

TOWN OF STONEHAM, MASSACHUSETTS

***REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS***

YEAR ENDED JUNE 30, 2017

TOWN OF STONEHAM, MASSACHUSETTS

REPORT ON EXAMINATION OF BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2017

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Independent Auditor's Report

To the Board of Selectmen
Town of Stoneham, 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 Stoneham, Massachusetts as of and for the year ended June 30, 2017 (except for the Stoneham Contributory Retirement System which is as of and for the year ended December 31, 2016), and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Stoneham, Massachusetts, as of June 30, 2017 (except for the Stoneham Contributory Retirement System which is as of and for the year ended December 31, 2016), and the

respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information, as listed in the table of contents, 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 8, 2018, on our consideration of the Town of Stoneham, Massachusetts' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Stoneham, Massachusetts' internal control over financial reporting and compliance.



March 8, 2018

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Stoneham, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the year ended June 30, 2017. We encourage readers to consider the information presented in this report.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Stoneham's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other 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 finances, in a manner similar to private-sector business.

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

The *statement of activities* presents information showing how the government's net position changed during the most recent 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 periods (e.g., uncollected taxes and earned but unused vacation leave).

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

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. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The Town of Stoneham adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. The budgetary comparison schedule is reported following the notes to the basic financial statements as required supplementary information.

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 sewer department and water department activities.

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 statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Town maintains three different fiduciary funds. The pension trust fund is used to account for resources held in trust for members of the Stoneham Contributory Retirement System. The private purpose trust fund is used to account for resources held in trust which principle and investment income exclusively benefit individuals, private organizations, or other governments. The agency fund is used to account for assets held in a purely custodial capacity.

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.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. For the Town, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$23.6 million at the close of 2017.

The largest portion of the Town's net position, \$75.1 million reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), net of any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets 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 its 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 net position, \$1.8 million represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is a deficit of \$53.4 million. The deficit is the result of the implementation of governmental accounting standards which required the Town to record its net pension liability of \$30.9 million along with the other postemployment benefits liability of \$43.0 million. These are long term unfunded liabilities that will not require significant short term resources.

Governmental Activities. The governmental activities net position decreased by \$7.7 million during the current year as compared to an increase in net position of \$387,000 during the prior year. The primary activity impacting the decrease in net position is the \$6.5 million increase in the Town's other postemployment benefits liability. The decrease was also impacted by the timing of capital grants received by the Town from the state's highway grant program.

	<u>2017</u>	<u>2016</u>
Assets:		
Current assets.....	\$ 19,090,594	\$ 17,896,185
Noncurrent assets (excluding capital).....	3,166,766	5,276,024
Capital assets.....	<u>88,935,981</u>	<u>91,682,835</u>
Total assets.....	<u>111,193,341</u>	<u>114,855,044</u>
Deferred Outflows of Resources.....	<u>3,385,683</u>	<u>3,902,870</u>
Liabilities:		
Current liabilities (excluding debt).....	1,729,803	1,400,460
Noncurrent liabilities (excluding debt).....	71,350,761	67,793,116
Current debt.....	3,501,678	3,472,355
Noncurrent debt.....	<u>26,870,864</u>	<u>28,859,541</u>
Total liabilities.....	<u>103,453,106</u>	<u>101,525,472</u>
Deferred Inflows of Resources.....	<u>1,739,671</u>	<u>171,654</u>
Net Position:		
Net investment in capital assets.....	63,534,576	66,588,807
Restricted.....	1,834,652	1,761,181
Unrestricted.....	<u>(55,982,981)</u>	<u>(51,289,200)</u>
Total net position.....	<u>\$ 9,386,247</u>	<u>\$ 17,060,788</u>

The \$2.1 million decrease in noncurrent assets (excluding capital) is due to the reduction in the intergovernmental receivable from the Massachusetts School Building Authority, as school construction funds are received annually which are used to retire debt outstanding for school construction projects.

The deferred outflows of resources and \$1.7 million of the deferred inflows of resources are related to pension. These amounts are incorporated along with the net pension liability as part of the Town's recognition of GASB #68.

Noncurrent liabilities (excluding debt) increased by \$3.6 million. This was due to the recognition of an additional \$6.5 million for the other postemployment liability and a decrease of \$2.9 million for the net pension liability.

	<u>2017</u>	<u>2016</u>
Program revenues:		
Charges for services.....	\$ 5,560,338	\$ 6,272,369
Operating grants and contributions.....	12,183,501	12,651,410
Capital grants and contributions.....	-	1,876,831
General revenues:		
Real estate and personal property taxes.....	46,926,024	45,823,973
Tax liens.....	274,558	529,684
Motor vehicle excise taxes.....	3,509,769	3,507,141
Meals tax.....	329,634	313,014
Penalties and interest on taxes.....	376,144	222,751
Payments in lieu of taxes.....	61,574	80,894
Nonrestricted grants and contributions.....	3,939,110	3,852,276
Unrestricted investment income.....	193,007	125,347
Total revenues.....	<u>73,353,659</u>	<u>75,255,690</u>
Expenses:		
General government.....	6,040,037	5,487,554
Public safety.....	14,716,431	13,422,730
Education.....	51,229,695	48,025,888
Public works.....	5,565,029	4,445,793
Human services.....	1,156,668	882,648
Culture and recreation.....	2,196,359	2,498,388
Interest.....	1,035,359	1,072,358
Total expenses.....	<u>81,939,578</u>	<u>75,835,359</u>
Transfers.....	<u>911,378</u>	<u>966,434</u>
Change in net position.....	(7,674,541)	386,765
Net position, beginning of year.....	<u>17,060,788</u>	<u>16,674,023</u>
Net position, end of year.....	<u>\$ 9,386,247</u>	<u>\$ 17,060,788</u>

Total revenues had a \$1.9 million decrease when compared to prior year. Charges for services decreased mainly due to a prior year uptick in the issuance of permits. The decrease in capital grants is mainly due to timing difference in revenue reported from the state's road improvement grants.

Overall, governmental activities expenses increased \$6.1 million from the prior year. The highest increase was in education. The \$3.2 million increase in education was due to the increase in the MTRS along with increases in school operations and the school's share of long term liabilities.

Business-type activities. Business-type activities net position decreased by \$299,000 compared to an increase of \$808,000 in the previous year.

As shown on the following page, business-type activities assets and deferred outflows exceeded liabilities and deferred inflows by \$14.2 million at the close of 2017. The net investment in capital assets was \$11.6 million (82%) and unrestricted net position was \$2.6 million (18%). The overall results of operations reflect management's goal of maintaining the systems while only charging users for the cost of operations.

	<u>2017</u>	<u>2016</u>
Assets:		
Current assets.....	\$ 7,099,289	\$ 9,443,367
Capital assets.....	12,955,910	11,960,821
Total assets.....	<u>20,055,199</u>	<u>21,404,188</u>
Deferred Outflows of Resources.....	<u>259,778</u>	<u>381,344</u>
Liabilities:		
Current liabilities (excluding debt).....	102,847	40,141
Noncurrent liabilities (excluding debt).....	3,400,577	4,105,234
Current debt.....	436,043	647,781
Noncurrent debt.....	2,073,084	2,509,127
Total liabilities.....	<u>6,012,551</u>	<u>7,302,283</u>
Deferred Inflows of Resources.....	<u>131,215</u>	<u>12,553</u>
Net Position:		
Net investment in capital assets.....	11,579,947	11,210,028
Unrestricted.....	2,591,264	3,260,668
Total net position.....	<u>\$ 14,171,211</u>	<u>\$ 14,470,696</u>
	<u>2017</u>	<u>2016</u>
Program revenues:		
Charges for services.....	\$ 9,620,494	\$ 10,831,645
Capital grants and contributions.....	-	610,500
General revenues:		
Unrestricted investment income.....	18,516	7,566
Total revenues.....	<u>9,639,010</u>	<u>11,449,711</u>
Expenses:		
Sewer.....	5,162,989	5,408,268
Water.....	3,864,128	4,267,136
Total expenses.....	<u>9,027,117</u>	<u>9,675,404</u>
Transfers.....	<u>(911,378)</u>	<u>(966,434)</u>
Change in net position.....	<u>(299,485)</u>	<u>807,873</u>
Net position, beginning of year.....	<u>14,470,696</u>	<u>13,662,823</u>
Net position, end of year.....	<u>\$ 14,171,211</u>	<u>\$ 14,470,696</u>

The sewer enterprise fund decreased \$260,000 compared to an increase of \$440,000 in the prior year. Sewer operating revenue and expenses decreased by \$385,000 and \$245,000 respectively. The operating revenue decrease was due to a decrease in user fees. The Town also received a \$611,000 capital grant from the MWRA in the previous year which was a major contributing factor to the overall increase in net position in the prior year.

The water enterprise fund decreased \$39,000 compared to an increase of \$368,000 in the prior year. This change from the prior year was due to a decrease in operating revenues of \$826,000 offset by a decrease in operating expenses of \$403,000.

Financial Analysis of the Government's Funds

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

Governmental funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the year.

As of the end of the current year, governmental funds reported combined ending fund balances of \$14.6 million, an increase of \$2 million from the prior year.

The general fund reported a \$1.8 million increase in fund balance in the fund based financial statements. This includes the activity of the Town's stabilization funds which are reported within the general fund. The Town's general stabilization fund totaled \$2.9 million at year end and reported an increase of \$100,000 from investment earnings and a \$84,000 transfer in from the general fund. The Town's capital stabilization fund totaled \$333,000 at year end and reported an increase of \$12,000 from investment earnings and a decrease of \$16,000 from a net transfer out to the general fund. The operating general fund accounted for the remaining \$1.6 million increase which was due to positive budgetary results.

The highway projects fund reported expenditures of \$543,000 against \$538,000 of reimbursements on projects in 2017 which are fully supported by State grants on a reimbursable basis.

The nonmajor governmental funds include all special revenue, capital project and permanent trust funds and reported a year-end balance of \$5.7 million, an increase of \$199,000 from the prior year. The nonmajor governmental funds reported \$6.4 million in revenues, \$7.5 million in expenditures, \$1.5 million in bond proceeds, and net transfers in of (\$267,000).

General Fund Budgetary Highlights

The change between the original and final budget of \$1.1 million was comprised of \$48,000 appropriated from overlay reserve for the recertification of property; \$788,000 appropriated from free cash to fund stabilization funds, legal fees, capital articles, and various other appropriations; and \$242,000 in transfers in from nonmajor governmental funds to fund minor capital costs.

Actual revenues came in over budget by \$2 million. The largest revenue variance was in departmental and other which reported \$970,000 in revenues over the budget. This was mainly due to conservative budgeting. Tax lien revenue also contributed to this surplus coming in at \$517,000, which was not budgeted. Expenditures came in under budget by \$414,000. The most significant turn-backs came from general government and public safety, which came in under budget by approximately \$123,000 and \$107,000, respectively.

Capital Asset and Debt Administration

During fiscal year 2017, major additions to the Town's governmental capital assets included work at the Fallon Road Pump Station, the High School Boiler, technology upgrades, vehicles, equipment, and building and road improvements. Major additions to business-type activities included water main improvements and sewer system repairs and maintenance.

At the end of the year the Town's total bonded debt outstanding totaled \$32.2 million of which \$29.7 million is related to governmental activities, \$417,000 is for sewer projects, and \$2.1 million is related to water projects. The entire amount is classified as general obligation debt and is backed by the full faith and credit of the Town.

Please refer to the notes to the financial statements for further discussion of the major capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Stoneham's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, 35 Central Street, Stoneham, Massachusetts 02180.

