

**TOWN OF STONEHAM, MASSACHUSETTS**

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

**YEAR ENDED JUNE 30, 2018**



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**TOWN OF STONEHAM, MASSACHUSETTS  
BASIC FINANCIAL STATEMENTS AND  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2018**

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## INDEPENDENT AUDITORS' REPORT

Honorable Select Board  
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, 2018 (except for the Stoneham Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2017), and the related notes to the financial statements, which collectively comprise the Town of Stoneham, Massachusetts' basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

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

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 previously 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, 2018 (except for the Stoneham Contributory Retirement System, which is as of and for the fiscal year ended December 31, 2017), and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Emphasis of Matter**

During the fiscal year ended June 30, 2018, the Town adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions*. As a result, the Town reported a restatement for the change in accounting principle (see Note 1). Our auditor's opinion was not modified with respect to the restatement.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis (located on pages 3 through 11) and general fund budgetary comparison and certain pension and other post-employment benefits information (located on pages 61 through 68) 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 June 6, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's 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.



**CliftonLarsonAllen LLP**

Boston, Massachusetts  
June 6, 2019

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

As management of the Town of Stoneham, Massachusetts (Town), we offer readers of these financial statements this narrative overview and analysis of the Town's financial activities for the fiscal year ended June 30, 2018.

***Financial Highlights***

- The liabilities and deferred inflows of resources of the Town exceeded its assets and deferred outflows of resources at the close of the most recent fiscal year by \$67,059,846 (net position).
- The Town's total net position increased \$1,093,195.
- At the end of the fiscal year, unassigned fund balance for the general fund totaled \$5,919,967, or 8.2%, of total general fund expenditures and transfers out.
- The Town's total outstanding bonded debt (excluding unamortized premiums) decreased by \$2,354,043, or 7.3%, during the fiscal year.

***Overview of the Basic Financial Statements***

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

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

This report also contains required supplementary information in addition to the basic financial statements, consisting of the following:

1. General Fund – schedule of revenues, expenditures and changes in fund balance – non-GAAP budgetary basis - budget and actual
2. Other post-employment benefits schedule
3. Pension plan schedules

**Government-wide financial statements**

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

The **statement of net position** presents information on all of the Town's non-fiduciary assets 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 financial position of the Town is improving or deteriorating.

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

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

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

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

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

**Fund financial statements**

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

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

**Governmental funds**

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

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

The Town maintains over 280 individual governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund and highway projects fund (capital project), both of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation titled *nonmajor governmental funds*.

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

**Proprietary funds**

The Town maintains one type of proprietary fund representing the Town's enterprise funds.

*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 and water operations, both of which are considered to be major funds.

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

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

**Fiduciary funds**

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

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

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

**Notes to the basic financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 24-60 of this report.

**Required supplementary information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Presented in this information is the general fund schedule of revenues, expenditures and changes in fund balance (budget and actual) and certain pension and other post-employment benefits information, which can be found on pages 61-68.

