

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**

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

**JUNE 30, 2018**



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**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
BASIC FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2018**

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## INDEPENDENT AUDITORS' REPORT

Honorable Board of Selectmen  
Town of Swampscott, Massachusetts

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Swampscott, Massachusetts, as of and for the year ended June 30, 2018 (except for the Swampscott Contributory Retirement System, which is as of and for the year ended December 31, 2017), and the related notes to the financial statements, which collectively comprise the Town of Swampscott, Massachusetts' basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditors' Responsibility***

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Swampscott, Massachusetts, as of June 30, 2018 (except for the Swampscott Contributory Retirement System, which is as of and for the year ended December 31, 2017), and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Emphasis of Matter**

The Town adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. As a result, the Town reported a restatement for the change in accounting principle (see Note 1). Our auditors' opinion was not modified with respect to the restatement.

### **Other Matters**

#### ***Required Supplementary Information***

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 27, 2019, on our consideration of the Town of Swampscott, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Swampscott, Massachusetts' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Swampscott, Massachusetts' internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Boston, Massachusetts  
March 27, 2019

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

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, 2018.

**FINANCIAL HIGHLIGHTS**

- The Town's liabilities and deferred inflows of resources exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$73,794,405 (net position). The Town's governmental activities has an unrestricted net deficit of \$136,132,561 and its business-type activities unrestricted net deficit totaled \$210,644.
- The Town's total net position decreased by \$2,006,436.
- As of the close of the fiscal year, the Town's governmental funds reported combined ending fund balances totaling \$17,554,711, an increase of \$2,030,942 in comparison with the prior year. Approximately \$9,297,000 represents unassigned fund balance.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$9,986,458, or 15.2%, of total general fund expenditures and transfers out.
- The Town's total debt (excluding unamortized premiums) increased by \$1,077,204, or 3.4%, during the fiscal year.

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

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

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

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

**Government-Wide Financial Statements**

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

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

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).

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

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

**Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into the following categories and are described below:

1. Governmental funds
2. Proprietary funds
3. Fiduciary funds

**Governmental Funds**

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

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

The Town maintains 206 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 204 governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

**Proprietary Funds**

The Town maintains one type of proprietary fund.

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

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

**Fiduciary Funds**

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

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

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

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 through 71 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 73 through 80.

**Government-Wide Financial Analysis**

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



**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

**Net Position**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$73,794,405 at the close of the fiscal year and are summarized as follows:

|  | <b>Governmental Activities</b> |                        | <b>Business-Type Activities</b> |                      | <b>Total</b>           |                     |
|--|--------------------------------|------------------------|---------------------------------|----------------------|------------------------|---------------------|
|  | 2018                           | 2017                   | 2018                            | 2017                 | 2018                   | 2017                |
| <b>Assets</b>                              |                                |                        |                                 |                      |                        |                     |
| Current Assets                             | \$ 22,137,483                  | \$ 20,297,386          | \$ 6,288,228                    | \$ 5,208,393         | \$ 28,425,711          | \$ 25,505,779       |
| Capital Assets (Net)                       | 69,836,962                     | 70,628,930             | 19,688,540                      | 19,781,220           | 89,525,502             | 90,410,150          |
| Total Assets                               | 91,974,445                     | 90,926,316             | 25,976,768                      | 24,989,613           | 117,951,213            | 115,915,929         |
| <b>Deferred Outflows of Resources</b>      | 7,753,267                      | 5,429,011              | 342,634                         | 336,009              | 8,095,901              | 5,765,020           |
| <b>Liabilities</b>                         |                                |                        |                                 |                      |                        |                     |
| Current Liabilities<br>(excluding debt)    | 6,011,429                      | 3,335,828              | 209,241                         | 277,098              | 6,220,670              | 3,612,926           |
| Noncurrent Liabilities<br>(excluding debt) | 149,566,861                    | 76,963,559             | 4,811,361                       | 3,513,919            | 154,378,222            | 80,477,478          |
| Current Debt                               | 2,536,683                      | 2,516,048              | 667,586                         | 638,804              | 3,204,269              | 3,154,852           |
| Noncurrent Debt                            | 25,256,455                     | 25,257,831             | 4,996,560                       | 3,611,015            | 30,253,015             | 28,868,846          |
| Total Liabilities                          | 183,371,428                    | 108,073,266            | 10,684,748                      | 8,040,836            | 194,056,176            | 116,114,102         |
| <b>Deferred Inflows of Resources</b>       | 5,474,107                      | 211,037                | 311,236                         | 4,350                | 5,785,343              | 215,387             |
| <b>Net Position</b>                        |                                |                        |                                 |                      |                        |                     |
| Net Investment in Capital Asset            | 43,546,214                     | 43,682,401             | 15,534,062                      | 15,889,601           | 59,080,276             | 59,572,002          |
| Restricted                                 | 3,468,524                      | 2,431,703              | -                               | -                    | 3,468,524              | 2,431,703           |
| Unrestricted                               | (136,132,561)                  | (58,043,080)           | (210,644)                       | 1,390,835            | (136,343,205)          | (56,652,245)        |
| Total Net Position                         | <u>\$ (89,117,823)</u>         | <u>\$ (11,928,976)</u> | <u>\$ 15,323,418</u>            | <u>\$ 17,280,436</u> | <u>\$ (73,794,405)</u> | <u>\$ 5,351,460</u> |

The largest portion of the Town's net position (\$59,080,276) reflects its investment in capital assets (e.g., land, land improvements, buildings and improvements, machinery and equipment and infrastructure), less any related outstanding debt used to acquire those assets. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (\$3,468,524) represents resources that are subject to external restrictions on how they may be used. The remaining balance represents a net deficit of \$136,343,205. Of this amount, (\$136,132,561) and (\$210,644) represents an unrestricted net deficit in governmental activities and business-type activities, respectively.

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

***Changes in Net Position***

For the fiscal year ended June 30, 2018, the Town's total net position decreased by \$2,006,436, compared to a decrease of \$4,142,890 in the prior fiscal year. These amounts are summarized as follows:

|  | <b>Governmental Activities</b> |                        | <b>Business-Type Activities</b> |                      | <b>Total</b>           |                     |
|--|--------------------------------|------------------------|---------------------------------|----------------------|------------------------|---------------------|
|  | 2018                           | 2017                   | 2018                            | 2017                 | 2018                   | 2017                |
| <b>Revenues</b>  |                                |                        |                                 |                      |                        |                     |
| <i>Program Revenues:</i>                                     |                                |                        |                                 |                      |                        |                     |
| Charges for Services   | \$ 4,909,201                   | \$ 4,544,194           | \$ 5,509,205                    | \$ 6,439,015         | \$ 10,418,406          | \$ 10,983,209       |
| Operating Grants and Contributions                           | 12,901,869                     | 12,413,629             | 28,041                          | 14,619               | 12,929,910             | 12,428,248          |
| Capital Grants and Contributions                             | 1,112,819                      | 734,135                | -                               | -                    | 1,112,819              | 734,135             |
| <i>General Revenues:</i>                                     |                                |                        |                                 |                      |                        |                     |
| Real Estate and Personal Property Taxes                      | 47,603,013                     | 48,152,283             | -                               | -                    | 47,603,013             | 48,152,283          |
| Motor Vehicle and Other Excise Taxes                         | 2,744,298                      | 2,686,913              | -                               | -                    | 2,744,298              | 2,686,913           |
| Penalties and Interest on Taxes                              | 171,992                        | 174,207                | -                               | -                    | 171,992                | 174,207             |
| Grants and Contributions not Restricted to Specific Programs | 1,366,609                      | 1,323,748              | -                               | -                    | 1,366,609              | 1,323,748           |
| Unrestricted Investment Income                               | 181,936                        | 117,518                | -                               | -                    | 181,936                | 117,518             |
| Contributions to Permanent Funds                             | 8,713                          | 16,000                 | -                               | -                    | 8,713                  | 16,000              |
| Other  | 20,000                         | -                      | -                               | -                    | 20,000                 | -                   |
| Total revenues   | <u>71,020,450</u>              | <u>70,162,627</u>      | <u>5,537,246</u>                | <u>6,453,634</u>     | <u>76,557,696</u>      | <u>76,616,261</u>   |
| <b>Expenses</b>  |                                |                        |                                 |                      |                        |                     |
| General Government   | 4,328,827                      | 5,008,662              | -                               | -                    | 4,328,827              | 5,008,662           |
| Public Safety  | 13,406,788                     | 14,028,024             | -                               | -                    | 13,406,788             | 14,028,024          |
| Education  | 49,044,417                     | 49,831,594             | -                               | -                    | 49,044,417             | 49,831,594          |
| Public Works   | 3,645,293                      | 3,266,237              | -                               | -                    | 3,645,293              | 3,266,237           |
| Health and Human Services                                    | 864,624                        | 954,052                | -                               | -                    | 864,624                | 954,052             |
| Culture and Recreation                                       | 1,594,273                      | 1,515,506              | -                               | -                    | 1,594,273              | 1,515,506           |
| Debt Service - Interest                                      | 709,311                        | 719,010                | -                               | -                    | 709,311                | 719,010             |
| Water  | -                              | -                      | 2,859,231                       | 2,994,533            | 2,859,231              | 2,994,533           |
| Sewer  | -                              | -                      | 2,111,368                       | 2,441,533            | 2,111,368              | 2,441,533           |
| Total Expenses   | <u>73,593,533</u>              | <u>75,323,085</u>      | <u>4,970,599</u>                | <u>5,436,066</u>     | <u>78,564,132</u>      | <u>80,759,151</u>   |
| Change in Net Position Before Transfers                      | (2,573,083)                    | (5,160,458)            | 566,647                         | 1,017,568            | (2,006,436)            | (4,142,890)         |
| Transfers, Net   | <u>712,633</u>                 | <u>745,364</u>         | <u>(712,633)</u>                | <u>(745,364)</u>     | <u>-</u>               | <u>-</u>            |
| Change in Net Position                                       | (1,860,450)                    | (4,415,094)            | (145,986)                       | 272,204              | (2,006,436)            | (4,142,890)         |
| Net Position - Beginning of Year, as restated                | <u>(87,257,373)</u>            | <u>(7,513,882)</u>     | <u>15,469,404</u>               | <u>17,008,232</u>    | <u>(71,787,969)</u>    | <u>9,494,350</u>    |
| Net Position - End of Year                                   | <u>\$ (89,117,823)</u>         | <u>\$ (11,928,976)</u> | <u>\$ 15,323,418</u>            | <u>\$ 17,280,436</u> | <u>\$ (73,794,405)</u> | <u>\$ 5,351,460</u> |

Governmental activities decreased the Town's net position by \$1,860,450. In the prior year, governmental activities decreased the Town's net position by \$4,415,094. The key element of this change is a decrease in the net pension liability.

Business-type activities decreased the Town's net position by \$145,986. In the prior year, business-type activities increased the Town's net position by \$272,204. The key element of this change is a decrease in water and sewer charges for services.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

***Fund Financial Statement Analysis***

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

**Governmental Funds**

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

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$17,554,711, a decrease of \$2,030,942 in comparison with the prior year. Approximately \$9,297,000 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable (\$485,962)
- Restricted (\$4,354,926)
- Committed (\$3,014,056)
- Assigned (\$402,650)

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 \$9,986,458, while total fund balance was \$13,403,164. 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 15.2% of total general fund expenditures and transfers out, while total fund balance represents 20.5% of that same amount.

The balance of the Town's general fund increased by \$1,006,887 during fiscal year 2018. The Town recognized an approximate \$2,935,000 budgetary surplus (excluding encumbrances and continuing appropriations), and anticipated utilizing approximately \$3,753,000 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 \$720,375 during the current fiscal year. The fund recognized \$179,921 from contributions, proceeds of bonds totaling \$2,280,600, a bond premium of \$261,237, and a transfer in of \$198,682. Expenditures of \$2,200,065 were incurred.

***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 (\$303,740) and \$93,096, respectively. The water enterprise fund had an increase in net position for the year totaling \$206,892 and the sewer enterprise fund had a decrease in net position for the year totaling \$352,878. 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, 2018**

**General Fund Budgetary Highlights**

The original general fund budget of \$61,485,128 was decreased by \$8,047 (0.01%) during the year. The following table summarizes the decrease:

| <u>Purpose of Increase (Decrease)</u> | <u>Amount</u>     | <u>Funding Source</u>   |
|---------------------------------------|-------------------|-------------------------|
| Police Department Personnel           | \$ 60,262         | Unassigned fund balance |
| DPW Personnel                         | 6,691             | Unassigned fund balance |
| Property and Casualty Insurance       | (25,000)          | Tax levy                |
| Employee Group Health Insurance       | (50,000)          | Tax levy                |
| Total Increase, Net                   | <u>\$ (8,047)</u> |                         |

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

The Town's investment in capital assets for its governmental and business type activities at the end of the fiscal year totaled \$89,525,502 (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 \$884,648 or 1.0%.

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

- Blocksidge Field renovation (\$2,132,699)
- Sewer improvements (\$829,871)
- Paradise Road water rehabilitation project (\$673,985)

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

|                          | <b><i>Governmental Activities</i></b> |                     | <b><i>Business-Type Activities</i></b> |                     | <b><i>Total</i></b>  |                     |
|--------------------------|---------------------------------------|---------------------|--|---------------------|----------------------|---------------------|
|                          | <u>2018</u>                           | <u>2017</u>         | <u>2018</u>                            | <u>2017</u>         | <u>2018</u>          | <u>2017</u>         |
| Land                     | \$ 4,420,080                          | \$ 4,420,080        | \$ 252,182                             | \$ 252,182          | \$ 4,672,262         | \$ 4,672,262        |
| Construction in Progress | -                                     | 870,057             | -                                      | 1,671,385           | -                    | 2,541,442           |
| Land Improvements        | 2,674,963                             | 609,797             | 750                                    | 1,050               | 2,675,713            | 610,847             |
| Buildings                | 51,813,956                            | 53,608,485          | 496,134                                | 516,232             | 52,310,090           | 54,124,717          |
| Machinery and Equipment  | 1,465,052                             | 1,460,362           | 284,662                                | 420,930             | 1,749,714            | 1,881,292           |
| Infrastructure           | 9,462,911                             | 9,660,149           | 18,654,812                             | 16,919,441          | 28,117,723           | 26,579,590          |
| Total Capital Assets     | <u>\$ 69,836,962</u>                  | <u>\$70,628,930</u> | <u>\$19,688,540</u>                    | <u>\$19,781,220</u> | <u>\$ 89,525,502</u> | <u>\$90,410,150</u> |

Additional information on the Town's capital assets can be found in Note 5 on pages 46 and 47 of this report.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

**Long-Term Debt**

At the end of the current fiscal year, total debt outstanding was \$32,621,852, 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>        |                      |
|--------------------------|--------------------------------|---------------------|---------------------------------|---------------------|---------------------|----------------------|
|                          | 2018                           | 2017                | 2018                            | 2017                | 2018                | 2017                 |
| General Obligation Bonds | \$ 27,143,288                  | \$27,344,449        | \$ 2,661,459                    | \$ 1,383,094        | \$29,804,747        | \$ 28,727,543        |
| MWRA Notes               | -                              | -                   | 2,737,185                       | 2,737,185           | 2,737,185           | 2,737,185            |
| MCWT Notes               | -                              | -                   | 79,920                          | 79,920              | 79,920              | 79,920               |
| Total Bonds and Notes    | <u>\$ 27,143,288</u>           | <u>\$27,344,449</u> | <u>\$ 5,478,564</u>             | <u>\$ 4,200,199</u> | <u>\$32,621,852</u> | <u>\$ 31,544,648</u> |

The Town's total debt (excluding unamortized premiums) decreased by \$1,077,204 (3.4%).

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

Additional information on the Town's long-term debt can be found in Note 9 on pages 49 through 53 of this report.

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

The fiscal year 2019 Budget for the Town of Swampscott totals \$67.1M, inclusive of debt exclusions for the new police station and the new high school of \$1.8M. 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 2019 totals \$61.1M inclusive of the debt exclusions previously mentioned. This projected level of spending is \$586K more than the fiscal year 2018 budget. The Enterprise Fund Budget for fiscal year 2019 totals \$6.0M, a decrease of \$23K as compared to the fiscal year 2018 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 and services, excluding schools, stabilization fund transfers, employee benefits and the Town's contribution to the Retirement System, is approximately \$19,672,169 for fiscal year 2019, an increase of \$846,217, or 4% from fiscal year 2018. 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 2019 budget totals \$3.3M. Approximately \$1.8M of this line item represents principal and interest payments outstanding on debt exclusions for the new high school and new police station. There are no increases in the Town's contribution to the Town's Retirement System and payments to the Non-Contributory Retirees for fiscal year 2019. State Assessments, or charges, are projected to increase by approximately \$227,466 in fiscal year 2019. In addition, a \$1,000,000 appropriation is being made to the Town's stabilization funds and OPEB Trust Fund in fiscal year 2019.