Basic Financial Statements

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STATEMENT OF NET POSITION

JUNE 30, 2017

	<i>Primary Government</i>		
	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 14,869,155	\$ 3,645,815	\$ 18,514,970
Investments.....	930,218	-	930,218
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes.....	604,233	-	604,233
Tax liens.....	648,064	-	648,064
Motor vehicle excise taxes.....	228,708	-	228,708
User fees.....	-	3,453,474	3,453,474
Departmental and other.....	117,435	-	117,435
Intergovernmental.....	1,692,781	-	1,692,781
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Intergovernmental.....	3,166,766	-	3,166,766
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	6,258,486	215,801	6,474,287
Depreciable.....	<u>82,677,495</u>	<u>12,740,109</u>	<u>95,417,604</u>
TOTAL ASSETS.....	<u>111,193,341</u>	<u>20,055,199</u>	<u>131,248,540</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions.....	<u>3,385,683</u>	<u>259,778</u>	<u>3,645,461</u>
LIABILITIES			
CURRENT:			
Warrants payable.....	645,018	77,309	722,327
Accrued payroll.....	263,994	15,868	279,862
Accrued interest.....	241,142	-	241,142
Payroll withholdings.....	379,635	-	379,635
Abandoned property.....	10,000	-	10,000
Compensated absences.....	190,014	9,670	199,684
Bonds payable.....	3,501,678	436,043	3,937,721
NONCURRENT:			
Compensated absences.....	760,054	38,679	798,733
Net pension liability.....	28,728,257	2,204,269	30,932,526
Other postemployment benefits.....	41,862,450	1,157,629	43,020,079
Bonds payable.....	<u>26,870,864</u>	<u>2,073,084</u>	<u>28,943,948</u>
TOTAL LIABILITIES.....	<u>103,453,106</u>	<u>6,012,551</u>	<u>109,465,657</u>
DEFERRED INFLOWS OF RESOURCES			
Taxes paid in advance.....	29,550	-	29,550
Deferred inflows related to pensions.....	<u>1,710,121</u>	<u>131,215</u>	<u>1,841,336</u>
TOTAL DEFERRED INFLOWS OF RESOURCES.....	<u>1,739,671</u>	<u>131,215</u>	<u>1,870,886</u>
NET POSITION			
Net investment in capital assets.....	63,534,576	11,579,947	75,114,523
Restricted for:			
Permanent funds:			
Expendable.....	316,020	-	316,020
Nonexpendable.....	1,115,828	-	1,115,828
Gifts and grants.....	402,804	-	402,804
Unrestricted.....	<u>(55,982,981)</u>	<u>2,591,264</u>	<u>(53,391,717)</u>
TOTAL NET POSITION.....	<u>\$ 9,386,247</u>	<u>\$ 14,171,211</u>	<u>\$ 23,557,458</u>

See notes to basic financial statements.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2017

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary Government:					
<i>Governmental Activities:</i>					
General government.....	\$ 6,040,037	\$ 692,182	\$ 758,592	\$ -	\$ (4,589,263)
Public safety.....	14,716,431	957,139	201,442	-	(13,557,850)
Education.....	51,229,695	1,743,636	10,988,723	-	(38,497,336)
Public works.....	5,565,029	1,191,271	116,889	-	(4,256,869)
Human services.....	1,156,668	151,363	67,076	-	(938,229)
Culture and recreation.....	2,196,359	824,747	50,779	-	(1,320,833)
Interest.....	1,035,359	-	-	-	(1,035,359)
Total Governmental Activities.....	<u>81,939,578</u>	<u>5,560,338</u>	<u>12,183,501</u>	<u>-</u>	<u>(64,195,739)</u>
<i>Business-Type Activities:</i>					
Sewer.....	5,162,989	5,376,450	-	-	213,461
Water.....	3,864,128	4,244,044	-	-	379,916
Total Business-Type Activities.....	<u>9,027,117</u>	<u>9,620,494</u>	<u>-</u>	<u>-</u>	<u>593,377</u>
Total Primary Government.....	<u>\$ 90,966,695</u>	<u>\$ 15,180,832</u>	<u>\$ 12,183,501</u>	<u>\$ -</u>	<u>\$ (63,602,362)</u>

See notes to basic financial statements.

(Continued)

STATEMENT OF ACTIVITIES (Continued)

YEAR ENDED JUNE 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Changes in net position:			
Net (expense) revenue from previous page..... \$	(64,195,739)	593,377	(63,602,362)
<i>General revenues:</i>			
Real estate and personal property taxes, net of tax refunds payable.....	46,926,024	-	46,926,024
Tax liens.....	274,558	-	274,558
Motor vehicle excise taxes.....	3,509,769	-	3,509,769
Meals tax.....	329,634	-	329,634
Penalties and interest on taxes.....	376,144	-	376,144
Payments in lieu of taxes.....	61,574	-	61,574
Grants and contributions not restricted to specific programs.....	3,939,110	-	3,939,110
Unrestricted investment income.....	193,007	18,516	211,523
<i>Transfers, net</i>	911,378	(911,378)	-
Total general revenues and transfers.....	56,521,198	(892,862)	55,628,336
Change in net position.....	(7,674,541)	(299,485)	(7,974,026)
<i>Net Position:</i>			
Beginning of year.....	17,060,788	14,470,696	31,531,484
End of year..... \$	<u>9,386,247</u>	<u>14,171,211</u>	<u>23,557,458</u>

(Concluded)

**GOVERNMENTAL FUNDS
BALANCE SHEET**

JUNE 30, 2017

	General	Highway Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents.....	\$ 9,083,955	\$ -	\$ 5,785,200	\$ 14,869,155
Investments.....	626,859	-	303,359	930,218
Receivables, net of uncollectibles:				
Real estate and personal property taxes.....	604,233	-	-	604,233
Tax liens.....	648,064	-	-	648,064
Motor vehicle excise taxes.....	228,708	-	-	228,708
Departmental and other.....	8,729	-	108,706	117,435
Intergovernmental.....	4,235,435	624,112	-	4,859,547
Due from other funds.....	7,108	-	-	7,108
TOTAL ASSETS.....	\$ 15,443,091	\$ 624,112	\$ 6,197,265	\$ 22,264,468
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES				
LIABILITIES				
Warrants payable.....	\$ 309,811	\$ -	\$ 335,207	\$ 645,018
Accrued payroll.....	253,369	-	10,625	263,994
Payroll withholdings.....	379,635	-	-	379,635
Abandoned property.....	10,000	-	-	10,000
Due to other funds.....	-	7,108	-	7,108
TOTAL LIABILITIES.....	952,815	7,108	345,832	1,305,755
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue.....	5,558,204	617,004	108,706	6,283,914
Taxes paid in advance.....	29,550	-	-	29,550
TOTAL DEFERRED INFLOWS OF RESOURCES.....	5,587,754	617,004	108,706	6,313,464
FUND BALANCES				
Nonspendable.....	-	-	1,115,828	1,115,828
Restricted.....	-	-	4,621,784	4,621,784
Committed.....	394,807	-	-	394,807
Assigned.....	107,712	-	-	107,712
Unassigned.....	8,400,003	-	5,115	8,405,118
TOTAL FUND BALANCES.....	8,902,522	-	5,742,727	14,645,249
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES.....	\$ 15,443,091	\$ 624,112	\$ 6,197,265	\$ 22,264,468

See notes to basic financial statements.

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION**

JUNE 30, 2017

Total governmental fund balances.....	\$	14,645,249
Capital assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds.....		88,935,981
Accounts receivable are not available to pay for current-period expenditures and, therefore, are unavailable in the funds.....		6,283,914
Certain changes in the net pension liability are required to be included in pension expense over future periods. These changes are reported as deferred outflows of resources or (deferred inflows of resources) related to pensions.....		1,675,562
In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.....		(241,142)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds		
Bonds payable.....	(30,372,542)	
Compensated absences.....	(950,068)	
Net pension liability.....	(28,728,257)	
Other postemployment benefits.....	(41,862,450)	
Net effect of reporting long-term liabilities.....		<u>(101,913,317)</u>
Net position of governmental activities.....	\$	<u>9,386,247</u>

See notes to basic financial statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

YEAR ENDED JUNE 30, 2017

	General	Highway Projects	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:				
Real estate and personal property taxes, net of tax refunds.....	\$ 47,196,783	\$ -	\$ -	\$ 47,196,783
Tax liens.....	517,440	-	-	517,440
Motor vehicle excise taxes.....	3,491,377	-	-	3,491,377
Meals tax.....	329,634	-	-	329,634
Penalties and interest on taxes.....	376,144	-	-	376,144
Licenses and permits.....	952,788	-	-	952,788
Fines and forfeitures.....	59,059	-	-	59,059
Intergovernmental.....	14,818,808	538,015	2,386,795	17,743,618
Departmental and other.....	1,756,033	-	3,725,628	5,481,661
Contributions.....	-	-	258,786	258,786
Investment income.....	138,627	-	54,380	193,007
TOTAL REVENUES.....	69,636,693	538,015	6,425,589	76,600,297
EXPENDITURES:				
Current:				
General government.....	3,209,410	-	993,235	4,202,645
Public safety.....	7,840,330	-	186,092	8,026,422
Education.....	27,956,881	-	4,259,272	32,216,153
Public works.....	2,133,047	543,360	1,827,130	4,503,537
Human services.....	642,965	-	139,357	782,322
Culture and recreation.....	1,284,766	-	69,277	1,354,043
Pension benefits.....	11,350,914	-	-	11,350,914
Employee benefits.....	8,574,943	-	-	8,574,943
State and county charges.....	1,501,525	-	-	1,501,525
Debt service:				
Principal.....	3,395,000	-	-	3,395,000
Interest.....	1,159,046	-	-	1,159,046
TOTAL EXPENDITURES.....	69,048,827	543,360	7,474,363	77,066,550
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	587,866	(5,345)	(1,048,774)	(466,253)
OTHER FINANCING SOURCES (USES):				
Proceeds from issuance of bonds.....	-	-	1,513,000	1,513,000
Premium from issuance of bonds.....	28,736	-	-	28,736
Transfers in.....	1,284,362	-	105,997	1,390,359
Transfers out.....	(105,997)	-	(372,984)	(478,981)
TOTAL OTHER FINANCING SOURCES (USES)...	1,207,101	-	1,246,013	2,453,114
NET CHANGE IN FUND BALANCES.....	1,794,967	(5,345)	197,239	1,986,861
FUND BALANCES AT BEGINNING OF YEAR.....	7,107,555	5,345	5,545,488	12,658,388
FUND BALANCES AT END OF YEAR.....	\$ 8,902,522	\$ -	\$ 5,742,727	\$ 14,645,249

See notes to basic financial statements.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

YEAR ENDED JUNE 30, 2017

Net change in fund balances - total governmental funds.....	\$	1,986,861
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>		
Capital outlay.....	883,758	
Depreciation expense.....	<u>(3,630,612)</u>	
Net effect of reporting capital assets.....		(2,746,854)
<p>Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in unavailable revenue.....</p>		
		(3,246,638)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.</p>		
Proceeds from issuance of bonds.....	(1,513,000)	
Premium from issuance of bonds, net of issue costs.....	(28,736)	
Debt service principal payments.....	<u>3,395,000</u>	
Net effect of reporting long-term debt.....		1,853,264
Net change in accrued interest on long-term debt.....	17,597	
Amortization of bond premiums.....	<u>106,090</u>	
Net effect of reporting other debt related activity.....		123,687
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.</p>		
Net change in compensated absences accrual.....	58,082	
Net change in deferred outflow/(inflow) of resources related to pensions.....	(2,098,832)	
Net change in net pension liability.....	2,874,427	
Net change in other postemployment benefits accrual.....	<u>(6,478,538)</u>	
Net effect of recording long-term liabilities.....		(5,644,861)
Change in net position of governmental activities.....	\$	<u><u>(7,674,541)</u></u>

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF NET POSITION

JUNE 30, 2017

	Business-type Activities - Enterprise Funds		
	Sewer Enterprise	Water Enterprise	Total
ASSETS			
CURRENT:			
Cash and cash equivalents.....	\$ 2,502,138	\$ 1,143,677	\$ 3,645,815
Receivables, net of allowance for uncollectibles:			
User fees.....	2,028,177	1,425,297	3,453,474
Total current assets.....	4,530,315	2,568,974	7,099,289
NONCURRENT:			
Capital assets, net of accumulated depreciation:			
Nondepreciable.....	215,801	-	215,801
Depreciable.....	5,832,175	6,907,934	12,740,109
Total noncurrent assets.....	6,047,976	6,907,934	12,955,910
TOTAL ASSETS.....	10,578,291	9,476,908	20,055,199
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows related to pensions.....	136,089	123,689	259,778
LIABILITIES			
CURRENT:			
Warrants payable.....	71,962	5,347	77,309
Accrued payroll.....	5,664	10,204	15,868
Compensated absences.....	4,746	4,924	9,670
Bonds payable.....	75,756	360,287	436,043
Total current liabilities.....	158,128	380,762	538,890
NONCURRENT:			
Compensated absences.....	18,984	19,695	38,679
Net pension liability.....	1,154,742	1,049,527	2,204,269
Other postemployment benefits.....	558,123	599,506	1,157,629
Bonds payable.....	341,408	1,731,676	2,073,084
Total noncurrent liabilities.....	2,073,257	3,400,404	5,473,661
TOTAL LIABILITIES.....	2,231,385	3,781,166	6,012,551
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows related to pensions.....	68,739	62,476	131,215
NET POSITION			
Net investment in capital assets.....	6,611,485	4,968,462	11,579,947
Unrestricted.....	1,802,771	788,493	2,591,264
TOTAL NET POSITION.....	\$ 8,414,256	\$ 5,756,955	\$ 14,171,211

See notes to basic financial statements.