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

**Government-Wide Financial Analysis**

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

Net position

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's liabilities and deferred inflows of resources exceeded assets and deferred outflows of resources by \$67,059,846 at the close of the fiscal year and is summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Assets</b>						
Current Assets	\$ 20,577,806	\$ 19,090,594	\$ 8,202,485	\$ 7,099,289	\$ 28,780,291	\$ 26,189,883
Noncurrent Assets (Excluding Capital Assets)	2,823,846	3,166,766	-	-	2,823,846	3,166,766
Capital Assets (Net)	87,737,376	88,935,981	12,978,013	12,955,910	100,715,389	101,891,891
Total Assets	111,139,028	111,193,341	21,180,498	20,055,199	132,319,526	131,248,540
<b>Deferred Outflows of Resources</b>	758,878	3,385,683	21,746	259,778	780,624	3,645,461
<b>Liabilities</b>						
Current Liabilities (Excluding Debt)	1,792,350	1,729,803	34,558	102,847	1,826,908	1,832,650
Noncurrent Liabilities (Excluding Debt)	155,796,066	71,350,761	4,466,796	3,400,577	160,262,862	74,751,338
Current Debt	4,024,472	3,501,678	422,445	436,043	4,446,917	3,937,721
Noncurrent Debt	25,037,606	26,870,864	1,650,639	2,073,084	26,688,245	28,943,948
Total Liabilities	186,650,494	103,453,106	6,574,438	6,012,551	193,224,932	109,465,657
<b>Deferred Inflows of Resources</b>	6,742,150	1,739,671	192,914	131,215	6,935,064	1,870,886
<b>Net Position</b>						
Net Investment in Capital Assets	58,675,298	63,534,576	10,904,929	11,579,947	69,580,227	75,114,523
Restricted	6,728,680	1,834,652	-	-	6,728,680	1,834,652
Unrestricted	(146,898,716)	(55,982,981)	3,529,963	2,591,264	(143,368,753)	(53,391,717)
Total Net Position	\$ (81,494,738)	\$ 9,386,247	\$ 14,434,892	\$ 14,171,211	\$ (67,059,846)	\$ 23,557,458

The largest portion of the Town's net position, \$69,580,227, reflects its net investment in capital assets (e.g., land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure). These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position, \$6,728,680, represents resources that are subject to external restrictions on how they may be used. The remaining balance represents a net deficit of \$143,368,753.

The Town has no unrestricted net position available for the support of governmental activities. Such resources have been consumed with the recognition of net pension and total other post-employment benefits liabilities. The Town has \$3,529,963 that may be used to support business-type activities.

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

Changes in Net position

For the fiscal year ended June 30, 2018, the Town's total net position increased \$1,093,195, compared to a decrease of \$7,974,026 in the prior fiscal year. These amounts are summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Revenues</b>						
<i>Program Revenues:</i>						
Charges for Services	\$ 5,808,817	\$ 5,560,338	\$ 11,475,310	\$ 9,620,494	\$ 17,284,127	\$ 15,180,832
Operating Grants and Contributions	14,287,293	12,183,501	-	-	14,287,293	12,183,501
Capital Grants and Contributions	1,146,746	-	-	-	1,146,746	-
<i>General Revenues:</i>						
Real Estate and Personal Property Taxes	48,766,330	47,200,582	-	-	48,766,330	47,200,582
Motor Vehicle and Other Excise Taxes	3,797,312	3,509,769	-	-	3,797,312	3,509,769
Meals Tax	354,222	329,634	-	-	354,222	329,634
Penalties and Interest on Taxes	158,288	376,144	-	-	158,288	376,144
Payments in Lieu of Taxes	67,900	61,574	-	-	67,900	61,574
Grants and Contributions not Restricted to Specific Programs	4,103,361	3,939,110	-	-	4,103,361	3,939,110
Unrestricted Investment Income	61,399	193,007	37,170	18,516	98,569	211,523
<b>Total Revenues</b>	<b>78,551,668</b>	<b>73,353,659</b>	<b>11,512,480</b>	<b>9,639,010</b>	<b>90,064,148</b>	<b>82,992,669</b>
<b>Expenses</b>						
General Government	5,056,516	6,040,037	-	-	5,056,516	6,040,037
Public Safety	14,813,377	14,716,431	-	-	14,813,377	14,716,431
Education	50,922,199	51,229,695	-	-	50,922,199	51,229,695
Public Works	5,807,074	5,565,029	-	-	5,807,074	5,565,029
Health and Human Services	1,291,153	1,156,668	-	-	1,291,153	1,156,668
Culture and Recreation	1,986,345	2,196,359	-	-	1,986,345	2,196,359
Debt Service - Interest	997,903	1,035,359	-	-	997,903	1,035,359
Sewer	-	-	4,783,305	5,162,989	4,783,305	5,162,989
Water	-	-	3,313,081	3,864,128	3,313,081	3,864,128
<b>Total Expenses</b>	<b>80,874,567</b>	<b>81,939,578</b>	<b>8,096,386</b>	<b>9,027,117</b>	<b>88,970,953</b>	<b>90,966,695</b>
Change in Net Position Before Transfers	(2,322,899)	(8,585,919)	3,416,094	611,893	1,093,195	(7,974,026)
Transfers, Net	575,375	911,378	(575,375)	(911,378)	-	-
Change in Net Position	(1,747,524)	(7,674,541)	2,840,719	(299,485)	1,093,195	(7,974,026)
Net Position - Beginning of Year, as restated	(79,747,214)	17,060,788	11,594,173	14,470,696	(68,153,041)	31,531,484
Net Position - End of Year	<u>\$ (81,494,738)</u>	<u>\$ 9,386,247</u>	<u>\$ 14,434,892</u>	<u>\$ 14,171,211</u>	<u>\$ (67,059,846)</u>	<u>\$ 23,557,458</u>