Funding for Education, which includes the Town's contribution to the School Department and the Essex North Shore Agricultural and Technical School District, is anticipated to be \$29,383,316 for fiscal year 2019. Included in this line item is a projected increase of \$842,110 for the Swampscott School Department. The vocational school appropriation is projected to increase by \$14,454 for fiscal year 2019.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2018**

The Enterprise Fund Budget for fiscal year 2019 totals \$6.0M, representing a 0.39% decrease from fiscal year 2018. Approximately \$3.6M, or 60% of total expenditures, will be funded through water user charges and \$2.4M or 40%, funded through sewer user charges.

**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, 2018**

|  | Primary Government         |                             |                 |
|--|----------------------------|-----------------------------|-----------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Total           |
| <b>ASSETS</b>  |                            |                             |                 |
| Current Assets:  |                            |                             |                 |
| Cash and Cash Equivalents                                | \$ 13,883,082              | \$ 3,101,957                | \$ 16,985,039   |
| Restricted Cash and Cash Equivalents                     | 4,191,082                  | 1,509,668                   | 5,700,750       |
| Investments  | 1,866,783                  | -                           | 1,866,783       |
| Receivables, Net of Allowance for Uncollectible Amounts: |                            |                             |                 |
| Real Estate and Personal Property Taxes                  | 263,560                    | -                           | 263,560         |
| Tax and Utility Liens                                    | 722,388                    | 130,452                     | 852,840         |
| Motor Vehicle and Other Excise Taxes                     | 237,462                    | -                           | 237,462         |
| Water  | -                          | 920,884                     | 920,884         |
| Sewer  | -                          | 625,267                     | 625,267         |
| Departmental and Other                                   | 22,495                     | -                           | 22,495          |
| Intergovernmental  | 950,631                    | -                           | 950,631         |
| Total Current Assets                                     | 22,137,483                 | 6,288,228                   | 28,425,711      |
| Noncurrent Assets:                                       |                            |                             |                 |
| Capital Assets Not Being Depreciated                     | 4,420,080                  | 252,182                     | 4,672,262       |
| Capital Assets, Net of Accumulated Depreciation          | 65,416,882                 | 19,436,358                  | 84,853,240      |
| Total Noncurrent Assets                                  | 69,836,962                 | 19,688,540                  | 89,525,502      |
| Total Assets   | 91,974,445                 | 25,976,768                  | 117,951,213     |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                    |                            |                             |                 |
| Related to OPEB  | 2,876,099                  | 68,612                      | 2,944,711       |
| Related to Pension                                       | 4,801,293                  | 274,022                     | 5,075,315       |
| Losses from Debt Refundings                              | 75,875                     | -                           | 75,875          |
| Total Deferred Outflows of Resources                     | 7,753,267                  | 342,634                     | 8,095,901       |
| <b>LIABILITIES</b>                                       |                            |                             |                 |
| Current Liabilities:                                     |                            |                             |                 |
| Warrants Payable   | 361,661                    | 114,523                     | 476,184         |
| Accrued Payroll  | 1,652,562                  | 22,010                      | 1,674,572       |
| Tax Refunds Payable                                      | 260,000                    | -                           | 260,000         |
| Other Liabilities  | 232,670                    | -                           | 232,670         |
| Accrued Interest   | 172,196                    | 4,146                       | 176,342         |
| Workers' Compensation Claims                             | 64,325                     | -                           | 64,325          |
| Compensated Absences                                     | 141,545                    | 947                         | 142,492         |
| Short-Term Notes Payable                                 | 240,000                    | -                           | 240,000         |
| Net OPEB Liability                                       | 2,886,470                  | 67,615                      | 2,954,085       |
| Long-Term Bonds and Notes Payable                        | 2,536,683                  | 667,586                     | 3,204,269       |
| Total Current Liabilities                                | 8,548,112                  | 876,827                     | 9,424,939       |
| Noncurrent Liabilities:                                  |                            |                             |                 |
| Workers' Compensation Claims                             | 578,919                    | -                           | 578,919         |
| Compensated Absences                                     | 1,273,909                  | 8,526                       | 1,282,435       |
| Net OPEB Liability                                       | 109,247,580                | 2,607,457                   | 111,855,037     |
| Net Pension Liability                                    | 38,466,453                 | 2,195,378                   | 40,661,831      |
| Long-Term Bonds and Notes Payable                        | 25,256,455                 | 4,996,560                   | 30,253,015      |
| Total Noncurrent Liabilities                             | 174,823,316                | 9,807,921                   | 184,631,237     |
| Total Liabilities  | 183,371,428                | 10,684,748                  | 194,056,176     |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                     |                            |                             |                 |
| Related to Pension                                       | 5,453,350                  | 311,236                     | 5,764,586       |
| Taxes Collected in Advance                               | 20,757                     | -                           | 20,757          |
| Total Deferred Inflow of Resources                       | 5,474,107                  | 311,236                     | 5,785,343       |
| <b>NET POSITION</b>                                      |                            |                             |                 |
| Net Investment in Capital Assets                         | 43,546,214                 | 15,534,062                  | 59,080,276      |
| Restricted for:  |                            |                             |                 |
| Permanent Funds:   |                            |                             |                 |
| Expendable   | 187,153                    | -                           | 187,153         |
| Nonexpendable  | 485,962                    | -                           | 485,962         |
| Other Specific Purposes                                  | 2,795,409                  | -                           | 2,795,409       |
| Unrestricted   | (136,132,561)              | (210,644)                   | (136,343,205)   |
| Total Net Position                                       | \$ (89,117,823)            | \$ 15,323,418               | \$ (73,794,405) |

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

|                                |               | Program Revenues     |                                    |                                  |                        |
|--------------------------------|---------------|----------------------|------------------------------------|----------------------------------|------------------------|
| Functions/Programs             | Expenses      | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Net (Expense)/ Revenue |
| Primary Government:            |               |                      |                                    |                                  |                        |
| Governmental Activities:       |               |                      |                                    |                                  |                        |
| General Government             | \$ 4,328,827  | 296,851              | \$ 504,003                         | \$ 455,942                       | \$ (3,072,031)         |
| Public Safety                  | 13,406,788    | 996,850              | 780                                | 3,975                            | (12,405,183)           |
| Education                      | 49,044,417    | 3,130,216            | 12,263,367                         | -                                | (33,650,834)           |
| Public Works                   | 3,645,293     | 123,598              | 6,554                              | 652,902                          | (2,862,239)            |
| Health and Human Services      | 864,624       | 70,213               | 99,540                             | -                                | (694,871)              |
| Culture and Recreation         | 1,594,273     | 291,473              | 27,625                             | -                                | (1,275,175)            |
| Debt Service-Interest          | 709,311       | -                    | -                                  | -                                | (709,311)              |
| Total Governmental Activities  | 73,593,533    | 4,909,201            | 12,901,869                         | 1,112,819                        | (54,669,644)           |
| Business-Type Activities:      |               |                      |                                    |                                  |                        |
| Water                          | 2,859,231     | 3,419,588            | 9,173                              | -                                | 569,530                |
| Sewer                          | 2,111,368     | 2,089,617            | 18,868                             | -                                | (2,883)                |
| Total Business-Type Activities | 4,970,599     | 5,509,205            | 28,041                             | -                                | 566,647                |
| Total Primary Government       | \$ 78,564,132 | \$ 10,418,406        | \$ 12,929,910                      | \$ 1,112,819                     | \$ (54,102,997)        |

See accompanying Notes to Financial Statements.



**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**STATEMENT OF ACTIVITIES (CONTINUED)**  
**YEAR ENDED JUNE 30, 2018**

|   | Primary Government            |                             |                               |
|---|-------------------------------|-----------------------------|-------------------------------|
|   | Governmental<br>Activities    | Business-type<br>Activities | Total                         |
| <b>CHANGES IN NET POSITION</b>                                  |                               |                             |                               |
| Net (Expense) Revenue (From Previous Page)                      | <u>\$ (54,669,644)</u>        | <u>\$ 566,647</u>           | <u>\$ (54,102,997)</u>        |
| General Revenues:   |                               |                             |                               |
| Real Estate and Personal Property Taxes                         | 47,603,013                    | -                           | 47,603,013                    |
| Motor Vehicle and Other Excise Taxes                            | 2,744,298                     | -                           | 2,744,298                     |
| Penalties and Interest on Taxes                                 | 171,992                       | -                           | 171,992                       |
| Grants and Contributions not Restricted to<br>Specific Programs | 1,366,609                     | -                           | 1,366,609                     |
| Unrestricted Investment Income                                  | 181,936                       | -                           | 181,936                       |
| Contributions to Permanent Funds                                | 8,713                         | -                           | 8,713                         |
| Other   | 20,000                        | -                           | 20,000                        |
| Transfers, Net  | <u>712,633</u>                | <u>(712,633)</u>            | <u>-</u>                      |
| Total General Revenues and Transfers                            | <u>52,809,194</u>             | <u>(712,633)</u>            | <u>52,096,561</u>             |
| <b>CHANGE IN NET POSITION</b>                                   | (1,860,450)                   | (145,986)                   | (2,006,436)                   |
| Net Position - Beginning of Year, as restated                   | <u>(87,257,373)</u>           | <u>15,469,404</u>           | <u>(71,787,969)</u>           |
| <b>NET POSITION - END OF YEAR</b>                               | <u><u>\$ (89,117,823)</u></u> | <u><u>\$ 15,323,418</u></u> | <u><u>\$ (73,794,405)</u></u> |

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2018**

| <b>ASSETS</b>   | <b>General</b>       | <b>Capital<br/>Articles</b> | <b>Nonmajor<br/>Governmental<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|---|----------------------|-----------------------------|--|---|
| Cash and Cash Equivalents   | \$ 13,883,082        | \$ -                        | \$ -                                       | \$ 13,883,082                           |
| Investments   | 1,866,783            | -                           | -  | 1,866,783                               |
| Receivables, Net of Allowance for Uncollectible Amounts:                |                      |                             |  |   |
| Real Estate and Personal Property Taxes                                 | 263,560              | -                           | -  | 263,560                                 |
| Tax Liens   | 722,388              | -                           | -  | 722,388                                 |
| Motor Vehicle and Other Excise taxes                                    | 237,462              | -                           | -  | 237,462                                 |
| Departmental and Other  | 22,495               | -                           | -  | 22,495                                  |
| Intergovernmental   | -                    | -                           | 950,631                                    | 950,631                                 |
| Restricted Assets:  |                      |                             |  |   |
| Cash and Cash Equivalents   | -                    | 1,742,390                   | 2,448,692                                  | 4,191,082                               |
| Total Assets  | <u>\$ 16,995,770</u> | <u>\$ 1,742,390</u>         | <u>\$ 3,399,323</u>                        | <u>\$ 22,137,483</u>                    |
| <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES<br/>AND FUND BALANCES</b> |                      |                             |  |   |
| <b>LIABILITIES</b>  |                      |                             |  |   |
| Warrants Payable  | \$ 294,245           | \$ 34,242                   | \$ 33,174                                  | \$ 361,661                              |
| Accrued Payroll   | 1,622,714            | -                           | 29,848                                     | 1,652,562                               |
| Tax Refunds Payable   | 260,000              | -                           | -  | 260,000                                 |
| Other Liabilities   | 232,670              | -                           | -  | 232,670                                 |
| Short-Term Notes Payable  | -                    | 240,000                     | -  | 240,000                                 |
| Total Liabilities   | <u>2,409,629</u>     | <u>274,242</u>              | <u>63,022</u>                              | <u>2,746,893</u>                        |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                                    |                      |                             |  |   |
| Unavailable Revenue   | 1,162,220            | -                           | 652,902                                    | 1,815,122                               |
| Taxes Collected in Advance  | 20,757               | -                           | -  | 20,757                                  |
| Total Deferred Inflows of Resources                                     | <u>1,182,977</u>     | <u>-</u>                    | <u>652,902</u>                             | <u>1,835,879</u>                        |
| <b>FUND BALANCES</b>  |                      |                             |  |   |
| Nonspendable  | -                    | -                           | 485,962                                    | 485,962                                 |
| Restricted  | -                    | 2,025,266                   | 2,329,660                                  | 4,354,926                               |
| Committed   | 3,014,056            | -                           | -  | 3,014,056                               |
| Assigned  | 402,650              | -                           | -  | 402,650                                 |
| Unassigned  | 9,986,458            | (557,118)                   | (132,223)                                  | 9,297,117                               |
| Total Fund Balances   | <u>13,403,164</u>    | <u>1,468,148</u>            | <u>2,683,399</u>                           | <u>17,554,711</u>                       |
| Total Liabilities, Deferred Inflows of Resources<br>and Fund Balances   | <u>\$ 16,995,770</u> | <u>\$ 1,742,390</u>         | <u>\$ 3,399,323</u>                        | <u>\$ 22,137,483</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, 2018**

|   | General              | Capital<br>Articles | Nonmajor<br>Governmental<br>Funds | Total<br>Governmental<br>Funds |
|---|----------------------|---------------------|-----------------------------------|--------------------------------|
| <b>REVENUES</b>                                       |                      |                     |                                   |                                |
| Real Estate and Personal Property Taxes               | \$ 47,857,992        | \$ -                | \$ -                              | \$ 47,857,992                  |
| Motor Vehicle and Other Excise Taxes                  | 2,731,099            | -                   | -                                 | 2,731,099                      |
| Tax Liens   | 314,831              | -                   | -                                 | 314,831                        |
| Charges for Services                                  | -                    | -                   | 1,472,869                         | 1,472,869                      |
| Intergovernmental                                     | 11,628,034           | -                   | 2,337,249                         | 13,965,283                     |
| Penalties and Interest on Taxes                       | 171,992              | -                   | -                                 | 171,992                        |
| Licenses and Permits                                  | 496,062              | -                   | -                                 | 496,062                        |
| Fines and Forfeitures                                 | 79,558               | -                   | -                                 | 79,558                         |
| Departmental and Other                                | 2,231,340            | -                   | 1,102,717                         | 3,334,057                      |
| Contributions   | -                    | 179,921             | 141,141                           | 321,062                        |
| Investment Income                                     | 215,450              | -                   | -                                 | 215,450                        |
| Total Revenues  | 65,726,358           | 179,921             | 5,053,976                         | 70,960,255                     |
| <b>EXPENDITURES</b>                                   |                      |                     |                                   |                                |
| Current:  |                      |                     |                                   |                                |
| General Government                                    | 2,534,543            | 168,578             | 398,388                           | 3,101,509                      |
| Public Safety   | 7,783,323            | 71,925              | 465,689                           | 8,320,937                      |
| Education   | 28,633,393           | 334,314             | 3,467,103                         | 32,434,810                     |
| Public Works  | 2,659,804            | 1,553,945           | 86,285                            | 4,300,034                      |
| Health and Human Services                             | 302,083              | 12,373              | 54,506                            | 368,962                        |
| Culture and Recreation                                | 791,932              | 58,930              | 256,643                           | 1,107,505                      |
| Pension Benefits                                      | 11,491,175           | -                   | -                                 | 11,491,175                     |
| Employee Benefits                                     | 6,420,181            | -                   | -                                 | 6,420,181                      |
| Property and Liability Insurance                      | 586,098              | -                   | -                                 | 586,098                        |
| State and County Charges                              | 825,701              | -                   | -                                 | 825,701                        |
| Debt Service:   |                      |                     |                                   |                                |
| Principal   | 2,481,761            | -                   | -                                 | 2,481,761                      |
| Interest  | 745,110              | -                   | -                                 | 745,110                        |
| Total Expenditures                                    | 65,255,104           | 2,200,065           | 4,728,614                         | 72,183,783                     |
| <b>(DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | 471,254              | (2,020,144)         | 325,362                           | (1,223,528)                    |
| <b>OTHER FINANCING SOURCES (USES)</b>                 |                      |                     |                                   |                                |
| Proceeds of Bonds and Notes                           | -                    | 2,280,600           | -                                 | 2,280,600                      |
| Premium from Issuance of Bonds and Notes              | -                    | 261,237             | -                                 | 261,237                        |
| Transfers In  | 813,115              | 198,682             | -                                 | 1,011,797                      |
| Transfer Out  | (277,482)            | -                   | (21,682)                          | (299,164)                      |
| Total Other Financing Sources (Uses)                  | 535,633              | 2,740,519           | (21,682)                          | 3,254,470                      |
| <b>NET CHANGE IN FUND BALANCES</b>                    | 1,006,887            | 720,375             | 303,680                           | 2,030,942                      |
| Fund Balances - Beginning of Year                     | 12,396,277           | 747,773             | 2,379,719                         | 15,523,769                     |
| <b>FUND BALANCES - END OF YEAR</b>                    | <u>\$ 13,403,164</u> | <u>\$ 1,468,148</u> | <u>\$ 2,683,399</u>               | <u>\$ 17,554,711</u>           |