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

	Business-type Activities - Enterprise Funds		
	Sewer Enterprise	Water Enterprise	Total
OPERATING REVENUES:			
Charges for services.....	\$ 5,376,450	\$ 4,244,044	\$ 9,620,494
OPERATING EXPENSES:			
Cost of services and administration.....	398,235	507,050	905,285
MWRA Assessment.....	4,542,049	3,182,930	7,724,979
Depreciation.....	222,705	174,148	396,853
TOTAL OPERATING EXPENSES.....	5,162,989	3,864,128	9,027,117
OPERATING INCOME (LOSS).....	213,461	379,916	593,377
NONOPERATING REVENUES (EXPENSES):			
Investment income.....	7,693	10,823	18,516
INCOME (LOSS) BEFORE TRANSFERS.....	221,154	390,739	611,893
TRANSFERS:			
Transfers out.....	(481,313)	(430,065)	(911,378)
CHANGE IN NET POSITION.....	(260,159)	(39,326)	(299,485)
NET POSITION AT BEGINNING OF YEAR.....	8,674,415	5,796,281	14,470,696
NET POSITION AT END OF YEAR.....	\$ 8,414,256	\$ 5,756,955	\$ 14,171,211

See notes to basic financial statements.

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

	Business-type Activities - Enterprise Funds		
	Sewer Enterprise	Water Enterprise	Total
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users.....	\$ 5,787,024	\$ 4,729,569	\$ 10,516,593
Payments to vendors.....	(4,673,637)	(3,443,398)	(8,117,035)
Payments to employees.....	(488,862)	(426,090)	(914,952)
NET CASH FROM OPERATING ACTIVITIES.....	<u>624,525</u>	<u>860,081</u>	<u>1,484,606</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Transfers out.....	(481,313)	(430,065)	(911,378)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition and construction of capital assets.....	(177,268)	(1,214,674)	(1,391,942)
Principal payments on bonds and notes.....	(147,136)	(500,645)	(647,781)
NET CASH FROM CAPITAL AND RELATED FINANCING ACTIVITIES.....	<u>(324,404)</u>	<u>(1,715,319)</u>	<u>(2,039,723)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Investment income.....	7,693	10,823	18,516
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	(173,499)	(1,274,480)	(1,447,979)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR.....	<u>2,675,637</u>	<u>2,418,157</u>	<u>5,093,794</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR.....	<u>\$ 2,502,138</u>	<u>\$ 1,143,677</u>	<u>\$ 3,645,815</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH			
FROM OPERATING ACTIVITIES:			
Operating income (loss).....	\$ 213,461	\$ 379,916	\$ 593,377
Adjustments to reconcile operating income (loss) to net cash from operating activities:			
Depreciation.....	222,705	174,148	396,853
Deferred (outflows)/inflows related to pensions.....	131,015	109,213	240,228
Changes in assets and liabilities:			
User fees.....	410,574	485,525	896,099
Warrants payable.....	68,021	(5,376)	62,645
Accrued payroll.....	996	(879)	117
Accrued compensated absences.....	(2,470)	2,191	(279)
Net pension liability.....	(506,151)	(377,435)	(883,586)
Other postemployment benefits.....	86,374	92,778	179,152
Total adjustments.....	<u>411,064</u>	<u>480,165</u>	<u>891,229</u>
NET CASH FROM OPERATING ACTIVITIES.....	<u>\$ 624,525</u>	<u>\$ 860,081</u>	<u>\$ 1,484,606</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2017

	Pension Trust Fund (as of December 31, 2016)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds	Agency Funds
ASSETS				
Cash and cash equivalents.....	\$ 62,838	\$ 50,000	\$ 1,168,688	\$ 366,009
Investments:				
Equity mutual funds.....	33,754,581	-	-	-
Equity securities.....	-	-	283,733	-
Fixed income mutual funds.....	15,667,815	-	-	-
Pension Reserve Investment Trust.....	30,320,010	-	-	-
Receivables, net of allowance for uncollectibles:				
Departmental and other.....	100,680	-	-	-
TOTAL ASSETS.....	79,905,924	50,000	1,452,421	366,009
LIABILITIES				
Warrants payable.....	8,188	-	2	12,493
Liabilities due depositors.....	-	-	-	314,867
TOTAL LIABILITIES.....	8,188	-	2	327,360
NET POSITION				
Restricted for pension benefits.....	79,897,736	-	-	-
Restricted for OPEB benefits.....	-	50,000	-	-
Held in trust for pension benefits and other purposes.....	-	-	1,452,419	-
	<u>\$ 79,897,736</u>	<u>\$ 50,000</u>	<u>\$ 1,452,419</u>	<u>\$ -</u>

See notes to basic financial statements.

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION

YEAR ENDED JUNE 30, 2017

	Pension Trust Fund (as of December 31, 2016)	Other Postemployment Benefit Trust Fund	Private Purpose Trust Funds
ADDITIONS:			
Contributions:			
Employer contribution to the trust.....	\$ 5,690,889	\$ 50,000	\$ -
Employer contribution to pay for OPEB benefits.....	-	3,919,163	-
Member contributions.....	1,376,935	-	-
Member contributions - transfers from other systems.....	385,031	-	-
Retirement benefits - 3(8)c contributions from other systems.....	213,324	-	-
Retirement benefits - state COLA reimbursements.....	102,032	-	-
Private donations.....	-	-	90,442
Total contributions.....	7,768,211	3,969,163	90,442
Net investment income (loss):			
Net change in fair value of investments.....	4,698,664	-	-
Investment income.....	2,116,105	-	57,107
Total investment income (loss).....	6,814,769	-	57,107
Less: investment expense.....	(338,718)	-	-
Net investment income (loss).....	6,476,051	-	57,107
TOTAL ADDITIONS.....	14,244,262	3,969,163	147,549
DEDUCTIONS:			
Administration.....	282,419	-	-
Retirement benefits - transfers to other systems.....	283,017	-	-
Retirement benefits - 3(8)c transfers to other systems.....	262,997	-	-
Retirement benefits and refunds.....	7,361,345	-	-
OPEB benefits.....	-	3,919,163	-
Educational scholarships.....	-	-	54,993
TOTAL DEDUCTIONS.....	8,189,778	3,919,163	54,993
CHANGE IN NET POSITION.....	6,054,484	50,000	92,556
NET POSITION AT BEGINNING OF YEAR.....	73,843,252	-	1,359,863
NET POSITION AT END OF YEAR.....	\$ 79,897,736	\$ 50,000	\$ 1,452,419

See notes to basic financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Stoneham, Massachusetts (Town) 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 recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting policies are described herein.

A. Reporting Entity

The Town of Stoneham, Massachusetts is a municipal corporation governed by an elected five member Board of Selectmen and an appointed Town Administrator.

For financial reporting purposes, the Town has included all funds, organizations, agencies, boards, commissions and institutions. 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 significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. As required by GAAP, these basic financial statements present the Town (the primary government) and its component units. One entity has been included as a component unit in the reporting entity, because of the significance of its operational and/or financial relationship.

Component Unit Presented as a Fiduciary Fund – The following component unit is presented as a fiduciary fund of the primary government due to the nature and significance of the relationship between the Town and the component unit.

The Stoneham Contributory Retirement System (System) was established to provide retirement benefits to Town 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 Board of Selectmen and one member appointed by the Retirement Board's members. The System is presented using the accrual basis of accounting and is reported as a Pension Trust Fund.

The System also issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). This report may be obtained by contacting the System located at 35 Central Street, Stoneham, Massachusetts 02180.

Joint Ventures – The Town is a member of the Northeast Metropolitan Regional Vocational High School which serves the members students seeking an education in academic and technical studies. The members share in the operations of the Northeast Metropolitan Regional Vocational High School and each member is responsible for its proportionate share of the operational and capital cost of the Northeast Metropolitan Regional Vocational High School, which are paid in the form of assessments. The Town does not have an equity interest in the Northeast Metropolitan Regional Vocational High School and the 2017 assessment was \$970,818.

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

The government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units.

Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

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.

Major Fund Criteria

Major funds must be reported if the following criteria are met:

- If the total assets, and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), *and*
- If the total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding element for all governmental and enterprise funds combined.

Additionally, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

Fiduciary funds are reported by fund type.

C. Measurement Focus, Basis of Accounting and Financial Statement 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 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 particular 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 particular function or segment.
- Grants and contributions those are restricted to meeting the capital requirements of a particular function or segment.

Taxes and other items not identifiable as program revenues are reported as general revenues.

For the most part, the effect of interfund activity has been removed from the government-wide financial statements. Exceptions are charges between the general fund and enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the functions affected.

Fund Financial Statements

Governmental fund 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.

The Town considers property tax revenues available if they are collected within 60 days after year-end. 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 the primary operating fund. It is used to account for all financial resources, except those that are required to be accounted for in another fund.

The *highway projects fund* is used to account for and report costs incurred with the construction and reconstruction of Town owned roadways. Costs charged to the fund are subject to reimbursement by the Commonwealth of Massachusetts.

The nonmajor governmental funds consist of special revenue, other capital projects, 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:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than permanent funds or capital projects.

The *capital projects fund* is 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 of the governmental funds.

The *permanent fund* is used to account for and report financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Proprietary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Under this method, 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 major proprietary funds are reported:

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

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

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

The *agency fund* is used to account for assets held in a purely custodial capacity. Agency funds apply the accrual basis of accounting but do not have a measurement focus. The Town's agency fund consists of off-duty work details, performance bonds, student activity accounts and fees collected on behalf of other governments.

D. Cash 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.

E. Fair Value Measurements

The Town reports required types of financial instruments in accordance with the fair value standards. These standards require an entity to maximize the use of observable inputs (such as quoted prices in active markets) and minimize the use of unobservable inputs (such as appraisals or valuation techniques) to determine fair value. Fair value standards also require the government to classify these financial instruments into a three-level hierarchy, based on the priority of inputs to the valuation technique or in accordance with net asset value practical expedient rules, which allow for either Level 2 or Level 3 depending on lock up and notice periods associated with the underlying funds.

Instruments measured and reported at fair value are classified and disclosed in one of the following categories:

Level 1 – Quoted prices are available in active markets for identical instruments as of the reporting date. Instruments, which are generally included in this category, include actively traded equity and debt securities, U.S.

government obligations, and mutual funds with quoted market prices in active markets.

Level 2 – Pricing inputs are other than quoted in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Certain fixed income securities, primarily corporate bonds, are classified as Level 2 because fair values are estimated using pricing models, matrix pricing, or discounted cash flows.

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the Town's financial instruments, see Note 2 – Cash and Investments.

F. Accounts Receivable

Government-Wide and Fund Financial Statements

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

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

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

Tax liens are processed annually on delinquent properties and are recorded as receivables in the year they are processed.

Real estate receivables are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Personal property taxes cannot be secured through the lien process. The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

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 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.

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

User Fees

Sewer and water user fees are levied quarterly or monthly based on usage and are calculated based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Sewer and water liens are processed annually and are included as a lien on the property owner's tax bill in the following year. Sewer and water user fees are recorded as receivables in the year of the levy. Unbilled user fees are estimated at year-end and are recorded as revenue in the current period.

Sewer and water user fees are secured via the tax lien process and are considered 100% collectible. Accordingly, an allowance for uncollectibles is not reported.

Departmental and Other

Departmental and other receivables consist primarily of uncollected trash fees and police detail charges.

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

Intergovernmental

Various federal and state grants for operating and capital purposes 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.

These receivables are considered 100% collectible and therefore do not report an allowance for uncollectibles.

G. Inventories

Government-Wide and Fund Financial Statements

Inventories are recorded as expenditures at the time of purchase. Such inventories are not material in total to the government-wide and fund financial statements, and therefore are not reported.

H. Capital Assets

Government-Wide and Proprietary Fund Financial Statements

Capital assets, which include land, land improvements, buildings, machinery and equipment, vehicles, and infrastructure (e.g., roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government-wide financial statements. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets; donated works of art, historical treasures and similar assets; and capital assets received in service concession arrangements are recorded at acquisition value. Construction period interest is capitalized on constructed capital assets except for the capital assets of the governmental activities column in the government-wide financial statements.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

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

<u>Capital Asset Type</u>	<u>Estimated Useful Life (in years)</u>
Buildings.....	10-40
Land improvements.....	15-40
Machinery and equipment.....	5-20
Vehicles.....	5-15
Infrastructure.....	10-60

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. Improvements are capitalized.

Governmental Fund Financial Statements

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

I. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

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 then. The Town has reported deferred outflows of resources related to pensions in this category.

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

Governmental Fund Financial Statements

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents assets that have been recorded in the governmental fund financial statements but the revenue is not available and so will not be recognized as an inflow of resources (revenue) until it becomes available. The Town has reported unavailable revenue as deferred inflows of resources in the governmental funds balance sheet.

