month preceding the interest payment date, provided that, under certain circumstances, the Paying Agent may establish a special record date. The special record date may not be more than twenty (20) days before the date set for payment. The Paying Agent will mail notice of a special record date to the bondholders at least ten (10) days before the special record date.

**Book-Entry Transfer System**

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities

transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

To facilitate subsequent transfers, all securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the securities deposited with it; DTC's records reflect only the identity of the Direct Participants to whose accounts such securities are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Redemption notices shall be sent to DTC. If less than all of a maturity is being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

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

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

DTC may discontinue providing its services as depository with respect to securities held by it at any time by giving reasonable notice to the issuer of such securities or its paying agent. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered to Beneficial Owners.

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

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

### **DTC Practices**

The Town can make no assurances that DTC, Direct Participants, Indirect Participants or other nominees of the Beneficial Owners of the Bonds will act in a manner described in this Official Statement. DTC is required to act according to rules and procedures established by DTC and its participants which are on file with the Securities and Exchange Commission.

### **AUTHORIZATION AND USE OF PROCEEDS**

The Bonds are issued for the following purposes, authorized by votes of the Town on May 7, 2012, May 5, 2014 and May 4, 2015, respectively:

<b><u>Purpose</u></b>	<b><u>Par Amount</u></b>	<b><u>Statute</u></b>
Sewer (5/7/12) (1)	\$ 969,490	Chapter 44, Section 7(1)
Roads (5/5/14) (2)	175,000	Chapter 44, Section 7(6)
Planning (5/5/14) (2)	125,000	Chapter 44, Section 7(22)
Physical Security (5/5/14) (2)	110,000	Chapter 44, Section 7(3A)
DPW Fleet Equipment (5/5/14) (2)	82,000	Chapter 44, Section 7(9)
Asbestos Removal (5/5/14) (2)	75,000	Chapter 44, Section 7(31)
Open Space (5/5/14) (2)	50,000	Chapter 44, Section 7(25)
High School Sprinkler (5/5/14) (2)	40,000	Chapter 44, Section 7(3A)
Clark Lift (5/5/14) (2)	40,000	Chapter 44, Section 7(3A)
Police Radio (5/5/14) (2)	24,400	Chapter 44, Section 7(14)
Clark School ADA (5/4/15)	695,000	Chapter 44, Section 7(3A)
Roadway (5/4/15)	475,000	Chapter 44, Section 7(6)
Hadley School Repairs (5/4/15)	450,000	Chapter 44, Section 7(3A)
Surf Rake (5/4/15)	118,000	Chapter 44, Section 7(9)
Public Building Maintenance (5/4/15)	100,000	Chapter 44, Section 7(3A)
Sewer (5/4/15) (3)	81,000	Chapter 44, Section 7(1)
Open Space (5/4/15)	50,000	Chapter 44, Section 7(25)
Wired Fire Alarm (5/4/15)	20,000	Chapter 44, Section 7(3A)
Seawall (5/4/15)	20,000	Chapter 44, Section 7(33)
Total	<u>\$3,699,890</u>	

The Town currently has \$1,690,890 par amount of bond anticipation notes outstanding for these purposes. These notes mature on June 24, 2016 and will be permanently retired with proceeds of the Bonds. The remaining Bond proceeds will fund project and related costs.

- 
- (1) Debt service for this purpose is expected to be paid from sewer system revenues. A like amount of bond anticipation notes is outstanding. These notes will be permanently retired with Bond proceeds on June 24, 2016.
- (2) A like amount of bond anticipation notes is outstanding. These notes will be permanently retired with Bond proceeds on June 24, 2016.
- (3) Debt service for this purpose is expected to be paid from sewer system revenues.

## **OPTIONAL REDEMPTION**

Bonds maturing in the years 2017 through 2024, inclusive, are not subject to redemption prior to their stated dates of maturity. Bonds maturing on and after June 15, 2025, are subject to redemption prior to maturity, at the option of the Town, on and after June 15, 2024, either in whole or in part at any time, and if in part, by lot within a maturity, at par plus accrued interest to the date set for redemption.

## **MANDATORY REDEMPTION**

If the successful bidder designates principal amounts of the Bonds to be combined into a Term Bond which may be done only for principal amounts in consecutive years and only for the years after 2024, such Term Bond will be subject to mandatory redemption on June 15 in the year immediately prior to the stated maturity of such Term Bond (the particular Bonds of such maturity to be redeemed to be selected by lot) as indicated on the cover page of the Preliminary Official Statement at the principal amount thereof plus accrued interest to the redemption date.

## **SECURITY AND REMEDIES**

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

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

The total amount of a tax levy is limited by statute. However, the voters in each municipality may vote to exclude from the limitation any amounts required to pay debt service on indebtedness incurred before November 4, 1980. Local voters may also vote to exempt specific subsequent bond issues from the limitation. (See “Tax Limitations” under “TAX LEVIES” herein.) In addition, obligations incurred before November 4, 1980 may be constitutionally entitled to payment from taxes in excess of the statutory limit. **The Town has voted to exclude the debt service on \$21,173,142 par amount of currently outstanding bonds from the provisions of Proposition 2½, subject to the provisions of Chapter 44, Section 20, of the General Laws.**

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

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

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

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

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

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

**Bankruptcy.** Enforcement of a claim for payment of principal or interest on general obligation bonds or notes would be subject to the applicable provisions of Federal bankruptcy laws and to the provisions of other statutes, if any, hereafter enacted by the Congress or the State legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied. Massachusetts municipalities are not currently authorized by the Massachusetts General Laws to file a petition for bankruptcy under Federal Bankruptcy laws. In cases involving significant financial difficulties faced by a single city, town, or regional school district, the Commonwealth has enacted special legislation to permit the appointment of a fiscal overseer, finance control board or, in the most extreme cases, a state receiver. In a limited number of these situations, such special legislation has also authorized the filing of federal bankruptcy proceedings, with the prior approval of the Commonwealth. In each case where such authority was granted, it expired at the termination of the

Commonwealth's oversight of the financially distressed city, town, or regional school district. To date, no such filings have been approved or made.

## **OPINION OF BOND COUNSEL**

A copy of the legal opinion of the firm of Locke Lord LLP, of Boston, Massachusetts (see Appendix C), will be furnished to the successful bidder for the Bonds. The opinion will be dated and given on and will speak only as of the date of original delivery of the Bonds to the successful bidder.

The scope of engagement of Bond Counsel does not extend to passing upon or assuming responsibility for the accuracy or adequacy of any statements made in this Official Statement other than matters expressly set forth as their opinion and they make no representation that they have independently verified the same.

## **TAX EXEMPTION**

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

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

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective Bondholders should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel expresses no opinion as to the taxability of the Bonds or the income therefrom or any other tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

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

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

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

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

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

## **RATING**

Application has been made to Moody’s Investors Service for a rating on the Bonds. Such rating, if obtained, will reflect only the agency’s view and will be subject to revision or withdrawal which could affect the market price of the Bonds.

## **CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the “Rule”), the Town will covenant for the benefit of owners of the Bonds to provide certain financial information and operating data relating to the Town by not later than 270 days after the end of each fiscal year, (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix D. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds. The Town is the only “obligated person” with respect to the Bonds within the meaning of the Rule.

The Town believes that within the past five year it has complied, in all material respects, with its previous undertakings to provide financial information and notices of significant events in accordance with the Rule.

It should be noted that prior to 2014, the Town’s practice was to submit its annual audit as part of the next annual continuing disclosure filing following its release, rather than as a separate filing at the time of the audit’s release. The Town changed this practice beginning with the filing of its audited financial statements for the year ending June 30, 2013.



## **PART II**

### **THE TOWN**

Swampscott, Massachusetts (“the Town”) incorporated as a Town in 1852, is governed by a representative town meeting and a five member Board of Selectmen and is located in southeastern Essex County approximately 12 miles northeast of downtown Boston. It is a seaside residential community with a land area of 3.05 square miles and a population of 13,787 (2010 census). Income and wealth in the Town ranges primarily from middle income to affluent. The Town covers an area of approximately 3.05 square miles and is bordered on the east and south by the Atlantic Ocean, on the west by the City of Lynn and on the north by the City of Salem and the Town of Marblehead.

### **CONSTITUTIONAL STATUS AND FORM OF GOVERNMENT**

Massachusetts cities and towns are subject to the plenary legislative power of the Commonwealth. As stated by the Supreme Judicial Court:

A town is not an independent sovereignty. It is merely a subordinate agency of State government. It is a creature of the Commonwealth, from which are derived all its powers and those of its voters and officers.

Cities and towns provide general governmental services at the local level. Municipalities were traditionally authorized to exercise only those powers granted by the State legislature, but Massachusetts adopted a Home Rule Amendment to its Constitution in 1966, under which a city or town may exercise by ordinance or by-law any power which the State legislature could confer upon it, provided that the ordinance or by-law is consistent with the laws enacted by the State legislature. Certain powers are excluded from home rule and may still be exercised only when authorized by State law; these powers include the power to levy taxes, the power to borrow money, and the power to enact private or civil laws governing civil relationships except as an incident to the exercise of an independent municipal power. Under the Home Rule Amendment the State legislature may enact general laws relating to a class of two or more municipalities but (except in limited circumstances) may enact a special law relating to a particular city or town only on request of the city or town or on recommendation of the governor and passage by a two-thirds vote of both houses of the legislature.

An amendment to the State Constitution provides that any law imposing additional costs on two or more cities or towns by regulating aspects of municipal employment will not be effective within a city or town until the city council or town meeting accepts the law. Local acceptance is not required if the legislature has either passed the law by a two-thirds vote or provided that the additional costs would be assumed by the State.

Cities and towns may change their form of government by adopting home rule charters or amending existing charters. A town of less than 12,000 population may not change to a city form of government and a town of less than 6,000 inhabitants may not change from the open town meeting form of government to a limited or representative town meeting form.

Cities are generally governed by a city council and an elected mayor who has the power to veto council actions; the council may override a mayoral veto by a two-thirds vote of the councilors. Some cities are governed by a city council and an appointed city manager who has no power to veto council actions; some municipalities, although still called “towns”, have adopted a similar form of government with a town council and town manager or administrator. Provision is often made for a referendum on council actions, and for initiation of measures, upon petition of a sufficient number of voters.

Most towns are governed by open town meetings in which any voter may participate. Others have an elected representative town meeting, often with public officers serving as ex officio members of the town meeting. Provision is usually made for a referendum on actions of the representative town meeting upon petition of a sufficient number of voters. Administrative affairs are generally managed by a board of three or more selectmen, sometimes with the assistance of a town manager or executive secretary.

School affairs of cities and towns are administered by an elected school committee, except in those towns whose educational functions are carried out entirely through a regional school district.

## **GOVERNING BODIES AND OFFICERS**

Local legislative decisions are made by a representative town meeting consisting of 324 members. Subject to the legislative decisions made by town meeting, the affairs of the Town are generally administered by a five member Board of Selectmen, each of whom is elected for a staggered three-year term on an at-large basis. Day-to-day operations are overseen by a Town Administrator, appointed by the Board of Selectmen. Local taxes are assessed by the three member Board of Assessors, each of whom is elected for staggered three-year terms. The affairs of the schools are generally administered by a five member School Committee, each of whom is elected for staggered three-year terms on an at-large basis. The following are the principal executive officers:

<b><u>Office</u></b>	<b><u>Name</u></b>	<b><u>Manner of Selection and Term</u></b>	<b><u>Term Expires</u></b>
Selectmen	Naomi R. Dreeben, Chair	Elected / 3 years	2017
	Laura Spathanas, Vice Chair	Elected / 3 years	2017
	Peter Spellios	Elected / 3 years	2018
	Donald M. Hause	Elected / 3 years	2019
	Patrick Jones	Elected / 3 years	2019
Town Administrator	Thomas Younger	Appointed	2018
Town Accountant	David Castellarin	Appointed / 5 years	2016
Treasurer/Collector	M. Ronald Mendes	Appointed	2016
Town Clerk	Susan J. Duplin	Appointed	2016
Town Counsel	Kopelman & Paige	Appointed / 1 year	2016
Assistant Town Counsel	Marc J. Miller	Appointed / 1 year	2016

## **SERVICES**

The Town provides general governmental services for the territory within its boundaries, including police and fire protection, disposal of garbage, public education in grades K through 12, streets, public libraries, parks and recreation. Water services are provided to essentially all residential, commercial and industrial users by the Town and through connections to the Massachusetts Water Resources Authority (MWRA). Sewage disposal is provided to most residential, commercial, and industrial users through a connection with the Lynn Water and Sewer Commission (LWSC).

The Town is located in Essex County. Legislation was passed by the state legislature abolishing the county governments of Franklin and Middlesex Counties as of July 1, 1997, with their assets, functions, debts and other obligations being assumed by the Commonwealth. The abolishment of the Middlesex County government was in part response to a default by the County in the payment of general obligation notes of the County. The legislation also abolished the county governments of Hampden and Worcester Counties as of July 1, 1998. Legislation enacted in 1998 abolished the county governments of Hampshire, Essex and Berkshire counties as of January 1, 1999, July 1, 1999 and July 1, 2000, respectively. The legislation also required the state secretary for administration and finance to establish a plan to recover the Commonwealth's expenditures for the liabilities and other debts assumed and paid by the Commonwealth on behalf of an abolished county. Unless these provisions are changed by further legislation, the state treasurer shall assess upon each city and town within the jurisdiction of an abolished county an amount equal to the county tax paid by each such city and town for the fiscal year immediately prior to the abolishment of the county (or two years prior in the case of Essex County) until such expenditures by the Commonwealth are recovered. It is possible that similar legislation will be sought to provide for the abolishment of county government in other counties.

## **AUTHORIZATION OF GENERAL OBLIGATION BONDS AND NOTES**

Serial bonds and notes are authorized by a two-thirds vote of the representative town meeting. Refunding bonds and notes are authorized by the selectmen. Borrowings for some purposes require State administrative approval.

When serial bonds or notes have been authorized, bond anticipation notes may be issued by the officers authorized to issue the serial bonds or notes. Temporary loans in anticipation of the revenue of the fiscal year in which the debt is incurred or in anticipation of authorized federal and state aid generally may be incurred by the Treasurer with the approval of the Selectmen.

## **DEBT LIMITS**

**General Debt Limit.** The General Debt Limit of the Town consists of a Normal Debt Limit and a Double Debt Limit. The Normal Debt Limit for the Town is 5 percent of the valuation of taxable property as last equalized by the State Department of Revenue. The present debt limit of the Town, based on the 2014 equalized valuation, is \$199,015,990. The Town can authorize debt up to this amount without State approval. It can authorize debt up to twice this amount (the Double Debt Limit) with the approval of the Municipal Finance Oversight Board, composed of the State Treasurer, the State Auditor, the Attorney General, and the Director of Accounts.

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

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

## **TYPES OF OBLIGATIONS**

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

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

measured from the date of the original bonds or notes and must produce present value savings over the debt service of the refunded bonds. Generally, the first required annual payment of principal of the refunding bonds cannot be later than the first principal payment of any of the bonds or notes being refunded thereby, however, principal payments made before the first principal payment of any of the bonds or notes being refunded thereby may be in any amount.

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

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

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

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

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

**Revenue Bonds.** Cities and towns may issue revenue bonds for solid waste disposal facilities, for projects financed under the Commonwealth's Water Pollution Abatement or Drinking Water Revolving Loan Programs and for certain economic development projects supported by tax increment financing. In addition to general obligation bonds and notes, cities and towns having electric departments may issue electric revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Telecommunications and Energy. The Town does not have an electric department.

## **DEBT (1)**

The following shows the direct debt outstanding as of June 23, 2016, including the Bonds:

### General Obligation Bonds:

Within General Debt Limit (2)		
Sewers & Drains	\$ 1,358,492	
Schools	19,572,326	
Other Building	5,064,092	
Streets Sidewalks & Parking	256,000	
Departmental Equipment	343,582	
Architectural & Engineering	125,360	
Athletic & Recreational Facilities	203,124	
Other Inside General	195,166	
The Bonds	<u>3,699,890</u>	
Total Within Debt Limit		\$30,818,032
Outside General Debt Limit:		
Sewers (3)	236,896	
Water (3)	<u>2,236,291</u>	
Total Outside Debt Limit		<u>2,473,187</u>
Total Long-Term Indebtedness (4)		33,291,219
Temporary Loans in Anticipation of:		
Revenue	\$ 0	
Bonds (5)	283,409	
Grants	<u>0</u>	
Total Temporary Loans		<u>\$ 283,409</u>
Total Direct Debt		<u>\$33,574,628</u>

- (1) *Principal amount only. Excludes lease and installment purchase obligations, overlapping debt, unfunded pension liability, and other post-employment benefits liability.*
- (2) *At the present time, the normal general debt limit is \$199,015,990 and the double general debt limit is \$398,031,980.*
- (3) *Supported by enterprise revenues.*
- (4) **\$21,173,142 has been exempted from the provisions of Proposition 2 ½. \$2,887,427 is self-supporting.**
- (5) *Does not include \$1,690,890 par amount of bond anticipation notes that will be permanently retired at maturity with Bond proceeds.*

## **AUTHORIZED UNISSUED DEBT AND PROSPECTIVE FINANCING**

Following delivery of the Bonds, the Town will have \$3,584,316 par amount of authorized unissued debt. \$2,450,907 of this amount represents amounts authorized at the 2016 annual town meeting. Of this amount, \$1,000,000 is expected to be financed with a loan from the Massachusetts Water Resources Authority. The remainder is expected to be financed with general obligation bonds during fiscal 2017.

\$850,000 par amount of authorized unissued debt is for construction of a turf field. The Town expects to finance this project during fiscal 2017. The remaining authorized unissued debt is for various equipment purposes. The Town has \$283,409 par amount of bond anticipation notes outstanding for these purposes. The Town expects to permanently retire these notes with available funds in fiscal 2017.

## **FIVE YEARS OUTSTANDING DEBT (1)**

	<b>As of June 30</b>				
	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Within the General Debt Limit					
Sewers & Drains	\$ 1,565,560	\$ 919,380	\$ 1,093,200	\$ 397,500	\$ 490,000
Land Acquisition	0	0	814,438	908,331	1,032,222
Schools	21,678,330	23,759,273	25,850,928	27,735,243	29,976,757
Other Building	5,817,868	6,521,883	4,874,594	3,395,069	4,131,832
Streets, Sidewalks & Parking	384,000	369,500	505,000	232,500	300,000
Departmental Equipment	491,965	470,945	720,394	457,737	733,381
Appraisal & Revaluation	0	0	0	0	10,000
Architectural & Engineering Services	188,040	363,220	538,400	349,376	478,753
Athletic & Recreational Facilities	261,664	270,250	328,500	236,750	300,000
Other	<u>241,941</u>	<u>118,426</u>	<u>147,390</u>	<u>65,105</u>	<u>77,821</u>
Total Within the General Debt Limit	<u>30,629,367</u>	<u>32,792,877</u>	<u>34,872,844</u>	<u>33,777,611</u>	<u>37,530,765</u>
Outside the General Debt Limit					
Sewers	252,694	268,179	875,826	2,227,671	3,518,127
Water	<u>2,731,424</u>	<u>3,282,584</u>	<u>2,385,770</u>	<u>3,144,983</u>	<u>3,644,196</u>
Total Outside the General Debt Limit	<u>2,984,118</u>	<u>3,550,763</u>	<u>3,261,596</u>	<u>5,372,654</u>	<u>7,162,323</u>
Total Long-Term Indebtedness	<u>\$33,613,486</u>	<u>\$36,343,640</u>	<u>\$38,134,440</u>	<u>\$39,150,265</u>	<u>\$44,693,088</u>
Short-Term Indebtedness					
Revenue Anticipation Notes	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Grant Anticipation Notes	0	0	0	0	0
Bond Anticipation Notes	<u>955,246</u>	<u>1,603,858</u>	<u>0</u>	<u>3,068,200</u>	<u>0</u>
Total Short-Term Indebtedness	<u>955,246</u>	<u>1,603,858</u>	<u>0</u>	<u>3,068,200</u>	<u>0</u>
Total Outstanding Indebtedness	<u>\$34,568,732</u>	<u>\$37,947,498</u>	<u>\$38,134,440</u>	<u>\$42,218,465</u>	<u>\$44,693,088</u>

(1) Excludes lease and installment purchase obligations, overlapping debt, unfunded pension liability, and other post-employment benefits liability.

## **Bonded Debt vs. Population, Valuations and Income**

	<b>As of June 30</b>				
	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Amount (1) (000s omitted)	\$33,613	\$36,344	\$38,134	\$39,150	\$44,693
Per Capita (2) (000s omitted)	\$2,399	\$2,605	\$2,740	\$2,817	\$3,242
Percent of Assessed Valuation (3)	1.34%	1.64%	1.76%	1.77%	1.96%
Percent of Equalized Valuation (4)	1.41%	1.53%	1.61%	1.60%	1.83%
Per Capita as a percent of Personal Income per Capita (2)	4.42%	4.78%	5.041%	5.18%	5.93%

(1) Outstanding principal on general obligation bonds. Excludes lease and installment purchase obligations, overlapping debt, unfunded pension liability, and post-employment benefits liability.