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018**

|   |                               |
|---|-------------------------------|
| Total Governmental Fund Balances (Page 15)  | \$ 17,554,711                 |
| Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds | 69,836,962                    |
| Other assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds           | 1,815,122                     |
| 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               | (172,196)                     |
| Deferred losses on refunded bonds payable are reported as deferred outflows of resources on the statement of net position   | 75,875                        |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.   |                               |
| Bonds and Notes Payable   | (27,793,138)                  |
| Workers' Compensation Claims  | (643,244)                     |
| Compensated Absences  | (1,415,454)                   |
| Net OPEB Liability  | (112,134,050)                 |
| Net Pension Liability   | (38,466,453)                  |
| In the statement of net position, deferred outflows of resources and deferred inflows of resources are reported for amounts related to pensions                         | (652,057)                     |
| In the statement of net position, deferred outflows of resources are reported for amounts related to OPEB   | <u>2,876,099</u>              |
| Net Position of Governmental Activities (Page 12)   | <u><u>\$ (89,117,823)</u></u> |

*See accompanying Notes to Financial Statements.*

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2018**

|  |                             |
|--|-----------------------------|
| Net Change in Fund Balances - Total Governmental Funds (Page 16)   | \$ 2,030,942                |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.   |                             |
| Capital Outlays  | 1,842,926                   |
| Depreciation   | (2,533,153)                 |
| In the statement of activities, the loss on the disposals of capital assets is reported, whereas in the governmental funds the disposals are not reported as financial resources. As a result, the change in net position differs from the change in fund balance by the net book value of the capital assets disposed   | (101,741)                   |
| Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflows of resources in the governmental funds. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred inflows of resources.   | 60,194                      |
| The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the statement of activities. These amounts represent the related activity of the current period. |                             |
| Proceeds of Bonds  | (2,280,600)                 |
| Premium from Issuance of Bonds   | (261,237)                   |
| Bond Maturities  | 2,481,761                   |
| Amortization of Bond Premiums  | 40,817                      |
| Capital Lease Maturities   | 38,490                      |
| 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   | 16,661                      |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:   |                             |
| Workers' Compensation  | 87,626                      |
| Compensated Absences   | 171,758                     |
| Net OPEB Liability   | (3,324,689)                 |
| Net Pension Liability  | 5,815,122                   |
| In the statement of activities, deferred outflows and inflows related to OPEB are amortized and recognized as OPEB expense. This amount represents the net change in deferred outflows and inflows related to OPEB.  | (9,154)                     |
| In the statement of activities, deferred outflows and inflows related to pensions are amortized and recognized as pension expense. This amount represents the net change in deferred outflows and inflows related to pensions.   | (5,914,494)                 |
| In the statement of activities, deferred outflows related to losses on refundings are amortized and recognized as interest expense. This amount represents the net change in deferred outflows related to losses on refundings.  | (21,679)                    |
| Changes in Net Position of Governmental Activities (Page 14)   | <u><u>\$(1,860,450)</u></u> |

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**PROPRIETARY FUNDS**  
**STATEMENT OF FUND NET POSITION**  
**JUNE 30, 2018**

|  | Business-Type Activities - Enterprise Funds |                      |                      |
|--|---|----------------------|----------------------|
|  | Water                                       | Sewer                | Total                |
| <b>ASSETS</b>  |   |                      |                      |
| Current Assets:  |   |                      |                      |
| Cash and Cash Equivalents                                | \$ 1,186,162                                | \$ 1,915,795         | \$ 3,101,957         |
| Restricted Cash and Cash Equivalents                     | 89,815                                      | 1,419,853            | 1,509,668            |
| Receivables, Net of Allowance for Uncollectible Amounts: |   |                      |                      |
| User Charges   | 920,884                                     | 625,267              | 1,546,151            |
| Utility Liens  | 64,113                                      | 66,339               | 130,452              |
| Total Current Assets                                     | <u>2,260,974</u>                            | <u>4,027,254</u>     | <u>6,288,228</u>     |
| Noncurrent Assets:                                       |   |                      |                      |
| Capital Assets not being Depreciated                     | 2,542                                       | 249,640              | 252,182              |
| Capital Assets, Net of Accumulated Depreciation          | <u>7,064,658</u>                            | <u>12,371,700</u>    | <u>19,436,358</u>    |
| Total Noncurrent Assets                                  | <u>7,067,200</u>                            | <u>12,621,340</u>    | <u>19,688,540</u>    |
| Total Assets   | <u>9,328,174</u>                            | <u>16,648,594</u>    | <u>25,976,768</u>    |
| <b>DEFERRED OUTFLOWS OF RESOURCES</b>                    |   |                      |                      |
| Related to OPEB  | 33,062                                      | 35,550               | 68,612               |
| Related to Pension                                       | <u>147,036</u>                              | <u>126,986</u>       | <u>274,022</u>       |
| Total Deferred Outflows of Resources                     | <u>180,098</u>                              | <u>162,536</u>       | <u>342,634</u>       |
| <b>LIABILITIES</b>                                       |   |                      |                      |
| Current Liabilities:                                     |   |                      |                      |
| Warrants Payable   | 1,086                                       | 113,437              | 114,523              |
| Accrued Payroll  | 11,694                                      | 10,316               | 22,010               |
| Accrued Interest   | 414   | 3,732                | 4,146                |
| Compensated Absences                                     | 775   | 172                  | 947                  |
| Net OPEB Liability                                       | 32,484                                      | 35,131               | 67,615               |
| Long-Term Bonds and Notes Payable                        | <u>427,054</u>                              | <u>240,532</u>       | <u>667,586</u>       |
| Total Current Liabilities                                | <u>473,507</u>                              | <u>403,320</u>       | <u>876,827</u>       |
| Noncurrent Liabilities:                                  |   |                      |                      |
| Compensated Absences                                     | 6,974                                       | 1,552                | 8,526                |
| Net OPEB Liability                                       | 1,256,562                                   | 1,350,895            | 2,607,457            |
| Net Pension Liability                                    | 1,178,004                                   | 1,017,374            | 2,195,378            |
| Long-Term Bonds and Notes Payable                        | <u>1,887,050</u>                            | <u>3,109,510</u>     | <u>4,996,560</u>     |
| Total Noncurrent Liabilities                             | <u>4,328,590</u>                            | <u>5,479,331</u>     | <u>9,807,921</u>     |
| Total Liabilities  | <u>4,802,097</u>                            | <u>5,882,651</u>     | <u>10,684,748</u>    |
| <b>DEFERRED INFLOWS OF RESOURCES</b>                     |   |                      |                      |
| Related to Pension                                       | <u>167,004</u>                              | <u>144,232</u>       | <u>311,236</u>       |
| <b>FUND NET POSITION</b>                                 |   |                      |                      |
| Net Investment in Capital Assets                         | 4,842,911                                   | 10,691,151           | 15,534,062           |
| Unrestricted   | <u>(303,740)</u>                            | <u>93,096</u>        | <u>(210,644)</u>     |
| Total Net Position                                       | <u>\$ 4,539,171</u>                         | <u>\$ 10,784,247</u> | <u>\$ 15,323,418</u> |

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**YEAR ENDED JUNE 30, 2018**

|  | Business-Type Activities - Enterprise Funds |               |               |
|--|---|---------------|---------------|
|  | Water                                       | Sewer         | Total         |
| <b>OPERATING REVENUES</b>                          |   |               |               |
| Charges for Services                               | \$ 3,358,821                                | \$ 2,049,839  | \$ 5,408,660  |
| Penalties and Interest                             | 60,767                                      | 39,778        | 100,545       |
| Total Operating Revenues                           | 3,419,588                                   | 2,089,617     | 5,509,205     |
| <b>OPERATING EXPENSES</b>                          |   |               |               |
| Cost of Service and Administration                 | 716,743                                     | 618,197       | 1,334,940     |
| MWRA Assessment                                    | 1,904,733                                   | -             | 1,904,733     |
| City of Lynn Assessment                            | -   | 702,072       | 702,072       |
| Depreciation                                       | 236,511                                     | 536,478       | 772,989       |
| Total Operating Expenses                           | 2,857,987                                   | 1,856,747     | 4,714,734     |
| <b>OPERATING INCOME</b>                            | 561,601                                     | 232,870       | 794,471       |
| <b>NONOPERATING REVENUES (EXPENSES)</b>            |   |               |               |
| Investment Income                                  | 9,173                                       | 18,868        | 28,041        |
| Interest Expense                                   | (1,244)                                     | (29,865)      | (31,109)      |
| Loss on Disposal of Capital Assets                 | -   | (224,756)     | (224,756)     |
| Total Nonoperating Revenues (Expenses), Net        | 7,929                                       | (235,753)     | (227,824)     |
| <b>INCOME BEFORE TRANSFERS</b>                     | 569,530                                     | (2,883)       | 566,647       |
| Transfers In                                       | 43,919                                      | 56,563        | 100,482       |
| Transfers Out                                      | (406,557)                                   | (406,558)     | (813,115)     |
| Total Transfers, Net                               | (362,638)                                   | (349,995)     | (712,633)     |
| <b>CHANGE IN FUND NET POSITION</b>                 | 206,892                                     | (352,878)     | (145,986)     |
| Fund Net Position - Beginning of Year, as restated | 4,332,279                                   | 11,137,125    | 15,469,404    |
| <b>FUND NET POSITION - END OF YEAR</b>             | \$ 4,539,171                                | \$ 10,784,247 | \$ 15,323,418 |

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2018**

|   | Business-Type Activities - Enterprise Funds |              |              |
|---|---|--------------|--------------|
|   | Water                                       | Sewer        | Total        |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |   |              |              |
| Receipts from Customers and Users   | \$ 3,579,310                                | \$ 2,233,934 | \$ 5,813,244 |
| Payments to Vendors   | (2,285,988)                                 | (1,230,174)  | (3,516,162)  |
| Payments to Employees   | (321,500)                                   | (387,574)    | (709,074)    |
| Net Cash Provided by Operating Activities   | 971,822                                     | 616,186      | 1,588,008    |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>  |   |              |              |
| Transfers In  | 43,919                                      | 56,563       | 100,482      |
| Transfers Out   | (406,557)                                   | (406,558)    | (813,115)    |
| Net Cash Used by Noncapital Financing Activities  | (362,638)                                   | (349,995)    | (712,633)    |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>   |   |              |              |
| Proceeds from the Issuance of Bonds and Notes   | -   | 1,913,493    | 1,913,493    |
| Premium from the Issuance of Bonds and Notes  | -   | 143,218      | 143,218      |
| Acquisition and Construction of Capital Assets  | (75,194)                                    | (829,871)    | (905,065)    |
| Principal Payments on Bonds and Notes   | (495,081)                                   | (140,047)    | (635,128)    |
| Interest Paid   | (1,916)                                     | (34,144)     | (36,060)     |
| Net Cash Used by Capital and Related Financing Activities   | (572,191)                                   | 1,052,649    | 480,458      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |   |              |              |
| Investment Income   | 9,173                                       | 18,868       | 28,041       |
| <b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>  | 46,166                                      | 1,337,708    | 1,383,874    |
| Cash and Cash Equivalents - Beginning of Year<br>(Includes \$165,009 and \$221,090 Reported as Restricted in the<br>Water Enterprise Fund and Sewer Enterprise Fund, Respectively)    | 1,229,811                                   | 1,997,940    | 3,227,751    |
| <b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b><br>(Includes \$89,815 and \$1,419,853 Reported as Restricted in the<br>Water Enterprise Fund and Sewer Enterprise Fund, Respectively) | \$ 1,275,977                                | \$ 3,335,648 | \$ 4,611,625 |
| <b>RECONCILIATION OF OPERATING INCOME TO NET CASH FROM OPERATING ACTIVITIES</b>   |   |              |              |
| Operating Income  | \$ 561,601                                  | \$ 232,870   | \$ 794,471   |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:   |   |              |              |
| Adjustments not Requiring Current Cash Flows:   |   |              |              |
| Depreciation  | 236,511                                     | 536,478      | 772,989      |
| Net OPEB Liability  | 38,325                                      | 41,207       | 79,532       |
| Net Pension Liability   | (23,481)                                    | (203,062)    | (226,543)    |
| Effect of Changes in Operating Assets and Liabilities:  |   |              |              |
| Utility Liens   | (17,616)                                    | (10,553)     | (28,169)     |
| Water Receivables   | 177,338                                     | -            | 177,338      |
| Sewer Receivables   | -   | 154,870      | 154,870      |
| Warrants Payable  | (1,675)                                     | (138,077)    | (139,752)    |
| Accrued Payroll   | 182   | 1,649        | 1,831        |
| Compensated Absences  | 637   | 804          | 1,441        |
| Total Adjustments   | 410,221                                     | 383,316      | 793,537      |
| Net Cash Provided by Operating Activities   | \$ 971,822                                  | \$ 616,186   | \$ 1,588,008 |

See accompanying Notes to Financial Statements.



**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2018**

| <b>ASSETS</b>  | Pension Trust<br>Fund (as of<br>December 31,<br>2017) | OPEB Trust          | Private<br>Purpose<br>Trust Funds | Agency<br>Funds   |
|--|---|---------------------|-----------------------------------|-------------------|
| Cash and Cash Equivalents                                | \$ 232,746  | \$ 903,644          | \$ 273,795                        | \$ 195,536        |
| Investments  |   |                     |                                   |                   |
| External Investment Pool (PRIT)                          | 55,162,423  | -                   | -                                 | -                 |
| Real Estate  | 2,699,865   | -                   | -                                 | -                 |
| Private Equity   | 160,497   | -                   | -                                 | -                 |
| U.S. Treasuries and Agencies                             | -   | 59,317              | -                                 | -                 |
| Corporate Bonds  | -   | 59,377              | -                                 | -                 |
| Fixed Income Mutual Funds                                | -   | 543,232             | -                                 | -                 |
| Equities and Equity Mutual Funds                         | -   | 209,621             | -                                 | -                 |
| Interest and Dividends                                   | 1,609   | -                   | -                                 | -                 |
| Receivables, Net of Allowance for Uncollectible Amounts: |   |                     |                                   |                   |
| Other  | 1,624   | -                   | -                                 | -                 |
| Total Assets   | <u>58,258,764</u>                                     | <u>1,775,191</u>    | <u>273,795</u>                    | <u>195,536</u>    |
| <b>LIABILITIES</b>                                       |   |                     |                                   |                   |
| Liabilities Due Depositors                               | <u>-</u>  | <u>-</u>            | <u>-</u>                          | <u>\$ 195,536</u> |
| <b>NET POSITION</b>                                      |   |                     |                                   |                   |
| Restricted for Pension Benefits, OPEB and Other Purposes | <u>\$ 58,258,764</u>                                  | <u>\$ 1,775,191</u> | <u>\$ 273,795</u>                 |                   |

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
FIDUCIARY FUNDS  
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2018**

|   | Pension Trust<br>Fund<br>(Year Ended<br>December 31,<br>2017) | OPEB Trust          | Private<br>Purpose<br>Trust Funds |
|---|---|---------------------|-----------------------------------|
| <b>ADDITIONS</b>                              |   |                     |                                   |
| Contributions:                                |   |                     |                                   |
| Employer                                      | \$ 5,393,055  | \$ 3,172,822        | \$ -                              |
| Plan Members                                  | 1,271,321   | -                   | -                                 |
| Private Donations                             | -   | -                   | 13,680                            |
| Total Contributions                           | 6,664,376   | 3,172,822           | 13,680                            |
| Net Investment Income:                        |   |                     |                                   |
| Net Depreciation in Fair Value of Investments | 7,784,514   | -                   | -                                 |
| Interest                                      | 1,310,527   | 16,819              | 311                               |
| Total Investment Income                       | 9,095,041   | 16,819              | 311                               |
| Less: Investment Expense                      | (245,334)   | -                   | -                                 |
| Net Investment Income                         | 8,849,707   | 16,819              | 311                               |
| Total Additions                               | 15,514,083  | 3,189,641           | 13,991                            |
| <b>DEDUCTIONS</b>                             |   |                     |                                   |
| Administration                                | 185,729   | -                   | -                                 |
| Retirement Benefits and Refunds               | 5,975,542   | 2,922,822           | -                                 |
| Scholarships Awarded                          | -   | -                   | 5,750                             |
| Other   | -   | 9,400               | -                                 |
| Total Deductions                              | 6,161,271   | 2,932,222           | 5,750                             |
| <b>CHANGE IN NET POSITION</b>                 | 9,352,812   | 257,419             | 8,241                             |
| Net Position - Beginning of Year              | 48,905,952  | 1,517,772           | 265,554                           |
| <b>NET POSITION - END OF YEAR</b>             | <u>\$ 58,258,764</u>  | <u>\$ 1,775,191</u> | <u>\$ 273,795</u>                 |

See accompanying Notes to Financial Statements.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. General**

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

**B. Reporting Entity**

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

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

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

**Fiduciary Fund**

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

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

**Joint Venture**

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**B. Reporting Entity (Continued)**

**Joint Venture (Continued)**

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

*North Shore Technical School*

The North Shore Technical School is governed by a sixteen member school district committee consisting of one elected representative of the Town. The Town is indirectly liable for the North Shore Technical School debt and expenditures and is assessed annually for its share of operating and capital costs. For the fiscal year ended June 30, 2018, the Town's assessment totaled approximately \$408,000. 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, 2018, the Town implemented the following pronouncements issued by the GASB:

- GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*
- GASB Statement No. 81, *Irrevocable Split-interest Agreements*
- GASB Statement No. 85, *Omnibus 2017*
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*

The implementation of GASB Statement No. 75 resulted in, among other things, the establishment of the net other postemployment benefit (OPEB) liability in the government-wide and enterprise funds Statements of Net Position and enhanced disclosures to OPEB. As a result, the Town has restated its 2018 beginning net position to reflect the implementation of the Statement. The cumulative effect of the change in accounting principle is as follows:

|                                     | Government-wide            |                              | Fund-basis                  |                             |
|-------------------------------------|----------------------------|------------------------------|-----------------------------|-----------------------------|
|                                     | Governmental<br>Activities | Business-<br>Type Activities | Water<br>Enterprise<br>Fund | Sewer<br>Enterprise<br>Fund |
| Net position as previously reported | \$ (11,928,976)            | \$ 17,280,436                | \$ 5,207,501                | \$ 12,072,935               |
| Impact of GASB 75 implementation    | <u>(75,328,397)</u>        | <u>(1,811,032)</u>           | <u>(875,222)</u>            | <u>(935,810)</u>            |
| Net position as restated            | <u>\$ (87,257,373)</u>     | <u>\$ 15,469,404</u>         | <u>\$ 4,332,279</u>         | <u>\$ 11,137,125</u>        |

The implementation of GASB Statements No. 81, 85, and 86 had no reporting impact for the Town.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**D. Government-Wide and Fund Financial Statements**

**Government-Wide Financial Statements**

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

**Fund Financial Statements**

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

Fiduciary funds are reported by fund type.