J. Interfund Receivables and Payables

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

Government-Wide Financial Statements

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 and within 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.

K. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out.

Government-Wide Financial Statements

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

L. Net Position and Fund Equity*Government-Wide Financial Statements (Net Position)*

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net position has been “restricted for” the following:

“Permanent funds - expendable” represents the amount of realized and unrealized investment earnings on donor restricted trusts. The restrictions and trustee policies only allow the trustees to approve spending of the realized investment earnings.

“Permanent funds - nonexpendable” represents the endowment portion of donor restricted trusts that support governmental programs.

“Gifts and grants” represents assets that have restrictions placed on them from outside parties.

Sometimes the Town will fund outlays for a particular purpose from both restricted and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the Town’s policy to consider restricted net position to have been depleted before unrestricted net position is applied.

Fund Financial Statements (Fund Balances)

Governmental fund equity is classified as fund balance. Fund balance is further classified as follows:

“Nonspendable” fund balance includes amounts that cannot be spent because they are either not in spendable form or they are legally or contractually required to be maintained intact.

“Restricted” fund balance includes amounts subject to constraints placed on the use of resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or that are imposed by law through constitutional provisions or enabling legislation.

“Committed” fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority. Town Meeting is the highest level of decision making authority that can, by Town Meeting vote, commit funds for a specific purpose. Once voted, the limitation imposed by the vote remains in place until the funds are used for their intended purpose or a vote is taken to rescind the commitment.

“Assigned” fund balance includes amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. The Town’s by-laws authorize the Town Accountant to assign fund balance. Assignments generally only exist temporarily. Additional action does not have to be taken for the removal of an assignment.

“Unassigned” fund balance includes the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

Sometimes the Town will fund outlays for a particular purpose from different components of fund balance. In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. When different components of fund balance can be used for the same purpose, it is the Town’s policy to consider restricted fund balance to have been depleted first, followed by committed fund balance, and assigned fund balance. Unassigned fund balance is applied last.

M. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of both the Stoneham Contributory Retirement System and the Massachusetts Teachers Retirement System and additions to/deductions from the Systems fiduciary net position have been determined on the same basis as they are reported by the Systems. 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.

N. Long-term debt*Government-Wide and Proprietary Fund Financial Statements*

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

Governmental Fund Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources. 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.

O. 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).

P. 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.

Q. 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 year. Actual results could vary from estimates that were used.

R. 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 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 – CASH AND INVESTMENTS

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as "Cash and Cash Equivalents". The deposits and investments of the trust funds are held separately from those of other funds.

Statutes authorize the investment in obligations of the U.S. Treasury, agencies, and instrumentalities, certificates of deposit, repurchase agreements, money market accounts, bank deposits and the State Treasurer's Investment Pool (Pool). The Treasurer may also invest trust funds in securities, other than mortgages or collateral loans, which are legal for the investment of funds of savings banks under the laws of the Commonwealth.

The Pool meets the criteria of an external investment pool. The Pool is administered by the Massachusetts Municipal Depository Trust (MMDT), which was established by the Treasurer of the Commonwealth who serves as Trustee. The fair value of the position in the Pool is the same as the value of the Pool shares.

The Pension System participates in the Pension Reserve Investment Trust (PRIT), which meets the criteria of an external investment pool. PRIT is administered by the Pension Reserves Investment Management Board, which was established by the Treasurer of the Commonwealth of Massachusetts who serves as Trustee. The fair value of the position in the PRIT is the same as the value of the PRIT shares.

Custodial Credit Risk – Deposits

In the case of deposits, this is the risk that in the event of a bank failure, the Town of Stoneham's deposits may not be returned to it. The Town does not have a formal policy related to custodial credit risk on deposits. At year-end, the carrying amount of deposits totaled \$10,851,471 and the bank balance totaled \$11,706,715. Of the bank balance, \$750,000 was covered by Federal Depository Insurance, \$1,288,992 was covered by Depositors Insurance Fund, \$1,089,141 was covered by Securities Insurance Fund, and \$8,578,582 was exposed to custodial credit risk because it was uninsured and uncollateralized.

At December 31, 2016, carrying amount of deposits for the Pension System totaled \$62,838 and the bank balance totaled \$200,692. All of the bank balance was covered by the Federal Depository Insurance and none of the funds were exposed to custodial credit risk.

Investments

As of June 30, 2017, the Town of Stoneham had the following investments:

Investment Type	<u>Fair Value</u>
Equity Securities.....	\$ 1,213,951
Money Market Mutual Funds.....	5,112,488
MMDT.....	<u>4,135,708</u>
Total Investments.....	<u>\$ 10,462,147</u>

The Town participates in MMDT, which maintains a cash portfolio and a short-term bond fund with combined average maturities of approximately 3 months.

At December 31, 2016, the Pension System had the following investments:

Investment Type	<u>Fair Value</u>
PRIT.....	\$ 30,320,010
Fixed Income Mutual Funds.....	15,667,815
Equity Mutual Funds.....	<u>33,754,581</u>
Total Investments.....	<u>\$ 79,742,406</u>

The System participates in PRIT. The effective weighted duration rate for PRIT investments ranged from .45 to 22.60 years.

Custodial Credit Risk – Investments

The Town does not have a formal policy related to custodial credit risk on investments. As of June 30, 2017, the Town’s investments in MMDT which totaled \$4,135,708 are not subject to custodial credit risk exposure because they are not evidenced by securities that exist in physical or book-entry form. The Town has custodial credit risk exposure related to the \$1,213,951 in equity securities because these securities are uninsured, unregistered and held by the counterparty.

The Pension System does not have an investment policy for custodial credit risk. At December 31, 2016, the System’s investments in PRIT totaling \$30,320,010 are not subject to custodial credit risk exposure because they are not evidenced by securities that exist in physical or book-entry form.

Interest Rate Risk

The Town does not have a formal policy related to interest rate risk.

Credit Risk

Credit risk is the risk of loss due to the failure of the security issuer or backer. The Town does not have a formal policy related to credit risk. The current practice is to review credit risk quarterly.

The Town’s investment in MMDT is unrated.

The Town places no limit on the amount the government may invest in any one issuer.

Fair Market Value of Investments

The Town holds investments that are measured at fair value on a recurring basis. Because investing is not a core part of the Town’s mission, the Town determines that the disclosures related to these investments only need to be disaggregated by major type. The Town chooses a tabular format for disclosing the levels within the fair value hierarchy.

The Town categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. 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 following table presents financial assets at June 30, 2017, that the Town measures fair value on a recurring basis, by level, within the fair value hierarchy:

Investment Type	June 30, 2017	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments Measured at Fair Value:				
Equity Securities.....	\$ 1,213,951	\$ 1,213,951	\$ -	\$ -
Money Market Mutual Funds.....	5,112,488	5,112,488	-	-
Total investments measured at fair value...	6,326,439	<u>\$ 6,326,439</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Measured at Amortized Cost:				
MMDT.....	<u>4,135,708</u>			
Total Investments.....	<u>\$ 10,462,147</u>			

Equity securities and mutual funds, classified in Level 1 of the fair value hierarchy, are valued using prices quoted in active markets for those securities. MMDT investments are valued at amortized cost. Under the amortized cost method, an investment is valued initially at its cost and adjusted for the amount of interest income accrued each day over the term of the investment to account for any difference between the initial cost and the amount payable at its maturity. If amortized cost is determined not to approximate fair value, the value of the portfolio securities will be determined under procedures established by the Advisor.

The following table presents financial assets at December 31, 2016, that the Retirement System measures fair value on a recurring basis, by level, within the fair value hierarchy:

Investment Type	December 31 2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments Measured at Fair Value:				
Equity Mutual Funds.....	\$ 33,754,581	\$ 33,754,581	\$ -	\$ -
Fixed Income Mutual Funds.....	15,667,815	-	15,667,815	-
Total investments measured at fair value...	49,422,396	<u>\$ 33,754,581</u>	<u>\$ 15,667,815</u>	<u>\$ -</u>
Investments measured at Net Asset Value:				
PRIT.....	<u>30,320,010</u>			
Total Investments.....	<u>\$ 79,742,406</u>			

The PRIT investment pool was established by the Treasurer of the Commonwealth of Massachusetts, who serves as Trustee. PRIT is administered by the Pension Reserves Investment Management Board (PRIM). The fair values of the positions in each investment Pool are the same as the value of each Pool's shares. The System does not have the ability to control any of the investment decisions relative to its funds in PRIT.

NOTE 3 – RECEIVABLES

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Real estate and personal property taxes.....	\$ 637,451	\$ (33,218)	\$ 604,233
Tax liens.....	648,064	-	648,064
Motor vehicle excise taxes.....	282,796	(54,088)	228,708
Departmental and other.....	117,435	-	117,435
Intergovernmental.....	4,859,547	-	4,859,547
 Total.....	 \$ 6,545,293	 \$ (87,306)	 \$ 6,457,987

At June 30, 2017, receivables for the proprietary funds consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<u>Receivables:</u>			
Sewer user fees.....	\$ 2,028,177	\$ -	\$ 2,028,177
Water user fees.....	1,425,297	-	1,425,297
 Total.....	 \$ 3,453,474	 \$ -	 \$ 3,453,474

Governmental funds report *deferred inflows of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. At the end of the current year, the various components of unavailable revenue reported in the governmental funds were as follows:

	General Fund	Other Governmental Funds	Total
<u>Receivable and other asset type:</u>			
Real estate and personal property taxes.....	\$ 437,268	\$ -	\$ 437,268
Tax liens.....	648,064	-	648,064
Motor vehicle excise taxes.....	228,708	-	228,708
Departmental and other.....	8,729	108,706	117,435
Intergovernmental.....	4,235,435	617,004	4,852,439
 Total.....	 \$ 5,558,204	 \$ 725,710	 \$ 6,283,914

NOTE 4 – CAPITAL ASSETS

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

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 6,258,486	\$ -	\$ -	\$ 6,258,486
<u>Capital assets being depreciated:</u>				
Land improvements.....	182,883	20,000	-	202,883
Buildings.....	108,370,729	437,366	-	108,808,095
Machinery and equipment.....	3,567,934	93,002	-	3,660,936
Vehicles.....	3,778,186	80,148	-	3,858,334
Infrastructure.....	17,626,319	253,242	-	17,879,561
Total capital assets being depreciated.....	133,526,051	883,758	-	134,409,809
<u>Less accumulated depreciation for:</u>				
Land improvements.....	(63,251)	(9,308)	-	(72,559)
Buildings.....	(37,534,215)	(2,522,832)	-	(40,057,047)
Machinery and equipment.....	(1,525,504)	(374,916)	-	(1,900,420)
Vehicles.....	(1,848,581)	(284,192)	-	(2,132,773)
Infrastructure.....	(7,130,151)	(439,364)	-	(7,569,515)
Total accumulated depreciation.....	(48,101,702)	(3,630,612)	-	(51,732,314)
Total capital assets being depreciated, net.....	85,424,349	(2,746,854)	-	82,677,495
Total governmental activities capital assets, net.....	\$ 91,682,835	\$ (2,746,854)	\$ -	\$ 88,935,981

	Beginning Balance	Increases	Decreases	Ending Balance
Sewer Enterprise Fund:				
<u>Capital assets not being depreciated:</u>				
Land.....	\$ 215,801	\$ -	\$ -	\$ 215,801
<u>Capital assets being depreciated:</u>				
Buildings.....	1,600,441	-	-	1,600,441
Vehicles.....	293,190	-	-	293,190
Infrastructure.....	5,729,051	177,268	-	5,906,319
Total capital assets being depreciated.....	7,622,682	177,268	-	7,799,950
<u>Less accumulated depreciation for:</u>				
Buildings.....	(767,206)	(57,159)	-	(824,365)
Vehicles.....	(118,359)	(36,308)	-	(154,667)
Infrastructure.....	(859,505)	(129,238)	-	(988,743)
Total accumulated depreciation.....	(1,745,070)	(222,705)	-	(1,967,775)
Total capital assets being depreciated, net.....	5,877,612	(45,437)	-	5,832,175
Total sewer enterprise fund capital assets, net.....	\$ 6,093,413	\$ (45,437)	\$ -	\$ 6,047,976

	Beginning Balance	Increases	Decreases	Ending Balance
Water Enterprise Fund:				
<u>Capital assets being depreciated:</u>				
Buildings.....	\$ 26,438	\$ -	\$ -	\$ 26,438
Vehicles.....	6,180	-	-	6,180
Infrastructure.....	7,273,850	1,214,674	-	8,488,524
Total capital assets being depreciated.....	7,306,468	1,214,674	-	8,521,142
<u>Less accumulated depreciation for:</u>				
Buildings.....	(24,382)	(588)	-	(24,970)
Vehicles.....	(5,974)	(206)	-	(6,180)
Infrastructure.....	(1,408,704)	(173,354)	-	(1,582,058)
Total accumulated depreciation.....	(1,439,060)	(174,148)	-	(1,613,208)
Total water enterprise fund capital assets, net.....	\$ 5,867,408	\$ 1,040,526	\$ -	\$ 6,907,934

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

Governmental Activities:	
General government.....	\$ 13,052
Public safety.....	650,471
Education.....	2,268,712
Public works.....	544,069
Culture and recreation.....	<u>154,308</u>
Total depreciation expense - governmental activities.....	\$ <u>3,630,612</u>
Business-Type Activities:	
Sewer.....	\$ 222,705
Water.....	<u>174,148</u>
Total depreciation expense - business-type activities.....	\$ <u>396,853</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

As of June 30, 2017, the Town has interfund receivables/payables of \$7,108 which exists between the general fund and highway improvements fund. The purpose of this balance is to cover short-term cash needs that will be funded by future grant proceeds.