(2) Source: U.S. Department of Commerce, Bureau of the Census - latest applicable actuals or estimates.

(3) Source: Board of Assessors - assessed valuation as of the prior January 1.

(4) Source: Massachusetts Department of Revenue. The equalized valuation used here is the equalized valuation in effect for that fiscal year.

## **ANNUAL DEBT SERVICE (1)**

<b>Fiscal Year</b>	<b>Outstanding 06/23/16</b>		<b>Current Issue</b>		<b>Total Debt Service</b>	<b>Cumulative % Principal Retired(4)</b>
	<b>Principal(2)</b>	<b>Interest(2)</b>	<b>Principal</b>	<b>Interest(3)</b>		
2017	\$3,742,591	\$ 767,671	\$ 354,890	\$ 108,530	\$ 4,973,682	12.3%
2018	2,661,889	666,160	355,000	100,350	3,783,400	21.4
2019	2,311,196	607,525	355,000	89,700	3,363,420	29.4
2020	2,071,535	550,770	355,000	79,050	3,056,354	36.7
2021	2,069,825	501,420	325,000	68,400	2,964,645	43.9
2022	1,950,179	447,795	265,000	58,650	2,721,625	50.5
2023	1,935,539	396,644	265,000	50,700	2,647,884	57.1
2024	1,750,906	351,392	265,000	42,750	2,410,049	63.2
2025	1,451,280	312,564	170,000	34,800	1,968,645	68.1
2026	1,211,663	276,910	170,000	29,700	1,688,273	72.2
2027	1,227,052	245,191	165,000	24,600	1,661,844	76.4
2028	1,242,450	211,484	165,000	19,650	1,638,584	80.6
2029	1,087,856	180,600	165,000	14,700	1,448,156	84.4
2030	1,087,367	152,597	165,000	9,750	1,414,715	88.1
2031	755,000	123,306	160,000	4,800	1,043,106	90.9
2032	775,000	99,519	0	0	874,519	93.2
2033	795,000	75,081	0	0	870,081	95.6
2034	720,000	50,375	0	0	770,375	97.8
2035	745,000	26,075	0	0	771,075	100.0%
Total	<u>\$29,591,329</u>	<u>\$6,043,080</u>	<u>\$3,699,890</u>	<u>\$736,130</u>	<u>\$40,070,430</u>	

(1) Excludes short-term debt, lease and installment purchase obligations, overlapping debt, unfunded pension liability, and other post-employment benefits liability.

(2) **Principal totaling \$21,173,142 and interest totaling \$5,308,834 has been exempted from the provisions of Proposition 2 ½. Principal totaling \$2,887,427 and interest totaling \$65,543 is self-supporting.**

(3) Average coupon rate for the current issue is estimated at 3.00%.

(4) Includes current issue of Bonds.

## **REVENUE ANTICIPATION BORROWING**

The Town has not borrowed in anticipation of revenue in any of the last five fiscal years.

## **CONTRACTS**

Municipal contracts are generally limited to currently available appropriations. A city or town generally has authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interests, but generally only when funds are available for the first fiscal year; obligations for succeeding fiscal years generally are expressly subject to availability and appropriation of funds. Municipalities have specific authority in relatively few cases to enter into long-term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal and sewage treatment and disposal. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There may be implied authority to make other long-term contracts required to carry out authorized municipal functions, such as contracts to purchase water from private water companies.

Municipal contracts relating to solid waste disposal facilities may contain provisions requiring the delivery of minimum amounts of waste and payments based thereon and requiring payments in certain circumstances without regard to the operational status of the facilities.

Municipal electric departments have statutory power to enter into long-term contracts for joint ownership and operation of generating and transmission facilities and for the purchase or sale of capacity, including contracts requiring payments without regard to the operational status of the facilities. The Town does not have an electric department.

Cities and towns are authorized to lease (as lessee) off-street parking facilities, school buildings, hospital equipment, data process equipment, energy conservation equipment and educational equipment for periods ranging up to 10 years. They may also lease equipment, with option to purchase, for a period up to 10 years. Contracts may also be made for the installment purchase of energy conservation equipment over a period up to 10 years. Cities and towns may also lease various properties as lessor.

Pursuant to the Home Rule Amendment to the Massachusetts Constitution, cities and towns may also be empowered to make other contracts and leases.

The Town has the following long-term contracts of a material nature:

<u>Name</u>	<u>Nature of Service</u>	<u>Expires</u>	<u>Annual Cost</u>
Lynn Water and Sewer Commission (1)	Sewage Treatment	6/30/2020	\$750,000
Hiltz Disposal Company	Rubbish Disposal, Recycling, Recycling Disposal	6/30/2018	612,098

(1) In negotiation for successor contract. Annual cost is an estimate.

#### **OVERLAPPING DEBT (1)**

	<u>Outstanding</u>	<u>Authorized Unissued</u>	<u>Assessments for Operations and Debt Service Fiscal Year 2017</u>
Essex North Shore Regional Technical School District (2)	\$30,360,000	\$24,468,818	\$452,220

(1) Excludes temporary loans in anticipation of revenue. Omits debt of the Commonwealth.

(2) Source: Essex North Shore Regional Vocational Technical School District. The District authorized the borrowing of \$133,770,000 to construct a new facility. The Massachusetts School Building Authority has awarded the District a grant reimbursing 62 percent of approved project costs. The Commonwealth of Massachusetts has provided an additional \$21.1 million for the project through the Department of Capital Asset Management. Expected local share borrowing for the project is expected to total approximately \$53.5 million. Other members of the District are the Cities of Beverly, Gloucester, and Salem, and the Towns of Boxford, Danvers, Essex, Hamilton, Lynnfield, Manchester-by-the-Sea, Middleton, Nahant, Rockport, Topsfield, and Wenham. Debt is as of June 23, 2016.

#### **RETIREMENT PLAN**

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



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

If a city or town, or each member city and town of a county retirement system, has accepted the applicable law, it is required to annually appropriate an amount sufficient to pay not only its current pension obligations, but also a portion of its future pension liability. The portion of each such annual payment allocable to future pension obligations is required to be deposited in the pension reserve fund. The amount of the annual city or town appropriation for each such system is prescribed by a retirement system funding schedule which is periodically reviewed and approved by PERAC. Each system's retirement funding schedule is designed to reduce the unfunded actuarial pension liability of the system to zero by not later than June 30, 2030, with annual increases in the scheduled payment amounts of not more than 4.5 percent. The funding schedule must provide that payment in any year of the schedule is not less than 95 percent of the amount appropriated in the previous fiscal year. City, town and county systems which have an approved retirement funding schedule receive annual pension funding grants from the Commonwealth for the first 16 years of such funding schedule. Pursuant to recent legislation, a system (other than the state employees' retirement system and the teachers' retirement system) which conducts an actuarial valuation as of January 1, 2009, or later, may establish a revised schedule which reduces the unfunded actuarial liability to zero by not later than June 30, 2040, subject to certain conditions. The System's current schedule is to fully amortize the liability by June 30, 2031.

City, town and county systems may choose to participate in the Pension Reserves Investment Trust Fund (the "PRIT Fund"), which receives additional state funds to offset future pension costs of participating state and local systems. If a local system participates in the PRIT Fund, it must transfer ownership and control of all assets of its system to the Pension Reserves Investment Management Board, which manages the investment and reinvestment of the PRIT Fund. Cities and towns with systems participating in the PRIT Fund continue to be obligated to fund their pension obligations in the manner described above. The additional state appropriations to offset future pension liabilities of state and local systems participating in the PRIT Fund are required to total at least 1.3 percent of state payroll. Such additional state appropriations are deposited in the PRIT Fund and shared by all participating systems in proportion to their interests in the assets of the PRIT Fund as of July 1 for each fiscal year.

The Town has a contributory retirement system (the "System") that is partially funded by employee contributions. Covered payroll for the system was approximately \$12,270,247 as of January 1, 2015. The annual contributions of the Town to the System for the current (budgeted) and most recent fiscal years are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2017 (budget)	\$4,947,940
2016	4,655,413
2015	4,366,539
2014	4,111,148
2013	3,955,463

As of July 1, 2015, the System's unfunded pension liability was approximately \$45,644,798, based on System assets of \$42,498,707 and actuarially accrued liability of \$88,143,505, based on a discount rate of 8.00%.

A copy of the 2015 valuation report can be found at <http://www.mass.gov/perac/docs/forms-pub/reports/valuation-reports/swampscottval15.pdf>

The foregoing data do not include the retirement system costs or liabilities attributable to employees of the county or the retirement system costs or liabilities of any other entity of which the Town is a constituent part.

## **OTHER POST-EMPLOYMENT BENEFITS**

In addition to pension benefits, cities and towns may provide retired employees with health care and life insurance benefits. The portion of the cost of such benefits paid by cities or towns is generally provided on a pay-as-you-go basis.

The Governmental Accounting Standards Board ("GASB") promulgated its Statement Nos. 43 and 45, which require public sector entities to report the future costs of these non-pension, post-employment benefits in their financial statements. These accounting standards do not require pre-funding such benefits, but the basis applied by the standards for measurement of costs and liabilities for these benefits is conservative if they continue to be funded on a pay-as-you-go basis and will result in larger yearly cost and liability accruals than if such benefits were pre-funded in a trust fund in the same manner as traditional pension benefits. Cities and towns that choose to self-insure all or a portion of the cost of the health care benefits they provide to employees and retirees may establish a trust fund for the purpose of paying claims, and Massachusetts General Laws were recently amended to provide cities and towns with legal authority to establish a trust fund for the purpose of pre-funding other post-employment benefits liability in the same manner as traditional pension benefits. On May 7, 2013, the Town voted to create an OPEB Trust Fund under Chapter 32B, Section 20, of the Massachusetts General Laws. As a technical matter, the Town has not yet transferred monies into this fund. However, the Town has reserved \$1,500,000 of its general fund balance for this purpose.

The Town's OPEB expenditures are financed on a pay-as-you-go-basis from annual appropriations and the Town's current financial statements do not report the financial impact of OPEB until the benefits are paid. As of July 1, 2014, the Town had approximately 294 active employees who may be eligible for benefits and 456 retirees, spouses, and survivors that received such benefits.

The pay-as-you-go cost to the Town for such benefits in recent years has been as follows:

<b><u>Fiscal Year</u></b>	<b><u>Total</u></b>
2017 (budgeted)	\$1,995,000
2016	1,884,275
2015	2,290,515
2014	3,922,374
2013	3,778,910

As of July 1, 2014 (the most recent date available), the annual required contribution (ARC), an amount that if fully funded would cover normal cost plus any unfunded liabilities, was \$6,773,793, of which \$3,728,647 was not funded by the Town. As of July 1, 2014, the actuarial accrued liability for other post-employment benefits was \$97,374,359, based on a discount rate of 3.50%. As of July 1, 2014, the Town had \$500,052 in offsetting assets.

## **PROPERTY TAXATION AND VALUATION**

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

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

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes her own redetermination of the fair cash value of the taxable property in each municipality. This is known as the “equalized valuation” (see [Debt Limits](#) herein).

## **VALUATIONS**

The following shows the assessed and equalized valuations for the current and most recent fiscal years:

	<b>For Fiscal Year</b>				
	<b><u>2016</u></b>	<b><u>2015 (2)</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Real Property (1)	\$2,524,527,926	\$2,482,677,026	\$2,188,939,225	\$2,134,515,225	\$2,178,722,025
Personal Property (1)	<u>36,142,200</u>	<u>33,914,490</u>	<u>33,849,520</u>	<u>33,556,820</u>	<u>33,591,190</u>
Total	<u>\$2,560,670,126</u>	<u>\$2,516,591,516</u>	<u>\$2,222,788,745</u>	<u>\$2,168,072,045</u>	<u>\$2,212,313,215</u>
Equalized Valuation (3)	\$2,380,319,800	\$2,380,319,800	\$2,370,987,100	\$2,370,987,100	\$2,444,603,600
Percent of Total Assessed to Equalized Valuation	107.6%	105.7%	93.7%	91.4%	90.5%

(1) As of January 1, 2015, 2014, 2013, 2012, and 2011 respectively.

(2) Revaluation year.

(3) Based on equalized valuation in effect for each year as determined biannually by the State Department of Revenue as of January 1 of even numbered years effective for the next two fiscal years.

The following table shows the breakdown of the total assessed valuation for fiscal years 2016, 2015 and 2014 by classification:

	<b><u>Fiscal 2016</u></b>		<b><u>Fiscal 2015</u></b>		<b><u>Fiscal 2014</u></b>	
<b><u>Class</u></b>	<b><u>Assessed Valuation</u></b>	<b><u>% of Total</u></b>	<b><u>Assessed Valuation</u></b>	<b><u>% of Total</u></b>	<b><u>Assessed Valuation</u></b>	<b><u>% of Total</u></b>
Residential	\$2,388,163,338	93.3%	\$2,347,019,493	93.3%	\$2,057,750,774	92.6%
Commercial	125,027,888	4.9	124,326,233	4.9	120,256,551	5.4
Industrial	11,336,700	0.4	11,331,300	0.5	10,931,900	0.5
Personal	<u>36,142,200</u>	<u>1.4</u>	<u>33,914,490</u>	<u>1.3</u>	<u>33,849,520</u>	<u>1.5</u>
Total	<u>\$2,560,670,126</u>	<u>100.0%</u>	<u>\$2,516,591,516</u>	<u>100.0%</u>	<u>\$2,222,788,745</u>	<u>100.0%</u>

## **Tax Rates**

The following shows the actual tax rates per \$1,000 of assessed valuation, the average tax rate and the estimated full value rate based on the equalized valuation in effect for the current and most recent fiscal years:

<b><u>Fiscal Year</u></b>	<b><u>Actual Tax Rate</u></b>	<b><u>Average Tax Rate</u></b>	<b><u>Full Value Tax Rate</u></b>
2016	\$17.33 (Residential/Open Space) 32.07 (All Other)	\$18.32	\$19.71
2015	17.15 (Residential/Open Space) 31.73 (All Other)	18.13	19.17
2014	18.70 (Residential/Open Space) 34.79 (All Other)	19.89	18.65
2013	18.84 (Residential/Open Space) 35.02 (All Other)	20.01	18.30
2012	17.99 (Residential/Open Space) 33.41 (All Other)	19.09	17.28

## **LARGEST TAXPAYERS (1)**

The following shows the ten largest taxpayers for fiscal 2016:

<b><u>Name</u></b>	<b><u>Nature of Business</u></b>	<b><u>Total Assessed Valuation for 2016</u></b>	<b><u>Amount of Tax (1)</u></b>	<b><u>Percent of Total Levy</u></b>
CRP/THC Vinnin Square Venture LLC	Luxury Res Apts.	\$30,003,800	\$519,965	1.15%
CC Swampscott Lot B5 Limited	Shopping Center	15,118,100	484,837	1.07
Ryan LLC	Res. Apts	14,524,900	251,716	0.56
ARC HR5SSMA002 LLC	Shopping Center	11,047,100	354,280	0.83
Lynn Sand & Stone (2)	Quarry	8,365,300	251,018	0.55
Bostini-Paradise Road LLC	Shopping Center	7,986,100	256,114	0.57
Equity One (Boston Portfolio)	Shopping Center	7,218,600	231,500	0.51
New Creek II LLC	Shopping Center	4,288,200	137,522	0.30
Individual	Single Family Home	7,033,000	121,822	0.27
The John Bertram House of Swampscott	Assisted Living Facility	5,099,500	88,374	0.20
		<u>\$110,684,600</u>	<u>\$2,697,148</u>	<u>6.01%</u>

(1) All taxpayers are current on their real and personal property taxes.

(2) Includes 25 parcels containing both commercial and residential values.

## **TAX LEVIES**

**Levy-General.** The principal tax of Massachusetts cities and towns is the tax on real and personal property. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from funds on hand. The total amount levied is subject to certain limits prescribed by law; for a description of those limits see “Tax Limitations” herein. As to the inclusion of debt service and final judgments, see Security and Remedies herein.

The estimated receipts for a fiscal year from sources other than the property tax may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the State Commissioner of Revenue. Excepting special funds the use of which is otherwise provided for by law, the deduction for appropriations voted from funds on hand for a fiscal year cannot exceed the “free cash” as of the beginning of the prior fiscal year as certified by the State Director of Accounts plus up to nine months' collections and receipts on account of earlier years' taxes after that date. Subject to certain adjustments, free cash is surplus revenue less uncollected overdue property taxes from earlier years.

Although an allowance is made in the tax levy for abatements (see “Abatements and Overlay” herein) no reserve is generally provided for uncollectible real property taxes. Since some of the levy is inevitably not collected, this creates a cash deficiency which may or may not be offset by other items (see “Taxation to Meet Deficits” herein).

**Taxation to Meet Deficits.** As noted elsewhere (see “Abatements and Overlay” herein) overlay deficits, i.e. tax abatements in excess of the overlay included in the tax levy to cover abatements, are required to be added to the next tax levy. It is generally understood that revenue deficits, i.e. those resulting from non-property tax revenues being less than anticipated, are also required to be added to the tax levy (at least to the extent not covered by surplus revenue).

Amounts lawfully expended since the prior tax levy and not included therein are also required to be included in the annual tax levy. The circumstances under which this can arise are limited since municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for major disasters, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, utilities must be paid at established rates and certain established salaries, e.g. civil service, must legally be paid for work actually performed, whether or not covered by appropriations.

In the opinion of Bond Counsel, cities and towns are authorized to appropriate sums, and thus to levy taxes, to cover deficits arising from other causes, such as “free cash” deficits arising from a failure to collect taxes. This is not generally understood, however, and it has not been the practice to levy taxes to cover free cash deficits. Except to the extent that such deficits have been reduced or eliminated by subsequent collections of uncollected taxes (including sales of tax titles and tax possessions), lapsed appropriations, non-property tax revenues in excess of estimates, other miscellaneous items or funding loans authorized by special act, they remain in existence.

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

The primary limitation is that the tax levy cannot exceed 2½ percent of the full and fair cash value. If a city or town exceeds the primary limitation, it must reduce its tax levy by at least 15 percent annually until it is in compliance, provided that the reduction can be reduced in any year to not less than 7½ percent by majority vote of the voters, or to less than 7½ percent by two-thirds vote of the voters.

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2½ percent, subject to exceptions for property added to the tax rolls or property which has had an increase, other than as part of a general revaluation, in its assessed valuation over the prior year's valuation.

This “growth” limit on the tax levy may be exceeded in any year by a majority vote of the voters, but an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitation, since the two limitations apply independently. In addition, if the voters vote to approve taxes in excess of the “growth” limit for the purpose of funding a stabilization fund, such increased amount may only be taken into account for purposes of calculating the maximum levy limit in each subsequent year if the board of selectmen of a town or the city council of a city votes by a two-thirds vote to appropriate such increased amount in such subsequent year to the stabilization fund. The applicable tax limits may also be reduced in any year by a majority vote of the voters.

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

The statute further provides that the voters may exclude from the taxes subject to the tax limits and from the calculations of the maximum tax levy (a) the amount required to pay debt service on bonds and notes issued before November 4, 1980, if the exclusion is approved by a majority vote of the voters, and (b) the amount required to pay debt service on any specific subsequent issue for which similar approval is obtained. Even with voter approval, the holders of the obligations for which unlimited taxes may be assessed do not have a statutory priority or security interest in the portion of the tax levy attributable to such obligations. **The Town has voted to exclude the debt service on \$21,173,142 par amount of currently outstanding bonds from the limitations of Proposition 2 ½, subject to the provisions of Chapter 44, Section 20, of the General Laws**

It should be noted that Massachusetts General Laws Chapter 44, Section 20 requires that the taxes excluded from the levy limit to pay debt service on any such bonds and notes be calculated based on the true interest cost of the issue. Accordingly, the Department of Revenue limits the amount of taxes which may be levied in each year to pay debt service on any such bonds and notes to the amount of such debt service, less a pro rata portion of any original issue premium received by the city or town that was not applied to pay costs of issuance.

Voters may also exclude from the Proposition 2½ limits the amount required to pay specified capital outlay expenditures. In addition, the city council of a city, with the approval of the mayor if required, or the board of selectmen or the town council of a Town may vote to exclude from the Proposition 2½ limits taxes raised in lieu of sewer or water charges to pay debt service on bonds or notes issued by the municipality (or by an independent authority, commission or district) for water or sewer purposes, provided that the municipality's sewer or water charges are reduced accordingly.