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

**Government-Wide Financial Statements**

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

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

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

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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

**Fund Financial Statements**

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

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

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

The following major governmental funds are reported:

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

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

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

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

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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

**Fund Financial Statements (Continued)**

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

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

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

The following proprietary funds are reported:

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

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

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

The following fiduciary fund types are reported:

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

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

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

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**F. Deposits and Investments**

**Government-Wide and Fund Financial Statements**

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

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

**G. Accounts Receivable**

**Government-Wide and Fund Financial Statements**

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

***Real Estate Taxes, Personal Property Taxes and Tax Liens***

Real estate and personal property taxes are levied and based on values assessed on January 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.



**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**G. Accounts Receivable (Continued)**

***Intergovernmental***

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

***Departmental and Other***

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

**H. Allowance for Uncollectible Amounts**

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

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

As of June 30, 2018, the allowance related to departmental and other receivables are immaterial and therefore are not reported.

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

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

Intergovernmental receivables are considered 100% collectible.

**I. Inventories**

**Government-Wide and Fund Financial Statements**

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**J. Restricted Assets**

**Government-Wide and Fund Financial Statements**

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

**K. Capital Assets**

**Government-Wide and Proprietary Funds Financial Statements**

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

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

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

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

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

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

**Governmental Fund Financial Statements**

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**L. Interfund Receivables and Payables**

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

**Government-Wide Financial Statements**

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

**Fund Financial Statements**

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

**M. Interfund Transfers**

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

**Government-Wide Financial Statements**

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

**Fund Financial Statements**

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

**N. Deferred Outflows of Resources**

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

- Deferred outflows of resources related to OPEB is reported in the government-wide and proprietary funds statements of net position.
- Deferred outflows of resources related to pensions is reported in the government-wide and proprietary funds statements of net position.
- Deferred outflows of resources related to deferred losses from debt refunding transactions is reported in the government-wide statement of net position.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**O. Deferred Inflows of Resources**

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

- Deferred inflow of resources related to unavailable revenue is reported in the governmental funds balance sheet. Unavailable revenue represents billed receivables that do not meet the availability criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting.
- Deferred inflow of resources related to taxes collected in advance is reported in both the government-wide statement of net position and governmental funds balance sheet. Taxes collected in advance represent amounts collected related to the fiscal year 2019 tax levy.
- Deferred inflows of resources related to pensions is reported in the government-wide and proprietary funds statements of net position.

**P. Net Position and Fund Balances**

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

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

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

Net position has been “restricted” for the following:

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

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

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**P. Net Position and Fund Balances (Continued)**

**Governmental Funds Financial Statements (Fund Balances)**

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

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

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

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

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

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

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

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

**Q. Long-Term Debt**

**Government-Wide and Proprietary Fund Financial Statements**

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**Q. Long-Term Debt (Continued)**

**Governmental Fund Financial Statements**

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

**R. Investment Income**

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

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

**S. Compensated Absences**

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

**Government-Wide and Proprietary Fund Financial Statements**

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

**Governmental Fund Financial Statements**

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

**T. Pensions**

**Government-Wide and Proprietary Fund Financial Statements**

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018**

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

**U. Postretirement Benefits**

**Government-Wide and Fund Financial Statements**

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

**V. Use of Estimates**

**Government-Wide and Fund Financial Statements**

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

**W. Total Column**

**Government-Wide Financial Statements**

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

**Fund Financial Statements**

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

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**A. Budgetary Information**

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

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)**

**A. Budgetary Information (Continued)**

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

An annual budget is adopted for the general fund in conformity with the guidelines described above. The original fiscal year 2018 approved budget for the general fund authorized \$61,485,128 in appropriations. During fiscal year 2018, supplemental reduction of appropriations totaling \$8,047 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, 2018, expenditures exceeded appropriations for state and county charges.

**C. Fund Deficits**

At June 30, 2018, the following deficit unassigned balances exist:

| <u>Fund</u>                   | <u>Amount</u>            | <u>Funding Source</u>      |
|-------------------------------|--------------------------|----------------------------|
| Capital Articles (Major Fund) | \$ 557,118               | Issuance of long-term debt |
| Other Funds                   | <u>132,223</u>           | Grant proceeds             |
| Total Deficits                | <u><u>\$ 689,341</u></u> |                            |

**NOTE 3 DEPOSITS AND INVESTMENTS**

***Town (excluding the Pension and OPEB Trust Funds)***

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

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



**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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

**Deposits – Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2018, \$4,738,829 of the Town's bank balance of \$11,721,899 was uninsured and uncollateralized. The carrying value of the Town's deposits totaled \$10,759,992 at June 30, 2018.

**Investments Summary**

The Town's investments at June 30, 2018 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

| Investment Type           | Total<br>Amount     | Investment Maturities (in Years) |                   |                  |
|---------------------------|---------------------|----------------------------------|-------------------|------------------|
|                           |                     | Less<br>Than 1                   | 1 - 5             | 6 - 10           |
| <u>Debt Securities:</u>   |                     |                                  |                   |                  |
| U.S. Treasuries           | \$ 148,694          | \$ -                             | \$ 148,694        | \$ -             |
| U.S. Agencies             | 145,847             | -                                | 145,847           | -                |
| Corporate Bonds           | 144,537             | -                                | 49,261            | 95,276           |
| Money Market Mutual Funds | 1,644,036           | 1,644,036                        | -                 | -                |
| Fixed Income Mutual Funds | <u>1,252,070</u>    | <u>1,252,070</u>                 | <u>-</u>          | <u>-</u>         |
| Total Debt Securities     | <u>3,335,184</u>    | <u>\$ 2,896,106</u>              | <u>\$ 343,802</u> | <u>\$ 95,276</u> |
| <u>Other Investments:</u> |                     |                                  |                   |                  |
| Equity Securities         | <u>175,635</u>      |                                  |                   |                  |
| Total Investments         | <u>\$ 3,510,819</u> |                                  |                   |                  |

**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, 2018, the Town was not exposed to custodial credit risk.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**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. As of June 30, 2018, the credit quality ratings of the Town's debt securities (except U.S. Treasuries which are backed by the full faith and credit of the United States) are as follows:

| Investment Type           | Total Amount        | Quality Ratings * |                  |                  |                     |
|---------------------------|---------------------|-------------------|------------------|------------------|---------------------|
|                           |                     | AAA               | AA               | BAA              | Unrated             |
| Corporate Bonds           | \$ 144,537          | \$ -              | \$ 47,412        | \$ 97,125        | \$ -                |
| Money Market Mutual Funds | 1,644,036           | -                 | -                | -                | 1,644,036           |
| U.S. Agencies             | 145,847             | 145,847           | -                | -                | -                   |
| Fixed Income Mutual Funds | 1,252,070           | -                 | -                | -                | 1,252,070           |
| Total                     | <u>\$ 3,186,490</u> | <u>\$ 145,847</u> | <u>\$ 47,412</u> | <u>\$ 97,125</u> | <u>\$ 2,896,106</u> |

\*Per the rating scale of Standard and Poor's (a national credit rating organization)

**Investments – Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the Town's investment in a single issuer. The Town does not have a policy for concentration of credit risk. As of June 30, 2018, the Town was not exposed to concentration of credit risk.

**Investments – Fair Value Measurements**

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

The Town has the following recurring fair value measurements as of June 30, 2018:

| Investment Type                         | Total<br>Amount | Fair Value Measurements Using  |   |  |
|---|-----------------|--|---|--|
|   |                 | Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Investments by Fair Value Level:</b> |                 |  |   |  |
| Equity Securities                       | \$ 175,635      | \$ 175,635   | \$ -  | \$ -   |
| Money Market Mutual Funds               | 1,644,036       | 1,644,036  | -   | -  |
| U.S. Treasuries                         | 148,694         | 148,694  | -   | -  |
| U.S. Agencies                           | 145,847         | -  | 145,847   | -  |
| Corporate Bonds                         | 144,537         | -  | 144,537   | -  |
| Fixed Income Securities                 | 1,252,070       | -  | 1,252,070   | -  |
| Total Investments by Fair Value Level   | \$ 3,510,819    | \$ 1,968,365   | \$ 1,542,454  | \$ -   |

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**Investments – Fair Value Measurements (Continued)**

Investments classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets for those securities.

Investments classified in Level 2 are valued using matrix pricing technique. Matrix pricing is used to value securities' relationship to benchmark quoted prices.

***Pension Trust Fund (The System)***

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

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

**Deposits – Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the System's deposits may not be recovered. The System does not have a policy for custodial credit risk of deposits. As of December 31, 2017, the System was not exposed to custodial credit risk. The carrying value of the System's deposits totaled \$197,125 at December 31, 2017.

**Investments Summary**

The System's investments at December 31, 2017 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

| Investment Type                 | Total<br>Amount      | Investment<br>Maturities<br>(in Years)<br><u>Less<br/>Than 1</u> |
|---------------------------------|----------------------|--|
| <u>Debt Securities:</u>         |                      |  |
| Money Market Mutual Funds       | \$ 35,621            | \$ 35,621  |
| External Investment Pool (PRIT) | <u>55,162,423</u>    | <u>55,162,423</u>  |
| Total Debt Securities           | <u>55,198,044</u>    | <u>\$ 55,198,044</u>   |
| <u>Other Investments:</u>       |                      |  |
| Real Estate Investments         | 2,699,865            |  |
| Private Equity                  | <u>160,497</u>       |  |
| Total Other Investments         | <u>2,860,362</u>     |  |
| Total Investments               | <u>\$ 58,058,406</u> |  |

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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, 2017, the System's investments were not exposed to custodial credit risk.

**Investments – Credit Risk of Debt Securities**

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The System does not have a policy for credit risk of debt securities. As of December 31, 2017, the System's debt securities were unrated.

**Investments – Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the System's investment in a single issuer. The System does not have a policy for concentration of credit risk. As of December 31, 2017, the System was not exposed to concentration of credit risk.

**Investments – Fair Value Measurements**

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

The System has the following recurring fair value measurements as of December 31, 2017:

| <u>Investment Type</u>                  | <u>Total<br/>Amount</u>     |
|---|-----------------------------|
| <b>Investments Measured at the NAV:</b> |                             |
| External Investment Pool (PRIT)         | \$ 55,162,423               |
| Real Estate                             | 2,699,865                   |
| Private Equity                          | <u>160,497</u>              |
| Total Investments Measured at the NAV   | <u>58,022,785</u>           |
| Total Investments                       | <u><u>\$ 58,022,785</u></u> |

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**Investments – Fair Value Measurements (Continued)**

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

|                                       | Total<br>Amount      | Unfunded<br>Commitments | Redemption<br>Frequency | Notice<br>Period |
|---------------------------------------|----------------------|-------------------------|-------------------------|------------------|
| External Investment Pool (PRIT) (1)   | \$ 55,162,423        | \$ -                    | Monthly                 | 24 Hours         |
| Real Estate (2)                       | 2,699,865            | -                       | N/A                     | N/A              |
| Private Equity (3)                    | 160,497              | -                       | N/A                     | N/A              |
| Total Investments Measured at the NAV | <u>\$ 58,022,785</u> |                         |                         |                  |

- (1) External Investment Pool (PRIT): The system is a participating retirement system in the PRIT fund. The system owns units, or shares in the PRIT fund, which is a pooled investment trust. The values of the investments in this type have been determined using the NAV per share (or its equivalent) of the System's ownership in the pool.
- (2) Real Estate: This type includes an investment in a partnership that invests primarily in U.S. commercial real estate. The value of the investment in this type have been determined using the NAV per share (or its equivalent) of the System's ownership interest in partners' capital. The investments can never be redeemed with the funds. Distributions from each of these funds will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 1 to 3 years.
- (3) Private Equity: This type includes two funds with an investment in a partnership with an investment objective to private equity funds, primarily comprised of venture capital funds and domestic leverage buyout funds. The value of the investment in this type has been determined using the NAV per share (or its equivalent) of the System's ownership interest in partners' capital. The investment can never be redeemed with the funds. Distributions from the funds will be received as the underlying investments of the funds are liquidated. It is expected that the underlying assets of the funds will be liquidated over the next 1 to 3 years.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

***OPEB Trust Fund (Trust)***

**Deposits – Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Trust's deposits may not be recovered. The Trust does not have a policy for custodial credit risk of deposits. As of June 30, 2018, the Trust was not exposed to custodial credit risk. The carrying value of the Trust's deposits totaled \$246,225 at June 30, 2018.

The Trustees have adopted a formal investment policy. It is the policy of the Trust to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across and broad selection of distinct asset classes.

**Investments Summary**

The Trust's investments at June 30, 2018 are presented below. All investments are presented by investment type, with debt securities presented by maturity.

| Investment Type           | Total<br>Amount | Investment Maturities (in Years) |           |           |
|---------------------------|-----------------|----------------------------------|-----------|-----------|
|                           |                 | Less<br>Than 1                   | 1 - 5     | 6 - 10    |
| <u>Debt Securities:</u>   |                 |                                  |           |           |
| U.S. Treasuries           | \$ 29,711       | \$ -                             | \$ 29,711 | \$ -      |
| U.S. Agencies             | 29,606          | -                                | 29,606    | -         |
| Corporate Bonds           | 59,377          | -                                | 29,448    | 29,929    |
| Money Market Mutual Funds | 657,419         | 657,419                          | -         | -         |
| Fixed Income Mutual Funds | 543,232         | 543,232                          | -         | -         |
| Total Debt Securities     | 1,319,345       | \$ 1,200,651                     | \$ 88,765 | \$ 29,929 |
| <u>Other Investments:</u> |                 |                                  |           |           |
| Equity Securities         | 118,249         |                                  |           |           |
| Equity Mutual Funds       | 91,372          |                                  |           |           |
| Total Other Investments   | 209,621         |                                  |           |           |
| Total Investments         | \$ 1,528,966    |                                  |           |           |

**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 Trust 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 Trust will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Trust does not have a policy for custodial credit risk of investments. As of June 30, 2018, the Trust was not exposed to custodial credit risk.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**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 Trust does not have a policy for credit risk of debt securities. As of June 30, 2018, the credit quality ratings of the Trust's debt securities (except U.S. Treasuries which are backed by the full faith and credit of the United States) are as follows:

| Investment Type           | Total Amount        | Quality Ratings * |                  |                  |                     |
|---------------------------|---------------------|-------------------|------------------|------------------|---------------------|
|                           |                     | AAA               | AA               | A                | Unrated             |
| Corporate Bonds           | \$ 59,377           | \$ -              | \$ 29,929        | \$ 29,448        | \$ -                |
| Money Market Mutual Funds | 657,419             | -                 | -                | -                | 657,419             |
| U.S. Agencies             | 29,606              | 29,606            | -                | -                | -                   |
| Fixed Income Mutual Funds | 543,232             | -                 | -                | -                | 543,232             |
| Total                     | <u>\$ 1,289,634</u> | <u>\$ 29,606</u>  | <u>\$ 29,929</u> | <u>\$ 29,448</u> | <u>\$ 1,200,651</u> |

\* Per the rating scale of Standard and Poor's (a national credit rating organization)

**Investments – Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of the Trust's investment in a single issuer. The Trust does not have a policy for concentration of credit risk. As of June 30, 2018, the Trust was not exposed to concentration of credit risk.