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

Transfers Out:	Transfers In:		
	General Fund	Nonmajor Governmental Funds	Total
General Fund.....	\$ -	\$ 105,997	\$ 105,997 (1)
Nonmajor Governmental Funds.....	372,984	-	372,984 (2)
Sewer Enterprise Fund.....	481,313	-	481,313 (3)
Water Enterprise Fund.....	<u>430,065</u>	<u>-</u>	<u>430,065</u> (3)
Totals.....	\$ <u>1,284,362</u>	\$ <u>105,997</u>	\$ <u>1,390,359</u>

- (1) Represents budgeted transfers from the general fund to nonmajor special revenue funds for Federal Emergency Management Agency snow removal costs and trash and recycling.
- (2) Represents budgeted transfers from nonmajor special revenue funds to the general fund. These transfers consist of funds from the sale of cemetery lots, cable franchise fees, cemetery perpetual care and other trust funds. Also represents a transfer of completed projects in the nonmajor capital project fund to the general fund.
- (3) Represents budgeted transfers from the sewer and water enterprise funds to the general fund for indirect costs.

NOTE 6 – 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 or tax anticipation notes (RANS or TANS).
- Capital project costs and other approved expenditures incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BANS) or grant anticipation notes (GANS).

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.

The Town did not have any short-term debt activity during 2017.

NOTE 7 – LONG-TERM DEBT

Under the provisions of Chapter 44, Section 10, Municipal Law authorizes indebtedness up to a limit of 5% of the equalized valuation. Debt issued in accordance with this section of the law is designated as being "inside the debt limit". In addition, however, debt may be authorized in excess of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit".

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

Bonds and Notes Payable Schedule – Governmental Funds

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2016	Issued	Redeemed	Outstanding at June 30, 2017
General Obligation Refunding Bonds 2010.....	2021	\$ 13,845,000	2.25-5.00	\$ 6,370,000	\$ -	\$ (1,410,000)	\$ 4,960,000
General Obligation Bonds 2010.....	2030	1,005,000	2.00-5.00	710,000	-	(60,000)	650,000
General Obligation Bonds 2011.....	2031	2,362,000	2.00-4.00	1,525,000	-	(130,000)	1,395,000
General Obligation Refunding Bonds 2012.....	2023	7,675,000	2.00-4.00	4,810,000	-	(790,000)	4,020,000
General Obligation Bonds 2013.....	2033	17,225,000	2.00-4.00	15,375,000	-	(655,000)	14,720,000
General Obligation Refunding Bonds 2016.....	2022	699,000	2.00-3.00	699,000	-	(120,000)	579,000
General Obligation Bonds 2016.....	2031	2,121,000	2.00-3.00	2,121,000	-	(230,000)	1,891,000
General Obligation Bonds 2017.....	2042	1,513,000	3.00-4.00	-	1,513,000	-	1,513,000
Total bonds payable.....				31,610,000	1,513,000	(3,395,000)	29,728,000
Add: unamortized premium.....				721,896	28,736	(106,090)	644,542
Total bonds payable, net.....				\$ 32,331,896	\$ 1,541,736	\$ (3,501,090)	\$ 30,372,542

Debt service requirements for principal and interest for Governmental bonds payable in future years are as follows:

Year	Principal	Interest	Total
2018.....	\$ 3,428,000	\$ 1,059,739	\$ 4,487,739
2019.....	3,420,000	928,716	4,348,716
2020.....	3,160,000	788,963	3,948,963
2021.....	3,005,000	659,162	3,664,162
2022.....	1,880,000	566,015	2,446,015
2023.....	1,665,000	502,562	2,167,562
2024.....	1,205,000	443,238	1,648,238
2025.....	1,245,000	396,912	1,641,912
2026.....	1,290,000	349,286	1,639,286
2027.....	1,265,000	299,888	1,564,888
2028.....	1,290,000	250,938	1,540,938
2029.....	1,310,000	210,461	1,520,461
2030.....	1,350,000	169,536	1,519,536
2031.....	1,345,000	127,438	1,472,438
2032.....	1,195,000	88,288	1,283,288
2033.....	1,220,000	52,438	1,272,438
2034.....	55,000	14,374	69,374
2035.....	55,000	12,726	67,726
2036.....	55,000	11,076	66,076
2037.....	55,000	9,422	64,422
2038.....	45,000	7,636	52,636
2039.....	45,000	6,174	51,174
2040.....	45,000	4,712	49,712
2041.....	50,000	3,250	53,250
2042.....	50,000	1,624	51,624
Totals.....	<u>\$ 29,728,000</u>	<u>\$ 6,964,574</u>	<u>\$ 36,692,574</u>

Bonds and Notes Payable Schedule –Sewer Enterprise Fund

The Town is a member of the Massachusetts Water Resources Authority (MWRA) which offers its members interest free loans for various purposes. All of the Town’s Sewer Enterprise Fund and Water Enterprise Fund debt is issued through this program. The interest imputed on the remaining life of the 0% MWRA bonds totaled approximately \$40,000 for the Sewer Enterprise Fund and \$201,000 for the Water Enterprise Fund. However, the cost on a yearly basis is deemed immaterial. No adjustments have been made to recognize the imputed interest.

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

Project	Maturities Through	Original Loan Amount	Interest Rate (%)	Outstanding at June 30, 2016	Issued	Redeemed	Outstanding at June 30, 2017
Sewer - MWRA.....	2026	\$ 868,999	0.00	\$ 564,300	-	\$ (147,136)	\$ 417,164

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018.....	\$ 75,756	\$ -	\$ 75,756
2019.....	73,258	-	73,258
2020.....	55,450	-	55,450
2021.....	50,450	-	50,450
2022.....	45,450	-	45,450
2023.....	30,450	-	30,450
2024.....	30,450	-	30,450
2025.....	30,450	-	30,450
2026.....	<u>25,450</u>	<u>-</u>	<u>25,450</u>
Totals.....	<u>\$ 417,164</u>	<u>\$ -</u>	<u>\$ 417,164</u>

Bonds and Notes Payable Schedule – Water Enterprise Fund

<u>Project</u>	<u>Maturities Through</u>	<u>Original Loan Amount</u>	<u>Interest Rate (%)</u>	<u>Outstanding at June 30, 2016</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2017</u>
Water - MWRA.....	2026	\$ 4,075,360	0.00	\$ 2,592,608	\$ -	\$ (500,645)	\$ 2,091,963

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

<u>Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018.....	\$ 360,287	\$ -	\$ 360,287
2019.....	349,186	-	349,186
2020.....	311,186	-	311,186
2021.....	286,786	-	286,786
2022.....	197,786	-	197,786
2023.....	174,785	-	174,785
2024.....	144,147	-	144,147
2025.....	133,900	-	133,900
2026.....	<u>133,900</u>	<u>-</u>	<u>133,900</u>
Totals.....	<u>\$ 2,091,963</u>	<u>\$ -</u>	<u>\$ 2,091,963</u>

The Commonwealth has approved school construction assistance to the Town. The assistance program, which is administered by the Massachusetts School Building Authority (MSBA), provides resources for future debt service of general obligation school bonds outstanding. During 2017, \$1,148,092 of such assistance was received. Approximately \$4,470,000 will be received in future years. Of this amount, approximately \$234,000 represents reimbursement of long-term interest costs, and approximately \$4,235,000 represents reimbursement of approved construction cost. Accordingly, a \$4,235,000 intergovernmental receivable and corresponding unavailable revenue have been reported in the governmental fund financial statements. The net change in unavailable revenue has been recognized as revenue in the conversion to the government-wide financial statements.

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

Purpose	Amount
School feasibility study.....	\$ 28,325
Golf course irrigation system.....	510,500
Middle school construction - exempt.....	1,096,232
Drainage study.....	100,000
Sewer (Phase 10).....	610,500
Total.....	\$ 2,345,557

Changes in long-term liabilities

During the year ended June 30, 2017, the following changes occurred in long-term liabilities:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Governmental Activities:					
Long-Term Bonds.....	\$ 31,610,000	\$ 1,513,000	\$ (3,395,000)	\$ 29,728,000	\$ 3,428,000
Add: Unamortized Premium.....	721,896	28,736	(106,090)	644,542	73,678
Total Long-Term Bonds.....	32,331,896	1,541,736	(3,501,090)	30,372,542	3,501,678
Compensated Absences.....	1,008,150	143,548	(201,630)	950,068	190,014
Net Pension Liability.....	31,602,684	2,269,156	(5,143,583)	28,728,257	-
Other Postemployment Benefits.....	35,383,912	9,994,522	(3,515,984)	41,862,450	-
Total governmental activities.....	<u>\$ 100,326,642</u>	<u>\$ 13,948,962</u>	<u>\$ (12,362,287)</u>	<u>\$ 101,913,317</u>	<u>\$ 3,691,692</u>
Business-Type Activities:					
Long-Term Bonds.....	\$ 3,156,908	-	\$ (647,781)	\$ 2,509,127	\$ 436,043
Compensated Absences.....	48,628	9,447	(9,726)	48,349	9,670
Net Pension Liability.....	3,087,855	(488,928)	(394,658)	2,204,269	-
Other Postemployment Benefits.....	978,477	312,513	(133,361)	1,157,629	-
Total business-type activities.....	<u>\$ 7,271,868</u>	<u>\$ (166,968)</u>	<u>\$ (1,185,526)</u>	<u>\$ 5,919,374</u>	<u>\$ 445,713</u>

NOTE 8 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

The Town classifies fund balances according to the constraints imposed on the use of the resources. There are two major types of fund balances, which are nonspendable and spendable.

Nonspendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact. Examples of this classification are prepaid items, inventories, and principal (corpus) of an endowment fund. The Town has reported principal portions of endowment funds as nonspendable.

Spendable fund balances are classified based on a hierarchy of spending constraints.

- **Restricted:** fund balances that are constrained by external parties, constitutional provisions, or enabling legislation.

- **Committed:** fund balances that contain self-imposed constraints of the government from its highest level of decision making authority.
- **Assigned:** fund balances that contain self-imposed constraints of the government to be used for a particular purpose.
- **Unassigned:** fund balance of the general fund that is not constrained for any particular purpose.

At year end, the Town’s general stabilization fund and capital stabilization fund totaled approximately \$2,850,872 and \$333,082, respectively. Both of the stabilization funds have been reported within the general fund as unassigned.

The Town has classified its governmental fund balances with the following hierarchy:

	<u>General</u>	<u>Highway Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
FUND BALANCES				
Nonspendable:				
Permanent fund principal..... \$	-	-	\$ 1,115,828	\$ 1,115,828
Restricted for:				
Town revolving funds.....	-	-	56,338	56,338
Town gift and grant funds.....	-	-	290,716	290,716
Town other funds.....	-	-	2,701,872	2,701,872
School lunch.....	-	-	37,452	37,452
School gift and grant funds.....	-	-	74,636	74,636
School other funds.....	-	-	178,360	178,360
Receipts reserved for appropriation....	-	-	216,639	216,639
Special revenue trust funds.....	-	-	19,415	19,415
High School Boilers.....	-	-	148,256	148,256
Other capital projects.....	-	-	587,195	587,195
Cemeteries.....	-	-	791	791
Cemetery perpetual care.....	-	-	68,034	68,034
Libraries.....	-	-	203,221	203,221
Other permanent funds.....	-	-	43,974	43,974
Committed to:				
General government.....	130,192	-	-	130,192
Public safety.....	101,135	-	-	101,135
Education.....	9,138	-	-	9,138
Public works.....	29,983	-	-	29,983
Culture and recreation.....	32,574	-	-	32,574
Employee benefits.....	91,785	-	-	91,785
Assigned to:				
General government.....	25,347	-	-	25,347
Public safety.....	12,886	-	-	12,886
Education.....	35,014	-	-	35,014
Public works.....	23,725	-	-	23,725
Human services.....	6,379	-	-	6,379
Culture and recreation.....	4,361	-	-	4,361
Unassigned.....	<u>8,400,003</u>	-	-	<u>8,400,003</u>
TOTAL FUND BALANCES..... \$	<u><u>8,902,522</u></u> \$	<u><u>-</u></u> \$	<u><u>5,742,727</u></u> \$	<u><u>14,645,249</u></u>

NOTE 9 – 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 amount of claim settlements has not exceeded insurance coverage during the year.