In addition, Proposition 2½ limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the MWRA, and certain districts for which special legislation provides otherwise) to the sum of (a) 2.50 percent of the prior year's assessments and (b) “any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option”. Regional water districts, regional sewerage districts and regional veteran districts may exceed these limitations

under statutory procedures requiring a two-thirds vote of the district's governing body and either approval of the local appropriating authorities (by two-thirds vote in districts with more than two members or by majority vote in two-member districts) or approval of the registered voters in a local election (in the case of two-member districts). Under the statute any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. Similarly, State rules or regulation imposing additional costs on a city or town or laws granting or increasing local tax exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

**Pledged Taxes.** Taxes on certain property in designated development districts may be pledged for the payment of costs of economic development projects within such districts and may therefore be unavailable for other municipal purposes (see “Tax Increment Financing for Development Districts” herein).

**Initiative Petitions.** Various proposals have been made in recent years for legislative amendments to the Massachusetts Constitution to impose limits on state and local taxes. To be adopted such amendments must be approved by two successive legislatures and then by the voters at a state election.

## CALCULATION OF TAX LEVIES AND LEVY LIMITS

The following table shows the details of the calculation of the tax levies for the current and most recent fiscal years:

	(000 omitted) For Fiscal Year				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Gross Amount to be Raised:					
Appropriations	\$63,499	\$60,901	\$59,587	\$57,414	\$57,283
Other Local Expenditures	21	111	24	566	24
State & County Charges	580	521	561	592	685
Overlay Reserve	282	338	241	212	209
Total Gross Amount To Be Raised	<u>\$64,382</u>	<u>\$61,870</u>	<u>\$60,413</u>	<u>\$58,784</u>	<u>\$58,201</u>
Less Estimated Receipts & Other Revenue:					
Estimated Receipts from State	\$ 4,492	\$ 4,298	\$ 4,154	\$ 3,973	\$ 3,688
Estimated Receipts – Local	10,572	10,085	10,151	10,676	9,853
Available Funds Appropriated:					
Free Cash	678	130	925	0	0
Other Available Funds	1,421	426	802	303	960
Free Cash & Other Revenue					
Used to Reduce Tax Rate	300	1,200	160	440	1,460
Total Estimated Receipts & Revenue	<u>\$17,463</u>	<u>\$16,238</u>	<u>\$16,191</u>	<u>\$15,391</u>	<u>\$15,961</u>
Net Amount To Be Raised (Tax Levy)	<u>\$46,919</u>	<u>\$45,632</u>	<u>\$44,222</u>	<u>\$43,392</u>	<u>\$42,241</u>

The following shows the calculation of levy limits for the current and most recent fiscal years:

	(000 omitted) For Fiscal Year				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Primary Levy Limit (1)	\$64,017	\$62,915	\$55,570	\$54,202	\$55,308
Prior Fiscal Year Levy Limit	43,058	41,324	39,714	38,481	37,238
2.5% Levy Growth	1,076	1,033	993	962	931
New Growth (2)	700	701	617	271	312
Overrides	0	0	0	0	0
Growth Levy Limit	44,835	43,058	41,324	39,714	38,481
Debt Exclusions	2,734	2,862	3,118	3,885	3,922
Other Adjustments	0	0	0	0	0
Tax Levy Limit	47,569	45,920	44,441	43,599	42,402
Actual Levy	46,919	45,632	44,222	43,392	42,241
Unused Levy Capacity (3)	<u>\$ 650</u>	<u>\$ 288</u>	<u>\$ 220</u>	<u>\$ 207</u>	<u>\$ 162</u>
Unused Primary Levy Capacity (4)	<u>\$19,182</u>	<u>\$19,857</u>	<u>\$14,246</u>	<u>\$14,488</u>	<u>\$16,827</u>

(1) 2.5% of assessed valuation.

(2) Allowed increase for new valuations certified by the Department of Revenue.

(3) Tax Levy Limit less Tax Levy.

(4) Primary Levy Limit less Growth Levy Limit.

## **TAX COLLECTIONS AND ABATEMENTS**

**Payment Dates.** The taxes for each fiscal year generally are due in two installments on November 1 (subject to deferral if tax bills are sent out late) and May 1, unless a city or town accepts a statute providing for quarterly tax payments. Under the statute, preliminary tax payments are to be due on August 1 and November 1 with payment of the actual tax bill (after credit is given for the preliminary payments) in installments on February 1 and May 1 if actual tax bills are mailed by December 31. The Town voted to implement quarterly tax billing as of July 1, 1991. Interest accrues on delinquent taxes at the rate of 14 per cent per annum.

**Lien.** Real property (land and buildings) is subject to a lien for the taxes assessed upon it subject to any paramount federal lien and subject to bankruptcy and insolvency laws. (In addition, real property is subject to a lien for certain unpaid municipal charges or fees.) If the property has been transferred, an unenforced lien expires on the fourth December 31 after the end of the fiscal year to which the tax relates. If the property has not been transferred by the fourth December 31, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien where it could not be enforced because of a legal impediment.

**Personal Liability.** The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws.) In the case of real property, this personal liability is effectively extinguished by sale or taking of the property as described in "Taking and Sale" herein.

The following shows the total tax levy, the reserve for abatements, the net levy and the amounts collected during each fiscal year and as of a more recent date for the current and most recent fiscal years:

	<b>For Fiscal Year</b>				
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Total Tax Levy	\$46,919,163	\$45,631,905	\$44,221,610	\$43,392,174	\$42,240,533
Overlay Reserve for Abatements	<u>282,042</u>	<u>337,536</u>	<u>241,273</u>	<u>211,637</u>	<u>209,015</u>
Net Tax Levy (1)	<u>\$46,637,121</u>	<u>\$45,294,369</u>	<u>\$43,980,337</u>	<u>\$43,180,537</u>	<u>\$42,031,518</u>
Amount Collected					
During FY Payable (2)	NA	\$44,736,870	\$42,560,440	41,398,697	\$41,370,663
Percent of Net Tax Levy	NA	98.8%	97.2%	95.9%	98.4%
Amount Collected					
As of 5/2/16	\$45,536,599	\$45,248,400	\$43,965,228	\$43,180,537	\$42,031,518
Percent of Net Tax Levy	97.6%	99.9%	99.9%	100.0%	100.0%

(1) Net after deduction of overlay reserve for abatements.

(2) Actual collections of levy less refunds and amounts refundable but including proceeds of tax titles and tax possessions attributed to such levy but not including abatements or other credits.

**Abatements and Overlay.** A city or town is authorized to increase each tax levy by an amount approved by the State Commissioner of Revenue as an "overlay" to provide for tax abatements. If abatements are granted in excess of the applicable overlay, the excess is required to be added to the next tax levy.

Abatements are granted where exempt real or personal property has been assessed or where taxable real or personal property has been overvalued or disproportionately valued. The assessors may also abate uncollectible personal property taxes. They may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue. But uncollected real property taxes are ordinarily not written off until they become municipal "tax titles" by purchase at the public sale or by taking, at which time the tax is written off in full by reserving the amount of the tax and charging surplus.



The following shows the abatements granted during the fiscal year as well as through a more recent date for the current and most recent fiscal years:

	<b>For Fiscal Year</b>				
	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Tax Levy	\$46,919,163	\$45,631,905	\$44,221,610	\$43,392,174	\$42,240,533
Overlay Reserve for Abatements	\$282,042	\$337,536	\$241,273	\$211,637	\$209,015
Percent of Tax Levy	0.6%	0.7%	0.5%	0.5%	0.5%
Abatements Granted					
During Fiscal Year of Levy	NA	\$190,720	\$99,828	\$128,321	\$136,371
Through 5/2/16	\$210,481	\$220,535	\$99,828	\$128,321	\$136,371

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

**Sale of Tax Receivables.** Cities and towns are authorized to sell delinquent property tax receivables by public sale or auction, either individually or in bulk.

## **TAXES OUTSTANDING**

	<b>For Fiscal Year</b>			
	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>
Aggregate (1)	\$619,606	\$842,550	\$801,678	\$929,592
For Current Year (1)	557,499	842,550	651,490	866,365
Tax Titles	684,707	0	8,378	4,903
Tax Possessions	0	0	0	0

(1) *Excludes tax titles, tax possessions and abated taxes. Includes taxes in litigation, if any.*

## **TOWN FINANCES**

### **Budget and Appropriation Process**

The annual appropriations of the Town are ordinarily made at the annual meeting, which takes place in April. Appropriations may also be voted at special meetings. The Finance Committee (also the Board of Selectmen) is required to submit reports and recommendations on proposed expenditures at the annual town meeting.

Under certain circumstances and subject to certain limits and requirements, the city council of a city, upon the recommendation of the mayor, may transfer amounts appropriated for the use of one department (except for a municipal light department or a school department) to another appropriation for the same department or for the use of any other department. In a town, town meeting may at any time vote to transfer any amount previously appropriated to any other authorized use by law, and, under certain circumstances and subject to certain limits and requirements, the selectmen of a town, with the concurrence of the finance committee, may transfer amounts appropriated for the use of any department to any other appropriation for the same department or to any other department.

Water and sewer department expenditures are included in the budgets adopted by town meetings but electric and gas department funds may be appropriated by the municipal light boards. Under legislation enacted in 1981 any city or town which accepts the legislation may provide that the appropriation for the operating costs of any department may be offset, in whole or in part, by estimated receipts from fees charged for services provided by the department. It is assumed that this general provision does not alter the pre-existing power of an electric or gas department to appropriate its own receipts.

The school budget is limited to the total amount appropriated by the town meeting, but the school committee retains full power to allocate the funds appropriated. State legislation known as the Education Reform Act of 1993, as amended, imposes certain minimum expenditure requirements on municipalities with respect to funding for education and related programs and may affect the level of State aid to be received for education. The requirements are determined on the basis of formulas affected by various measures of wealth and income, enrollments, prior levels of local spending and state aid, and other factors. In fiscal 1994 through budgeted 2017, the Town's net school spending exceeded the minimum required local contribution.

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

### **Budget Comparison**

The following table sets forth the general governmental budgets for fiscal years 2013 through 2017:

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
General Government	\$ 3,444,864	\$ 2,638,352	\$ 2,332,773	\$ 2,026,916	\$ 1,867,777
Public Safety	7,508,579	7,127,481	7,152,185	6,623,805	6,352,652
Education	27,974,720	26,756,000	25,641,000	24,909,220	24,665,818
Public Works	1,280,725	779,436	1,174,569	1,035,836	1,007,712
Human/Environmental Services (1)	1,282,741	1,554,205	1,308,136	1,451,313	1,390,523
Information and Recreation (2)	841,358	951,043	713,623	689,556	656,762
Debt & Interest on Debt	4,226,939	4,508,217	4,799,815	5,320,720	5,943,800
Retirement Fund	4,690,025	4,454,312	4,240,122	3,922,374	3,798,025
Unclassified	2,699,250	1,331,750	908,750	766,250	760,675
Reserve Fund	200,000	175,000	1,100,000	175,000	200,000
Employee Benefits	<u>5,250,000</u>	<u>5,650,000</u>	<u>5,500,000</u>	<u>5,200,000</u>	<u>4,880,000</u>
	<u>\$59,399,201</u>	<u>\$55,925,796</u>	<u>\$54,870,973</u>	<u>\$52,120,990</u>	<u>\$51,523,744</u>

(1) Building Department, Wire Inspector, Conservation, Board of Health, Council on Aging, and Veterans.

(2) Library and Recreation.

### **STATE AID**

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

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

The following table sets forth the amount of state aid to the Town in recent years as well as the amount budgeted for 2017:

<u>Fiscal Year</u>	<u>State Aid</u>
2017 (budgeted)	\$4,626,095
2016	4,491,836
2015	4,626,095
2014	3,972,571
2013	3,687,145

### **STATE SCHOOL BUILDING ASSISTANCE PROGRAM**

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

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

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

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

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

The Town has no current projects receiving funding from the Authority. The Town received a low interest loan from the Authority in fiscal 2010 to finance in part the construction of Swampscott High School. The current balance of the loan is \$4,933,144 and is scheduled to be fully paid in fiscal 2030.

## **MOTOR VEHICLE EXCISE**

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

The following table shows the actual receipts from the motor vehicle excise in each of the most recent years and the amounts budgeted for fiscal 2016 and fiscal 2017:

<b><u>Fiscal Year</u></b>	<b><u>Excise Tax (1)</u></b>
2017 (budgeted)	\$1,950,000
2016 (budgeted)	1,950,000
2015	2,181,705
2014	2,124,565
2013	1,782,509
2012	1,850,241
2011	1,783,303

## **ENTERPRISE FUNDS**

The Town accounts for the financial operations of its water and sewer systems through enterprise funds. The Town's policy is to cover all costs of these systems through system revenues. The Town most recently changed rates on November 15, 2013. Water usage is billed at \$6.20 per hundred cubic feet of metered water consumption. Sewer usage is billed at \$5.45 per hundred cubic feet of metered water consumption.

The following are water enterprise fund receipts for the five most recent fiscal years.

<b><u>Fiscal Year</u></b>	<b><u>Receipts</u></b>
2015	\$3,155,700
2014	3,436,570
2013	3,487,955
2012	3,424,749
2011	3,603,259

The following are sewer enterprise fund receipts for the five most recent fiscal years.

<b><u>Fiscal Year</u></b>	<b><u>Receipts</u></b>
2015	\$2,232,427
2014	2,451,595
2013	2,487,945
2012	2,403,509
2011	2,283,413

## **COMMUNITY PRESERVATION ACT**

The Massachusetts Community Preservation Act (the "CPA"), enacted in September, 2000, permits cities and towns that accept its provisions to levy a surcharge on its real property tax levy and to receive state matching funds for the acquisition, creation, preservation, rehabilitation and restoration of open space, historic resources and affordable housing. The provisions of the CPA must be accepted by the voters of the city or town at an election after such provisions have first been accepted by either a vote of the legislative body of the city or town or an initiative petition signed by 5% of its registered voters.

A city or town may approve a surcharge of up to 3% of the real property tax levy, and it may accept one or more exemptions to the surcharge under the CPA, including an exemption for low-income individuals and families and for low and moderate-income senior citizens, an exemption for \$100,000 of the value of each taxable parcel of residential real

property, and an exemption for commercial and industrial properties in cities and towns with classified tax rates. The surcharge is not counted in the total taxes assessed for the purpose of determining the permitted levy amount under Proposition 2½ (see “Tax Limitations” under “PROPERTY TAX” herein). A city or town may revoke its acceptance of the provisions of the CPA at any time after 5 years from the date of such acceptance and may change the amount of the surcharge or the exemptions to the surcharge at any time, provided that any such revocation or change must be approved pursuant to the same process as acceptance of the CPA.

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

The amounts raised by the surcharge on real property taxes and received in state matching funds are required to be deposited in a dedicated community preservation fund. Each city or town that accepts the provisions of the CPA is required to establish a community preservation committee to study the community preservation needs of the community and to make recommendations to the legislative body of the city or town regarding the community preservation projects that should be funded from the community preservation fund. Upon the recommendations of the committee, the legislative body of the city or town may appropriate amounts from the fund for permitted community preservation purposes or may reserve amounts for spending in future fiscal years, provided that at least 70% of the total annual revenues to the fund must be spent or set aside for open space purposes, 10% for historic resource purposes and 10% for affordable housing purposes.

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

The Town has not accepted the Community Preservation Act.

## **OTHER TAXES**

Three additional sources of revenue for local governments are the room occupancy excise tax, local meals excise tax, and the aviation fuel tax. All taxes take effect only where accepted by individual municipalities. Under the room occupancy excise tax, local governments may tax the provision of hotel, motel, or lodging house rooms at a rate not to exceed four percent of the cost of renting such rooms. The tax is paid by the operator of the hotel, motel, or lodging house to the State Commissioner of Revenue, who in turn pays the tax back to the municipality in which the rooms are located. The Town has not voted to impose the room occupancy excise tax.

The local meals excise tax, effective for sales of restaurant meals on or after October 1, 2009, is a three-fourths percent tax on the gross receipts of a vendor from the sale of restaurant meals. The tax is paid by the vendor to the State Commissioner of Revenue, who in turn pays the tax to the municipality in which the meal was sold. The Town adopted local meals excise tax effective July 1, 2011.

The following are collections of meals excise tax for the most recent fiscal years:

<u>Fiscal Year</u>	<u>Collections</u>
2015	\$211,647
2014	237,738
2013	199,587
2012	193,960

#### **TAX INCREMENT FINANCING FOR DEVELOPMENT DISTRICTS**

Under recent legislation, cities and towns are authorized to establish development districts to encourage increased residential, industrial and commercial activity. All or a portion of the taxes on growth in assessed value in such districts may be pledged and used solely to finance economic development projects pursuant to the city or town's development program for the district. This includes pledging such "tax increments" for the payment of bonds issued to finance such projects. As a result of any such pledge, tax increments raised from new growth properties in development districts are not available for other municipal purposes. Tax increments are taken into account in determining the total taxes assessed for the purpose of calculating the maximum permitted tax levy under Proposition 2½. The Town does not have any such districts.

#### **UNASSIGNED GENERAL FUND BALANCE AND FREE CASH**

Under Massachusetts law an amount known as "free cash" is certified as of the beginning of each fiscal year by the State Bureau of Accounts and this, together with certain subsequent tax receipts, is used as the basis for subsequent appropriations from available funds, which are not required to be included in the annual tax levy. Subject to certain adjustments, free cash is surplus revenue less uncollected and overdue property taxes from prior years. The Town Accountant may certify as available for appropriation an adjusted free cash figure by adding back those uncollected and overdue property taxes which are subsequently collected between July 1 and the following March 31 of any year.

The following shows the unassigned general fund balance and free cash for the most recent fiscal years:

<u>July 1,</u>	<u>Unassigned General Fund Balance (1)</u>	<u>Free Cash</u>
2015	\$5,927,998	\$5,105,677
2014	4,684,739	3,065,575
2013 (2)	2,885,340	2,587,853
2012	5,603,341	3,060,822
2011	3,049,292	2,122,834

(1) Beginning in Fiscal 2011, the Town's audited financial statements have been prepared in compliance with GASB Statement No. 54. The Town's Stabilization Fund is included in Unassigned Fund Balance in the Town's audited financial statements.

(2) Estimated. The "unassigned/undesignated" estimate for fiscal 2013 is from the Town Accountant's financial statements, which are not prepared on the basis of Generally Accepted Accounting Principles (GAAP). It does not include the Stabilization Fund.

## **STABILIZATION FUND**

The Town has maintained a Stabilization Fund for several years. Under Massachusetts statutes, funds may be appropriated from the Fund for any municipal purpose by a two thirds vote of the town meeting. The following is the balance in the account at the end of the most recent fiscal years:

<b><u>June 30</u></b>	<b><u>Balance (1)</u></b>
2015	\$1,804,187
2014	1,497,029
2013	1,392,625
2012	1,288,065
2011	784,377

*(1) Beginning in fiscal 2011, the Stabilization Fund is included in Unassigned General Fund Balance.*

In addition to the regular Stabilization Fund, the Town established a Capital Stabilization Fund during fiscal year 2012. While this fund is targeted specifically for capital purposes, as with the regular Stabilization Fund, funds may be appropriated from the Fund for any municipal purpose by a two thirds vote of the town meeting. The following are balances as of the end of the most recent fiscal years:

<b><u>June 30</u></b>	<b><u>Balance (1)</u></b>
2015	\$301,667
2014	200,515
2013	150,209
2012	100,007

*(1) Beginning in fiscal 2011, Capital Stabilization Fund is included in Committed General Fund Balance.*

## **INVESTMENTS**

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

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

Trust funds, unless otherwise provided by the donor, may be invested in accordance with section 54 of Chapter 44 of the General Laws, which permits a broader range of investments than section 55, including any bonds or notes that are legal investments for savings banks in the Commonwealth. The restrictions imposed by sections 54 and 55 do not apply to city and town retirement systems.

## **COLLECTIVE BARGAINING**

City and town employees (other than managerial and confidential employees) are entitled to join unions and to bargain collectively on questions of wages, hours and other terms and conditions of employment.

The Town has approximately 731 full and part-time employees, of which approximately 47% belong to unions or other collective bargaining groups as follows:

<u>Union</u>	<u>Department</u>	<u>Number of People</u>	<u>Contract Expires</u>
AFL/CIO 285	Library	15	6/30/2017
AFSCME 2610	Town Clerical	10	6/30/2017
AFSCME 2610	DPW Laborers	15	6/30/2017
FIRE UNION	Fire Department	34	6/30/2017
POLICE UNION	Police Department	32	6/30/2017
AFSCME 2610	School Custodians	16	6/30/2015 <sup>(1)</sup>
AFSCME 2610	School Clerical	17	6/30/2018
SEA Union	ESP	49	8/31/2015 <sup>(1)</sup>
SEA Union (1)	School	<u>227</u>	8/31/2017
		<u>415</u>	

<sup>(1)</sup> In negotiation.