**Investments – Fair Value Measurements**

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

The Trust has the following recurring fair value measurement as of June 30, 2018:

| Investment Type                         | Total<br>Amount | Fair Value Measurements Using  |   |  |
|---|-----------------|--|---|--|
|   |                 | Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
| <b>Investments by Fair Value Level:</b> |                 |  |   |  |
| Equity Securities                       | \$ 118,249      | \$ 118,249   | \$ -  | \$ -   |
| Equity Mutual Funds                     | 91,372          | 91,372   | -   | -  |
| Money Market Mutual Funds               | 657,419         | 657,419  | -   | -  |
| U.S. Treasuries                         | 29,711          | 29,711   | -   | -  |
| U.S. Agencies                           | 29,606          | 29,606   | -   | -  |
| Corporate Bonds                         | 59,377          | -  | 59,377  | -  |
| Fixed Income Mutual Funds               | 543,232         | -  | 543,232   | -  |
| Total Investments by Fair Value Level   | \$ 1,528,966    | \$ 926,357   | \$ 602,609  | \$ -   |

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**Investments – Fair Value Measurements (Continued)**

Investments classified in Level 1 of the fair value hierarchy are valued using quoted prices in active markets for those securities.

Investments classified in Level 2 are valued using matrix pricing technique. Matrix pricing is used to value securities' relationship to benchmark quoted prices.

**NOTE 4 ACCOUNTS RECEIVABLE**

At June 30, 2018, 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<br>Amount     | Allowance<br>for<br>Uncollectibles | Net<br>Amount       |
|---|---------------------|------------------------------------|---------------------|
| <u>Receivables:</u>                     |                     |                                    |                     |
| Real Estate and Personal Property Taxes | \$ 307,311          | \$ (43,751)                        | \$ 263,560          |
| Tax Liens                               | 722,388             | -                                  | 722,388             |
| Motor Vehicle and Other Excise Taxes    | 375,721             | (138,259)                          | 237,462             |
| Departmental and Other                  | 24,119              | -                                  | 24,119              |
| Intergovernmental                       | 950,631             | -                                  | 950,631             |
|   | <u>\$ 2,380,170</u> | <u>\$ (182,010)</u>                | <u>\$ 2,198,160</u> |

At June 30, 2018, receivables for the water and sewer enterprise funds consist of the following:

|                     | Gross<br>Amount     | Allowance<br>for<br>Uncollectibles | Net<br>Amount       |
|---------------------|---------------------|------------------------------------|---------------------|
| <u>Receivables:</u> |                     |                                    |                     |
| Water               | \$ 920,884          | -                                  | \$ 920,884          |
| Sewer               | 625,267             | -                                  | 625,267             |
| Liens               | 130,452             | -                                  | 130,452             |
|                     | <u>\$ 1,676,603</u> | <u>\$ -</u>                        | <u>\$ 1,676,603</u> |



**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 5 CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

|  | Beginning<br>Balance | Increases    | Decreases      | Ending<br>Balance |
|--|----------------------|--------------|----------------|-------------------|
| <b>Governmental Activities:</b>                    |                      |              |                |                   |
| <u>Capital Assets Not Being Depreciated:</u>       |                      |              |                |                   |
| Land   | \$ 4,420,080         | \$ -         | \$ -           | \$ 4,420,080      |
| Construction in Progress                           | 870,057              | -            | (870,057)      | -                 |
| Total Capital Assets Not Being Depreciated         | 5,290,137            | -            | (870,057)      | 4,420,080         |
| <u>Capital Assets Being Depreciated:</u>           |                      |              |                |                   |
| Land Improvements                                  | 1,845,110            | 2,132,699    | -              | 3,977,809         |
| Buildings and Improvements                         | 77,626,066           | 182,428      | (104,350)      | 77,704,144        |
| Machinery and Equipment                            | 5,508,954            | 326,140      | (99,198)       | 5,735,896         |
| Infrastructure                                     | 11,546,608           | 71,716       | -              | 11,618,324        |
| Total Capital Assets Being Depreciated             | 96,526,738           | 2,712,983    | (203,548)      | 99,036,173        |
| <u>Less Accumulated Depreciation For:</u>          |                      |              |                |                   |
| Land Improvements                                  | (1,235,313)          | (67,533)     | -              | (1,302,846)       |
| Buildings and Improvements                         | (24,017,581)         | (1,875,216)  | 2,609          | (25,890,188)      |
| Machinery and Equipment                            | (4,048,593)          | (321,449)    | 99,198         | (4,270,844)       |
| Infrastructure                                     | (1,886,458)          | (268,955)    | -              | (2,155,413)       |
| Total Accumulated Depreciation                     | (31,187,945)         | (2,533,153)  | 101,807        | (33,619,291)      |
| Total Capital Assets Being Depreciated, Net        | 65,338,793           | 179,830      | (101,741)      | 65,416,882        |
| Total Governmental Activities Capital Assets, Net  | \$ 70,628,930        | \$ 179,830   | \$ (971,798)   | \$ 69,836,962     |
|  |                      |              |                |                   |
|  | Beginning<br>Balance | Increases    | Decreases      | Ending<br>Balance |
| <b>Business-Type Activities:</b>                   |                      |              |                |                   |
| <u>Capital Assets Not Being Depreciated:</u>       |                      |              |                |                   |
| Land   | \$ 252,182           | \$ -         | \$ -           | \$ 252,182        |
| Construction in Progress                           | 1,671,385            | -            | (1,671,385)    | -                 |
| Total Capital Assets Not Being Depreciated         | 1,923,567            | -            | (1,671,385)    | 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                            | 2,021,527            | -            | -              | 2,021,527         |
| Infrastructure                                     | 30,461,340           | 2,576,450    | (236,585)      | 32,801,205        |
| Total Capital Assets Being Depreciated             | 35,273,982           | 2,576,450    | (236,585)      | 37,613,847        |
| <u>Less Accumulated Depreciation For:</u>          |                      |              |                |                   |
| Land Improvements                                  | (4,950)              | (300)        | -              | (5,250)           |
| Buildings and Improvements                         | (2,268,883)          | (20,098)     | -              | (2,288,981)       |
| Machinery and Equipment                            | (1,600,597)          | (136,268)    | -              | (1,736,865)       |
| Infrastructure                                     | (13,541,899)         | (616,323)    | 11,829         | (14,146,393)      |
| Total Accumulated Depreciation                     | (17,416,329)         | (772,989)    | 11,829         | (18,177,489)      |
| Total Capital Assets Being Depreciated, Net        | 17,857,653           | 1,803,461    | (224,756)      | 19,436,358        |
| Total Business-Type Activities Capital Assets, Net | \$ 19,781,220        | \$ 1,803,461 | \$ (1,896,141) | \$ 19,688,540     |

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

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

**Governmental Activities:**

|  |                     |
|--|---------------------|
| General Government                                   | \$ 97,020           |
| Public Safety  | 347,090             |
| Education  | 1,573,928           |
| Public Works   | 450,537             |
| Health and Human Services                            | 1,862               |
| Culture and Recreation                               | <u>62,716</u>       |
| Total Depreciation Expense - Governmental Activities | <u>\$ 2,533,153</u> |

**Business-Type Activities:**

|   |                   |
|---|-------------------|
| Water   | \$ 236,511        |
| Sewer   | <u>536,478</u>    |
| Total Depreciation Expense - Business-Type Activities | <u>\$ 772,989</u> |

**NOTE 6 INTERFUND TRANSFERS**

Interfund transfers for the fiscal year ended June 30, 2018 are summarized as follows:

| Transfers Out:              | Transfers In:     |                       |                       |                       |                     |
|-----------------------------|-------------------|-----------------------|-----------------------|-----------------------|---------------------|
|                             | General Fund      | Capital Articles Fund | Water Enterprise Fund | Sewer Enterprise Fund | Total               |
| General Fund                | \$ -              | \$ 177,000            | \$ 43,919             | \$ 56,563             | \$ 277,482 (1)      |
| Nonmajor Governmental Funds | -                 | 21,682                | -                     | -                     | 21,682 (2)          |
| Water Enterprise Fund       | 406,557           | -                     | -                     | -                     | 406,557 (3)         |
| Sewer Enterprise Fund       | <u>406,558</u>    | <u>-</u>              | <u>-</u>              | <u>-</u>              | <u>406,558 (3)</u>  |
|                             | <u>\$ 813,115</u> | <u>\$ 198,682</u>     | <u>\$ 43,919</u>      | <u>\$ 56,563</u>      | <u>\$ 1,112,279</u> |

(1) Represents budgeted transfer to support the Town's capital articles (\$177,000) and subsidy of debt service principal and interest (\$89,286).

(2) Represents budgeted transfer from the special article fund (\$21,682) to capital project funds.

(3) Represents budgeted transfers for indirect costs.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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, 2018 is as follows:

**Notes Payable – Governmental Funds**

| Type  | Description                             | Origination Date | Maturity Date | Interest Rate | Balance at June 30, 2017 | Increases         | Decreases           | Balance at June 30, 2018 |
|-------|---|------------------|---------------|---------------|--------------------------|-------------------|---------------------|--------------------------|
| BAN   | Police Department Technology Upgrade    | 6/23/17          | 1/25/18       | 1.20%         | \$ 24,563                | \$ -              | \$ (24,563)         | \$ -                     |
| BAN   | Police Department Radio Upgrade         | 6/23/17          | 1/25/18       | 1.20%         | 25,000                   | -                 | (25,000)            | -                        |
| BAN   | Purchase of Rescue Boat                 | 6/23/17          | 1/25/18       | 1.20%         | 48,301                   | -                 | (48,301)            | -                        |
| BAN   | School Technology Upgrades              | 6/23/17          | 1/25/18       | 1.20%         | 44,000                   | -                 | (44,000)            | -                        |
| BAN   | DPW Wood Chipper                        | 6/23/17          | 1/25/18       | 1.20%         | 40,000                   | -                 | (40,000)            | -                        |
| BAN   | Purchase of Police Ballistic Vests      | 6/23/17          | 1/25/18       | 1.20%         | 30,600                   | -                 | (30,600)            | -                        |
| BAN   | Purchase of Police License Plate Reader | 6/23/17          | 1/25/18       | 1.20%         | 20,945                   | -                 | (20,945)            | -                        |
| BAN   | Roadway Paving                          | 6/23/17          | 1/25/18       | 1.20%         | 100,000                  | -                 | (100,000)           | -                        |
| BAN   | Open Space Improvement                  | 6/23/17          | 1/25/18       | 1.20%         | 50,000                   | -                 | (50,000)            | -                        |
| BAN   | Land Acquisition                        | 6/12/18          | 3/12/19       | 2.00%         | -                        | 240,000           | -                   | 240,000                  |
| Total |   |                  |               |               | <u>\$ 383,409</u>        | <u>\$ 240,000</u> | <u>\$ (383,409)</u> | <u>\$ 240,000</u>        |

**Subsequent Events**

On March 12, 2019 the Town renewed the land acquisition BAN in the amount of \$240,000 at an interest rate of 2.0% and a maturity date of March 12, 2020.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**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, 2018:

|                                  | Beginning<br>Balance | Increases           | Decreases             | Ending<br>Balance    | Current<br>Portion  |
|----------------------------------|----------------------|---------------------|-----------------------|----------------------|---------------------|
| <b>Governmental Activities:</b>  |                      |                     |                       |                      |                     |
| Bonds and Notes Payable          | \$ 27,344,449        | \$ 2,280,600        | \$ (2,481,761)        | \$ 27,143,288        | \$ 2,495,866        |
| Unamortized Bond Premiums        | 429,430              | 261,237             | (40,817)              | 649,850              | 40,817              |
| Total Bonds and Notes Payable    | 27,773,879           | 2,541,837           | (2,522,578)           | 27,793,138           | 2,536,683           |
| Workers' Compensation Claims     | 730,870              | -                   | (87,626)              | 643,244              | 64,325              |
| Capital Lease Obligations        | 38,490               | -                   | (38,490)              | -                    | -                   |
| Compensated Absences             | 1,587,212            | -                   | (171,758)             | 1,415,454            | 141,545             |
| Total                            | <u>\$ 30,130,451</u> | <u>\$ 2,541,837</u> | <u>\$ (2,820,452)</u> | <u>\$ 29,851,836</u> | <u>\$ 2,742,553</u> |
| <b>Business-type Activities:</b> |                      |                     |                       |                      |                     |
| Bonds and Notes Payable          | \$ 4,200,199         | \$ 1,913,493        | \$ (635,128)          | \$ 5,478,564         | \$ 656,750          |
| Unamortized Bond Premiums        | 49,620               | 143,218             | (7,256)               | 185,582              | 10,836              |
| Total Bonds and Notes Payable    | 4,249,819            | 2,056,711           | (642,384)             | 5,664,146            | 667,586             |
| Compensated Absences             | 8,032                | 1,441               | -                     | 9,473                | 947                 |
| Total                            | <u>\$ 4,257,851</u>  | <u>\$ 2,058,152</u> | <u>\$ (642,384)</u>   | <u>\$ 5,673,619</u>  | <u>\$ 668,533</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, 2018 and the debt service requirements are as follows:

**Bonds and Notes Payable – Governmental Funds**

| Project                                     | Maturity<br>Date | Interest<br>Rate | Outstanding<br>at June 30,<br>2017 | Issued              | Redeemed              | Outstanding<br>at June 30,<br>2018 |
|---|------------------|------------------|------------------------------------|---------------------|-----------------------|------------------------------------|
| Municipal Purpose Loan of 2008              | 08/15/19         | 3.0 - 4.5%       | \$ 215,000                         | \$ -                | \$ (120,000)          | \$ 95,000                          |
| School Construction                         | 11/01/29         | 2.00%            | 4,580,777                          | -                   | (352,366)             | 4,228,411                          |
| Municipal Purpose Loan of 2010              | 09/15/22         | 2.5 - 3.0%       | 780,000                            | -                   | (145,000)             | 635,000                            |
| Municipal Purpose Loan of 2013              | 08/15/32         | 2.0 - 2.5%       | 2,403,080                          | -                   | (459,680)             | 1,943,400                          |
| General Obligation Refunding Bonds          | 04/15/25         | 2.0 - 3.0%       | 2,205,000                          | -                   | (290,000)             | 1,915,000                          |
| Police Station                              | 09/15/28         | 2.0 - 4.25%      | 1,925,000                          | -                   | (175,000)             | 1,750,000                          |
| Municipal Purpose Loan of 2014              | 01/15/24         | 2.0 - 4.0%       | 1,165,000                          | -                   | (220,000)             | 945,000                            |
| General Obligation Refunding Bonds 2015 (A) | 01/15/35         | 2.5%-4.0%        | 5,690,000                          | -                   | (240,000)             | 5,450,000                          |
| General Obligation Refunding Bonds 2015 (B) | 05/15/26         | 3%-3.5           | 4,715,000                          | -                   | (195,000)             | 4,520,000                          |
| Municipal Purpose Loan of 2016              | 06/16/31         | 2%-4%            | 2,364,685                          | -                   | (284,715)             | 2,079,970                          |
| Municipal Purpose Loan of 2018              | 01/15/38         | 3%-5%            | 1,300,907                          | -                   | -                     | 1,300,907                          |
| Turf Field Project-Debt Service             | 01/15/33         | 2.75%            | -                                  | 800,000             | -                     | 800,000                            |
| 2017 Capital Projects                       | 1/15/2038        | 2.79%            | -                                  | 1,480,600           | -                     | 1,480,600                          |
| Total Governmental Funds                    |                  |                  | <u>\$ 27,344,449</u>               | <u>\$ 2,280,600</u> | <u>\$ (2,481,761)</u> | <u>\$ 27,143,288</u>               |