Workers' Compensation

The Town is a part of a premium-based self-insurance group which insures worker's compensation, and general and personal liability, through the Massachusetts Inter-Local Insurance Association (MIIA). Additionally, the Town is entirely self-insured for police and fire employee's unemployment. The Town essentially transfers its risk through payment of its annual assessment which is adjusted according to the Town's experience history. All other insurance is carried through conventional carriers.

NOTE 10 – PENSION PLAN***Plan Descriptions***

The Town is a member of the Stoneham Contributory Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan covering eligible employees of the 2 member units. The System is administered by five board members (Board) on behalf of all current employees and retirees except for current teachers and retired teachers. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. The System is a component unit and is reported as a pension trust fund in the fiduciary fund financial statements. The Town is a member of the Massachusetts Teachers' Retirement System (MTRS), a cost-sharing multi-employer defined benefit plan. MTRS is managed by the Commonwealth of Massachusetts (Commonwealth) on behalf of municipal teachers and municipal teacher retirees. The Commonwealth is a nonemployer contributor and is responsible for 100% of the contributions and future benefit requirements of the MTRS. The MTRS covers certified teachers in cities (except Boston), towns, regional school districts, charter schools, educational collaboratives and Quincy College. The MTRS is part of the Commonwealth's reporting entity and the audited financial report may be obtained by visiting <http://www.mass.gov/osc/publications-and-reports/financial-reports/>.

Special Funding Situation

The Commonwealth is a nonemployer contributor and is required by statute to make 100% of all actuarially determined employer contributions on behalf of the Town to the MTRS. Therefore, the Town 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 contributor in MTRS. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. The total of the Commonwealth provided contributions have been allocated based on each employer's covered payroll to the total covered payroll of employers in MTRS as of the measurement date of June 30, 2016. The Town's portion of the collective pension expense, contributed by the Commonwealth, of \$5,812,673 is reported in the general fund as intergovernmental revenue and pension benefits in the current year. The portion of the Commonwealth's collective net pension liability associated with the Town is \$56,983,323 as of the measurement date.

Benefits Provided

Both Systems provide retirement, disability, survivor and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are, with certain minor exceptions, uniform from system to system. The Systems provide retirement allowance benefits up to a maximum of 80% of a member's highest

three-year average annual rate of regular compensation. 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. Members become vested after ten years of creditable service.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Board and are borne by the System.

At December 31, 2016, the SCRS membership consists of the following:

Active members.....	274
Inactive members.....	74
Retirees and beneficiaries currently receiving benefits.....	<u>282</u>
Total.....	<u>630</u>

Contributions

Chapter 32 of the MGL governs the contributions of plan members and member units. Active plan members are required to contribute at rates ranging from 5% to 9% of gross regular compensation with an additional 2% contribution required for compensation exceeding \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the ACRS a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The total member units' contribution for the year ended December 31, 2016, was \$5,690,889, 39.4% of covered payroll, actuarially determined as an amount that, when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability. The Town's proportionate share of the required contribution was \$5,538,241 which equaled its actual contribution.

Pension Liabilities

The components of the net pension liability of the participating member units at June 30, 2017, were as follows:

Total pension liability.....	\$ 111,691,230
The pension plan's fiduciary net position.....	<u>(79,897,736)</u>
Total net pension liability.....	<u>\$ 31,793,494</u>
The pension plan's fiduciary net position as a percentage of the total pension liability.....	71.53%

At June 30, 2017, the Town reported a liability of \$30,932,526 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2016, and the total pension liability used to

calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. Accordingly, 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 members. At December 31, 2016, the Town's proportion was 97.29%, which increased by 0.03% from its proportion measured at December 31, 2015.

Pension Expense

For the year ended June 30, 2017, the Town recognized pension expense of \$4,119,288. At June 30, 2017, the Town reported deferred outflows/(inflows) of resources related to pensions of \$1,804,125, from the net difference between projected and actual investment earnings on pension plan investments.

The balances of deferred outflows and inflows at June 30, 2017 consist of the following:

Deferred category	Deferred Outflows of Resources	Deferred Inflows of Resources	Total
<i>Pension Related</i>			
Differences between expected and actual experience.....	\$ -	\$ (1,739,604)	\$ (1,739,604)
Changes of assumptions.....	1,039,581	-	1,039,581
Difference between projected and actual earnings.....	2,605,814	-	2,605,814
Changes in proportionate share of contributions.....	66	(101,732)	(101,666)
 Total Pension Related.....	 3,645,461	 (1,841,336)	 1,804,125
Taxes paid in advance.....	-	(29,550)	(29,550)
Total Deferred Outflows/(Inflows) of Resources.....	\$ 3,645,461	\$ (1,870,886)	\$ 1,774,575

The deferred outflows of resources related to pensions will be recognized in pension expense and the taxes paid in advance will be recognized as revenue as follows:

Year ended June 30:

2018.....	\$ 667,073
2019.....	696,624
2020.....	677,430
2021.....	(266,552)
Total.....	\$ 1,774,575

Actuarial Assumptions

The total pension liability in the January 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2016:

Valuation date.....	January 1, 2016
Actuarial cost method.....	Entry Age Normal Cost Method.
Amortization method.....	Level 7.85% increase of contribution amount
Remaining amortization period.....	7 years for the fresh start base
Asset valuation method.....	Market value adjusted by accounts payable and receivables adjusted to phase in over 5 years investment gains or losses above or below the expected rate of investment return. The actuarial value of assets must be no less than 85% of the adjusted market value nor more than 115% of the adjusted market value.
Investment rate of return.....	7.75%, previously 7.875%
Discount rate.....	7.75%, previously 7.875%
Projected salary increases.....	4.25% Ultimate rate, plus the following steps and longevity: <ul style="list-style-type: none"> • Group 1 and 2: 3.75% base rate plus 2.00% for the first 8 years of service • Group 4: 3.75% base rate plus 4.5% steps for the first 5 years of service
Cost of living adjustments.....	3.0% of the first \$13,000 of a member's retirement allowance is assumed to be granted every year.
Mortality rates.....	The RP-2000 Generational Mortality table (sex-district) with scale BB. (Prior valuation used RP-2000 mortality table with 17 year projection). During employment the healthy employee mortality table is used. Post-employment the healthy annuitant table is used. In-service death is assumed to be 55% accidental for group 1 and 2 and 90% accidental for group 4. For Disabled Life Mortality the RP-2000 Generational Mortality table for healthy annuitants (sex-district) with scale BB set-forward by 2 years. Death is assumed to be due to the same cause as the disability 40% of the time. (Prior valuation used RP-2000 mortality table with 17 year projection).

Change in Assumptions and Plan Provisions

The investment and Discount rate changed to 7.75% from the previous rate of 7.875%. There were no changes in plan provisions.

Investment policy

The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation and a risk factor) 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 geometric real rates of return for each major asset class included in the pension plan's target asset allocation as of January 1, 2016, are summarized in the following table:

Asset Class	Long-Term Expected Asset Allocation	Long-Term Expected Real Rate of Return
Global Equity:	45.04%	-
Large Cap Equities.....	23.48%	4.37%
Small/Mid Cap Equities.....	5.67%	4.61%
International Equities.....	11.55%	4.69%
Emerging Equities.....	4.33%	6.42%
Core Fixed Income:	17.88%	-
Core Bonds.....	7.45%	0.97%
20+ Year Treasuries.....	2.98%	0.73%
TIPS.....	7.45%	0.73%
Value Added Fixed Income:	14.92%	-
High-Yield Bonds.....	2.24%	2.67%
Bank Loans.....	3.73%	2.91%
EMD (external).....	1.49%	2.67%
EMD (local currency).....	0.00%	3.40%
Private Debt.....	4.48%	5.88%
Other Credit Opportunities.....	2.98%	3.73%
Private Equity.....	2.87%	6.31%
Real Estate.....	9.88%	3.40%
Timber/Natural Resources.....	1.03%	2.91%
Hedge Funds/ Portfolio Completion.....	8.18%	3.38%
Cash.....	0.19%	0.00%

Rate of return

For the year ended December 31, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.92%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Discount rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rate and that contributions will be made at rates equal to the actuarially determined contribution rate. 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.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability, calculated using the discount rate of 7.75%, as well as what the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

	<u>1% Decrease (6.75%)</u>	<u>Current Discount (7.75%)</u>	<u>1% Increase (8.75%)</u>
The Town's proportionate share of the net pension liability.....	\$ <u>42,352,378</u>	\$ <u>30,932,526</u>	\$ <u>22,573,881</u>
SCRS total net pension liability.....	\$ <u>43,535,064</u>	\$ <u>31,793,494</u>	\$ <u>23,199,369</u>

NOTE 11 – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description – The Town of Stoneham administers a single-employer defined benefit healthcare plan (“the Retiree Health Plan”). The plan provides lifetime healthcare insurance for eligible retirees and their spouses through the Town’s participation in the Group Insurance Commission of the Commonwealth of Massachusetts (GIC), which covers both active and retired members. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. The Retiree Health Plan does not issue a publicly available financial report. The rates range from 10% to 15% for the retiree’s copayment of the total premium, and 85% to 90% for the Town.

Funding Policy – Contribution requirements are also negotiated between the Town and union representatives. The required contribution is based on a pay-as-you-go financing requirement. The Town contributes 75 to 85 percent of the cost of current-year premiums for eligible retired plan members and their spouses and may contribute additional amounts to pre-fund benefits. Plan members receiving benefits contribute the remaining 15 to 25 percent of their premium costs. For the year ended June 30, 2017, the Town’s average contribution rate was 11.5% of covered-employee payroll.

The Commonwealth of Massachusetts passed special legislation that has allowed the Town to establish the Other Postemployment Benefit Trust Fund and to enable the Town to raise taxes necessary to begin pre-funding its OPEB liabilities.

The annual money-weighted rate of return on OPEB plan investments was 0% since this is the first year funds have been contributed to the trust late in the year. The money-weighted rate of return expresses investment performance, net of OPEB plan investment expense, adjusted for the changing amounts actually invested.

Plan Membership - The following table represents the Plan’s membership at June 30, 2017:

Active members.....	518
Inactive employees or beneficiaries currently receiving benefits.....	<u>413</u>
Total.....	<u>931</u>

Components of OPEB Liability – The following table represents the components of the Plan’s OPEB liability as of June 30, 2017:

Total OPEB liability.....	\$	134,781,000
Less: OPEB plan’s fiduciary net position.....		<u>(50,000)</u>
Net OPEB liability.....	\$	<u>134,731,000</u>
The OPEB plan’s fiduciary net position as a percentage of the total OPEB liability.....		0.04%

Significant Actuarial Methods and Assumptions - The total OPEB liability in the June 30, 2017 actuarial valuation was determined by using the following actuarial assumptions, applied to all periods including the measurement date that was updated to June 30, 2017 to be in accordance with GASB #74:

Valuation date.....	Actuarially determined contribution was calculated as of January 1, 2017.
Actuarial cost method.....	Individual Entry Age Normal
Asset valuation method.....	Market Value of Assets as of the Reporting Date, June 30, 2017.
Nominal Investment rate of return.....	3.58%
Single equivalent discount rate.....	3.58%
Inflation.....	3.75% as of June 30, 2017 and for future periods.
Salary increases.....	3.75% annually as of June 30, 2017 increasing to an ultimate of 4.25%
Healthcare cost trend rate:	
Commercial Managed Care.....	8.0% for one year then 8.25% decreasing to an ultimate level of 5.0% by 2024
Commercial Indemnity.....	9.0% for one year then 8.50% decreasing to an ultimate level of 5.0% by 2035
Medicare Managed Care.....	7.0% for one year then 7.24% decreasing to an ultimate level of 5.0% by 2022
Medicare Indemnity.....	8.0% for one year then 7.0% decreasing to an ultimate level of 5.0% by 2044
Pre-Retirement mortality.....	RP-2014 adjusted to 2006 projected using MP-2016 generational
Post-Retirement mortality.....	RP-2014 adjusted to 2006 projected using MP-2016 generational
Disabled mortality.....	RP-2014 adjusted to 2006 projected using MP-2016 generational. Set forward 2 years

Investment policy

The Town’s policy in regard to the allocation of invested assets is established and may be amended by the Board of Selectmen by a majority vote of its members. The OPEB plan’s assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the OPEB plan. The long-term real rate of return on OPEB investments was determined using the Town’s investment policy.