## **PHYSICAL AND ECONOMIC CHARACTERISTICS**

### **General**

The Town is located approximately 12 miles northeast of downtown Boston. It is a seaside residential community with a land area of 3.05 square miles and a population of 13,787 (2010 census). Income and wealth in the Town ranges primarily from middle income to affluent. The Town borders the Atlantic Ocean on the east and south, the City of Salem and the Town of Marblehead on the north, and the City of Lynn on the west. The Town has convenient access to Logan International Airport and to the MBTA commuter rail, which has a station stop in the Town. The Town is served by state routes 1A and 129. Interstate 95, U.S. Route 1, and State Route 128 are also accessible. The opening of the Massachusetts Turnpike to Logan Airport in early 2003 has improved the Town's access to points west and south of Boston. The Town's economic base is primarily residential, with relatively small commercial and industrial sectors.

### **Principal Employers**

Other than the Town itself, the following are the principal employers located in the Town:

<u>Company</u>	<u>Nature of Business</u>	<u>Approximate Current Employees</u>
Paradiso Ristorante	Restaurant	250-499
Stop & Shop	Grocery Store	100-249
Whole Foods Market	Grocery Store	100-249
Anthony's Pier 4 Cafe	Restaurant	50-99
Bertucci's	Restaurant	50-99
Coldwell Banker	Real Estate	50-99
Congregation Shirat Hayam	Synagogue	50-99
Gap	Retail Store	50-99
Gap Kids	Retail Store	50-99
Hawthorne-By-The-Sea	Restaurant	50-99
Marshall's	Retail Store	50-99
North Shore Medical – Women's Center	Medical	50-99
Unos	Restaurant	50-99

*Source: Infogroup and the Town, 2016.*



**Employment and Payrolls (1)**

	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>	<b><u>2010</u></b>
Construction & Natural Resources	230	219	213	220	231
Manufacturing	21	NA	NA	18	32
Trade, Transportation & Utilities	855	841	852	770	757
Financial Activities	119	120	136	130	151
Professional & Business Services	201	189	248	252	217
Education & Health Services	744	715	704	710	667
Leisure & Hospitality	431	551	617	610	603
Information & Other Services	<u>204</u>	<u>196</u>	<u>220</u>	<u>165</u>	<u>144</u>
Total Employment	3,388	3,381	3,539	3,448	3,365
Number of Establishments	366	348	356	364	351
Total Annual Wage (000)	\$137,758	\$135,697	\$137,645	\$131,747	\$126,491
Average Weekly Wage	\$ 782	\$ 772	\$ 748	\$ 735	\$ 723

Source: Massachusetts Executive Office of Labor & Workforce Development.

(1) Total employment may differ from the sum of the given column; it includes information from firms for which employment figures are confidential.

**Building Permits**

<b><u>Calendar Year</u></b>	<b><u>Number</u></b>	<b><u>Estimated Value</u></b>
2016 (1)	173	\$ 5,929,505
2015 (2)	642	31,330,103
2014 (3)	664	40,259,705
2013	262	6,314,446
2012 (4)	502	18,947,679
2011	537	13,012,531

(1) Through April 30, 2016.

(2) Includes remodeling of a Walgreens at \$1,100,000, a new assisted living facility at \$11,868,526, and a three unit condo at \$1,000,000.

(3) Includes two new buildings valued at \$22,000,000 and a remodeling of a restaurant at \$1,250,000.

(4) Includes two single family homes under renovations totaling more than \$2 million. Also, includes value of temporary soundstage used by Columbia Pictures in the making of a film. The estimated value of the soundstage was \$1 million.

## **OTHER DATA**

### **Employment (1)**

<u>Calendar Year (2)</u>	<u>Labor Force</u>	<u>Employment</u>	<u>Unemployment Rate</u>			
			<u>Town</u>	<u>County</u>	<u>State</u>	<u>US</u>
2016 (March)	7,946	7,682	3.3	4.7	4.6	5.1
2015	7,964	7,661	3.8	5.2	5.0	5.3
2014	7,914	7,568	4.4	5.9	5.7	6.2
2013	7,841	7,420	5.4	6.9	6.7	7.4
2012	7,753	7,370	5.0	7.0	6.7	8.1

(1) Source: Massachusetts Executive Office of Labor & Workforce Development.

(2) Full year averages except for 2016 which is for the month indicated.

### **Population (1)**

<u>Year</u>	<u>Swampscott</u>		<u>Essex County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>% Change</u>	<u>Number</u>	<u>% Change</u>	<u>Number</u>	<u>% Change</u>
2014 estimate	14,014	1.6	769,091	3.5	6,745,408	3.0
2010	13,787	-4.3	743,159	2.7	6,547,629	3.1
2000	14,412	5.6	723,419	8.0	6,349,097	5.5
1990	13,650	-1.4	670,080	5.8	6,016,425	4.9
1980	13,837	0.0	633,632	0.0	5,737,037	0.0

(1) Source: U.S. Department of Commerce for actuals and estimates.

### **Population Density (1)**

<u>Year</u>	<u>Swampscott (2)</u>		<u>Essex County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>Density</u>	<u>Number</u>	<u>Density</u>	<u>Number</u>	<u>Density</u>
2014 estimate	14,014	4,596.3	769,091	1,544.1	6,745,408	860.6
2010	13,787	4,521.8	743,159	1,492.1	6,547,629	835.4
2000	14,412	4,726.8	723,419	1,452.4	6,349,097	810.0
1990	13,650	4,476.9	670,080	1,345.4	6,016,425	767.6
1980	13,837	4,538.2	633,632	1,272.2	5,737,037	732.0

(1) Source: U.S. Department of Commerce for actuals and estimates.

(2) Density based on 3.0 sq. miles.

**Population Composition By Age (1)**

<u>Age</u>	<u>Swampscott</u>		<u>Essex County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Under 5 Years	883	6.3	43,432	5.7	365,403	5.5
5 Years to 19 Years	2,632	18.9	147,692	19.5	1,247,674	18.7
20 Years to 64 Years	8,072	58.0	454,034	59.9	4,085,614	61.4
65 Years and Over	<u>2,325</u>	<u>16.7</u>	<u>112,237</u>	<u>14.8</u>	<u>958,600</u>	<u>14.4</u>
Total	<u>13,912</u>	<u>100.0</u>	<u>757,395</u>	<u>100.0</u>	<u>6,657,291</u>	<u>100.0</u>
Median Age	44.4		40.6		39.3	
Median Age (2000)	41.5		37.5		36.5	

(1) Source: U.S. Department of Commerce. 2014 5-year estimates.

**Per Capita Income Levels (1)**

<u>Year</u>	<u>Swampscott</u>		<u>Essex County</u>		<u>Massachusetts</u>	
	<u>Amount</u>	<u>% Change</u>	<u>Amount</u>	<u>% Change</u>	<u>Amount</u>	<u>% Change</u>
2014 5-year estimates	\$54,272	52.9	\$36,035	36.7	\$36,441	40.4
1999	35,487	38.8	26,358	49.9	25,952	50.7
1989	25,576	146.7	17,586	129.2	17,224	131.0
1979	10,366	0.0	7,673	0.0	7,457	0.0

% Below Poverty Level (2014  
5-year estimates)

4.7 %

11.3 %

11.6 %

(1) Source: U.S. Department of Commerce.

**Family Income Distribution (1)**

<u>Income for Families</u>	<u>Swampscott</u>		<u>Essex County</u>		<u>Massachusetts</u>	
	<u>Families</u>	<u>Percent</u>	<u>Families</u>	<u>Percent</u>	<u>Families</u>	<u>Percent</u>
Less than \$10,000	75	1.9	7,034	3.7	59,047	3.7
10,000 - 24,999	177	4.6	16,511	8.6	133,424	8.3
25,000 - 49,999	193	5.0	30,793	16.1	259,622	16.1
50,000 - 74,999	506	13.1	29,446	15.4	250,684	15.5
75,000 - 99,999	632	16.3	26,778	14.0	226,045	14.0
100,000 - 149,999	961	24.9	38,369	20.0	331,419	20.5
150,000 or more	<u>1,322</u>	<u>34.2</u>	<u>42,476</u>	<u>22.2</u>	<u>354,821</u>	<u>22.0</u>
Total	<u>3,866</u>	<u>100.0</u>	<u>191,407</u>	<u>100.0</u>	<u>1,615,062</u>	<u>100.0</u>
Median Income	\$120,301		\$85,919		\$86,132	

(1) Source: U.S. Department of Commerce. 2014 5-year estimates.

**Household Income Distribution (1)**

<u>Income for Households</u>	<u>Swampscott</u>		<u>Essex County</u>		<u>Massachusetts</u>	
	<u>Households</u>	<u>Percent</u>	<u>Households</u>	<u>Percent</u>	<u>Households</u>	<u>Percent</u>
Less than \$10,000	164	3.0	16,091	5.6	154,704	6.1
10,000 - 24,999	552	10.1	40,009	13.9	352,172	13.9
25,000 - 49,999	609	11.1	53,126	18.5	464,120	18.3
50,000 - 74,999	824	15.0	45,361	15.8	402,049	15.8
75,000 - 99,999	730	13.3	36,540	12.7	322,545	12.7
100,000 - 149,999	1,118	20.4	47,791	16.7	426,367	16.8
150,000 or more	<u>1,493</u>	<u>27.2</u>	<u>47,978</u>	<u>16.7</u>	<u>416,528</u>	<u>16.4</u>
Total	<u>5,490</u>	<u>100.0</u>	<u>286,896</u>	<u>100.0</u>	<u>2,538,485</u>	<u>100.0</u>
Median Income	\$96,494		\$68,776		\$67,846	

(1) Source: U.S. Department of Commerce. 2014 5-year estimates.

**Value Distribution Of Specified Owner-Occupied Housing Units (1)**

<u>Units</u>	<u>Swampscott</u>		<u>Essex County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Less than \$100,000	128	3.1	6,888	3.8	68,804	4.4
100,000 - 199,999	170	4.1	18,028	10.0	221,311	14.0
200,000 - 299,999	686	16.4	42,998	23.8	392,286	24.8
300,000 - 499,999	1,930	46.1	71,623	39.6	566,852	35.9
500,000 - 999,999	1,044	25.0	35,879	19.8	274,666	17.4
1,000,000 or more	<u>225</u>	<u>5.4</u>	<u>5,523</u>	<u>3.1</u>	<u>57,019</u>	<u>3.6</u>
Total	<u>4,183</u>	<u>100.0</u>	<u>180,939</u>	<u>100.0</u>	<u>1,580,938</u>	<u>100.0</u>
Median Value	\$422,600		\$349,300		\$329,900	

(1) Source: U.S. Department of Commerce. 2014 5-year estimates.

**Age Distribution Of Housing Units (1)**

<u>Year Built</u>	<u>Swampscott</u>		<u>Essex County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
2000 or later	105	1.9	22,347	7.3	228,324	8.1
1980 to 1999	551	9.8	54,063	17.6	513,510	18.2
1940 to 1979	2,117	37.8	110,178	35.9	1,109,791	39.4
1939 or Earlier	<u>2,832</u>	<u>50.5</u>	<u>120,586</u>	<u>39.3</u>	<u>965,250</u>	<u>34.3</u>
Total	<u>5,605</u>	<u>100.0</u>	<u>307,174</u>	<u>100.0</u>	<u>2,816,875</u>	<u>100.0</u>

(1) Source: U.S. Department of Commerce. 2014 5-year estimates.

**Housing Unit Inventory (1)**

<u>Units in Structure</u>	<u>Swampscott</u>		<u>Essex County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
1, Detached	3,620	64.6	155,063	50.5	1,471,675	52.2
1, Attached	221	3.9	18,804	6.1	146,215	5.2
2 to 4	989	17.6	69,720	22.7	594,343	21.1
5 to 9	161	2.9	16,950	5.5	167,467	5.9
10 to 19	27	0.5	13,154	4.3	120,608	4.3
20 or More	587	10.5	31,454	10.2	292,011	10.4
Mobile Home, Trailer, Other	<u>-0-</u>	<u>0.0</u>	<u>2,029</u>	<u>0.7</u>	<u>24,556</u>	<u>0.9</u>
Total	<u>5,605</u>	<u>100.0</u>	<u>307,174</u>	<u>100.0</u>	<u>2,816,875</u>	<u>100.0</u>

(1) Source: U.S. Department of Commerce. 2014 5-year estimates.

**Educational Attainment (1)**

<u>Years of School Completed</u>	<u>Swampscott</u>		<u>Essex County</u>		<u>Massachusetts</u>	
	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>	<u>Number</u>	<u>Percent</u>
Less than 9th Grade	176	1.8	27,897	5.4	222,831	4.9
9th to 12th Grade, No Diploma	203	2.0	27,756	5.4	255,123	5.6
High School Graduate	1,724	17.4	135,660	26.2	1,165,918	25.6
Some College, No Degree	1,388	14.0	90,778	17.5	741,865	16.3
Associate's Degree	791	8.0	42,829	8.3	352,173	7.7
Bachelor's Degree	2,925	29.5	114,809	22.2	1,030,633	22.6
Graduate or Professional Degree	<u>2,712</u>	<u>27.3</u>	<u>77,972</u>	<u>15.1</u>	<u>792,803</u>	<u>17.4</u>
Total	<u>9,919</u>	<u>100.0</u>	<u>517,701</u>	<u>100.0</u>	<u>4,561,346</u>	<u>100.0</u>
High School Graduate or Higher	9,540	96.2	462,048	89.2	4,083,392	89.5
Bachelor's Degree or Higher	5,637	56.8	192,781	37.2	1,823,436	40.0

(1) Source: U.S. Department of Commerce. 2014 5-year estimates

**PUBLIC SCHOOL ENROLLMENTS**

The Town's public school facilities include five schools, including one high school serving students in grades 9-12, a middle school for students in grades 5-8, and three elementary schools serving students in grades pre-kindergarten through four.

The following table illustrates the Town's public school enrollments.

	<u>Actual</u>					<u>Projected</u>			
	<u>11/12</u>	<u>12/13</u>	<u>13/14</u>	<u>14/15</u>	<u>15/16</u>	<u>16/17</u>	<u>17/18</u>	<u>18/19</u>	<u>19/20</u>
Pre-K - 4	850	873	892	855	853	878	893	886	898
5-8	686	682	689	727	724	753	747	728	724
9-12	<u>738</u>	<u>733</u>	<u>722</u>	<u>677</u>	<u>704</u>	<u>701</u>	<u>693</u>	<u>743</u>	<u>746</u>
Total	<u>2,277</u>	<u>2,291</u>	<u>2,308</u>	<u>2,264</u>	<u>2,283</u>	<u>2,334</u>	<u>2,335</u>	<u>2,359</u>	<u>2,370</u>

Source: Actual enrollments: School Department as of October 1, each year. Projections: New England School Development Council, October 2015.

## **LITIGATION**

At present there are a number of suits pending in which the Town is a defendant. In the opinion of the Town, there is no litigation, either pending or threatened, which is considered likely to result, either individually or in the aggregate, in final judgments which would materially affect the Town's financial position.

**TOWN OF SWAMPSCOTT  
Massachusetts**

By: /s/ M. Ronald Mendes  
Town Treasurer

Dated: May 27, 2016

## APPENDIX A

The unaudited balance sheet for June 30, 2015 is drawn from the **draft** audited financial statements of the Town. It is therefore unaudited and subject to change. The Town expects the fiscal 2015 audit to be available shortly. When it does become available, the Town will file the audit on the MSRB EMMA system as soon as possible.

The General Fund Balance Sheets and the General Fund Statement of Revenues, Expenditures and Changes in Fund Balance for fiscal years June 30, 2011 and 2012 are extracted from the audit reports of Sullivan, Rogers & Company, LLC. The General Fund Balance Sheets and the General Fund Statement of Revenues, Expenditures and Changes in Fund Balance for fiscal years June 30, 2013 and 2014 are extracted from the audit reports of CliftonLarsonAllen LLP. Audited financial statements for fiscal year 2014 are presented in Appendix B.

**TOWN OF SWAMPSCOTT  
MASSACHUSETTS  
BALANCE SHEET (1)  
GENERAL FUND  
June 30,**

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b><u>Assets</u></b>					
Cash and Cash Equivalents	\$11,164,457	\$ 8,216,999	\$7,479,895	\$ 6,763,955	\$6,639,038
Real Estate and Personal Property	702,957	1,202,843	868,778	820,496	711,879
Tax Liens	1,357,721	907,474	993,758	886,047	769,403
Motor Vehicle and Other Excise	124,379	146,216	124,542	124,589	132,613
Departmental and Other	43,845	39,625	44,930	35,280	37,705
Intergovernmental	0	0	53,752	0	0
Restricted Assets:					
Cash and Cash Equivalents	<u>1,002,965</u>	<u>500,052</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets	<u>\$14,396,324</u>	<u>\$11,013,209</u>	<u>\$9,565,655</u>	<u>\$8,630,367</u>	<u>\$8,290,638</u>
<b><u>Liabilities and Fund Balances</u></b>					
Liabilities:					
Warrants Payable	\$ 455,979	\$ 525,731	\$ 883,710	\$ 492,443	\$ 514,835
Accrued Payroll	1,251,774	118,122	58,001	63,575	301,187
Tax Refunds Payable	187,718	357,279	457,074	106,247	327,102
Court Judgements	340,000	0	0	0	0
Other Liabilities	242,711	222,979	273,057	252,910	268,047
Deferred Revenue	<u>0</u>	<u>0</u>	<u>1,852,052</u>	<u>1,726,576</u>	<u>1,533,846</u>
Total Liabilities	<u>\$ 2,478,182</u>	<u>\$ 1,224,111</u>	<u>\$3,523,894</u>	<u>\$2,641,751</u>	<u>\$2,945,017</u>
Deferred Inflows of Resources:					
Unavailable Revenue	2,103,521	2,425,154	0	0	0
Taxes Collected in Advance	<u>115,502</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Fund Balances:					
Restricted	1,002,965	500,052	0	0	0
Committed	1,075,389	1,400,515	860,209	540,007	\$1,460,000
Assigned	501,370	778,638	1,162,970	797,194	836,329
Unassigned	<u>7,119,395</u>	<u>4,684,739</u>	<u>4,018,582</u>	<u>4,651,415</u>	<u>3,049,292</u>
Total Fund Balances	<u>\$ 9,699,119</u>	<u>\$ 7,363,944</u>	<u>\$6,041,761</u>	<u>\$5,988,616</u>	<u>\$5,345,621</u>
Total Liabilities and Fund Balances	<u>\$14,396,324</u>	<u>\$11,013,209</u>	<u>\$9,565,655</u>	<u>\$8,360,367</u>	<u>\$8,290,638</u>

(1) Excerpts taken from the audited financial statements of the Town, except for fiscal 2015, which is from the **draft** audited financial statements of the Town.



**TOWN OF SWAMPSCOTT  
MASSACHUSETTS  
Combined Statements of Revenues, Expenditures and changes in Fund Balances (1)  
June 30,**

<b>Revenues:</b>	<b><u>2015</u></b>	<b><u>2014</u></b>	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Real Estate and Property Taxes	\$45,781,280	\$43,522,582	\$42,652,643	\$41,885,611	\$39,766,925
Motor Vehicle Excise	2,397,278	2,367,549	2,052,796	2,049,265	1,791,328
Tax Liens	273,067	86,284	99,703	172,196	124,645
Intergovernmental	7,483,900	9,380,146	9,028,767	8,841,879	8,688,205
Penalties & Interest on Taxes	352,655	179,895	206,033	187,918	168,189
Licenses and Permits	464,636	869,725	260,969	483,012	207,475
Fines & Forfeitures	91,145	76,585	73,955	92,533	87,225
Departmental and Other Charges	2,085,192	2,466,630	1,302,050	1,784,568	1,652,976
Interest	52,698	22,959	34,624	23,599	41,651
Payments in Lieu of Taxes	<u>0</u>	<u>0</u>	<u>8,075</u>	<u>8,075</u>	<u>8,075</u>
Total Revenues	<u>\$58,981,851</u>	<u>\$58,972,355</u>	<u>\$55,719,615</u>	<u>\$55,386,660</u>	<u>\$52,536,694</u>
<b>Expenditures:</b>					
General Government	\$ 2,119,708	\$ 2,023,955	\$ 1,831,003	\$ 1,313,367	\$ 1,534,751
Public Safety	7,351,337	7,012,543	6,782,853	6,693,567	6,413,070
Education	26,063,746	25,623,650	24,323,161	23,926,719	23,194,315
Public Works	1,570,484	1,207,335	1,082,130	875,157	1,065,555
Human Services	1,290,473	1,252,035	1,192,449	1,188,236	1,224,950
Cultural and Recreation	772,895	688,523	645,262	652,535	620,864
Pensions	7,224,499	9,259,694	8,710,246	8,397,114	8,104,804
Employee Benefits	5,403,206	5,233,611	5,217,563	4,681,627	4,301,769
Property and Liability Insurance	501,951	444,740	500,428	311,975	320,528
Debt Service (2)	17,714,615	4,686,089	4,406,578	4,900,588	4,874,437
State and County Assessments	<u>560,469</u>	<u>550,919</u>	<u>646,881</u>	<u>750,825</u>	<u>723,393</u>
Total Expenditures	<u>\$70,913,383</u>	<u>\$57,983,094</u>	<u>\$55,338,554</u>	<u>\$53,691,710</u>	<u>\$52,378,436</u>
Excess of Revenues Over (under) Expenditures	\$(11,931,532)	\$ 989,261	\$ 381,061	\$ 1,694,950	\$ 158,258
<b>Other Financing Sources (Uses):</b>					
Premium from Issuance of Bonds	109,220	43,112	95,284	0	119,700
Proceeds of Refunding Bonds	13,128,556	0	0	0	0
Proceeds from Capital Leases	0	0	0	0	0
Operating Transfers - In	820,000	802,000	802,000	760,000	760,000
Operating Transfers - Out	<u>(48,676)</u>	<u>(512,190)</u>	<u>(1,225,200)</u>	<u>(1,811,955)</u>	<u>(1,146,086)</u>
Total Other Financing Sources (Uses)	<u>14,266,707</u>	<u>332,922</u>	<u>(327,916)</u>	<u>(1,051,955)</u>	<u>(266,386)</u>
Revenues and other financing sources over (under) expenditures and other financing (uses)	2,335,175	1,322,183	53,145	642,995	(108,128)
<b>Beginning Fund Equity (deficit)</b>	<u>\$ 7,363,944</u>	<u>\$ 6,041,761</u>	<u>\$ 5,988,616</u>	<u>\$5,345,621</u>	<u>\$ 5,453,749</u>
<b>Ending Fund Equity (deficit)</b>	<u>\$ 9,699,119</u>	<u>\$ 7,363,944</u>	<u>\$ 6,041,761</u>	<u>\$5,988,616</u>	<u>\$ 5,345,621</u>

(1) Excerpts taken from the audited financial statements of the Town, except for fiscal 2015, which is from the **draft** audited financial statements of the Town.