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**Bonds and Notes Payable – Governmental Funds (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>         |
|--------------------|----------------------|---------------------|----------------------|
| 2019               | \$ 2,495,866         | \$ 849,615          | \$ 3,345,481         |
| 2020               | 2,315,866            | 778,380             | 3,094,246            |
| 2021               | 2,294,611            | 703,959             | 2,998,570            |
| 2022               | 2,214,729            | 626,519             | 2,841,248            |
| 2023               | 2,214,729            | 553,957             | 2,768,686            |
| 2024               | 2,024,329            | 487,677             | 2,512,006            |
| 2025               | 1,785,579            | 428,570             | 2,214,149            |
| 2026               | 1,545,577            | 378,634             | 1,924,211            |
| 2027               | 1,556,076            | 332,639             | 1,888,715            |
| 2028               | 1,519,522            | 289,817             | 1,809,339            |
| 2029               | 1,317,790            | 214,631             | 1,532,421            |
| 2030               | 1,337,790            | 180,274             | 1,518,064            |
| 2031               | 1,005,422            | 144,424             | 1,149,846            |
| 2032               | 930,090              | 114,078             | 1,044,168            |
| 2033               | 926,162              | 84,985              | 1,011,147            |
| 2034               | 758,830              | 56,346              | 815,176              |
| 2035               | 783,830              | 30,883              | 814,713              |
| 2036               | 38,830               | 3,640               | 42,470               |
| 2037               | 38,830               | 2,427               | 41,257               |
| 2038               | 38,830               | 1,213               | 40,043               |
| Total              | <u>\$ 27,143,288</u> | <u>\$ 6,262,669</u> | <u>\$ 33,405,957</u> |

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**Bonds and Notes Payable – Water Enterprise**

| Project                        | Maturity Date | Interest Rate | Outstanding at June 30, 2017 | Issued      | Redeemed            | Outstanding at June 30, 2018 |
|--------------------------------|---------------|---------------|------------------------------|-------------|---------------------|------------------------------|
| Water (MWRA)                   | 08/15/15      | 0.0%          | \$ 56,027                    | \$ -        | \$ (56,027)         | \$ -                         |
| Municipal Purpose Loan of 2008 | 08/15/18      | 3.0 - 4.5%    | 60,000                       | -           | (30,000)            | 30,000                       |
| Water (MWRA)                   | 08/15/19      | 0.0%          | 36,165                       | -           | (12,055)            | 24,110                       |
| Water (MWRA)                   | 08/15/20      | 0.0%          | 399,993                      | -           | (99,999)            | 299,994                      |
| Water (MWRA)                   | 08/15/21      | 0.0%          | 125,000                      | -           | (25,000)            | 100,000                      |
| Municipal Purpose Loan of 2013 | 08/15/17      | 2.0 - 2.5%    | 12,000                       | -           | (12,000)            | -                            |
| Water (MWRA)                   | 05/15/24      | 0.00%         | 1,120,000                    | -           | (160,000)           | 960,000                      |
| Water (MWRA)                   | 08/15/26      | 0.00%         | 1,000,000                    | -           | (100,000)           | 900,000                      |
| Total Water Enterprise Fund    |               |               | <u>\$ 2,809,185</u>          | <u>\$ -</u> | <u>\$ (495,081)</u> | <u>\$ 2,314,104</u>          |

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

| Fiscal Year | Principal           | Interest      | Total               |
|-------------|---------------------|---------------|---------------------|
| 2019        | \$ 427,054          | \$ 560        | \$ 427,614          |
| 2020        | 397,054             | -             | 397,054             |
| 2021        | 384,996             | -             | 384,996             |
| 2022        | 285,000             | -             | 285,000             |
| 2023        | 260,000             | -             | 260,000             |
| 2024        | 260,000             | -             | 260,000             |
| 2025        | 100,000             | -             | 100,000             |
| 2026        | 100,000             | -             | 100,000             |
| 2027        | 100,000             | -             | 100,000             |
| Total       | <u>\$ 2,314,104</u> | <u>\$ 560</u> | <u>\$ 2,314,664</u> |

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

| Project                         | Maturity Date | Interest Rate | Outstanding at June 30, 2017 | Issued              | Redeemed            | Outstanding at June 30, 2018 |
|---------------------------------|---------------|---------------|------------------------------|---------------------|---------------------|------------------------------|
| Municipal Purpose Loan of 2008  | 08/15/18      | 3.0 - 4.5%    | \$ 60,000                    | \$ -                | \$ (30,000)         | \$ 30,000                    |
| Sewer 07-22 (MCWT)              | 07/15/28      | 2.00%         | 220,779                      | -                   | (16,442)            | 204,337                      |
| Municipal Purpose Loan of 2013  | 08/15/22      | 2.0 - 2.5%    | 79,920                       | -                   | (23,320)            | 56,600                       |
| General Obligation Bond of 2016 | 06/23/31      | 2.0 - 4.0%    | 980,315                      | -                   | (70,285)            | 910,030                      |
| General Obligation Bond of 2018 | 1/15/2037     | 3.00%         | 50,000                       | -                   | -                   | 50,000                       |
| Aggregate-Sewer                 | 1/15/2038     | 2.72%         | -                            | 1,913,493           | -                   | 1,913,493                    |
| Total Sewer Enterprise Fund     |               |               | <u>\$ 1,391,014</u>          | <u>\$ 1,913,493</u> | <u>\$ (140,047)</u> | <u>\$ 3,164,460</u>          |

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

**Bonds and Notes Payable – Sewer Enterprise Fund (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>        |
|--------------------|---------------------|-------------------|---------------------|
| 2019               | \$ 233,276          | \$ 104,935        | \$ 338,211          |
| 2020               | 203,616             | 99,059            | 302,675             |
| 2021               | 205,215             | 90,429            | 295,644             |
| 2022               | 205,450             | 81,746            | 287,196             |
| 2023               | 205,810             | 73,057            | 278,867             |
| 2024               | 196,577             | 64,475            | 261,052             |
| 2025               | 195,702             | 55,914            | 251,616             |
| 2026               | 191,087             | 48,797            | 239,884             |
| 2027               | 190,977             | 41,922            | 232,899             |
| 2028               | 192,929             | 37,083            | 230,012             |
| 2029               | 190,067             | 32,188            | 222,255             |
| 2030               | 169,578             | 27,592            | 197,170             |
| 2031               | 164,578             | 23,202            | 187,780             |
| 2032               | 94,910              | 18,911            | 113,821             |
| 2033               | 93,838              | 16,064            | 109,902             |
| 2034               | 86,170              | 13,249            | 99,419              |
| 2035               | 86,170              | 10,664            | 96,834              |
| 2036               | 86,170              | 8,078             | 94,248              |
| 2037               | 86,170              | 5,386             | 91,556              |
| 2038               | 86,170              | 2,693             | 88,863              |
| Total              | <u>\$ 3,164,460</u> | <u>\$ 855,443</u> | <u>\$ 4,019,903</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 five or ten equal annual installments). At June 30, 2018, the outstanding principal amount of these loans totaled \$2,284,104.

During fiscal year 2018, the Town issued \$4,194,093 of general obligation bonds for the following purposes:

- Sewer projects (\$1,913,493)
- Turf field construction (\$800,000)
- Purchase of fire engine (\$550,000)
- Other various projects (930,600)

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

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

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, 2018, the Town had the following authorized and unissued debt:

| Purpose                                 | Amount                     |
|---|----------------------------|
| Sewer Rehab                             | \$ 2,216,000               |
| MWRA Water Main Replacement             | 1,100,000                  |
| Rail Trail Acquisition                  | 610,000                    |
| School Technology                       | 223,000                    |
| Street Repairs, Non-Chapter 90          | 200,000                    |
| Light Pole Replacement                  | 150,000                    |
| School HVAC Upgrades                    | 150,000                    |
| Fire Self Contained Breathing Apparatus | 100,000                    |
| Library Elevator                        | 80,000                     |
| Police Cruisers                         | 80,000                     |
| Snow Removal Truck                      | 78,000                     |
| Dump Truck with Sander                  | 66,000                     |
| Upgrades to Servers                     | 60,000                     |
| Library Renovations                     | 55,000                     |
| Construction of Turf Field              | 50,000                     |
| Purchase of Permitting Software         | 50,000                     |
| DPW Building Repairs                    | 50,000                     |
| High School Sprinkler System Updates    | 35,000                     |
| Town Hall Window Repairs                | 33,500                     |
| Firearms Training Simulator             | 33,000                     |
| School Fire Alarms                      | 30,000                     |
| Fire Station Study                      | 25,000                     |
| Fire Station Apron Repair               | 22,770                     |
| Senior Center HVAC Upgrades             | 20,000                     |
| Police Station Roof Hatch               | 15,000                     |
| Total                                   | <u><u>\$ 5,532,270</u></u> |



**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 10 OTHER POST EMPLOYMENT BENEFITS**

**Plan Description**

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

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

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

Plan membership as of June 30, 2018, the latest actuarial valuation, is as follows:

|  |                   |
|--|-------------------|
| Active Plan Members                            | 460               |
| Inactive Plan Members                          | 7                 |
| Retired, Disabled, Survivors and Beneficiaries | <u>313</u>        |
| Total  | <u><u>780</u></u> |

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

*Contributions* – The contribution requirements of Plan members and the Town are established and may be amended by the Town. The required health insurance contribution rates of Plan members and the Town (including Medicare Part B) are 40% and 60%, respectively. Also, Plan members and the Town contribute 40% and 60%, respectively, towards a \$2,000 term life insurance policy. The costs of administering the Plan are paid by the Town.

For the fiscal year ended June 30, 2018, the employer contributions totaled \$3,172,822. The Trust did not receive contributions from any other sources.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 10 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**Net Other Postemployment Benefits Liability (Plan)**

The components of the net OPEB liability of the Plan as of June 30, 2018, were as follows:

|   |                       |
|---|-----------------------|
| Total OPEB liability  | \$ 103,226,292        |
| Plan fiduciary net position   | <u>1,775,191</u>      |
| Plan's net OPEB Liability   | <u>\$ 101,451,101</u> |
| Plan fiduciary net position as a percentage of the total OPEB liability | 1.72%                 |

*Actuarial Assumptions* – The total OPEB liability was determined by performing update procedures to roll the liability back from the actuarial valuation as of July 1, 2018 to the June 30, 2018 measurement date. The following actuarial assumptions were applied to all periods included in the measurement, unless otherwise specified:

|                                     |  |
|-------------------------------------|--|
| Valuation date:                     | July 1, 2018   |
| Investment Rate of Return:          | 3.91%, net of investment expense   |
| Inflation:                          | 3.00% per year   |
| Healthcare/Medical Cost Trend Rate: |  |
| Commercial Managed Care Plan        | 9.25% decreasing to an ultimate level of 5.0% by 2025  |
| Commercial Indemnity Plan           | 9.50% decreasing to an ultimate level of 5.0% by 2045  |
| Medicare Managed Care Plan          | 8.25% decreasing to an ultimate level of 5.0% by 2023  |
| Medicare Indemnity Plan             | 8.50% decreasing to an ultimate level of 5.0% by 2036  |
| Mortality Rates:                    |  |
| Actives                             | The RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Employees projected using generational mortality and scale MP-2016.                               |
| Retirees                            | The RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Healthy Annuitants projected using generational mortality and scale MP-2016.                      |
| Disabled                            | The RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Healthy Annuitants projected using generational mortality and scale MP-2016. Set forward 2 years. |

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 10 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**Net Other Postemployment Benefits Liability (Plan) (Continued)**

*Investment Policies and Rates of Return* – The OPEB Trust's policy in regard to the allocation of invested assets is established and may be amended by the Trustees by a majority vote. It is the policy of the Trustees to pursue an investment strategy that reduces risk through the prudent diversification of the portfolio across a broad selection of distinct asset classes.

For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 1.51 percent. The money-weighted rate of return expresses investment performance, net of investment expense.

The long-term expected real rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the target allocation as of June 30, 2018 are summarized in the following table:

| <u>Asset Class</u>                    | <u>Target<br/>Allocation</u> | <u>Long-Term<br/>Expected Real<br/>Rate of Return</u> |
|---------------------------------------|------------------------------|---|
| Domestic Equity-Large Cap             | 32%                          | 8.4%  |
| Domestic Equity-Sm/Mid Cap            | 3%                           | 10.3%   |
| International Equity-Developed Market | 6%                           | 8.3%  |
| International Equity-Emerging Market  | 3%                           | 12.3%   |
| Domestic-Fixed Income                 | 30%                          | 1.0%  |
| International Fixed Income            | 9%                           | 2.2%  |
| Alternatives                          | 12%                          | 8.9%  |
| Real Estate                           | 4%                           | 10.5%   |
| Cash                                  | 1%                           | -0.2%   |
| Total                                 | <u>100%</u>                  |   |

*Discount rate.* The discount rate used to measure the total OPEB liability was 3.91%. The discount rate was selected using a blend of the Municipal Bond Index Rate (3.87% at June 30, 2018) for unfunded periods and the Investment Rate of Return (6.50% at June 30, 2018) for periods where funds are expected to be available.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 10 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

*Sensitivity of the net OPEB liability to changes in the discount rate.* The following presents the net OPEB liability calculated using the discount rate of 3.91%, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.91%) or 1-percentage-point higher (4.91%) than the current rate:

|                    | <u>1% Decrease<br/>(2.91%)</u> | <u>Current<br/>Discount Rate</u> | <u>1% Increase<br/>(4.91%)</u> |
|--------------------|--------------------------------|----------------------------------|--------------------------------|
| Net OPEB Liability | \$ 119,187,021                 | \$ 101,451,101                   | \$ 87,356,284                  |

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

|                    | <u>1% Decrease</u> | <u>Base Trend</u> | <u>1% Increase</u> |
|--------------------|--------------------|-------------------|--------------------|
| Net OPEB Liability | \$ 85,773,825      | \$ 101,451,101    | \$ 121,792,909     |

**Net Other Postemployment Benefits Liability (Town)**

The Town's net OPEB liability was measured as of June 30, 2017 for the year ended June 30, 2018, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of July 1, 2016 which has been rolled forward to the June 30, 2017 measurement date.

**Changes in the Net OPEB Liability**

|                           | <u>Total OPEB<br/>Liability<br/>(a)</u> | <u>Increase (Decrease)<br/>Plan Fiduciary<br/>Net Position<br/>(b)</u> | <u>Net OPEB<br/>Liability<br/>(a)-(b)</u> |
|---------------------------|---|--|---|
| Balances at June 30, 2016 | \$ 111,405,119                          | \$ -   | \$ 111,405,119                            |
| Changes for the year:     |   |  |   |
| Service cost              | 3,726,967                               | -  | 3,726,967                                 |
| Interest                  | 4,148,892                               | -  | 4,148,892                                 |
| Benefits payments         | (2,954,084)                             | (2,954,084)  | -   |
| Contributions - employer  | -                                       | 4,471,856  | (4,471,856)                               |
| Net investment income     | -                                       | -  | -   |
| Net Changes               | <u>4,921,775</u>                        | <u>1,517,772</u>   | <u>3,404,003</u>                          |
| Balances at June 30, 2017 | <u>\$ 116,326,894</u>                   | <u>\$ 1,517,772</u>  | <u>\$ 114,809,122</u>                     |

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 10 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

*Actuarial Assumptions* – The total OPEB liability was determined by performing update procedures to roll the liability forward from the actuarial valuation as of July 1, 2016 to the June 30, 2017 measurement date. The following actuarial assumptions were applied to all periods included in the measurement, unless otherwise specified:

|                                     |  |
|-------------------------------------|--|
| Valuation date:                     | July 1, 2016   |
| Investment Rate of Return:          | 3.65%, net of investment expense   |
| Inflation:                          | 3.00% per year   |
| Healthcare/Medical Cost Trend Rate: |  |
| Commercial Managed Care Plan        | 8.76% in 2018 decreasing annually to an ultimate rate of 5.00% in 2024   |
| Commercial Indemnity Plan           | 9.00% in 2018 decreasing annually to an ultimate rate of 5.00% in 2035   |
| Medicare Managed Care Plan          | 7.75% in 2018 decreasing annually to an ultimate rate of 5.00% in 2022   |
| Medicare Indemnity Plan             | 8.00% in 2018 decreasing annually to an ultimate rate of 5.00% in 2044   |
| Mortality Rates:                    |  |
| Actives                             | The RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Employees projected using generational mortality and scale MP-2016.                               |
| Retirees                            | The RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Healthy Annuitants projected using generational mortality and scale MP-2016.                      |
| Disabled                            | The RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Healthy Annuitants projected using generational mortality and scale MP-2016. Set forward 2 years. |

*Discount rate.* The discount rate used to measure the total OPEB liability was 3.65%. The discount rate was selected using a blend of the Municipal Bond Index Rate (3.58% at June 30, 2017) for unfunded periods and the Investment Rate of Return (7.50% at June 30, 2017) for periods where funds are expected to be available.