The Town invests their OPEB trust funds in the Cetera cash portfolio which is a cash pool and is not invested to achieve a specific real rate of return.

The Town’s net other postemployment benefits liability was determined based on a basket of 20-year municipal general obligation bonds rated AA/Aa or above. The 3.58% rate was as of June 30, 2017.

Sensitivity of the net OPEB liability to changes in the discount rate – The following table presents the net other postemployment benefit liability and service cost, calculated using the discount rate of 3.58%, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using a discount rate that is 1-percentage-point lower (2.58%) or 1-percentage-point higher (4.58%) than the current rate.

	1% Decrease (2.58%)	Current Discount Rate (3.58%)	1% Increase (4.58%)
	<u> </u>	<u> </u>	<u> </u>
Net OPEB liability..... \$	158,188,000	\$ 134,731,000	\$ 116,172,000

Sensitivity of the net OPEB liability to changes in the healthcare trend – The following table presents the net other postemployment benefit liability and service cost, calculated using the current healthcare trend rates of 9.0% decreasing to 5.0%, as well as what the net other postemployment benefit liability and service cost would be if it were calculated using healthcare trend rates that are 1-percentage-point lower (8.0% decreasing to 4.0%) or 1-percentage-point higher (10.0% decreasing to 6.0%) than the current healthcare cost trend rates:

	1% Decrease (8.0% decreasing to 4.0%)	Healthcare Cost Trend Rates (9.0% decreasing to 5.0%)	1% Increase (10.0% decreasing to 6.0%)
	<u> </u>	<u> </u>	<u> </u>
Net OPEB liability..... \$	114,074,000	\$ 134,731,000	\$ 161,655,000

Annual OPEB Cost and Net OPEB Obligation – The Town’s annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement #45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

The components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation are summarized in the following table.

Annual Required Contribution.....	\$	10,998,242
Interest on net OPEB obligation.....		1,454,496
ARC Adjustment.....		(1,825,885)
Annual OPEB cost (expense).....		<u>10,626,853</u>
Contributions made.....		<u>(3,969,163)</u>
Increase in net OPEB obligation.....		6,657,690
Net OPEB obligation - beginning of year.....		<u>36,362,389</u>
Net OPEB obligation - end of year.....	\$	<u><u>43,020,079</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2017 and the previous two years was as follows:

Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
2017	\$ 10,626,853	37.4%	\$ 43,020,079
2016	8,862,573	41.2%	36,362,389
2015	8,388,380	41.4%	31,149,161

Funded Status and Funding Progress – As of June 30, 2017, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$125 million. The Town's plan was completely unfunded as of June 30, 2017 resulting in a \$125 million unfunded liability. The covered payroll (annual payroll of active employees covered by the plan) was \$34.5 million, and the ratio of the UAAL to the covered payroll was 362%.

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

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

In the June 30, 2017 actuarial valuation, actuarial liabilities were determined using the entry age normal method. The actuarial assumptions included a 4.00% investment return assumption, which is based on the expected yield on the assets of the Town, calculated based on the funded level of the plan at the valuation date, and an annual medical/ drug cost trends of 9.0% decreasing to 5.0% and included a 3.75% inflation assumption. The UAAL is

being amortized over a 30 year period, with amortization payments increasing 3% per year. The remaining amortization period at June 30, 2017, is 22 years.

NOTE 12 – COMMITMENTS

The Town has various commitments related to school improvements and sewer infrastructure upgrades, which will be funded through long-term debt and available funds.

NOTE 13 – CONTINGENCIES

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* through June 30, 2017, these programs are still subject to financial and compliance audits. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is expected such amounts, if any, to be immaterial.

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

NOTE 14 – SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 8, 2018, which is the date the financial statements were available to be issued.

NOTE 15 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During 2017, the following GASB pronouncements were implemented:

- GASB Statement #74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The basic financial statements, related notes and required supplementary information were updated to be in compliance with this pronouncement.
- GASB Statement #77, *Tax Abatement Disclosures*. This pronouncement did not impact the basic financial statements.
- GASB Statement #78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. This pronouncement did not impact the basic financial statements.
- GASB Statement #80, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*. This pronouncement did not impact the basic financial statements.
- GASB Statement #82, *Pension Issues – an amendment of GASB Statements #67, #68, and #73*. The basic financial statements and related notes were updated to be in compliance with this pronouncement.

The following GASB pronouncements will be implemented in the future:

- The GASB issued Statement #75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018.
- The GASB issued Statement #81, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018.
- The GASB issued Statement #83, *Certain Asset Retirement Obligations*, which is required to be implemented in 2019.
- The GASB issued Statement #84, *Fiduciary Activities*, which is required to be implemented in 2020.
- The GASB issued Statement #85, *Omnibus 2017*, which is required to be implemented in 2018.
- The GASB issued Statement #86, *Certain Debt Extinguishment Issues*, which is required to be implemented in 2018.
- The GASB issued Statement #87, *Leases*, which is required to be implemented in 2021.

Management is currently assessing the impact the implementation of these pronouncements will have on the basic financial statements.

Required Supplementary Information

General Fund Budgetary Comparison Schedule

The General Fund is the general operating fund of the Town. It is used to account for all the financial resources, except those required to be accounted for in another fund.

GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

YEAR ENDED JUNE 30, 2017

	Budgeted Amounts		Actual Budgetary Amounts	Amounts Carried Forward To Next Year	Variance to Final Budget
	Original Budget	Final Budget			
REVENUES:					
Real estate and personal property taxes, net of tax refunds.....	\$ 47,024,321	\$ 47,024,321	\$ 47,234,093	\$ -	\$ 209,772
Tax liens.....	-	-	517,440	-	517,440
Motor vehicle excise taxes.....	3,098,717	3,098,720	3,491,377	-	392,657
Meals tax.....	305,595	305,595	329,634	-	24,039
Intergovernmental.....	9,115,204	9,115,204	9,006,135	-	(109,069)
Departmental and other.....	2,174,913	2,174,913	3,144,123	-	969,210
Investment income.....	19,352	19,352	26,216	-	6,864
TOTAL REVENUES.....	61,738,102	61,738,105	63,749,018	-	2,010,913
EXPENDITURES:					
Current:					
General government.....	2,177,175	3,487,655	3,209,410	155,539	122,706
Public safety.....	7,813,530	8,061,631	7,840,330	114,021	107,280
Education.....	28,108,716	28,068,851	27,956,881	44,152	67,818
Public works.....	1,986,812	2,232,102	2,133,047	53,708	45,347
Human services.....	604,658	655,521	642,965	6,379	6,177
Culture and recreation.....	1,237,605	1,324,889	1,284,766	36,935	3,188
Pension benefits.....	5,538,241	5,538,241	5,538,241	-	-
Employee benefits.....	9,767,456	8,669,288	8,574,943	91,785	2,560
State and county charges.....	1,560,536	1,560,536	1,501,525	-	59,011
Debt service:					
Principal.....	3,395,000	3,395,000	3,395,000	-	-
Interest.....	1,159,046	1,159,046	1,159,046	-	-
TOTAL EXPENDITURES.....	63,348,775	64,152,760	63,236,154	502,519	414,087
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES.....	(1,610,673)	(2,414,655)	512,864	(502,519)	2,425,000
OTHER FINANCING SOURCES (USES):					
Premium from issuance of bonds.....	-	-	28,736	-	28,736
Transfers in.....	1,142,378	1,384,362	1,384,362	-	-
Transfers out.....	-	(274,181)	(274,181)	-	-
TOTAL OTHER FINANCING SOURCES (USES)...	1,142,378	1,110,181	1,138,917	-	28,736
NET CHANGE IN FUND BALANCE.....	(468,295)	(1,304,474)	1,651,781	(502,519)	2,453,736
BUDGETARY FUND BALANCE, Beginning of year.....	3,899,886	3,899,886	3,899,886	-	-
BUDGETARY FUND BALANCE, End of year.....	\$ 3,431,591	\$ 2,595,412	\$ 5,551,667	\$ (502,519)	\$ 2,453,736

See notes to required supplementary information.

Pension Plan Schedules Retirement System

The Pension Plan's Schedule of Changes in the Net Pension Liability presents multi-year trend information on the net pension liability and related ratios.

The Pension Plan's Schedule of Contributions presents multi-year trend information on the required and actual contributions to the pension plan and related ratios.

The Pension Plan's Schedule of Investment Return presents multi-year trend information on the money-weighted investment return on retirement assets, net of investment expense.

These schedules are intended to present information for ten years. Until a ten year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF CHANGES IN THE NET PENSION LIABILITY
AND RELATED RATIOS
STONEHAM CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015	December 31, 2016
Total pension liability:			
Service cost.....	\$ 1,810,794	\$ 1,892,280	\$ 1,959,395
Interest.....	8,016,557	8,240,349	8,358,786
Changes in benefit terms.....	-	-	(2,284,697)
Differences between expected and actual experience.....	-	-	-
Changes in assumptions.....	-	-	1,365,326
Benefit payments.....	<u>(7,373,458)</u>	<u>(6,760,615)</u>	<u>(7,206,972)</u>
Net change in total pension liability.....	2,453,893	3,372,014	2,191,838
Total pension liability, beginning.....	<u>103,673,485</u>	<u>106,127,378</u>	<u>109,499,392</u>
Total pension liability, ending (a).....	<u>\$ 106,127,378</u>	<u>\$ 109,499,392</u>	<u>\$ 111,691,230</u>
Plan fiduciary net position:			
Employer contributions.....	\$ 4,892,601	\$ 5,276,670	\$ 5,690,889
Member contributions.....	1,394,426	1,323,924	1,376,935
Net investment income (loss).....	5,239,667	427,356	6,476,051
Retirement benefits and refunds.....	(7,373,458)	(6,760,615)	(7,206,972)
Administrative expenses.....	<u>(229,368)</u>	<u>(239,647)</u>	<u>(282,419)</u>
Net increase (decrease) in fiduciary net position.....	3,923,868	27,688	6,054,484
Fiduciary net position at beginning of year.....	<u>69,891,696</u>	<u>73,815,564</u>	<u>73,843,252</u>
Fiduciary net position at end of year (b).....	<u>\$ 73,815,564</u>	<u>\$ 73,843,252</u>	<u>\$ 79,897,736</u>
Net pension liability - ending (a) - (b).....	<u>\$ 32,311,814</u>	<u>\$ 35,656,140</u>	<u>\$ 31,793,494</u>
Plan fiduciary net position as a percentage of the total pension liability.....	69.55%	67.44%	71.53%
Covered-employee payroll.....	\$ 13,086,805	\$ 13,761,993	\$ 14,457,252
Net pension liability as a percentage of covered-employee payroll.....	246.90%	259.09%	219.91%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for
which information is available.

See notes to required supplementary information.

**SCHEDULE OF CONTRIBUTIONS
STONEHAM CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015	December 31, 2016
Actuarially determined contribution.....	\$ 4,892,601	\$ 5,276,670	\$ 5,690,889
Contributions in relation to the actuarially determined contribution.....	<u>(4,892,601)</u>	<u>(5,276,670)</u>	<u>(5,690,889)</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll.....	\$ 13,086,805	\$ 13,761,993	\$ 14,457,252
Contributions as a percentage of covered- employee payroll.....	37.39%	38.34%	39.36%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF INVESTMENT RETURN
STONEHAM CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015	December 31, 2016
Annual money-weighted rate of return, net of investment expense.....	7.56%	0.50%	8.92%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

See notes to required supplementary information.

Pension Plan Schedules – Town

The Schedule of the Town's Proportionate Share of the Net Pension Liability presents multi-year trend information on the Town's net pension liability and related ratios.

The Schedule of the Town's Contributions presents multi-year trend information on the Town's required and actual contributions to the pension plan and related ratios.

The Schedule of the Special Funding Amounts of the Net Pension Liability for the Massachusetts Teachers Contributory Retirement System presents multi-year trend information on the liability and expense assumed by the Commonwealth of Massachusetts on behalf of the Town along with related ratios.

These schedules are intended to present information for ten years. Until a ten year trend is compiled, information is presented for those years for which information is available.