(2) Fiscal 2015 includes \$13,380,000 par amount of bonds redeemed on February 1, 2015.

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## **APPENDIX B**

There follows in this Appendix audited financial statements for the fiscal year ended June 30, 2014 together with the report of the certified public accountants, CliftonLarsonAllen LLP. The Town expects the fiscal 2015 audit to be available shortly. When it does become available, the Town will file the audit on the MSRB EMMA system as soon as possible.

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**TOWN OF SWAMPSCOTT, MASSACHUSETTS**

**FINANCIAL STATEMENTS**

**YEAR ENDED JUNE 30, 2014**

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
TABLE OF CONTENTS  
YEAR ENDED JUNE 30, 2014**

<b>INDEPENDENT AUDITORS' REPORT</b>	<b>B-1</b>
<b>MANAGEMENT'S DISCUSSION AND ANALYSIS</b>	<b>B-3</b>
<b>BASIC FINANCIAL STATEMENTS</b>	<b>B-12</b>
<b>STATEMENT OF NET POSITION</b>	<b>B-12</b>
<b>STATEMENT OF ACTIVITIES</b>	<b>B-13</b>
<b>GOVERNMENTAL FUNDS – BALANCE SHEET</b>	<b>B-15</b>
<b>GOVERNMENTAL FUNDS – STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES</b>	<b>B-16</b>
<b>RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION</b>	<b>B-17</b>
<b>RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES</b>	<b>B-18</b>
<b>PROPRIETARY FUNDS – STATEMENT OF FUND NET POSITION</b>	<b>B-19</b>
<b>PROPRIETARY FUNDS – STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION</b>	<b>B-20</b>
<b>PROPRIETARY FUNDS – STATEMENT OF CASH FLOWS</b>	<b>B-21</b>
<b>FIDUCIARY FUNDS – STATEMENT OF FIDUCIARY NET POSITION</b>	<b>B-22</b>
<b>FIDUCIARY FUNDS – STATEMENT OF CHANGES IN FIDUCIARY NET POSITION</b>	<b>B-23</b>
<b>NOTES TO BASIC FINANCIAL STATEMENTS</b>	<b>B-24</b>
<b>REQUIRED SUPPLEMENTARY INFORMATION</b>	<b>B-58</b>
<b>GENERAL FUND – SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL</b>	<b>B-58</b>
<b>PENSION PLAN SCHEDULES</b>	<b>60</b>
<b>SCHEDULES OF FUNDING PROGRESS</b>	<b>60</b>
<b>SCHEDULE OF EMPLOYER CONTRIBUTIONS</b>	<b>60</b>
<b>TOWN SHARE OF SYSTEM ARC</b>	<b>60</b>
<b>OTHER POSTEMPLOYMENT BENEFITS SCHEDULES</b>	<b>61</b>
<b>SCHEDULES OF FUNDING PROGRESS</b>	<b>61</b>
<b>NOTES TO REQUIRED SUPPLEMENTARY INFORMATION</b>	<b>62</b>

## INDEPENDENT AUDITORS' REPORT

To the 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, 2014 (except for the Swampscott Contributory Retirement System, which is as of and for the year ended December 31, 2013), and the related notes to the financial statements, which collectively comprise the 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.

### Auditor's Responsibility

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

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

## **Unmodified 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, 2014 (except for the Swampscott Contributory Retirement System, which is as of and for the year ended December 31, 2013), and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

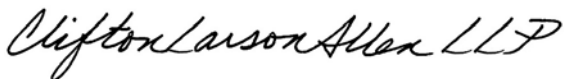
## **Other Matters**

### ***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 59 through 63) 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 November 23, 2015, 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 to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Swampscott, Massachusetts' internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Boston, Massachusetts  
November 23, 2015



**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

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, 2014.

**FINANCIAL HIGHLIGHTS**

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by \$51,729,082 (net position). The Town's governmental activities has an unrestricted net deficit of \$11,464,275 and its business-type activities unrestricted net position totaled \$3,254,408.
- The Town's total net position increased by \$739,217.
- As of the close of the fiscal year, the Town's governmental funds reported combined ending fund balances totaling \$12,135,192, an increase of \$463,972 in comparison with the prior year. Approximately \$4,199,000 represents unassigned fund balance.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$4,684,739, or 8.0 percent of total general fund expenditures and transfers out.
- The Town's total debt decreased by \$3,536,943 during the fiscal year. The Town issued \$3,203,858 of new debt during the year for building construction, land improvements, infrastructure, departmental equipment and water improvements.

**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, 2014**

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 12-14 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 15-18 of this report.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

**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 19-21 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 22-23 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 24-57 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 59-63.

**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, 2014**

**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 \$51,729,082 at the close of the fiscal year and are summarized as follows:

	<i>Governmental Activities</i>		<i>Business-Type Activities</i>		<i>Total</i>	
	2014	2013	2014	2013	2014	2013
<b>Assets</b>						
Current assets	\$ 16,446,708	\$ 15,567,863	\$ 5,629,727	\$ 4,324,777	\$ 22,076,435	\$ 19,892,640
Capital assets (net)	<u>72,346,036</u>	<u>75,068,214</u>	<u>18,636,732</u>	<u>19,349,570</u>	<u>90,982,768</u>	<u>94,417,784</u>
Total assets	<u>88,792,744</u>	<u>90,636,077</u>	<u>24,266,459</u>	<u>23,674,347</u>	<u>113,059,203</u>	<u>114,310,424</u>
<b>Deferred Outflows of Resources</b>	<u>151,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>151,750</u>	<u>-</u>
<b>Liabilities</b>						
Current liabilities (excluding debt)	2,255,261	2,698,691	59,953	259,689	2,315,214	2,958,380
Noncurrent liabilities (excluding debt)	20,785,096	18,529,375	434,057	348,357	21,219,153	18,877,732
Current debt	3,430,047	3,651,927	763,966	1,463,874	4,194,013	5,115,801
Noncurrent debt	<u>30,327,809</u>	<u>33,778,998</u>	<u>3,425,682</u>	<u>2,589,648</u>	<u>33,753,491</u>	<u>36,368,646</u>
Total liabilities	<u>56,798,213</u>	<u>58,658,991</u>	<u>4,683,658</u>	<u>4,661,568</u>	<u>61,481,871</u>	<u>63,320,559</u>
<b>Net Position</b>						
Net investment in capital assets	40,863,730	40,146,798	16,328,393	15,646,721	57,192,123	55,793,519
Restricted	2,746,826	3,442,720	-	-	2,746,826	3,442,720
Unrestricted	<u>(11,464,275)</u>	<u>(11,612,432)</u>	<u>3,254,408</u>	<u>3,366,058</u>	<u>(8,209,867)</u>	<u>(8,246,374)</u>
Total net position.	<u>\$ 32,146,281</u>	<u>\$ 31,977,086</u>	<u>\$ 19,582,801</u>	<u>\$ 19,012,779</u>	<u>\$ 51,729,082</u>	<u>\$ 50,989,865</u>

The largest portion of the Town's net position (\$57,192,123) reflects its investment in capital assets (e.g., land, construction in progress, 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 (\$2,746,826) represents resources that are subject to external restrictions on how they may be used. The remaining balance represents a net deficit of \$8,209,867. Of this amount, \$3,254,408 may be used to support business-type activities and (\$11,464,275) represents an unrestricted net deficit in governmental activities.

At the end of the current fiscal year, the Town reports positive balances in all three 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 other postemployment benefit liabilities.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

***Changes in Net Position***

For the fiscal year ended June 30, 2014, the Town's total net position increased by \$739,217, compared to an increase of \$468,063 in the prior fiscal year. These amounts are summarized as follows:

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	2014	2013	2014	2013	2014	2013
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for services	\$ 5,081,143	\$ 3,495,466	\$ 5,880,455	\$ 5,983,157	\$ 10,961,598	\$ 9,478,623
Operating grants and contributions	10,899,557	10,700,648	7,710	57,865	10,907,267	10,758,513
Capital grants and contributions	496,781	680,173	-	-	496,781	680,173
<i>General Revenues:</i>						
Real estate, personal property taxes and tax liens	44,165,600	42,868,219	-	-	44,165,600	42,868,219
Motor vehicle and other excise taxes	2,389,223	2,052,748	-	-	2,389,223	2,052,748
Penalties and interest on taxes	179,895	206,033	-	-	179,895	206,033
Payments in lieu of taxes	-	8,075	-	-	-	8,075
Grants and contributions not restricted to specific programs	1,137,182	1,118,659	-	-	1,137,182	1,118,659
Unrestricted investment income	18,502	30,065	-	-	18,502	30,065
Contributions to permanent funds	13,500	9,450	-	-	13,500	9,450
Other	272,441	280,988	-	-	272,441	280,988
Total revenues	64,653,824	61,450,524	5,888,165	6,041,022	70,541,989	67,491,546
<b>Expenses</b>						
General government	3,137,788	2,611,724	-	-	3,137,788	2,611,724
Public safety	11,763,127	11,857,484	-	-	11,763,127	11,857,484
Education	43,473,831	40,953,277	-	-	43,473,831	40,953,277
Public works	2,289,183	2,197,423	-	-	2,289,183	2,197,423
Health and human services	1,718,765	1,747,413	-	-	1,718,765	1,747,413
Culture and recreation	1,315,357	1,264,276	-	-	1,315,357	1,264,276
Debt service - interest	1,076,388	1,081,052	-	-	1,076,388	1,081,052
Water	-	-	2,932,861	2,747,393	2,932,861	2,747,393
Sewer	-	-	2,095,472	2,563,441	2,095,472	2,563,441
Total expenses	64,774,439	61,712,649	5,028,333	5,310,834	69,802,772	67,023,483
Change in net position before transfers	(120,615)	(262,125)	859,832	730,188	739,217	468,063
Transfers, net	289,810	(423,103)	(289,810)	423,103	-	-
Change in net position	169,195	(685,228)	570,022	1,153,291	739,217	468,063
Net position - beginning of year	31,977,086	32,662,314	19,012,779	17,859,488	50,989,865	50,521,802
Net position - end of year	\$ 32,146,281	\$ 31,977,086	\$ 19,582,801	\$ 19,012,779	\$ 51,729,082	\$ 50,989,865

Governmental activities increased the Town's net position by \$169,195. In the prior year, governmental activities decreased the Town's net position by \$685,228. The key elements of this change are an increase in charges for services of approximately \$1,600,000 related to tuition reimbursements, a loss on the sale of assets totaling approximately \$1,989,000 and a reduction in the subsidy to the enterprise funds totaling approximately \$712,000.

Business-type activities increased the Town's net position by \$570,022. In the prior year, business-type activities increased the Town's net position by \$1,153,291. The key element of this change is a decrease in transfers from the general fund of approximately \$712,000.

***Fund Financial Statement Analysis***

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

**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 \$12,135,192, an increase of \$463,972 in comparison with the prior year. Approximately \$4,198,802 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable (\$439,652)
- Restricted (\$5,317,585)
- Committed (\$1,400,515)
- Assigned (\$778,638)

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 \$4,684,739, while total fund balance was \$7,363,944. 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 8.0% of total general fund expenditures and transfers out, while total fund balance represents 12.6% of that same amount.

The balance of the Town's general fund increased by \$1,322,183 during fiscal year 2014. The Town recognized an approximate \$3,408,000 budgetary surplus (excluding encumbrances and continuing appropriations), and anticipated utilizing approximately \$2,367,000 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 increased by \$79,189 during the current fiscal year. The fund recognized \$1,603,858 of bond proceeds, \$50,000 of transfers in and incurred \$1,574,669 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 \$1,908,432 and \$1,345,976, respectively. The water and sewer enterprise funds had increases in net position for the year totaling \$102,710 and \$467,312, respectively. 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, 2014**

**General Fund Budgetary Highlights**

The original general fund budget of \$53,361,555 was increased by \$759,274 (1.4%) during the year. The following table summarizes the increase:

<u>Purpose of Increase</u>	<u>Amount</u>	<u>Funding Source</u>
Veterans services	\$ 35,000	Unassigned fund balance
Pension	209,305	Unassigned fund balance/tax levy
Selectmen	151,000	Unassigned fund balance
Public works	350,000	Tax Levy
Unpaid bills	<u>13,969</u>	Unassigned fund balance
Total increase	<u>\$ 759,274</u>	

During the year, general fund revenues and other financing sources exceeded budgetary estimates, while expenditures and encumbrances and continuing appropriations were less than budgeted appropriations, resulting in a positive budget to actual variance of approximately \$2,629,000.

**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 \$90,982,768 (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 \$3,435,016 or 3.6%.

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

- Infrastructure (\$718,129)
- Police department equipment (\$310,112)

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

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 4,420,080	\$ 4,269,080	\$ 252,182	\$ 252,182	\$ 4,672,262	\$ 4,521,262
Land improvements	725,694	728,588	1,950	2,250	727,644	730,838
Buildings	58,159,340	56,550,540	576,527	596,627	58,735,867	57,147,167
Machinery and equipment	1,350,509	1,175,207	871,171	1,007,358	2,221,680	2,182,565
Infrastructure	7,690,413	7,182,118	16,934,902	17,491,153	24,625,315	24,673,272
Construction in progress	-	5,162,681	-	-	-	5,162,681
Total capital assets	<u>\$ 72,346,036</u>	<u>\$ 75,068,214</u>	<u>\$ 18,636,732</u>	<u>\$ 19,349,570</u>	<u>\$ 90,982,768</u>	<u>\$ 94,417,784</u>

Additional information on the Town's capital assets can be found in Note 5 on pages 40-41 of this report.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

**Long-Term Debt**

At the end of the current fiscal year, total debt outstanding was \$37,947,504, 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>	
	2014	2013	2014	2013	2014	2013
General obligation bonds	\$ 33,757,856	\$ 37,430,925	\$ 788,880	\$ 1,171,920	\$ 34,546,736	\$ 38,602,845
MWRA notes	-	-	3,132,589	2,005,776	3,132,589	2,005,776
MWPAT notes	-	-	268,179	875,826	268,179	875,826
Total bonds and notes	<u>\$ 33,757,856</u>	<u>\$ 37,430,925</u>	<u>\$ 4,189,648</u>	<u>\$ 4,053,522</u>	<u>\$ 37,947,504</u>	<u>\$ 41,484,447</u>

The Town's total debt decreased by \$3,536,943 (8.5%) during the current fiscal year. \$3,203,858 of new debt was issued during the year for building construction, land improvements, infrastructure, departmental equipment and water improvements.

The Town's bond rating from Moody's Investor Services for the December 2014 bond issuance was Aa2.

Additional information on the Town's long-term debt can be found in Note 9 on page 43-47 of this report.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

The fiscal year 2015 budget for the Town of Swampscott totals \$61.7 million, inclusive of debt exclusions for the new police station and the new high school of \$2.8 million. 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 2015 totals \$55.8 million inclusive of the debt exclusions previously mentioned. This projected level of spending is \$2,164,541 more than the fiscal year 2014 budget. The Enterprise Fund Budget for fiscal year 2015 totals \$5.9 million, a decrease of \$157,048, or 2.6%, as compared to the fiscal year 2014 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 \$12.3 million for fiscal year 2015, up \$415,658 from fiscal year 2014. This includes projected salary step increases within existing collective bargaining agreements and an assumption of a 2% cost of living increase for non-contract employees. General Fund Debt Service included in the fiscal year 2015 budget totals \$4.8 million. Approximately \$2.8 million 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 \$108,000. State Assessments, or charges, are projected to decrease by approximately \$48,000 in fiscal year 2015 primarily as a result of the North Shore Technical and Essex Agricultural Schools combining and not being assessed on the Cherry Sheets. In addition, I am recommending a \$1,100,000 appropriation be made to the Town's stabilization funds and OPEB Trust Fund in fiscal year 2015.



**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

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 \$25,641,000, a 2.9% increase for fiscal year 2015. Included in this line item is a projected increase of \$600,000 for the Swampscott School Department. The vocational school appropriation is projected to increase for the fourth year in row as well as an assessment for the construction of the new vocational/agricultural school.

The Enterprise Fund Budget for fiscal year 2015 totals \$5.9 million, representing a 2.6% decrease from fiscal year 2014. Approximately \$3.5 million, or 69% of total expenditures, will be funded through water user charges and \$2.4 million or 31%, 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, 2014**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 8,216,999	\$ 1,965,197	\$ 10,182,196
Restricted Cash and Cash Equivalents	5,520,201	1,881,309	7,401,510
Receivables, Net of Allowance for Uncollectible Amounts:			
Real Estate and Personal Property Taxes	1,202,843	-	1,202,843
Tax and Utility Liens	907,474	111,971	1,019,445
Motor Vehicle and Other Excise Taxes	146,216	-	146,216
Water	-	899,562	899,562
Sewer	-	771,688	771,688
Departmental and Other	39,625	-	39,625
Intergovernmental	413,350	-	413,350
Total Current Assets	16,446,708	5,629,727	22,076,435
Noncurrent Assets:			
Capital Assets not being Depreciated	4,420,080	252,182	4,672,262
Capital Assets, Net of Accumulated Depreciation	67,925,956	18,384,550	86,310,506
Total Noncurrent Assets	72,346,036	18,636,732	90,982,768
Total Assets	88,792,744	24,266,459	113,059,203
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Loss from Debt Refunding	151,750	-	151,750
<b>LIABILITIES</b>			
Current Liabilities:			
Warrants Payable	879,023	38,554	917,577
Accrued Payroll	124,354	8,983	133,337
Tax Refunds Payable	357,279	-	357,279
Other Liabilities	222,979	-	222,979
Accrued Interest	322,881	11,779	334,660
Capital Lease Obligations	33,107	-	33,107
Workers' Compensation Claims	146,825	-	146,825
Compensated Absences	168,813	637	169,450
Long-Term Bonds and Notes Payable	3,430,047	763,966	4,194,013
Total Current Liabilities	5,685,308	823,919	6,509,227
Noncurrent Liabilities:			
Capital Lease Obligations	109,906	-	109,906
Workers' Compensation Claims	1,321,421	-	1,321,421
Compensated Absences	1,519,314	5,735	1,525,049
Net OPEB Obligation	17,834,455	428,322	18,262,777
Long-Term Bonds and Notes Payable	30,327,809	3,425,682	33,753,491
Total Noncurrent Liabilities	51,112,905	3,859,739	54,972,644
Total Liabilities	56,798,213	4,683,658	61,481,871
<b>NET POSITION</b>			
Net Investment in Capital Assets	40,863,730	16,328,393	57,192,123
Restricted for:			
Permanent Funds:			
Expendable	185,841	-	185,841
Nonexpendable	439,652	-	439,652
Other Specific Purposes	2,121,333	-	2,121,333
Unrestricted	(11,464,275)	3,254,408	(8,209,867)
Total Net Position	\$ 32,146,281	\$ 19,582,801	\$ 51,729,082