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

|                    | 1% Decrease<br>(2.65%) | Current<br>Discount Rate<br>(3.65%) | 1% Increase<br>(4.65%) |
|--------------------|------------------------|-------------------------------------|------------------------|
| Net OPEB Liability | \$ 135,900,147         | \$ 114,809,122                      | \$ 98,214,702          |

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

|                    | 1% Decrease   | Base Trend     | 1% Increase    |
|--------------------|---------------|----------------|----------------|
| Net OPEB Liability | \$ 95,403,809 | \$ 114,809,122 | \$ 140,290,280 |

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 10 OTHER POST EMPLOYMENT BENEFITS (CONTINUED)**

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2018, the Town recognized OPEB expense of \$3,413,376. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

|  | <u>Deferred<br/>Outflows of<br/>Resources</u> | <u>Deferred<br/>Inflows of<br/>Resources</u> |
|--|---|--|
| Net difference between projected and actual earnings | \$ 21,889                                     | \$ -   |
| Contributions subsequent to the measurement date     | <u>2,922,822</u>                              | <u>-</u>                                     |
| Total  | <u>\$ 2,944,711</u>                           | <u>\$ -</u>                                  |

The \$2,922,822 reported as deferred outflows of resources resulted from contributions made subsequent to the measurement date will be recognized as a reduction in the net OPEB liability during fiscal year 2019. All other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

| Year ended June 30 |                  |
|--------------------|------------------|
| 2019               | \$ 5,472         |
| 2020               | 5,472            |
| 2021               | 5,472            |
| 2022               | <u>5,473</u>     |
| Total              | <u>\$ 21,889</u> |

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 11 PENSION PLAN – SCRS**

**General Information about the Pension Plan**

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

Membership in the System was as follows at December 31, 2017:

|  |            |
|--|------------|
| Active Members   | 247        |
| Inactive employees or beneficiaries currently receiving benefits | 201        |
| Inactive employees entitled to a return of contributions         | 160        |
| Total  | <u>608</u> |

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

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

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

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 11 PENSION PLAN – SCRS (CONTINUED)**

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

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

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

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

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

For the year ended December 31, 2017, active member contributions totaled \$1,271,321 and employer contributions totaled \$5,393,055. Contributions to the System from the Town were \$5,324,024 for the year ended June 30, 2018.

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

The components of the net pension liability of the System at December 31, 2017, were as follows:

|  |                      |
|--|----------------------|
| Total Pension Liability  | \$ 99,447,814        |
| Plan Fiduciary Net Position  | <u>(58,258,764)</u>  |
| Net Pension Liability  | <u>\$ 41,189,050</u> |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability | 58.58%               |



**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 11 PENSION PLAN – SCRS (CONTINUED)**

At June 30, 2018, the Town reported a liability of \$40,661,831 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 for which update procedures were used to roll forward the total pension liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At December 31, 2017, the Town's proportion was 98.7200%, which decreased by 0.04418% (98.7642%) from its proportion measured as of December 31, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of \$5,196,851. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

|   | Deferred Outflows<br>of Resources | Deferred Inflows<br>of Resources |
|---|-----------------------------------|----------------------------------|
| Net difference between projected and actual earnings<br>on pension plan investments | \$ -                              | \$ 2,232,064                     |
| Changes in Assumptions  | 4,488,974                         | -                                |
| Differences between expected and actual experience                                  | 585,350                           | 3,472,804                        |
| Changes in Proportion   | 991                               | 59,718                           |
|   | <u>\$ 5,075,315</u>               | <u>\$ 5,764,586</u>              |

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

| <u>Year Ended June 30</u> |                     |
|---------------------------|---------------------|
| 2018                      | \$ (177,212)        |
| 2019                      | (177,212)           |
| 2020                      | (177,212)           |
| 2021                      | <u>(157,635)</u>    |
| Total                     | <u>\$ (689,271)</u> |

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 11 PENSION PLAN – SCRS (CONTINUED)**

*Actuarial assumptions.* The total pension liability for the December 31, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to December 31, 2017. This valuation used the following assumptions:

Methods:

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

Assumptions:

|  |  |
|--|--|
| Salary Increases                               | 3.75% Ultimate rate, plus the following steps and longevity, based on years of service. Ranges from 1.25% to 4.25% over 5 years of service for Group 1 and 2 employees, from 4.25% to 9.25% over 4 years of service for Police employees; and from 3.25% to 5.25% over 3 years of service for Fire employees   |
| Investment Rate of Return                      | 7.50%  |
| Interest Rate Credited to Annuity Savings Fund | 2.00%  |
| Cost of Living Adjustment                      | 3.00% of first \$13,000 annually   |
| Mortality                                      | RP-2014 table adjusted to the year 2006, generationally projected with MP-2016 (sex-distinct). During employment the healthy employee mortality table is used. Post-employment the healthy annuitant table is used.<br><br>Mortality for disabled retirees follows the same table as non-disabled retirees, set forward 2 years. Death is assumed to be due to the same cause as the disability 40% of the time. |
| Retirement Rates                               | General Employees (Group 1 and 2) - 1.0% and 1.5% for males and females, respectively, beginning at age 50 ranging to 100% for both males and females ending at age 70<br><br>Police and Fire (Group 4) - 2.0% beginning at age 50 ranging to 100.0% at age 65   |

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

Approximately 95% of the System's investments are in the Pension Reserve Investment Trust (PRIT), which was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board. The System does not have the ability to control any of the investment decisions relative to its funds in PRIT.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 11 PENSION PLAN – SCRS (CONTINUED)**

The System's annual money-weighted rate of return on pension plan investments was 17.11%. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested, measured monthly.

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

| Asset Class               | Target<br>Allocation | Long-Term<br>Expected<br>Real Rate of<br>Return |
|---------------------------|----------------------|---|
| U.S Equity                | 36.75%               | 4.47%   |
| International Equities    | 9.75%                | 4.66%   |
| Emerging Equities         | 6.00%                | 6.12%   |
| Core Bonds                | 6.50%                | 0.73%   |
| 20+ Year Treasury STRIPS  | 1.00%                | 0.49%   |
| TIPS                      | 2.50%                | 0.73%   |
| Value-Added Fixed Income  | 10.00%               | 3.50%   |
| Private Equity            | 6.00%                | 6.31%   |
| Real Estate               | 13.00%               | 3.59%   |
| Timberland                | 2.00%                | 3.16%   |
| Cash/Portfolio Completion | 6.50%                | 3.44%   |
| Totals                    | <u>100.00%</u>       |   |

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 11 PENSION PLAN – SCRS (CONTINUED)**

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the System calculated using the discount rate of 7.5%, as well as what the System's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

|                                | 1% Decrease<br>(6.5%) | Current<br>Discount Rate<br>(7.5%) | 1% Increase<br>(8.5%) |
|--------------------------------|-----------------------|------------------------------------|-----------------------|
| System's Net Pension Liability | \$ 50,515,787         | \$ 41,189,050                      | \$ 34,730,905         |

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.5%, as well as what Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5%) or 1-percentage-point higher (8.5%) than the current rate:

|   | 1% Decrease<br>(6.5%) | Current<br>Discount Rate<br>(7.5%) | 1% Increase<br>(8.5%) |
|---|-----------------------|------------------------------------|-----------------------|
| Town's Proportionate Share of the Net Pension Liability | \$ 49,869,186         | \$ 40,661,831                      | \$ 34,286,350         |

*Legally Required Reserve Accounts.* The balance in the System's legally required reserves as of December 31, 2017 are as follows:

| Description          | Amount               | Purpose                                      |
|----------------------|----------------------|--|
| Annuity Savings Fund | \$ 14,087,183        | Active members' contribution balance         |
| Annuity Reserve Fund | 2,743,183            | Retired members' contribution account        |
| Pension Reserve Fund | 38,040,260           | Amounts appropriated to fund future retireme |
| Pension Fund         | 3,388,138            | Remaining Net Position                       |
| Total                | <u>\$ 58,258,764</u> |  |

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

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 12 MASSACHUSETTS TEACHERS RETIREMENT SYSTEM**

**General Information about the Pension Plan**

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

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

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

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

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

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

Since the Town does not contribute directly to MTRS, the Town does not report a proportionate share of the net pension liability of the MTRS at June 30, 2018. The Commonwealth's net pension liability associated with the Town was \$61,513,121.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 12 MASSACHUSETTS TEACHERS RETIREMENT SYSTEM (CONTINUED)**

The MTRS' net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017.

For the year ended June 30, 2018, the Town recognized pension expense of \$6,420,304 associated with MTRS and revenue of the same amount for support provided by the Commonwealth.

*Actuarial assumptions.* The MTRS' total pension liability for the June 30, 2017 measurement date was determined by an actuarial valuation as of January 1, 2017 rolled forward to June 30, 2017. This valuation used the following assumptions:

Investment Rate of Return     7.5%

Salary Increases                 Salary increases are based on analyses of past experience but range from 4.0% to 7.5% depending on length of service

Mortality Rates                 Pre-retirement - reflects RP-2014 White Collar Employees Table projected generationally with Scale MP-2016 (gender distinct)

Post-retirement - reflects RP-2014 White Collar Healthy Annuitant Table projected generationally with Scale MP-2016 (gender distinct)

Disability – assumed to be in accordance with the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

Other                                3.5% interest rate credited to the annuity savings fund

3.0% cost of living increase per year

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 12 MASSACHUSETTS TEACHERS RETIREMENT SYSTEM (CONTINUED)**

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage. Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2017 are summarized in the following table:

| Asset Class                     | Target<br>Allocation | Long-Term<br>Expected<br>Real Rate of<br>Return |
|---------------------------------|----------------------|---|
| Global Equity                   | 40.0%                | 5.0%  |
| Portfolio Completion Strategies | 13.0%                | 3.6%  |
| Core Fixed Income               | 12.0%                | 1.1%  |
| Private Equity                  | 11.0%                | 6.6%  |
| Value Added Fixed Income        | 10.0%                | 3.8%  |
| Real Estate                     | 10.0%                | 3.6%  |
| Timber/Natural Resources        | 4.0%                 | 3.2%  |
| Totals                          | <u>100.0%</u>        |   |

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

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 13 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<br/>Articles</u> | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--------------------------------|-----------------------------|-----------------------------|--|---|
| <b>Nonspendable:</b>           |                             |                             |  |   |
| Permanent Fund Principal       | \$ -                        | \$ -                        | \$ 485,962                                 | \$ 485,962                              |
| <b>Restricted:</b>             |                             |                             |  |   |
| Capital                        | -                           | 2,025,266                   | -  | 2,025,266                               |
| Municipal Television Access    | -                           | -                           | 193,736                                    | 193,736                                 |
| Sale of Land                   | -                           | -                           | 10,840                                     | 10,840                                  |
| Circuit Breaker                | -                           | -                           | 449,557                                    | 449,557                                 |
| Discretionary Donations        | -                           | -                           | 54,892                                     | 54,892                                  |
| Harbor Dredging                | -                           | -                           | 45,614                                     | 45,614                                  |
| Sale of Cemetery Lots          | -                           | -                           | 177,552                                    | 177,552                                 |
| Recreation Revolving           | -                           | -                           | 251,406                                    | 251,406                                 |
| School Lunch                   | -                           | -                           | 122,491                                    | 122,491                                 |
| General Government             | -                           | -                           | 387,101                                    | 387,101                                 |
| Public Safety                  | -                           | -                           | 125,241                                    | 125,241                                 |
| Education                      | -                           | -                           | 128,930                                    | 128,930                                 |
| Public Works                   | -                           | -                           | 230,897                                    | 230,897                                 |
| Health and Human Services      | -                           | -                           | 44,363                                     | 44,363                                  |
| Culture and Recreation         | -                           | -                           | 107,040                                    | 107,040                                 |
| Sub-total - Restricted         | <u>-</u>                    | <u>2,025,266</u>            | <u>2,329,660</u>                           | <u>4,354,926</u>                        |
| <b>Committed:</b>              |                             |                             |  |   |
| Subsequent Year's Expenditures | 2,404,076                   | -                           | -  | 2,404,076                               |
| Capital                        | 609,980                     | -                           | -  | 609,980                                 |
| Sub-total - Committed          | <u>3,014,056</u>            | <u>-</u>                    | <u>-</u>                                   | <u>3,014,056</u>                        |
| <b>Assigned:</b>               |                             |                             |  |   |
| Encumbrances                   | <u>402,650</u>              | <u>-</u>                    | <u>-</u>                                   | <u>402,650</u>                          |
| <b>Unassigned</b>              | <u>9,986,458</u>            | <u>(557,118)</u>            | <u>(132,223)</u>                           | <u>9,297,117</u>                        |
| Total Fund Balances            | <u><u>\$ 13,403,164</u></u> | <u><u>\$ 1,468,148</u></u>  | <u><u>\$ 2,683,399</u></u>                 | <u><u>\$ 17,554,711</u></u>             |



**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 14 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, 2018 total \$5,058,310 and \$609,980, respectively, and are reported in the general fund as unassigned and committed fund balances, respectively.

**NOTE 15 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, 2018, totaled \$643,244.

|                  |    | Balance at<br>Beginning of<br>Fiscal Year | Current Year<br>Claims and<br>Changes in<br>Estimate | Claims<br>Payments | Balance at<br>Fiscal<br>Year-end |
|------------------|----|---|--|--------------------|----------------------------------|
| Fiscal Year 2017 | \$ | 811,049                                   | 318,557  | (398,736)          | 730,870                          |
| Fiscal Year 2018 |    | 730,870                                   | 309,635  | (397,261)          | 643,244                          |

**NOTE 16 COMMITMENTS**

The Town has entered into, or is planning entering into, contracts totaling approximately \$5,500,000 for various capital projects.

Significant commitments include the encumbrances and continuing appropriations outstanding for the general fund, which totaled \$402,650 at June 30, 2018.

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018**

**NOTE 17 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, 2018, cannot be ascertained, management believes any resulting liability should not materially affect the financial position of the Town at June 30, 2018.

The Town participates in a number of federal award programs. Although the grant programs have been audited in accordance with the provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) through June 30, 2018, these programs are still subject to financial and compliance audits by federal agencies. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

**NOTE 18 FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS**

The GASB has issued the following statements:

- Statement No. 83, *Certain Asset Retirement Obligations*, which is required to be implemented during fiscal year 2019. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 84, *Fiduciary Activities*, which is required to be implemented during fiscal year 2020. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 87, *Leases*, which is required to be implemented during fiscal year 2021. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, which is required to be implemented during fiscal year 2019. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which is required to be implemented during fiscal year 2021. Management is evaluating the Statement's future impact on the basic financial statements.
- Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61*, which is required to be implemented during fiscal year 2020. Management is evaluating the Statement's future impact on the basic financial statements.

These pronouncements will be implemented by their respective implementation dates.