**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
STONEHAM CONTRIBUTORY RETIREMENT SYSTEM**

	December 31, 2014	December 31, 2015	December 31, 2016
Town's proportion of the net pension liability (asset).....	97.87%	97.26%	97.29%
Town's proportionate share of the net pension liability (asset)..... \$	31,622,155	\$ 34,690,539	\$ 30,932,526
Town's covered employee payroll..... \$	13,086,805	\$ 13,761,993	\$ 14,457,252
Net pension liability as a percentage of covered-employee payroll.....	241.63%	252.07%	213.96%
Plan fiduciary net position as a percentage of the total pension liability.....	69.55%	67.44%	71.53%

Note: this schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF TOWN'S CONTRIBUTIONS
STONEHAM CONTRIBUTORY RETIREMENT SYSTEM**

	June 30, 2014	June 30, 2015	June 30, 2016
Actuarially determined contribution.....	\$ 4,788,848	\$ 5,135,261	\$ 5,538,241
Contributions in relation to the actuarially determined contribution.....	<u>(4,788,848)</u>	<u>(5,135,261)</u>	<u>(5,538,241)</u>
Contribution deficiency (excess).....	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-employee payroll.....	\$ 13,086,805	\$ 13,401,725	\$ 14,457,252
Contributions as a percentage of covered- employee payroll.....	36.59%	38.32%	38.31%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

See notes to required supplementary information.

**SCHEDULE OF THE SPECIAL FUNDING AMOUNTS
OF THE NET PENSION LIABILITY
MASSACHUSETTS TEACHERS' RETIREMENT SYSTEM**

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding situation. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Town; the portion of the collective pension expense as both a revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total liability.

Year	Commonwealth's 100% Share of the Net Pension Liability Associated with the Town	Town's Expense and Revenue Recognized for the Commonwealth's Support	Plan Fiduciary Net Position as a Percentage of the Total Liability
2017.....	\$ 56,983,323	\$ 5,812,673	52.73%
2016.....	52,804,623	4,282,925	55.38%
2015.....	41,542,919	2,886,186	61.64%

Note: this schedule is intended to present information for 10 years. Until a 10-year trend is compiled, information is presented for those years for which information is available.

See notes to required supplementary information.

Other Postemployment Benefit Plan Schedules

GASB 74 Schedules

The Schedule of Changes in the Town's Net Other Postemployment Benefit Liability and Related Ratios presents multi-year trend information on changes in the Plan's total OPEB liability, changes in the Plan's net position, and ending net OPEB liability. It also demonstrates the Plan's net position as a percentage of the total liability and the Plan's net other postemployment benefit liability as a percentage of covered employee payroll.

The Schedule of the Town's Contributions presents multi-year trend information on the Town's actual contributions to the other postemployment benefit plan and related ratios.

The Schedule of Investment Returns presents multi-year trend information on the money-weighted investment return on the Plan's other postemployment assets, net of investment expense.

GASB 45 Schedules

The Schedule of Funding progress compares, over time, the actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

The Schedule of Employer Contributions presents multiyear trend information for required and actual contributions relating to the plan.

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of Schedule of Changes in the Town's Net Other Postemployment Benefit Liability and Related Ratios

**SCHEDULE OF CHANGES IN THE
TOWN'S NET OPEB LIABILITY AND RELATED RATIOS
OTHER POSTEMPLOYMENT BENEFIT PLAN**

	June 30, 2017
Total OPEB Liability	
Service cost.....	\$ 4,654,000
Interest.....	4,727,000
Changes of benefit terms.....	-
Differences between expected and actual experience.....	-
Changes of assumptions.....	-
Benefit payments.....	(3,919,163)
Net change in total OPEB liability.....	5,461,837
Total OPEB liability- beginning.....	129,319,000
Total OPEB liability- ending (a).....	\$ 134,780,837
Plan fiduciary net position	
Employer contribution to the trust.....	\$ 50,000
Employer contribution to pay for OPEB benefits.....	3,919,163
Benefit payments.....	(3,919,163)
Net change in plan fiduciary net position.....	50,000
Plan fiduciary net position- beginning.....	-
Plan fiduciary net position- ending (b).....	\$ 50,000
Town's net OPEB liability- ending (a)-(b).....	\$ 134,730,837
Plan fiduciary net position as a percentage of the total OPEB liability.....	0.0%
Covered-employee payroll.....	\$ 34,524,455
Town's net OPEB liability as a percentage of covered-employee payroll.....	390.2%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years
for which information is available.

See notes to required supplementary information.

**SCHEDULE OF TOWN CONTRIBUTIONS
OTHER POSTEMPLOYMENT BENEFIT PLAN**

	June 30, 2017
Actuarially determined contribution.....	\$ 3,969,163
Contributions in relation to the actuarially determined contribution.....	(3,969,163)
Contribution deficiency (excess).....	\$ -
Covered-employee payroll.....	\$ 34,524,455
Contributions as a percentage of covered- employee payroll.....	11.50%

Note: this schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those years for
which information is available.

See notes to required supplementary information.

SCHEDULE OF INVESTMENT RETURNS
OTHER POSTEMPLOYMENT BENEFIT PLAN

June 30, 2017

Annual money-weighted rate of return, net of investment expense.....	0.00%
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Note: This schedule is intended to present information for 10 years.
Until a 10-year trend is compiled, information is presented for those
years for which information is available.

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
SCHEDULE OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Projected Unit Credit (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
6/30/2017	\$ -	\$ 124,978,395	\$ 124,978,395	0%	\$ 34,524,455	362.0%
1/1/2014	-	100,650,654	100,650,654	0%	31,698,000	317.5%
1/1/2012	-	117,137,427	117,137,427	0%	29,116,000	402.3%
1/1/2010	-	88,154,457	88,154,457	0%	17,017,060	518.0%

Schedule of Employer Contributions

Year Ended	Annual Required Contribution	Actual Contributions Made	Percentage Contributed
6/30/2017	\$ 10,998,242	\$ 3,919,163	36%
6/30/2016	9,081,460	3,649,345	40%
6/30/2015	8,525,469	3,469,496	41%
6/30/2014	8,018,626	3,429,413	43%
6/30/2013	9,526,632	4,512,552	47%
6/30/2012	8,992,878	4,279,190	48%

See notes to required supplementary information.

OTHER POSTEMPLOYMENT BENEFIT PLAN
ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial Methods:

Actuarial cost method.....	Projected unit credit
Amortization method.....	Level percent of pay
Remaining amortization period.....	22 years as of June 30, 2017 (closed)
Interest discount rate.....	4.00%
Healthcare/Medical cost trend rate.....	Varies, grading down to 5% in year 2022

Actuarial Assumptions:

Valuation date.....	June 30, 2017
Investment rate of return.....	4.00%
Medical/drug cost trend rate.....	5.00%-9.00%
Mortality:	
Actives.....	The RP-2000 Mortality Tables (Sex-distinct) for Employees using generational mortality (Scale BB).
Retirees.....	The RP-2000 Mortality Tables (Sex-distinct) for Healthy Annuitants using generational mortality (Scale BB).
Disabled.....	The RP-2000 Mortality Tables (Sex-distinct) for Healthy Annuitants using generational mortality (Scale BB) and set forward 2 years.

Plan Membership:

Current retirees, beneficiaries, and dependents.....	659
Current active members.....	<u>518</u>
Total.....	<u><u>1,177</u></u>

See notes to required supplementary information.

NOTE A – BUDGETARY BASIS OF ACCOUNTING

A. Budgetary Information

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

The majority of the Town’s appropriations are non-continuing, which lapse at the end of each year. Others are continuing appropriations for which the governing body has authorized that an unspent balance from a prior year be carried forward and made available for spending in the current year. These carry forwards are included as part of the subsequent year’s original budget.

Generally, expenditures may not exceed the legal level of spending (salaries, expenses and capital) authorized for an appropriation account. However, the payment of debt service is statutorily required, regardless of whether such amounts are appropriated. Additionally, expenditures for disasters, natural or otherwise, and final judgments may exceed the level of spending authorized by two-thirds majority vote at a Special Town Meeting.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. The 2017 original budget includes approximately \$62.9 million in current year authorized appropriations and other amounts to be raised and \$468,000 in encumbrances and appropriations were carried over from previous years. During 2017, the Town’s overall budget was increased by approximately \$1.1 million.

The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted at Town Meeting. Budgetary control is exercised through the Town’s accounting system.

B. Budgetary – GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal 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 year ended June 30, 2017, is presented as follows:

Net change in fund balance, budgetary basis.....	\$	1,651,781
<u>Perspective differences:</u>		
Activity of the stabilization funds recorded in the general fund for GAAP.....		180,595
<u>Basis of accounting differences:</u>		
Recognition of revenue on modified accrual basis of accounting.....		(37,409)
Recognition of revenue for on-behalf payment.....		5,812,673
Recognition of expenditure for on-behalf payment.....		<u>(5,812,673)</u>
Net change in fund balance, GAAP basis.....	\$	<u><u>1,794,967</u></u>

NOTE B – PENSION PLAN***Pension Plan Schedules – Retirement System*****A. Schedule of Changes in the Net Pension Liability and Related Ratios**

The Schedule of Changes in the Net Pension Liability and Related Ratios includes the detailed changes in the systems total pension liability, changes in the systems net position, and the ending net pension liability. It also demonstrates the plan's net position as a percentage of the total pension liability and the net pension liability as a percentage of covered payroll.

B. Schedule of Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The total appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The total appropriations are payable on July 1 and January 1. Employers may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual employer contributions may be less than the "total appropriation". The pension fund appropriations are allocated amongst employers based on covered payroll.

C. Schedule of Investment Return

The money weighted rate of return is calculated as the internal rate of return on pension plan investments, net of pension plan investment expense. A money weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested. Inputs to the money weighted rate of return calculation are determined monthly.

Pension Plan Schedules - Town**A. Schedule of the Town's Proportionate Share of the Net Pension Liability**

The Schedule of the Town's Proportionate Share of the Net Pension Liability details the allocated percentage of the net pension liability (asset), the proportionate share of the net pension liability, and the covered employee payroll. It also demonstrates the net position as a percentage of the pension liability and the net pension liability as a percentage of covered payroll.

B. Schedule of Town's Contributions

Governmental employers are required to pay an annual appropriation as established by PERAC. The appropriation includes the amounts to pay the pension portion of each member's retirement allowance, an amount to amortize the actuarially determined unfunded liability to zero in accordance with the system's funding schedule, and additional appropriations in accordance with adopted early retirement incentive programs. The appropriations are payable on July 1 and January 1. The Town may choose to pay the entire appropriation in July at a discounted rate. Accordingly, actual contributions may be less than the "total appropriation". The pension fund appropriation is allocated to the Town based on covered payroll.

C. Schedule of the Special Funding Amounts of the Net Pension Liabilities

The Commonwealth of Massachusetts is a nonemployer contributor and is required by statute to make all actuarially determined employer contributions on behalf of the member employers which creates a special funding

situation. Since the Town does not contribute directly to MTRS, there is no net pension liability to recognize. This schedule discloses the Commonwealth's 100% share of the collective net pension liability that is associated with the Town; the portion of the collective pension expense as both revenue and pension expense recognized by the Town; and the Plan's fiduciary net position as a percentage of the total liability.

D. Changes in Assumptions – The investment and discount rates changed to 7.75% from 7.875%.

E. Changes in Plan Provisions – None

NOTE C – POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS

The Town administers a single-employer defined benefit healthcare plan (“the Other Post Employment Benefit Plan”). The plan provides lifetime healthcare and life insurance for eligible retirees and their spouses through the Town’s health insurance plan, which covers both active and retired members, including teachers.

The Other Postemployment Benefit Plan

A. Schedule of Changes in the Net OPEB Liability and Related Ratios

The Schedule of Changes in the OPEB Liability and Related Ratios includes the detailed changes in the plan total pension liability, changes in the plan net position, and the ending net OPEB liability. It also demonstrates the plan’s net position as a percentage of the total OPEB liability and the net OPEB liability as a percentage of covered payroll.

Schedule of the Town’s Contributions

The Schedule of the Town’s Contributions includes the Town’s annual required contribution to the Plan, along with the contribution made in relation to the actuarially determined contribution and the covered employee payroll. The Town is not required to fully fund this contribution. It also demonstrates the contributions as a percentage of covered payroll.

Schedule of Investment Return

The Schedule of Investment Return includes the money-weighted investment return on the Plan’s other postemployment assets, net of investment expense.

The Town

The Town currently finances its other postemployment benefits (OPEB) on a pay-as-you-go basis. As a result, the funded ratio (actuarial value of assets expressed as a percentage of the actuarial accrued liability) is 0%. In accordance with Governmental Accounting Standards, the Town has recorded its OPEB cost equal to the actuarial determined annual required contribution (ARC) which includes the normal cost of providing benefits for the year and a component for the amortization of the total unfunded actuarial accrued liability of the plan.

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

Schedule of Funding Progress

The Schedule of Funding Progress presents multi-year trend information which compares, over time, the Town's actuarial accrued liability for benefits with the actuarial value of accumulated plan assets.

Schedule of Employer Contributions

The Schedule of Employer Contributions presents multi-year trend information for the Town's required and actual contributions relating to the plan.

Schedule of Actuarial Methods and Assumptions

The Schedule of Actuarial Methods and Assumptions presents factors that significantly affect the identification of trends in the amounts reported.