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2014**

Functions/Programs	Expenses	Program Revenues			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense)/ Revenue
Primary Government:					
Governmental Activities:					
General Government	\$ 3,137,788	\$ 234,150	\$ 113,453	\$ -	\$ (2,790,185)
Public Safety	11,763,127	1,202,914	13,525	-	(10,546,688)
Education	43,473,831	3,193,720	10,670,967	194,028	(29,415,116)
Public Works	2,289,183	107,479	4,308	302,753	(1,874,643)
Health and Human Services	1,718,765	86,201	32,319	-	(1,600,245)
Culture and Recreation	1,315,357	256,679	21,873	-	(1,036,805)
Debt Service - Interest	1,076,388	-	43,112	-	(1,033,276)
Total Governmental Activities	64,774,439	5,081,143	10,899,557	496,781	(48,296,958)
Business-Type Activities:					
Water	2,932,860	3,435,218	1,352	-	503,710
Sewer	2,095,473	2,445,237	6,358	-	356,122
Total Business-Type Activities	5,028,333	5,880,455	7,710	-	859,832
Total Primary Government	\$ 69,802,772	\$10,961,598	\$ 10,907,267	\$ 496,781	\$ (47,437,126)

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**STATEMENT OF ACTIVITIES (CONTINUED)**  
**YEAR ENDED JUNE 30, 2014**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>CHANGES IN NET POSITION</b>			
Net Revenue (Expense) (from previous page).	<u>\$ (48,296,958)</u>	<u>\$ 859,832</u>	<u>\$ (47,437,126)</u>
General Revenues:			
Real Estate and Personal Property Taxes	44,165,600	-	44,165,600
Motor Vehicle and Other Taxes	2,389,223	-	2,389,223
Penalties and Interest on Taxes	179,895	-	179,895
Grants and Contributions not Restricted to Specific Programs	1,137,182	-	1,137,182
Unrestricted Investment Income	18,502	-	18,502
Contributions to Permanent Funds	13,500	-	13,500
Other	272,441	-	272,441
Transfers, Net	<u>289,810</u>	<u>(289,810)</u>	<u>-</u>
Total General Revenues and Transfers	<u>48,466,153</u>	<u>(289,810)</u>	<u>48,176,343</u>
<b>CHANGE IN NET POSITION</b>	169,195	570,022	739,217
Net Position - Beginning of Year	<u>31,977,086</u>	<u>19,012,779</u>	<u>50,989,865</u>
<b>NET POSITION - END OF YEAR</b>	<u><u>\$ 32,146,281</u></u>	<u><u>\$ 19,582,801</u></u>	<u><u>\$ 51,729,082</u></u>

*See accompanying Notes to Financial Statements.*

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2014**

	General	Capital Articles	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 8,216,999	\$ -	\$ -	\$ 8,216,999
Receivables, Net of Allowance for Uncollectible Amounts:				
Real Estate and Personal Property Taxes	1,202,843	-	-	1,202,843
Tax Liens	907,474	-	-	907,474
Motor Vehicle and Other Excise Taxes	146,216	-	-	146,216
Departmental and Other	39,625	-	-	39,625
Intergovernmental	-	-	413,350	413,350
Restricted Assets:				
Cash and Cash Equivalents	500,052	2,440,318	2,579,831	5,520,201
Total Assets	<u>\$ 11,013,209</u>	<u>\$ 2,440,318</u>	<u>\$ 2,993,181</u>	<u>\$ 16,446,708</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
Liabilities:				
Warrants Payable	\$ 525,731	\$ 113,170	\$ 240,122	\$ 879,023
Accrued Payroll	118,122	-	6,232	124,354
Tax Refunds Payable	357,279	-	-	357,279
Other Liabilities	222,979	-	-	222,979
Total Liabilities	<u>1,224,111</u>	<u>113,170</u>	<u>246,354</u>	<u>1,583,635</u>
Deferred Inflows of Resources:				
Unavailable Revenue	<u>2,425,154</u>	<u>-</u>	<u>302,727</u>	<u>2,727,881</u>
Fund Balances:				
Nonspendable	-	-	439,652	439,652
Restricted	500,052	2,327,148	2,490,385	5,317,585
Committed	1,400,515	-	-	1,400,515
Assigned	778,638	-	-	778,638
Unassigned	<u>4,684,739</u>	<u>-</u>	<u>(485,937)</u>	<u>4,198,802</u>
Total Fund Balances	<u>7,363,944</u>	<u>2,327,148</u>	<u>2,444,100</u>	<u>12,135,192</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 11,013,209</u>	<u>\$ 2,440,318</u>	<u>\$ 2,993,181</u>	<u>\$ 16,446,708</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, 2014**

	General	Capital Articles	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Real Estate and Personal Property Taxes	\$ 43,522,582	\$ -	\$ -	\$ 43,522,582
Motor Vehicle and Other Taxes	2,367,549	-	-	2,367,549
Tax Liens	86,284	-	-	86,284
Charges for Services	-	-	1,377,598	1,377,598
Intergovernmental	9,380,146	-	2,373,696	11,753,842
Penalties and Interest on Taxes	179,895	-	-	179,895
Licenses and Permits	869,725	-	-	869,725
Fines and Forfeitures	76,585	-	-	76,585
Departmental and Other	2,466,630	-	799,749	3,266,379
Contributions	-	-	266,511	266,511
Investment Income	22,959	-	2,195	25,154
Total Revenues	58,972,355	-	4,819,749	63,792,104
<b>EXPENDITURES</b>				
Current:				
General Government	2,023,955	27,755	211,764	2,263,474
Public Safety	7,012,543	625,703	389,724	8,027,970
Education	25,623,650	273,225	4,426,893	30,323,768
Public Works	1,207,335	647,986	317,078	2,172,399
Health and Human Services	1,252,035	-	53,362	1,305,397
Culture and Recreation	688,523	-	239,114	927,637
Pension Benefits	9,259,694	-	-	9,259,694
Employee Benefits	5,233,611	-	-	5,233,611
Property and Liability Insurance	444,740	-	-	444,740
State and County Charges	550,919	-	-	550,919
Debt Service:				
Principal	3,596,927	-	-	3,596,927
Interest	1,089,162	-	-	1,089,162
Total Expenditures	57,983,094	1,574,669	5,637,935	65,195,698
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	989,261	(1,574,669)	(818,186)	(1,403,594)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	802,000	50,000	-	852,000
Transfers Out	(512,190)	-	(50,000)	(562,190)
Proceeds of Bonds and Notes	-	1,603,858	-	1,603,858
Premium from Issuance of Bonds and Notes	43,112	-	-	43,112
Sale of Capital Assets	-	-	1,762,536	1,762,536
Payments to Refunded Bond Escrow Agent	-	-	(1,831,750)	(1,831,750)
Total Other Financing Sources (Uses)	332,922	1,653,858	(119,214)	1,867,566
<b>NET CHANGE IN FUND BALANCES</b>	1,322,183	79,189	(937,400)	463,972
Fund Balances at Beginning of Year	6,041,761	2,247,959	3,381,500	11,671,220
<b>FUND BALANCES AT END OF YEAR</b>	<u>\$ 7,363,944</u>	<u>\$ 2,327,148</u>	<u>\$ 2,444,100</u>	<u>\$ 12,135,192</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, 2014**

Total governmental fund balances (page 15)	\$ 12,135,192
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	72,346,036
Other assets are not available to pay for current period expenditures and, therefore, are deferred inflows of resources in the governmental funds	2,727,881
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	(322,881)
Deferred losses on refunded bonds payable are reported as deferred outflows of resources on the statement of net position	151,750
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	(33,757,856)
Capital lease obligations	(143,013)
Workers' compensation claims	(1,468,246)
Compensated absences	(1,688,127)
Net OPEB obligation	(17,834,455)
Net position of governmental activities (page 12)	<u><u>\$ 32,146,281</u></u>

*See accompanying Notes to Financial Statements.*

**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, 2014**

Net change in fund balances - total governmental funds (page 16)	\$ 463,972
<p>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.</p>	
Capital outlays	1,615,274
Depreciation	(2,348,282)
<p>In the statement of activities, only the (loss) on the sale of capital assets is reported, whereas in the governmental funds the entire proceeds of the sale are reported as financial resources. As a result, the change in net position differs from the change in fund balance by the cost of the capital assets sold</p>	
	(1,989,170)
<p>Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflows of resources in the statement of revenues, expenditures and changes in fund balances. 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.</p>	
	818,606
<p>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 issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. These amounts represent the related activity of the current period.</p>	
Bond proceeds	(1,603,858)
Bond maturities	3,596,927
Payments to refunded bond escrow agent	1,831,750
Capital lease obligations	31,485
<p>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</p>	
	12,777
<p>Some expenses reported in the statement 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:</p>	
Workers' compensation	70,942
Compensated absences	214,482
Net OPEB obligation	(2,545,710)
Changes in net position of governmental activities (page 14)	<u>\$ 169,195</u>

See accompanying Notes to Financial Statements.



**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
PROPRIETARY FUNDS  
STATEMENT OF FUND NET POSITION  
JUNE 30, 2014**

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,175,511	\$ 789,686	\$ 1,965,197
Restricted Cash and Cash Equivalents	1,711,084	170,225	1,881,309
Receivables, Net of Allowance for Uncollectible Amounts:			
Water	899,562	-	899,562
Sewer	-	771,688	771,688
Liens	65,916	46,055	111,971
Total Current Assets	3,852,073	1,777,654	5,629,727
Noncurrent Assets:			
Capital Assets not being Depreciated	2,542	249,640	252,182
Capital Assets, Net of Accumulated Depreciation	5,637,234	12,747,316	18,384,550
Total Noncurrent Assets	5,639,776	12,996,956	18,636,732
Total Assets	9,491,849	14,774,610	24,266,459
<b>LIABILITIES</b>			
Current Liabilities:			
Warrants Payable	1,961	36,593	38,554
Accrued Payroll	4,428	4,555	8,983
Accrued Interest	4,121	7,658	11,779
Compensated Absences	596	41	637
Long-Term Bonds and Notes Payable	602,911	161,055	763,966
Total Current Liabilities	614,017	209,902	823,919
Noncurrent Liabilities:			
Compensated Absences	5,367	368	5,735
Net OPEB Obligation	216,084	212,238	428,322
Long-Term Bonds and Notes Payable	2,846,928	578,754	3,425,682
Total Noncurrent Liabilities	3,068,379	791,360	3,859,739
Total Liabilities	3,682,396	1,001,262	4,683,658
<b>FUND NET POSITION</b>			
Net Investment in Capital Assets	3,901,021	12,427,372	16,328,393
Unrestricted	1,908,432	1,345,976	3,254,408
Total Net Position	\$ 5,809,453	\$ 13,773,348	\$ 19,582,801

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, 2014**

	Business-Type Activities - Enterprise Funds		
	Water	Sewer	Total
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 3,375,828	\$ 2,408,560	\$ 5,784,388
Penalties and Interest	59,390	36,677	96,067
Total Operating Revenues	3,435,218	2,445,237	5,880,455
<b>OPERATING EXPENSES</b>			
Cost of Service and Administration	884,814	899,386	1,784,200
MWRA Assessment	1,793,971	-	1,793,971
Lynn Assessment	-	642,424	642,424
Depreciation	236,287	527,953	764,240
Total Operating Expenses	2,915,072	2,069,763	4,984,835
<b>OPERATING INCOME</b>	520,146	375,474	895,620
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Intergovernmental	-	5,441	5,441
Investment Income	1,352	917	2,269
Interest Expense	(17,788)	(25,710)	(43,498)
Total Nonoperating Revenues (Expenses), Net	(16,436)	(19,352)	(35,788)
<b>INCOME BEFORE TRANSFERS</b>	503,710	356,122	859,832
<b>TRANSFERS</b>			
Transfers In	-	512,190	512,190
Transfers Out	(401,000)	(401,000)	(802,000)
Total Transfers	(401,000)	111,190	(289,810)
<b>CHANGE IN FUND NET POSITION</b>	102,710	467,312	570,022
Fund Net Position at Beginning of Year	5,706,743	13,306,036	19,012,779
<b>FUND NET POSITION AT END OF YEAR</b>	<u>\$ 5,809,453</u>	<u>\$ 13,773,348</u>	<u>\$ 19,582,801</u>

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2014**

	<u>Business-Type Activities - Enterprise Funds</u>		
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers and Users	\$ 3,444,859	\$ 2,496,137	\$ 5,940,996
Payments to Vendors	(2,273,865)	(1,379,529)	(3,653,394)
Payments to Employees	(363,387)	(313,045)	(676,432)
Net Cash From Operating Activities	<u>807,607</u>	<u>803,563</u>	<u>1,611,170</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers In	-	512,190	512,190
Transfers Out	(401,000)	(401,000)	(802,000)
Net Cash From Noncapital Financing Activities	<u>(401,000)</u>	<u>111,190</u>	<u>(289,810)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Proceeds from the Issuance of Bonds and Notes	1,600,000	-	1,600,000
Acquisition and Construction of Capital Assets	(13,201)	(38,201)	(51,402)
Principal Payments on Bonds and Notes	(710,657)	(753,217)	(1,463,874)
Interest Expense	(18,121)	(24,741)	(42,862)
Net Cash From Capital and Related Financing Activities	<u>858,021</u>	<u>(816,159)</u>	<u>41,862</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment Income	<u>1,352</u>	<u>917</u>	<u>2,269</u>
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<u>1,265,980</u>	<u>99,511</u>	<u>1,365,491</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b> (Includes \$156,105 and \$194,569 reported as restricted in the Water Enterprise Fund and Sewer Enterprise Fund, respectively)	<u>1,620,615</u>	<u>860,400</u>	<u>2,481,015</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b> (Includes \$1,711,084 and \$170,225 reported as restricted in the Water Enterprise Fund and Sewer Enterprise Fund, respectively)	<u>\$ 2,886,595</u>	<u>\$ 959,911</u>	<u>\$ 3,846,506</u>
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>			
Operating Income	<u>\$ 520,146</u>	<u>\$ 375,474</u>	<u>\$ 895,620</u>
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities:			
Changes in Assets and Liabilities not Requiring Current Cash Flows:			
Depreciation	236,287	527,953	764,240
Increase in Net OPEB Obligation	37,619	47,352	84,971
Effect of Changes in Operating Assets and Liabilities:			
Utility Liens	407	(15,940)	(15,533)
Water User Charges	9,234	-	9,234
Sewer User Charges	-	(26,727)	(26,727)
Intergovernmental	-	93,567	93,567
Warrants Payable	1,118	(200,881)	(199,763)
Accrued Payroll	2,395	2,356	4,751
Compensated Absences	401	409	810
Total Adjustments	<u>287,461</u>	<u>428,089</u>	<u>715,550</u>
Net Cash from Operating Activities	<u>\$ 807,607</u>	<u>\$ 803,563</u>	<u>\$ 1,611,170</u>
<b>NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>			
Intergovernmental Debt Subsidies (MWPAT)	<u>\$ -</u>	<u>\$ 99,008</u>	<u>\$ 99,008</u>

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2014**

	Pension Trust Fund (As of 12/31/13)	Private Purpose Trust Funds	Agency Funds
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 581,247	\$ 280,939	\$ 222,980
Investments	-	-	-
External Investment Pool (PRIT)	31,273,039	-	-
Equity Securities	503,599	-	-
Equity Mutual Funds	4,910,988	-	-
Real Estate	1,728,307	-	-
Alternative	1,314,816	-	-
Receivables, Net of Allowance for Uncollectible Amounts:			
Other	733	-	-
	<u>40,312,729</u>	<u>280,939</u>	<u>\$ 222,980</u>
Total Assets			
	<u>40,312,729</u>	<u>280,939</u>	<u>\$ 222,980</u>
<b>LIABILITIES</b>			
Warrants Payable	3,502	17,350	-
Liabilities Due Depositors	-	-	222,980
	<u>3,502</u>	<u>17,350</u>	<u>\$ 222,980</u>
Total Liabilities			
	<u>3,502</u>	<u>17,350</u>	<u>\$ 222,980</u>
<b>NET POSITION</b>			
Held in Trust for Pension Benefits and Other Purposes	<u>\$ 40,309,227</u>	<u>\$ 263,589</u>	

*See accompanying Notes to Financial Statements.*

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2014**

	Pension Trust Fund (Year Ended 12/31/13)	Private Purpose Trust Funds
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 4,381,537	\$ -
Plan Members	1,110,303	-
Private Donations	-	5,225
	<u>5,491,840</u>	<u>5,225</u>
Total Contributions		
Net Investment Income:		
Net Appreciation in Fair Value of Investments	4,188,158	-
Interest	1,621,835	415
	<u>5,809,993</u>	<u>415</u>
Total Investment Income		
Less: Investment Expense	(241,947)	-
	<u>5,568,046</u>	<u>415</u>
Net Investment Income		
Intergovernmental	152,527	-
	<u>224,452</u>	<u>-</u>
Transfers from Other Systems		
	<u>11,436,865</u>	<u>5,640</u>
Total Additions		
<b>DEDUCTIONS</b>		
Administration	149,131	-
Retirement Benefits and Refunds	4,547,884	-
Transfers to Other Systems	318,229	-
Scholarships Awarded	-	21,350
	<u>5,015,244</u>	<u>21,350</u>
Total Deductions.		
<b>CHANGE IN NET POSITION</b>	6,421,621	(15,710)
Net Position at Beginning of Year	33,887,606	279,299
<b>NET POSITION AT END OF YEAR</b>	<u><u>\$ 40,309,227</u></u>	<u><u>\$ 263,589</u></u>

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**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 Component Unit**

The Town has included the Swampscott Contributory Retirement System (System) as a component unit (fiduciary fund) in the reporting entity because of the significance of its operational and financial relationship with the Town. Fiduciary fund component units 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.

The System does not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 22 Monument Avenue, Swampscott, Massachusetts 01907.

**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, 2014**

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, 2014, the Town's assessment totaled approximately \$454,000. 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, 2014, the Town implemented the following pronouncements issued by the GASB:

- GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*
- GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*
- GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*

The implementation of GASB Statement No. 65 established financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. The implementation of GASB Statement No. 65 had no retrospective reporting impact for the Town.

The implementation of GASB Statement No.'s 66 and 70 had no reporting impact for the Town.

**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.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

**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.



**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

*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 use 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.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 *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 custodial capacity. Agency funds do not present the results of operations or have a measurement focus.

**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. Fair value is based on quotations from a national securities exchange except for pooled funds, alternative investments and real estate, for which fair value is determined as follows:

**Pooled Funds**

The fair value of shares in managed investment pools is based on unit value reported by the funds.

**Alternative Investments**

Alternative investments are recorded at fair value as determined in good faith by the general partners of the venture capital firms after consideration of pertinent information, including current financial position and operating results, price-earnings multiples and available market prices of similar companies' securities, the nature of securities, marketability, restrictions on disposition and other appropriation and do not necessarily represent amounts which might ultimately be realized, since such amounts depend on future circumstances and cannot reasonably be determined until individual securities are liquidated.

**Real Estate**

The fair value of real estate funds is based on independent third-party appraisals. The investment managers of the funds are responsible for the reported value of those investments. However, the structure, risk profile, return potential and marketability of those investments differ from traditional equity and fixed income investments. Determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties to a sales transaction. As a result, the estimated values may differ significantly from the values that would have been used had a ready market for the real estate existed, and the differences could be material.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 1<sup>st</sup> 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 1<sup>st</sup>, November 1<sup>st</sup>, February 1<sup>st</sup> and May 1<sup>st</sup> 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.

***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.

**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, 2014, the allowance related to personal property taxes and departmental and other are immaterial and therefore are not reported.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

**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, construction in progress, 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 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.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Capital assets (excluding land and construction in progress) 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.

**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".

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 one item that qualifies for reporting in this category, which is the deferred loss from debt refunding. The loss is amortized to interest expense over the shorter of the number of years between the old debt and the new debt.

**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.

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.

**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, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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.

**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.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 water and sewer enterprise funds is retained in the funds.

Investment income derived from fiduciary funds is retained in the respective 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. 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.

**U. 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.

**V. 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.



**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**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.

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 2014 approved budget for the general fund authorized \$53,361,555 in appropriations. During fiscal year 2014, supplemental appropriations totaling \$769,274 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, 2014, expenditures exceeded appropriations for education and debt service (interest) expenditures. These over-expenditure will be funded by taxes during fiscal year 2015.

**C. Fund Deficits**

At June 30, 2014, the following fund deficits exist:

<u>Fund</u>	<u>Amount</u>	<u>Funding Source</u>
Chapter 90	\$ 314,402	State grant
School Athletics	32,747	Available funds
Green Community Act	67,034	State grant
DOJ Camera Grant	50,000	State grant
Feasibility/New School	<u>21,754</u>	Available funds
	<u>\$ 485,937</u>	

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 3 DEPOSITS AND INVESTMENTS**

***Town (excluding the Pension Trust Fund)***

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

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, 2014, \$15,916,862 of the Town's bank balance of \$16,715,096 was uninsured and uncollateralized.

**Investments Summary**

The Town's investment at June 30, 2014, consisted of \$1,687,513 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, 2014 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.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 3 DEPOSITS AND INVESTMENTS (CONTINUED)**

**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, 2014, the Town was not exposed to concentration of credit risk.

***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. As of December 31, 2013, the System was not exposed to custodial credit risk.