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**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL (NON-GAAP BUDGETARY BASIS)  
YEAR ENDED JUNE 30, 2018**

|  | Prior Year<br>Encumbrances<br>and Continuing<br>Appropriations | Original<br>Budget  | Supplemental<br>Appropriations<br>and Transfers | Final<br>Budget     |
|--|--|---------------------|---|---------------------|
| <b>REVENUES</b>  |  |                     |   |                     |
| Real Estate and Personal Property Taxes                      | \$ -   | \$ 47,783,021       | \$ (75,000)                                     | \$ 47,708,021       |
| Motor Vehicle and Other Excise Taxes                         | -  | 2,279,500           | -   | 2,279,500           |
| Tax Liens  | -  | -                   | -   | -                   |
| Intergovernmental  | -  | 4,997,265           | -   | 4,997,265           |
| Penalties and Interest on Taxes                              | -  | 125,000             | -   | 125,000             |
| Licenses and Permits   | -  | 325,000             | -   | 325,000             |
| Fines and Forfeitures  | -  | 75,000              | -   | 75,000              |
| Departmental and Other                                       | -  | 1,596,000           | -   | 1,596,000           |
| Investment Income  | -  | 75,000              | -   | 75,000              |
| Total Revenues   | -  | 57,255,786          | (75,000)  | 57,180,786          |
| <b>EXPENDITURES</b>  |  |                     |   |                     |
| Current:   |  |                     |   |                     |
| General Government   | 8,888  | 2,868,089           | (109,407)                                       | 2,767,570           |
| Public Safety  | 9,149  | 7,664,888           | 139,515   | 7,813,552           |
| Education  | 162,001  | 28,527,252          | 48,629  | 28,737,882          |
| Public Works   | 89,386   | 2,498,581           | 183,376   | 2,771,343           |
| Health and Human Services                                    | -  | 398,613             | (50,202)  | 348,411             |
| Culture and Recreation                                       | -  | 829,231             | -   | 829,231             |
| Pension Benefits   | -  | 5,073,174           | -   | 5,073,174           |
| Employee Benefits  | -  | 6,890,000           | (48,885)  | 6,841,115           |
| Property and Liability Insurance                             | -  | 615,000             | (24,661)  | 590,339             |
| State and County Charges                                     | -  | 670,638             | 16,578  | 687,216             |
| Debt Service:  |  |                     |   |                     |
| Principal  | -  | 2,772,662           | (162,990)                                       | 2,609,672           |
| Interest   | -  | 750,000             | -   | 750,000             |
| Total Expenditures   | 269,424  | 59,558,128          | (8,047)   | 59,819,505          |
| <b>EXCESS (DEFICIENCY) OF REVENUES<br/>OVER EXPENDITURES</b> | <u>(269,424)</u>   | <u>(2,302,342)</u>  | <u>(66,953)</u>                                 | <u>(2,638,719)</u>  |
| <b>OTHER FINANCING SOURCES (USES)</b>                        |  |                     |   |                     |
| Transfers In   | -  | 813,115             | -   | 813,115             |
| Transfers Out  | -  | (1,927,000)         | -   | (1,927,000)         |
| Total Other Financing Sources (Uses)                         | -  | (1,113,885)         | -   | (1,113,885)         |
| <b>NET CHANGE IN FUND BALANCE</b>                            | (269,424)  | (3,416,227)         | (66,953)  | (3,752,604)         |
| Fund Balance - Beginning of Year                             | 8,783,817  | 8,783,817           | 8,783,817                                       | 8,783,817           |
| <b>FUND BALANCE - END OF YEAR</b>                            | <u>\$ 8,514,393</u>  | <u>\$ 5,367,590</u> | <u>\$ 8,716,864</u>                             | <u>\$ 5,031,213</u> |

See Accompanying Notes to Required Supplementary Information.

| <u>Actual</u>       | <u>Current Year<br/>Encumbrances<br/>and Continuing<br/>Appropriations</u> | <u>Actual and<br/>Encumbrances<br/>and Continuing<br/>Appropriations</u> | <u>Variance<br/>Positive/<br/>(Negative)</u> |
|---------------------|--|--|--|
| \$ 47,817,131       | \$ -   | \$ 47,817,131  | \$ 109,110                                   |
| 2,731,099           | -  | 2,731,099  | 451,599                                      |
| 314,831             | -  | 314,831  | 314,831                                      |
| 5,207,730           | -  | 5,207,730  | 210,465                                      |
| 171,992             | -  | 171,992  | 46,992                                       |
| 496,062             | -  | 496,062  | 171,062                                      |
| 79,558              | -  | 79,558   | 4,558  |
| 2,231,340           | -  | 2,231,340  | 635,340                                      |
| 181,936             | -  | 181,936  | 106,936                                      |
| <u>59,231,679</u>   | <u>-</u>   | <u>59,231,679</u>  | <u>2,050,893</u>                             |
| 2,534,544           | 190,093  | 2,724,637  | 42,933                                       |
| 7,744,833           | 24,322   | 7,769,155  | 44,397                                       |
| 28,633,393          | 90,603   | 28,723,996   | 13,886                                       |
| 2,659,804           | 49,514   | 2,709,318  | 62,025                                       |
| 302,083             | 700  | 302,783  | 45,628                                       |
| 791,932             | 7,278  | 799,210  | 30,021                                       |
| 5,070,871           | -  | 5,070,871  | 2,303  |
| 6,420,181           | 40,140   | 6,460,321  | 380,794                                      |
| 586,098             | -  | 586,098  | 4,241  |
| 825,701             | -  | 825,701  | (138,485)                                    |
| 2,520,386           | -  | 2,520,386  | 89,286                                       |
| 744,975             | -  | 744,975  | 5,025  |
| <u>58,834,801</u>   | <u>402,650</u>   | <u>59,237,451</u>  | <u>582,054</u>                               |
| <u>396,878</u>      | <u>(402,650)</u>   | <u>(5,772)</u>   | <u>2,632,947</u>                             |
| 813,115             | -  | 813,115  | -  |
| <u>(2,027,482)</u>  | <u>-</u>   | <u>(2,027,482)</u>   | <u>(100,482)</u>                             |
| <u>(1,214,367)</u>  | <u>-</u>   | <u>(1,214,367)</u>   | <u>(100,482)</u>                             |
| (817,489)           | (402,650)  | (1,220,139)  | 2,532,465                                    |
| <u>8,783,817</u>    | <u>-</u>   | <u>8,783,817</u>   | <u>-</u>                                     |
| <u>\$ 7,966,328</u> | <u>\$ (402,650)</u>  | <u>\$ 7,563,678</u>  | <u>\$ 2,532,465</u>                          |

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2018**

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

|  | 2017                 | 2016                 | 2015                 | 2014                 |
|--|----------------------|----------------------|----------------------|----------------------|
| <u>Total Pension Liability</u>   |                      |                      |                      |                      |
| Service Cost   | \$ 1,856,557         | \$ 1,691,507         | \$ 1,630,367         | \$ 1,486,863         |
| Interest   | 7,157,707            | 7,351,628            | 6,641,295            | 6,409,281            |
| Difference between expected and actual experience  | (4,820,732)          | -                    | 1,961,264            | -                    |
| Change in assumptions  | 4,662,494            | -                    | 3,786,705            | -                    |
| Benefit Payments, including refunds of member contributions,<br>net of transfers (to)/from other systems and intergovernmental<br>reimbursements | (5,975,542)          | (5,359,288)          | (5,043,935)          | (5,235,027)          |
| Net Change in Total Pension Liability  | 2,880,484            | 3,683,847            | 8,975,696            | 2,661,117            |
| Total Pension Liability - Beginning  | 96,567,330           | 92,883,483           | 83,907,787           | 81,246,670           |
| Total Pension Liability - Ending (a)   | <u>\$ 99,447,814</u> | <u>\$ 96,567,330</u> | <u>\$ 92,883,483</u> | <u>\$ 83,907,787</u> |
| <u>Plan Fiduciary Net Position</u>   |                      |                      |                      |                      |
| Contributions - Employer   | \$ 5,393,055         | \$ 5,012,346         | \$ 4,711,121         | \$ 4,543,164         |
| Contributions - Member   | 1,271,321            | 1,245,816            | 1,192,683            | 1,461,902            |
| Net Investment Income  | 8,849,707            | 2,573,669            | 409,071              | 3,565,866            |
| Benefit Payments, including refunds of member contributions,<br>net of transfers (to)/from other systems and intergovernmental<br>reimbursements | (5,975,542)          | (5,359,288)          | (5,043,935)          | (5,235,027)          |
| Administrative Expense   | (185,729)            | (160,268)            | (141,568)            | (178,827)            |
| Net Change in Plan Fiduciary Net Position  | 9,352,812            | 3,312,275            | 1,127,372            | 4,157,078            |
| Plan Fiduciary Net Position - Beginning  | 48,905,952           | 45,593,677           | 44,466,305           | 40,309,227           |
| Plan Fiduciary Net Position - Ending (b)   | <u>\$ 58,258,764</u> | <u>\$ 48,905,952</u> | <u>\$ 45,593,677</u> | <u>\$ 44,466,305</u> |
| Net Pension Liability - Ending (a) - (b)   | <u>\$ 41,189,050</u> | <u>\$ 47,661,378</u> | <u>\$ 47,289,806</u> | <u>\$ 39,441,482</u> |
| Plan Fiduciary Net Position as a Percentage of the<br>Total Pension Liability  | 58.58%               | 50.64%               | 49.09%               | 52.99%               |
| Covered Payroll  | \$ 13,698,307        | \$ 13,378,626        | \$ 12,837,003        | \$ 11,965,292        |
| Net Pension Liability as a Percentage of Covered Payroll   | 300.7%               | 356.3%               | 368.4%               | 329.6%               |

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2018**

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

|   | 2017             | 2016             | 2015             | 2014             | 2013             |
|---|------------------|------------------|------------------|------------------|------------------|
| Actuarially Determined Contribution                                     | \$ 5,393,055     | \$ 5,012,346     | \$ 4,711,121     | \$ 4,543,164     | \$ 4,381,537     |
| Contributions in Relation to the<br>Actuarially Determined Contribution | <u>5,393,055</u> | <u>5,012,346</u> | <u>4,711,121</u> | <u>4,543,164</u> | <u>4,381,537</u> |
| Contribution Deficiency (Excess)  | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      |
| Covered Payroll   | \$ 13,698,307    | \$ 13,378,626    | \$ 12,837,003    | \$ 11,965,292    | \$ 11,089,580    |
| Contributions as a Percentage of<br>Covered Payroll                     | 39.37%           | 37.47%           | 36.70%           | 37.97%           | 39.51%           |

(Continued)

|   | 2012             | 2011             | 2010             | 2009             | 2008             |
|---|------------------|------------------|------------------|------------------|------------------|
| Actuarially Determined Contribution                                     | \$ 3,955,463     | \$ 3,739,031     | \$ 3,508,981     | \$ 3,360,532     | \$ 2,997,268     |
| Contributions in Relation to the<br>Actuarially Determined Contribution | <u>3,955,463</u> | <u>3,739,031</u> | <u>3,508,981</u> | <u>3,360,532</u> | <u>2,997,268</u> |
| Contribution Deficiency (Excess)  | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      | <u>\$ -</u>      |
| Covered Payroll   | \$ 11,089,580    | \$ 10,858,678    | \$ 10,654,167    | \$ 10,747,973    | \$ 10,747,973    |
| Contributions as a Percentage of<br>Covered Payroll                     | 35.67%           | 34.43%           | 32.94%           | 31.27%           | 27.89%           |

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

|  | 2017   | 2016  | 2015  | 2014  |
|--|--------|-------|-------|-------|
| Annual money-weighted rate of return, net of investment expenses | 17.11% | 4.07% | 0.40% | 8.75% |

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2018**

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

|  | 2018          | 2017          | 2016         | 2015         |
|--|---------------|---------------|--------------|--------------|
| Town's Proportion of the Net Pension Liability   | 98.7200%      | 98.7642%      | 98.8735%     | 99.0500%     |
| Town's Proportionate Share of the Net Pension Liability  | \$ 40,661,831 | \$ 47,072,369 | \$46,757,108 | \$39,066,787 |
| Town's Covered Payroll   | \$ 13,522,969 | \$ 13,210,906 | \$12,677,254 | \$11,861,620 |
| Town's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll | 300.69%       | 356.31%       | 368.83%      | 329.35%      |
| Plan Fiduciary Net Position as a Percentage of the Total Pension Liability                     | 58.58%        | 50.64%        | 49.09%       | 52.99%       |

(1) Amounts presented were determined as of December 31

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

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

|  | 2018          | 2017          | 2016          | 2015          | 2014          |
|--|---------------|---------------|---------------|---------------|---------------|
| Actuarially Required Contribution                                  | \$ 5,324,024  | \$ 4,947,940  | \$ 4,655,413  | \$ 4,496,769  | \$ 4,335,836  |
| Contributions in Relation to the Actuarially Required Contribution | 5,324,024     | 4,947,940     | 4,655,413     | 4,496,769     | 4,335,836     |
| Contribution Deficiency (Excess)                                   | \$ -          | \$ -          | \$ -          | \$ -          | \$ -          |
| Town's Covered Payroll   | \$ 13,522,969 | \$ 13,210,906 | \$ 12,677,254 | \$ 11,861,620 | \$ 11,186,504 |
| Contributions as a Percentage of Covered Payroll                   | 39.37%        | 37.45%        | 36.72%        | 37.91%        | 38.76%        |

(Continued)

|  | 2013          | 2012          | 2011          | 2010          | 2009          |
|--|---------------|---------------|---------------|---------------|---------------|
| Actuarially Required Contribution                                  | \$ 3,995,894  | \$ 3,779,980  | \$ 3,548,971  | \$ 3,403,534  | \$ 3,028,416  |
| Contributions in Relation to the Actuarially Required Contribution | 3,995,894     | 3,779,980     | 3,548,971     | 3,403,534     | 3,028,416     |
| Contribution Deficiency (Excess)                                   | \$ -          | \$ -          | \$ -          | \$ -          | \$ -          |
| Town's Covered Payroll   | \$ 11,186,504 | \$ 10,747,286 | \$ 10,841,912 | \$ 10,841,912 | \$ 10,011,387 |
| Contributions as a Percentage of Covered Payroll                   | 35.72%        | 35.17%        | 32.73%        | 31.39%        | 30.25%        |

See accompanying independent auditors' report.



**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
REQUIRED SUPPLEMENTARY INFORMATION  
JUNE 30, 2018**

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

|   | 2018          | 2017          | 2016         | 2015         |
|---|---------------|---------------|--------------|--------------|
| Town's Share of Net Pension Liability   | \$ 61,513,121 | \$ 60,255,663 | \$51,372,339 | \$42,970,408 |
| Commonwealth's Share of the Town's Net Pension Liability                      | 61,513,121    | 60,255,663    | 51,372,339   | 42,970,408   |
|   | <u>\$ -</u>   | <u>\$ -</u>   | <u>\$ -</u>  | <u>\$ -</u>  |
| Town's Expense and Revenue Recognized for the<br>Commonwealth's Support       | \$ 6,420,304  | \$ 6,146,473  | \$ 4,166,754 | \$ 2,985,360 |
| Plan Fiduciary Net Position as a Percentage of Total Net<br>Pension Liability | 54.25%        | 52.73%        | 55.38%       | 61.64%       |

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

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

*See accompanying independent auditors' report.*

**TOWN OF SWAMPSCOTT, MASSACHUSETTS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2018**

**OTHER POST EMPLOYMENT BENEFITS SCHEDULES**

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

|  | 2018                 | 2017                 |
|--|----------------------|----------------------|
| <u>Total OPEB Liability</u>  |                      |                      |
| Service Cost   | \$ 3,866,728         | \$ 3,727,000         |
| Interest   | 4,333,726            | 4,148,894            |
| Differences between expected and actual experience                     | (21,016,447)         | -                    |
| Changes of assumptions   | 2,638,213            | -                    |
| Benefit Payments   | (2,922,822)          | (2,954,000)          |
| Net Change in OPEB Liability   | (13,100,602)         | 4,921,894            |
| Total OPEB Liability - Beginning                                       | 116,326,894          | 111,405,000          |
| Total OPEB Liability - Ending (a)                                      | <u>\$103,226,292</u> | <u>\$116,326,894</u> |
| <u>Plan Fiduciary Net Position</u>                                     |                      |                      |
| Contributions - Employer   | \$ 3,172,822         | \$ 4,471,856         |
| Net Investment Income  | 16,819               | -                    |
| Benefit Payments   | (2,922,822)          | (2,954,084)          |
| Administrative Expenses  | (9,400)              | -                    |
| Net Change in Plan Fiduciary Net Position                              | 257,419              | 1,517,772            |
| Plan Fiduciary Net Position - Beginning                                | 1,517,772            | -                    |
| Plan Fiduciary Net Position - Ending (b)                               | <u>\$ 1,775,191</u>  | <u>\$ 1,517,772</u>  |
| Net OPEB Liability - Ending (a) - (b)                                  | <u>\$101,451,101</u> | <u>\$114,809,122</u> |
| Plan Fiduciary Net Position as a Percentage of<br>Total OPEB Liability | 1.72%                | 1.30%                |

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

**SCHEDULE OF INVESTMENT RETURNS (PLAN) (1)**

|   | 2018  | 2017  |
|---|-------|-------|
| Annual money-weighted rate of return, net of investment expense | 1.51% | 0.00% |

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

**TOWN OF SWAMPSCOTT, MASSACHUSETTS**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**JUNE 30, 2018**

**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, 2018 is presented below:

|   | <u>Revenues</u>      | <u>Expenditures</u>  | <u>Other<br/>Financing<br/>Sources (Uses)</u> | <u>Fund<br/>Balance</u> |
|---|----------------------|----------------------|---|-------------------------|
| Budgetary Basis as Reported on the Schedule of<br>Revenues, Expenditures and Changes in Fund<br>Balance - Budget and Actual | \$ 59,231,679        | \$ 59,237,451        | \$ (1,214,367)                                | \$ 7,563,678            |
| <u>Reclassifications and Adjustments:</u>   |                      |                      |   |                         |
| Capital Stabilization Fund Recorded in the General Fund<br>for GAAP Purposes  | 4,690                | -                    | 250,000                                       | 609,980                 |
| Stabilization Fund Recorded in the General Fund<br>for GAAP Purposes  | 28,825               | -                    | 1,500,000                                     | 5,058,310               |
| Net Change in Recording 60-day Receipts   | 27,145               | -                    | -   | 83,684                  |
| To Record MTRS On-Behalf Payments   | 6,420,304            | 6,420,304            | -   | -                       |
| Net Change in Recording Tax Refunds Payable   | (128,300)            | -                    | -   | (260,000)               |
| Net Change in Recording Other Revenues  | 142,015              | -                    | -   | -                       |
| Net Change in Recording Other Expenditures  | -                    | (1)                  | -   | (55,138)                |
| To Record Encumbrances and Continuing Appropriations  | -                    | (402,650)            | -   | 402,650                 |
| GAAP Basis as Reported on the Statement of Revenues,<br>Expenditures and Changes in Fund Balances                           | <u>\$ 65,726,358</u> | <u>\$ 65,255,104</u> | <u>\$ 535,633</u>                             | <u>\$ 13,403,164</u>    |