**Investments Summary**

The System's investments at December 31, 2013 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years) Less Than 1</u>
<u>Debt Securities:</u>		
Money market mutual funds *	\$ 151,917	\$ 151,917
External investment pool (PRIT)	<u>31,273,039</u>	<u>31,273,039</u>
Total debt securities	<u>31,424,956</u>	<u>\$ 31,424,956</u>
<u>Other Investments:</u>		
Equity securities	503,599	
Equity mutual funds	4,910,988	
Real estate	1,728,307	
Alternative	<u>1,314,816</u>	
Total other investments	<u>8,457,710</u>	
Total investments	<u>\$ 39,882,666</u>	

\* Included in cash and cash equivalents

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**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, 2013, \$1,300,201 of the System's investments was uninsured, not registered in the name of the system and exposed to custodial credit risk as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Held by Counterparty's Trust or Agent</u>
Real estate	\$ <u>1,300,201</u>	\$ <u>1,300,201</u>

**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, 2013, the credit quality ratings of the System's debt securities are as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Unrated</u>
Money market mutual funds	\$ 151,917	\$ 151,917
External investment pools (PRIT)	<u>31,273,039</u>	<u>31,273,039</u>
Total	\$ <u>31,424,956</u>	\$ <u>31,424,956</u>

**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, 2013, the System was not exposed to concentration of credit risk.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 4 ACCOUNTS RECEIVABLE**

At June 30, 2014, 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	\$ 1,202,843	\$ -	\$ 1,202,843
Tax liens	907,474	-	907,474
Motor vehicle and other excise taxes	259,064	(112,848)	146,216
Departmental and other	40,358	-	40,358
Intergovernmental	413,350		413,350
	<u>\$ 2,823,089</u>	<u>\$ (112,848)</u>	<u>\$ 2,710,241</u>

At June 30, 2014, receivables for the water and sewer enterprise funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Water	\$ 899,562	\$ -	\$ 899,562
Sewer	771,688	-	771,688
Liens	111,971	-	111,971
	<u>\$ 1,783,221</u>	<u>\$ -</u>	<u>\$ 1,783,221</u>

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 5 CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 4,269,080	\$ 151,000	\$ -	\$ 4,420,080
Construction in progress	5,162,681	-	(5,162,681)	-
Total capital assets not being depreciated	9,431,761	151,000	(5,162,681)	4,420,080
<u>Capital assets being depreciated:</u>				
Land improvements	1,704,358	60,550	-	1,764,908
Buildings and improvements	75,874,163	5,455,274	(2,484,744)	78,844,693
Machinery and equipment	4,474,652	393,002	-	4,867,654
Infrastructure	9,209,981	718,129	(303,477)	9,624,633
Total capital assets being depreciated	91,263,154	6,626,955	(2,788,221)	95,101,888
<u>Less accumulated depreciation for:</u>				
Land improvements	(975,770)	(63,444)	-	(1,039,214)
Buildings and improvements	(19,323,623)	(1,857,304)	495,574	(20,685,353)
Machinery and equipment	(3,299,445)	(217,700)	-	(3,517,145)
Infrastructure	(2,027,863)	(209,834)	303,477	(1,934,220)
Total accumulated depreciation	(25,626,701)	(2,348,282)	799,051	(27,175,932)
Total capital assets being depreciated, net	65,636,453	4,278,673	(1,989,170)	67,925,956
Total governmental activities capital assets, net	\$ 75,068,214	\$ 4,429,673	\$ (7,151,851)	\$ 72,346,036

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
<u>Capital assets not being depreciated:</u>				
Land	\$ 252,182	\$ -	\$ -	\$ 252,182
<u>Capital assets being depreciated:</u>				
Land improvements	6,000	-	-	6,000
Buildings and improvements	2,785,115	-	-	2,785,115
Machinery and equipment	1,938,088	26,402	-	1,964,490
Infrastructure	29,208,111	25,000	-	29,233,111
Total capital assets being depreciated	33,937,314	51,402	-	33,988,716
<u>Less accumulated depreciation for:</u>				
Land improvements	(3,750)	(300)	-	(4,050)
Buildings and improvements	(2,188,488)	(20,100)	-	(2,208,588)
Machinery and equipment	(930,730)	(162,589)	-	(1,093,319)
Infrastructure	(11,716,958)	(581,251)	-	(12,298,209)
Total accumulated depreciation	(14,839,926)	(764,240)	-	(15,604,166)
Total capital assets being depreciated, net	19,097,388	(712,838)	-	18,384,550
Total business-type activities capital assets, net	\$ 19,349,570	\$ (712,838)	\$ -	\$ 18,636,732

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

**Governmental Activities:**

General government	\$ 175,166
Public safety	184,616
Education	1,607,188
Public works	305,544
Health and human services	1,862
Culture and recreation	73,906

Total depreciation expense - governmental activities      \$ 2,348,282

**Business-Type Activities:**

Water	\$ 236,287
Sewer	527,953

Total depreciation expense - business-type activities      \$ 764,240

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 6 INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2014 are summarized as follows:

Transfers In:				
Transfers Out:	General Fund	Capital Articles Fund	Sewer Enterprise Fund	Total
General Fund	\$ -	\$ -	\$ 512,190	\$ 512,190 (1)
Nonmajor Governmental Funds	-	50,000	-	50,000 (2)
Water Enterprise Fund	401,000	-	-	401,000 (3)
Sewer Enterprise Fund	401,000	-	-	401,000 (3)
	<u>\$ 802,000</u>	<u>\$ 50,000</u>	<u>\$ 512,190</u>	<u>\$ 1,364,190</u>

(1) Represents budgeted transfer for the subsidy of debt service principal and interest.

(2) Represents transfer from the sale of cemetery lots fund to capital articles fund.

(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.

Details related to the short-term debt activity for the fiscal year ended June 30, 2014 is as follows:

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2013	Increases	Decreases	Balance at June 30, 2014
BAN	Municipal Purpose	6/30/14	12/22/14	0.45%	\$ -	\$ 1,603,858	\$ (1,603,858)	\$ -

**Subsequent Events**

On December 9, 2014 the Town issued \$1,603,858 of general obligation bonds. The entire issuance was used to retire the Municipal Purpose BAN outstanding at June 30, 2014. Accordingly, \$1,603,858 of BAN's have been reclassified to long-term debt at June 30, 2014.



**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

On June 24, 2015, the Town issued a BAN totaling \$955,246 for various improvements and purchases of vehicles and equipment. The BAN bears interest at a rate of 0.50% and is due June 23, 2016.

**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, 2014:

	Balance June 30, 2013	Increases/ Reclassifications	Decreases	Balance June 30, 2014	Current Portion
<b>Governmental Activities:</b>					
Bonds and notes payable	\$ 37,430,925	\$ 1,603,858	\$ (5,276,927)	\$ 33,757,856	\$ 3,430,047
Workers' compensation claims	1,539,188	358,363	(429,305)	1,468,246	146,825
Capital lease obligations	174,498	-	(31,485)	143,013	33,107
Net OPEB obligation	15,288,745	3,997,016	(1,451,306)	17,834,455	-
Compensated absences	1,902,609	-	(214,482)	1,688,127	168,813
Total	<u>\$ 56,335,965</u>	<u>\$ 5,959,237</u>	<u>\$ (7,403,505)</u>	<u>\$ 54,891,697</u>	<u>\$ 3,778,792</u>
<b>Business-type Activities:</b>					
Bonds and notes payable	\$ 4,053,522	\$ 1,600,000	\$ (1,463,874)	\$ 4,189,648	\$ 763,966
Net OPEB obligation	343,351	133,256	(48,285)	428,322	-
Compensated absences	5,562	1,154	(344)	6,372	637
Total	<u>\$ 4,402,435</u>	<u>\$ 1,734,410</u>	<u>\$ (1,512,503)</u>	<u>\$ 4,624,342</u>	<u>\$ 764,603</u>

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

**NOTE 9 LONG-TERM DEBT**

Details related to the outstanding indebtedness at June 30, 2014 and the debt service requirements are as follows:

**Bonds and Notes Payable – Governmental Funds**

Project	Maturity Date	Interest Rate	Outstanding at June 30, 2013	Issued	Redeemed	Outstanding at June 30, 2014
Municipal Purpose Loan of 2004	06/01/14	3.0 - 4.0%	120,000	-	(120,000)	-
Drainage Improvements	06/01/14	3.0 - 4.0%	15,000	-	(15,000)	-
High School Loan of 2006	05/15/26	3.7 - 4.0%	7,085,000	-	(545,000)	6,540,000
Municipal Purpose Loan of 2006	02/15/16	4.0 - 4.1%	1,095,000	-	(845,000)	250,000
High School	01/15/27	4.0%	8,167,800	-	(583,200)	7,584,600
Forest Avenue Ball Fields Improvements	06/01/14	3.0 - 4.0%	58,000	-	(58,000)	-
Municipal Purpose Loan of 2007	01/15/27	3.5 - 5.0%	539,200	-	(134,800)	404,400
Municipal Purpose Loan of 2008	08/15/19	3.0 - 4.5%	901,280	-	(326,280)	575,000
School Construction	11/01/29	2.0%	5,990,245	-	(352,367)	5,637,878
Municipal Purpose Loan of 2010	09/15/23	2.5 - 3.0%	2,050,000	-	(427,500)	1,622,500
Municipal Purpose Loan of 2013	08/15/32	2.0 - 2.5%	4,274,400	-	(469,780)	3,804,620
General Obligation Refunding Bonds	04/15/25	2.0 - 3.0%	3,785,000	-	(500,000)	3,285,000
Bond Anticipation Notes - Police Station	09/15/28	2.0 - 4.25%	3,350,000	-	(900,000)	2,450,000
Municipal Purpose Loan of 2014	01/15/24	2.0 - 4.0%	-	1,603,858	-	1,603,858
Total governmental funds			<u>\$ 37,430,925</u>	<u>\$ 1,603,858</u>	<u>\$ (5,276,927)</u>	<u>\$ 33,757,856</u>

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 9 LONG-TERM (CONTINUED)**

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 3,430,047	\$ 1,037,828	\$ 4,467,875
2016	3,281,405	1,006,690	4,288,095
2017	3,032,547	896,933	3,929,480
2018	2,882,047	799,625	3,681,672
2019	2,601,047	708,434	3,309,481
2020	2,406,047	624,218	3,030,265
2021	2,396,047	546,490	2,942,537
2022	2,356,047	467,694	2,823,741
2023	2,346,047	389,430	2,735,477
2024	2,182,367	317,699	2,500,066
2025	2,027,368	237,529	2,264,897
2026	1,772,368	176,557	1,948,925
2027	1,212,368	114,465	1,326,833
2028	627,368	74,421	701,789
2029	452,368	25,045	477,413
2030	452,368	15,697	468,065
2031	100,000	6,250	106,250
2032	100,000	3,750	103,750
2033	100,000	1,250	101,250
Total	<u>\$ 33,757,856</u>	<u>\$ 7,450,005</u>	<u>\$ 41,207,861</u>

**Bonds and Notes Payable – Water Enterprise**

<u>Project</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Outstanding at June 30, 2013</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2014</u>
Water (MWRA)	05/05/14	0.0%	\$ 112,026	\$ -	\$ (112,026)	\$ -
Water Meter Replacement	08/15/13	3.0 - 4.0%	142,000	-	(142,000)	-
Water (MWRA)	06/01/15	0.0%	112,054	-	(56,027)	56,027
Water (MWRA)	08/15/15	0.0%	168,081	-	(56,027)	112,054
Water (MWRA)	08/15/16	0.0%	224,108	-	(56,027)	168,081
Municipal Purpose Loan of 2007	01/15/17	3.5 - 5.0%	114,000	-	(28,500)	85,500
Water (MWRA)	08/15/17	0.00%	280,135	-	(56,027)	224,108
Municipal Purpose Loan of 2008	08/15/18	3.0 - 4.5%	193,720	-	(43,720)	150,000
Water (MWRA)	08/15/19	0.0%	84,383	-	(12,054)	72,329
Water (MWRA)	08/15/20	0.0%	799,989	-	(99,999)	699,990
Water (MWRA)	08/15/21	0.0%	225,000	-	(25,000)	200,000
Municipal Purpose Loan of 2013	08/15/17	2.0 - 2.5%	105,000	-	(23,250)	81,750
Water (MWRA)	05/15/24	0.00%	-	1,600,000	-	1,600,000
Total water enterprise fund			<u>\$ 2,560,496</u>	<u>\$ 1,600,000</u>	<u>\$ (710,657)</u>	<u>\$ 3,449,839</u>

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 9 LONG-TERM DEBT (CONTINUED)**

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 602,911	\$ 9,699	\$ 612,610
2016	546,885	7,250	554,135
2017	490,858	4,614	495,472
2018	395,081	1,918	396,999
2019	327,054	560	327,614
2020	297,054	-	297,054
2021	284,996	-	284,996
2022	185,000	-	185,000
2023	160,000	-	160,000
2024	160,000	-	160,000
Total	<u>\$ 3,449,839</u>	<u>\$ 24,041</u>	<u>\$ 3,473,880</u>

**Bonds and Notes Payable – Sewer Enterprise Fund**

<u>Project</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Outstanding at June 30, 2013</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2014</u>
Sewer 91-05 (MWPAT)	01/15/13	2.3 - 5.6%	\$ 8,213	\$ -	\$ (8,213)	\$ -
Sewer 91-36 (MWPAT)	08/01/13	2.3 - 5.6%	191,286	-	(191,286)	-
Sewer 93-03 (MWPAT)	08/01/13	2.3 - 5.6%	2,930	-	(2,930)	-
Sewer 93-04 (MWPAT)	08/01/13	2.3 - 5.6%	123,021	-	(123,021)	-
Sewer 91-47 (MWPAT)	08/01/13	2.3 - 5.6%	23,956	-	(23,956)	-
Sewer 91-20 (MWPAT)	08/01/13	2.3 - 5.6%	210,938	-	(210,938)	-
Sewer 93-05 (MWPAT)	08/01/13	3.4 - 5.6%	32,125	-	(32,125)	-
Municipal Purpose Loan of 2007	01/15/27	3.5 - 5.0%	114,000	-	(28,500)	85,500
Municipal Purpose Loan of 2008	08/15/18	3.0 - 4.5%	180,000	-	(30,000)	150,000
Sewer 07-22 (MWPAT)	07/15/28	2.00%	283,357	-	(15,178)	268,179
Municipal Purpose Loan of 2010	09/15/14	2.5 - 3.0%	105,000	-	(52,500)	52,500
Municipal Purpose Loan of 2013	08/15/22	2.0 - 2.5%	218,200	-	(34,570)	183,630
Total sewer enterprise fund			<u>\$ 1,493,026</u>	<u>\$ -</u>	<u>\$ (753,217)</u>	<u>\$ 739,809</u>

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 9 LONG-TERM DEBT (CONTINUED)**

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

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 161,055	\$ 17,421	\$ 178,476
2016	108,868	13,844	122,712
2017	109,187	10,663	119,850
2018	69,762	7,414	77,176
2019	58,095	5,498	63,593
2020	28,434	4,372	32,806
2021	28,779	3,800	32,579
2022	29,132	3,222	32,354
2023	29,492	2,635	32,127
2024	18,539	2,155	20,694
2025	18,913	1,781	20,694
2026	19,296	1,399	20,695
2027	19,685	1,009	20,694
2028	20,083	611	20,694
2029	<u>20,489</u>	<u>205</u>	<u>20,694</u>
Total	\$ <u>739,809</u>	\$ <u>76,029</u>	\$ <u>815,838</u>

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 ten equal annual installments). At June 30, 2014, the outstanding principal amount of these loans totaled \$3,132,589.

The Town receives subsidy assistance from the Massachusetts Water Pollution Abatement Trust (MWPAT). Principal and interest on the outstanding bonds for MWPAT is subsidized over the life of the bonds to assist the Town in the repayment of this future debt. During fiscal year 2014, the Town's subsidy totaled approximately \$99,008. The amount of MWPAT bonds outstanding at June 30, 2014, totaled \$268,179.

During fiscal year 2014 the Town issued \$3,203,858 of general obligation bonds and MWRA notes for building construction, land improvements, infrastructure, departmental equipment and water improvements.

Advanced Refunding

During fiscal year 2014, the Town provided an equity contribution (primarily from the sale of the Temple property) of \$1,831,747 to provide resources to purchase U.S. Government securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of certain general obligation bonds outstanding totaling \$1,680,000. As a result the refunded bonds are considered to be defeased and the liability has been removed from the financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$151,750. This advance refunding was undertaken to reduce total debt service payments over the next 7 years by approximately \$180,000.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 9 LONG-TERM DEBT (CONTINUED)**

Subsequent Events

On December 9, 2014, the Town issued \$5,915,000 in current refunding bonds to refund \$5,995,000 of previously issued and outstanding bonds. As a result of this refunding the Town will reduce its total gross debt service payments over the remaining life of the bonds by approximately \$454,000 and will realize an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$815,000.

On December 9, 2014, the Town issued \$7,325,000 in current refunding bonds to refund \$7,385,000 of previously issued and outstanding bonds. As a result of this refunding the Town will reduce its total gross debt service payments over the remaining life of the bonds by approximately \$443,000 and will realize an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$492,000.

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, 2014, the Town had the following authorized and unissued debt:

<u>Purpose</u>	<u>Amount</u>
Improving Sewer System	\$ 969,490
MWRA	151,000
Multiple Purposes	<u>2,522</u>
Total	<u>\$ 1,123,012</u>

**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, 2014**

**NOTE 10 CAPITAL LEASES (CONTINUED)**

The following schedule represents the future minimum lease payments as of June 30, 2014:

<u>Fiscal Years Ending June 30</u>	<u>Governmental Activities</u>
2015	\$ 40,472
2016	40,472
2017	40,472
2018	<u>40,472</u>
Total minimum lease payments	161,888
Less: amounts representing interest	<u>(18,875)</u>
Present value of minimum lease payments	\$ <u><u>143,013</u></u>

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

<u>Asset:</u>	<u>Governmental Activities</u>
Machinery and equipment	\$ 300,000
Less: accumulated amortization	<u>(119,392)</u>
Total	\$ <u><u>180,608</u></u>

**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 stand alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

The number of participants as of July 1, 2012, the latest actuarial valuation, is as follows:

Active employees	269
Retirees, beneficiaries and dependents	<u>378</u>
Total	<u><u>647</u></u>

**Funding Policy** - 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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

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.

The Town has established an OPEB Trust pursuant to the adoption of MGL Chapter 32B, Section 20. The adoption of this law did not establish an OPEB Trust in accordance with GASB requirements and as such the funds accumulated are reported as restricted in the General Fund. The OPEB Trust fund balance at June 30, 2014, totaled \$500,052.

**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:

	<u>Amount</u>
Annual required contribution	\$ 4,104,219
Interest on net OPEB obligation	547,123
Adjustment to annual required contribution	<u>(521,070)</u>
Annual OPEB cost	4,130,272
Contributions made	<u>(1,499,591)</u>
Increase in net OPEB obligation	2,630,681
Net OPEB obligation at beginning of year	<u>15,632,096</u>
Net OPEB obligation at end of year	<u><u>\$ 18,262,777</u></u>

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

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>OPEB Cost</u> <u>(AOPEBC)</u>	<u>Percentage</u> <u>of AOPEBC</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
June 30, 2012	\$ 5,301,642	29.1%	13,075,037
June 30, 2013	3,967,893	35.6%	15,632,096
June 30, 2014	4,130,272	37.8%	18,262,777

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**Funded Status and Funding Progress** – The funded status of the Plan at July 1, 2012, 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)
07/01/12	\$ -	\$ 55,970,796	\$ 55,970,796	-	\$ 24,654,366	227.0%

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, 2012
Actuarial cost method:	Projected Unit Credit
Amortization method:	Increasing dollar amortization at 3.50%
Remaining amortization period:	30 years
Interest discount rate:	3.50%
Healthcare/Medical cost trend rate:	9.00% decreasing by 0.50% for eight years to an ultimate level of 5.00%
Projected salary increases:	3.50% annually



**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 11 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

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

**Governmental Activities:**

General government	\$ 232,218
Public safety	1,544,380
Education	1,946,601
Public works	100,644
Health and human services	57,416
Culture and recreation	<u>115,757</u>

Total AOEBC - governmental activities	<u>3,997,016</u>
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**Business-Type Activities:**

Water	59,113
Sewer	<u>74,143</u>

Total AOEBC - business-type activities	<u>133,256</u>
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Total AOEBC	<u><u>\$ 4,130,272</u></u>
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**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 12 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>
<b>Nonspendable:</b>				
Permanent fund principal	\$ -	\$ -	\$ 439,652	\$ 439,652
<b>Restricted:</b>				
Capital	-	2,327,148	-	2,327,148
Municipal television access	-	-	227,511	227,511
Sale of land	-	-	176,555	176,555
Circuit breaker	-	-	438,455	438,455
Discretionary donations	-	-	154,225	154,225
Tuition	-	-	102,238	102,238
Sale of cemetery lots	-	-	180,305	180,305
Recreation revolving	-	-	168,180	168,180
School lunch	-	-	59,645	59,645
General government	-	-	174,903	174,903
Public safety	-	-	83,853	83,853
Education	-	-	437,315	437,315
Public works	-	-	182,291	182,291
Health and human services	-	-	19,859	19,859
Culture and recreation	-	-	85,050	85,050
Other post employment benefits	500,052	-	-	500,052
Sub-total - Restricted	<u>500,052</u>	<u>2,327,148</u>	<u>2,490,385</u>	<u>5,317,585</u>
<b>Committed:</b>				
Subsequent year's expenditures	1,200,000	-	-	1,200,000
Capital	200,515	-	-	200,515
Sub-total - Committed	<u>1,400,515</u>	<u>-</u>	<u>-</u>	<u>1,400,515</u>
<b>Assigned:</b>				
Encumbrances	778,638	-	-	778,638
<b>Unassigned</b>	<u>4,684,739</u>	<u>-</u>	<u>(485,937)</u>	<u>4,198,802</u>
<b>Total Fund Balance</b>	<u>\$ 7,363,944</u>	<u>\$ 2,327,148</u>	<u>\$ 2,444,100</u>	<u>\$ 12,135,192</u>

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 13 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, 2014 total \$1,296,515 and \$200,515, respectively, and are reported in the general fund as unassigned and committed fund balance, respectively.

**NOTE 14 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, 2014, totaled \$1,468,246.

		Balance at Beginning of Fiscal Year		Changes in Estimate		Claims Payments		Balance at Fiscal Year-end
Fiscal year 2013	\$	1,583,745	\$	474,313	\$	(518,870)	\$	1,539,188
Fiscal year 2014		1,539,188		358,363		(429,305)		1,468,246

**NOTE 15 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 Commonwealth's Teachers Retirement System.

Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System provides retirement, disability and death benefits to plan members and beneficiaries. Cost-of-living adjustments granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth's 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 authorized by the Swampscott Contributory Retirement Board and are borne by the System.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 15 PENSION PLAN (CONTINUED)**

**Plan Membership** - At December 31, 2013, the System's membership consists of the following:

Active members	350
Inactive members	67
Retirees and beneficiaries currently receiving benefit	<u>190</u>
Total	<u>607</u>

**Funding Policy** – Chapter 32 of MGL governs the contributions of plan members and the Town. Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. 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.

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 and administrative expenses are funded through investment earnings.

**Annual Pension Cost** – The Town's contributions to the System for the fiscal years ended June 30, 2014, 2013, and 2012 were \$4,335,836, \$3,995,463, and \$3,739,031, respectively, which equaled its required contribution for each fiscal year. The current and two preceding fiscal years apportionment of the annual pension cost between the two employers in the System required the Town to contribute approximately 99% of the total. At June 30, 2014, the Town did not have a net pension obligation.

**Funded Status and Funding Progress** – The funded status of the plan at January 1, 2013, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/13	\$ 34,140,831	\$ 78,077,092	\$ 43,936,261	43.7%	\$ 11,186,504	392.8%

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

Additional information as of the latest actuarial valuation is as follows:

Valuation Date:	January 1, 2013
Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Approximate level percent of payroll Closed
Remaining Amortization Period:	17 years at July 1, 2013

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**NOTE 15 PENSION PLAN (CONTINUED)**

Asset Valuation Method: A five year (20% per year) smoothing method that reflects differences between expected market asset return and actual market return

Actuarial Assumptions

Investment Rate of Return: 8.00%

Projected Salary Increases: Groups 1 and 2, 4.25% year 1, 3.75% year 2, 1.25% years 3 and 4, 3.75% year 5. Police, 4.25% year 1, 9.25% year 2, 4.25% year 3 and 9.25% year 4. Fire 5.25% years 1 and 2, 3.25% year 3.

Cost of Living Adjustments: 3.00% of first \$13,000 of retirement income

**Legally Required Reserve Accounts** - The balance in the System's legally required reserves as of December 31, 2013 are as follows:

Description	Amount	Purpose
Annuity Savings Fund	\$ 12,564,376	Active members' contribution balance
Annuity Reserve Fund	2,579,568	Retired members' contribution account
Pension Reserve Fund	1,492,147	Amounts appropriated to fund future retirement
Pension Fund	<u>23,673,136</u>	Remaining net position
Total	\$ <u><u>40,309,227</u></u>	

**Noncontributory Retirement Allowance** – The Town pays the entire retirement allowance for certain retirees who are eligible for noncontributory benefits and are not members of the System. The general fund expenditure for fiscal year 2014 totaled approximately \$42,000.

**NOTE 16 MASSACHUSETTS TEACHERS RETIREMENT SYSTEM**

Public school teachers and certain administrators are members of the Massachusetts Teachers Retirement System, to which the Town does not contribute. Pension benefits and administrative expenses paid by the Teachers Retirement Board are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$5,152,029 for the fiscal year ended June 30, 2014, and, accordingly, are reported in the general fund as intergovernmental revenues and pension expenditures.

**NOTE 17 COMMITMENTS**

The Town has also entered into, or is planning to enter into, contracts totaling approximately \$1,123,000 for improvements to the water and sewer system.

Other significant commitments include the encumbrances and continuing appropriations outstanding for the general fund, which totaled \$778,638 at June 30, 2014.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

**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, 2014, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2014.

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of the Single Audit Act Amendments of 1996 through June 30, 2014, these programs are still subject to financial and compliance audits. 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. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25*, which is required to be implemented for the Plan (in the Town's financial statements) during fiscal year 2015. The implementation of this Statement, among other things, expands note disclosures and required supplementary information related to the Pension Trust Fund.
- Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which is required to be implemented during fiscal year 2015. The implementation of this Statement will represent a significant change in the accounting and reporting of pension expense and the related liability. For the first time, the Town will be required to recognize its long-term obligation for pension benefits as a liability and to more comprehensively measure the annual costs of pension benefits. The implementation of this Statement also expands pension related note disclosures and required supplementary information. The impact of implementing this standard has not yet been determined.
- Statement No. 69, *Government Combinations and Disposals of Government Operations*, which is required to be implemented during fiscal year 2015. Management does not believe the implementation of this Statement will impact the basic financial statements.
- Statement No. 71, *Accounting Pension Transition for Contributions made Subsequent to the Measurement Date, - an amendment of GASB Statement No. 68*, which is required to be implemented during fiscal year 2015.
- Statement No. 72, *Fair Value Measurement and Application*, which is required to be implemented during fiscal year 2016. Management is currently evaluating the Statement's future impact on the basic financial statements.
- Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, which is required to be implemented during fiscal year 2017. Management is currently evaluating the Statement's future impact on the basic financial statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2014**

- Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*, which is required to be implemented during fiscal year 2017. Management is currently evaluating the Statement's future impact on the basic financial statements.
- Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, which is required to be implemented during fiscal year 2018. Management is currently evaluating the Statement's future impact on the basic financial statements.
- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is required to be implemented during fiscal year 2016. Management does not believe implementation of this Statement will significantly impact the financial statements.
- Statement No. 77, *Tax Abatement Disclosures*, which is required to be implemented during fiscal year 2017. Management is currently evaluating the Statement's future impact on the basic financial statements.

These pronouncements will be implemented by their respective implementation dates.

This information is an integral part of the accompanying financial statements.

**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, 2014**

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
<b>REVENUES</b>				
Real Estate and Personal Property Taxes	\$ -	\$ 43,585,032	\$ 395,305	\$ 43,980,337
Motor Vehicle and Other Excise Taxes	-	1,893,500	-	1,893,500
Tax Liens	-	-	-	-
Intergovernmental	-	4,174,992	-	4,174,992
Penalties and Interest on Taxes	-	150,000	-	150,000
Licenses and Permits	-	200,000	-	200,000
Fines and Forfeitures	-	60,000	-	60,000
Departmental and Other	-	1,643,531	-	1,643,531
Investment Income	-	12,500	-	12,500
Total Revenues	-	51,719,555	395,305	52,114,860
<b>EXPENDITURES</b>				
Current:				
General Government	108,190	1,912,466	138,269	2,158,925
Public Safety	17,699	6,841,464	197,500	7,056,663
Education	1,029,591	24,909,220	-	25,938,811
Public Works	990	1,165,836	370,221	1,537,047
Health and Human Services	2,500	1,278,826	35,050	1,316,376
Culture and Recreation	-	689,556	-	689,556
Pension Benefits	-	3,922,374	185,305	4,107,679
Employee Benefits	4,000	5,597,000	(42,071)	5,558,929
Property and Liability Insurance	-	650,000	(125,000)	525,000
State and County Charges	-	560,565	-	560,565
Debt Service:				
Principal	-	3,651,927	-	3,651,927
Interest	-	1,069,066	-	1,069,066
Total Expenditures	1,162,970	52,248,300	759,274	54,170,544
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>(1,162,970)</b>	<b>(528,745)</b>	<b>(363,969)</b>	<b>(2,055,684)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	802,000	-	802,000
Premium from Issuance of Bonds and Notes	-	-	-	-
Transfers Out	-	(1,113,255)	-	(1,113,255)
Total Other Financing Sources (Uses)	-	(311,255)	-	(311,255)
<b>NET CHANGE IN FUND BALANCE</b>	<b>(1,162,970)</b>	<b>(840,000)</b>	<b>(363,969)</b>	<b>(2,366,939)</b>
Fund Balance - Beginning of Year	4,930,504	4,930,504	4,930,504	4,930,504
<b>FUND BALANCE - END OF YEAR</b>	<b>\$ 3,767,534</b>	<b>\$ 4,090,504</b>	<b>\$ 4,566,535</b>	<b>\$ 2,563,565</b>



Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 43,731,738	\$ -	\$ 43,731,738	\$ (248,599)
2,367,549	-	2,367,549	474,049
86,284	-	86,284	86,284
4,281,869	-	4,281,869	106,877
179,895	-	179,895	29,895
869,725	-	869,725	669,725
76,585	-	76,585	16,585
2,466,630	-	2,466,630	823,099
18,502	-	18,502	6,002
<u>54,078,777</u>	<u>-</u>	<u>54,078,777</u>	<u>1,963,917</u>
2,013,775	73,531	2,087,306	71,619
7,010,270	20,069	7,030,339	26,324
25,591,478	373,394	25,964,872	(26,061)
1,200,835	293,399	1,494,234	42,813
1,249,946	-	1,249,946	66,430
681,616	-	681,616	7,940
4,107,665	-	4,107,665	14
5,233,611	18,245	5,251,856	307,073
444,740	-	444,740	80,260
550,919	-	550,919	9,646
3,596,926	-	3,596,926	55,001
1,089,163	-	1,089,163	(20,097)
<u>52,770,944</u>	<u>778,638</u>	<u>53,549,582</u>	<u>620,962</u>
<u>1,307,833</u>	<u>(778,638)</u>	<u>529,195</u>	<u>2,584,879</u>
802,000	-	802,000	-
43,112	-	43,112	43,112
(1,112,190)	-	(1,112,190)	1,065
<u>(267,078)</u>	<u>-</u>	<u>(267,078)</u>	<u>44,177</u>
1,040,755	(778,638)	262,117	2,629,056
4,930,504	-	4,930,504	-
<u>\$ 5,971,259</u>	<u>\$ (778,638)</u>	<u>\$ 5,192,621</u>	<u>\$ 2,629,056</u>

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
PENSION PLAN SCHEDULES  
YEAR ENDED JUNE 30, 2014**

**SCHEDULES OF FUNDING PROGRESS (SYSTEM)**

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
01/01/04	\$ 28,721,832	\$ 52,826,739	\$ 24,104,907	54.4%	\$ 9,044,330	266.5%
01/01/06	30,492,424	58,082,162	27,589,738	52.5%	10,011,387	275.6%
01/01/08	33,845,690	65,637,453	31,791,763	51.6%	10,841,912	293.2%
01/01/10	31,827,581	68,326,348	36,498,767	46.6%	10,747,286	339.6%
01/01/11	33,177,769	71,822,178	38,644,409	46.2%	10,953,584	352.8%
01/01/13	34,140,831	78,077,092	43,936,261	43.7%	11,186,504	392.8%

**SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM)**

Year Ended December 31	Annually Required Contributions (ARC)	Percentage of ARC Contributed (%)
2008	\$ 3,028,416	100
2009	3,403,534	100
2010	3,548,971	100
2011	3,779,980	100
2012	3,995,894	100
2013	4,381,537	100

The following schedule provides information related to the Town's portion of the System's ARC:

**TOWN SHARE OF SYSTEM ARC**

Fiscal Year Ended	ARC	Percentage of ARC Contributed (%)	Town ARC as a Percentage of System ARC (%)
2009	\$ 2,997,268	100	99.0%
2010	3,360,532	100	98.7%
2011	3,508,981	100	98.9%
2012	3,739,031	100	98.9%
2013	3,955,463	100	99.0%
2014	4,335,836	100	99.0%

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
OTHER POST EMPLOYMENT BENEFITS SCHEDULES  
YEAR ENDED JUNE 30, 2014**

**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)
06/30/08	\$ -	\$ 46,567,306	\$ 46,567,306	-	\$ 25,338,353	183.8%
07/01/10	-	71,040,152	71,040,152	-	29,074,608	244.3%
07/01/12	-	55,970,796	55,970,796	-	24,654,366	227.0%

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

- The mortality table was changed from the RP-2000 Mortality Table projected to 2010 using scale AA to the RP-2000 Mortality Table projected to 2012 using scale AA
- The retirement rates were changed in this valuation to reflect the rates used by the Swampscott Retirement System pension valuations
- Disability rates were incorporated in the valuation to reflect the rates used by the Swampscott Retirement System and the Massachusetts Teachers Retirement System for the Retirement system pension valuations.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2014**

**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, 2014, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>	<u>Fund Balance</u>
Budgetary basis as reported on the schedule of revenues, expenditures and changes in fund balance - budget and actual	\$ 54,078,777	\$ 53,549,582	\$ (267,078)	\$ 5,192,621
<u>Reclassifications and adjustments:</u>				
Capital stabilization fund recorded in the general fund for GAAP purposes	306	-	50,000	200,515
Stabilization fund recorded in the general fund for GAAP purposes	4,099	-	50,000	1,296,515
OPEB fund recorded in the general fund for GAAP purposes	52	-	500,000	500,052
Net change in recording 60-day receipts	(308,951)	-	-	(128,996)
Net change in recording tax refunds payable	99,795	-	-	(357,279)
To record MTRS on-behalf payments	5,152,029	5,152,029	-	-
Net change in recording other expenditures	-	60,121	-	(118,122)
Net change in recording other revenues	(53,752)	-	-	-
To record encumbrances	-	(778,638)	-	778,638
	<u>-</u>	<u>(778,638)</u>	<u>-</u>	<u>778,638</u>
GAAP basis as reported on the statement of revenues, expenditures and changes in fund balances	<u>\$ 58,972,355</u>	<u>\$ 57,983,094</u>	<u>\$ 332,922</u>	<u>\$ 7,363,944</u>



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www.lockelord.com

(Date of Delivery)

Ronald Mendes, Treasurer  
Town of Swampscott  
Swampscott, Massachusetts

\$3,699,890  
Town of Swampscott, Massachusetts  
General Obligation Municipal Purpose Loan of 2016 Bonds  
Dated June 23, 2016

We have acted as bond counsel to the Town of Swampscott, Massachusetts (the “Town”) in connection with the issuance by the Town of the above-referenced bonds (the “Bonds”). In such capacity, we have examined the law and such certified proceedings and other papers as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion we have relied upon representations and covenants of the Town contained in the certified proceedings and other certifications of public officials furnished to us, without undertaking to verify the same by independent investigation.

Based on our examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid and binding general obligations of the Town and, except to the extent they are paid from other sources, the principal of and interest on the Bonds are payable from taxes which may be levied upon all taxable property in the Town, subject to the limit imposed by Chapter 59, Section 21C of the General Laws.

2. Interest on the Bonds is excluded from the gross income of the owners of the Bonds for federal income tax purposes. In addition, interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the Town with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Town has covenanted to comply with all such requirements. Failure by the Town to comply with certain of such requirements may cause interest on the Bonds to become included in gross

income for federal income tax purposes retroactive to the date of issuance of the Bonds. Except as expressed in paragraph 4 below, we express no opinion regarding any other federal tax consequences arising with respect to the Bonds.

3. Interest on the Bonds is exempt from Massachusetts personal income taxes and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion regarding any other Massachusetts tax consequences arising with respect to the Bonds or any tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts.

4. The Bonds are qualified tax-exempt obligations within the meaning of Section 265(b)(3) of the Code.

This opinion is expressed as of the date hereof, and we neither assume nor undertake any obligation to update, revise, supplement or restate this opinion to reflect any action taken or omitted, or any facts or circumstances or changes in law or in the interpretation thereof, that may hereafter arise or occur, or for any other reason.

The rights of the holders of the Bonds and the enforceability of the Bonds may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable, and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

/s/ LOCKE LORD LLP

**PROPOSED FORM OF  
CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the “Disclosure Certificate”) is executed and delivered by the Town of Swampscott, Massachusetts (the “Issuer”) in connection with the issuance of its \$3,699,890 General Obligation Municipal Purpose Loan of 2016 Bonds dated June 23, 2016 (the “Bonds”). The Issuer covenants and agrees as follows:

**SECTION 1. Purpose of the Disclosure Certificate.** This Disclosure Certificate is being executed and delivered by the Issuer for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

**SECTION 2. Definitions.** For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

“Annual Report” shall mean any Annual Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

“MSRB” shall mean the Municipal Securities Rulemaking Board as established pursuant to Section 15B(b)(1) of the Securities Exchange Act of 1934, or any successor thereto or to the functions of the MSRB contemplated by this Disclosure Certificate. Filing information relating to the MSRB is set forth in Exhibit A attached hereto.

“Obligated Person” shall mean the Issuer.

“Owners of the Bonds” shall mean the registered owners, including beneficial owners, of the Bonds.

“Participating Underwriter” shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

**SECTION 3. Provision of Annual Reports.**

(a) The Issuer shall, not later than 270 days after the end of each fiscal year, provide to the MSRB an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Issuer may be submitted when available separately from the balance of the Annual Report.

(b) If the Issuer is unable to provide to the MSRB an Annual Report by the date required in subsection (a), the Issuer shall send a notice to the MSRB, in substantially the form attached as Exhibit B.

SECTION 4. Content of Annual Reports. The Issuer's Annual Report shall contain or incorporate by reference the following:

(a) quantitative information for the preceding fiscal year of the type presented in the Issuer's Official Statement dated June 6, 2016 relating to the Bonds regarding (i) the revenues and expenditures of the Issuer relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the Issuer, (vi) pension obligations of the Issuer, and (vii) other post-employment benefits liability of the Issuer, and

(b) the most recently available audited financial statements of the Issuer, prepared in accordance with generally accepted accounting principles, with certain exceptions permitted by the Massachusetts Uniform Municipal Accounting System promulgated by the Department of Revenue of the Commonwealth. If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Issuer or related public entities, which (i) are available to the public on the MSRB internet website or (ii) have been filed with the Securities and Exchange Commission. The Issuer shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Significant Events.

(a) The Issuer shall give notice, in accordance with the provisions of this Section 5, of the occurrence of any of the following events with respect to the Bonds:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults, if material.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.



7. Modifications to rights of the Owners of the Bonds, if material.
  8. Bond calls, if material, and tender offers.
  9. Defeasances.
  10. Release, substitution or sale of property securing repayment of the Bonds, if material.
  11. Rating changes.
  12. Bankruptcy, insolvency, receivership or similar event of the Obligated Person.\*
  13. The consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of the Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
  14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.
- (b) Upon the occurrence of a Listed Event, the Issuer shall, in a timely manner not in excess of ten (10) business days after the occurrence of the event, file a notice of such occurrence with the MSRB.

SECTION 6. Transmission of Information and Notices. Unless otherwise required by law, all notices, documents and information provided to the MSRB shall be provided in electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 7. Termination of Reporting Obligation. The Issuer's obligations under this Disclosure Certificate shall terminate upon the prior redemption or payment in full of all of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event under Section 5(b).

SECTION 8. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Issuer may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as

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\* As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Obligated Person in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Obligated Person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Obligated Person.

evidenced by an opinion of counsel expert in federal securities law (which may include bond counsel to the Issuer), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Issuer to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to the MSRB.

SECTION 9. Default. In the event of a failure of the Issuer to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the Issuer of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the sole remedy under this Disclosure Certificate in the event of any failure of the Issuer to comply with this Disclosure Certificate shall be an action for specific performance of the Issuer's obligations hereunder and not for money damages in any amount.

SECTION 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: June 23, 2016

TOWN OF SWAMPSCOTT,  
MASSACHUSETTS

By \_\_\_\_\_  
Treasurer

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Selectmen

[EXHIBIT A: Filing Information for the MSRB]  
[EXHIBIT B: Form of Notice of Failure to File Annual Report]