Governmental activities decreased the Town's net position by \$1,747,524. In the prior year, governmental activities decreased the Town's net position by \$7,674,541. The key element of this change is a decrease in the net pension liability of approximately \$7,968,000.

Business-type activities increased the Town's net position by \$2,840,719. In the prior year, business-type activities decreased the Town's net position by \$299,485. The key elements of this change are an increase in charges for services of approximately \$1,855,000 and a decrease in the net pension liability of approximately \$1,609,000.

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

***Fund Financial Statement Analysis***

The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

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

At the end of the current fiscal year, the governmental funds reported combined ending fund balances totaling \$15,914,132, an increase of \$1,218,883 in comparison with the prior year. \$5,469,300 represents unassigned fund balance. The remainder of fund balance includes the following constraints:

- Nonspendable - \$1,124,328
- Restricted - \$5,504,554
- Committed - \$3,696,108
- Assigned - \$119,842

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the general fund totaled \$5,919,967, while total fund balance was \$9,833,464. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures and transfers out. Unassigned fund balance represents 8.2% of total general fund expenditures and transfers out, while total fund balance represents 13.7% of that same amount.

The fund balance of the Town's general fund increased \$880,942 during fiscal year 2018. The Town recognized a positive budget to actual variance (excluding encumbrances and continuing appropriations) totaling approximately \$2,122,000; and used approximately \$783,000 of reserves to fund the fiscal year 2018 budget.

Financial highlights of the Town's other major governmental fund is as follows:

The fund balance of the highway projects fund (capital projects) decreased \$2,078 during the current fiscal year. The fund recognized \$939,256 of intergovernmental revenues and expenditures totaled \$941,334.

Proprietary funds

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

Unrestricted net position of the sewer and water enterprise funds at the end of the year amounted to \$2,510,954 and \$1,019,009, respectively. The sewer enterprise fund had an increase in net position for the year of \$1,372,242 and the water enterprise fund had an increase in net position for the year of \$1,468,477. Other factors concerning the finances of these funds have already been addressed in the discussion of the Town's business-type activities.

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

General Fund Budgetary Highlights

The original General Fund budgeted expenditures (including transfers out) totaled \$65,993,513. During the year, supplemental appropriations totaling \$735,392 were authorized. The following table summarizes the increase:

Purpose of Increase/Decrease	Amount	Funding Source
Snow and Ice	\$ 350,000	Transfer from Stabilization
Police Cruisers	110,000	Overlay Surplus
DPW Trucks	100,000	Overlay Surplus
Pavement Management Study	50,000	Overlay Surplus
Town Hall Lot	25,000	Overlay Surplus
Commercial Improvement Program	25,000	Overlay Surplus
Island Beautification	25,000	Overlay Surplus
General Government Wage Study	25,000	Overlay Surplus
Gravestone Repair	24,000	Overlay Surplus
Prior Year Bills	1,392	Overlay Surplus
Total Net Increase	<u>\$ 735,392</u>	

**Capital Assets and Debt Administration**

Capital assets

The Town's investment in capital assets for its governmental and business-type activities at the end of the fiscal year totaled \$100,715,389 (net of accumulated depreciation). This investment in capital assets includes land, construction in progress, land improvements, buildings and improvements, machinery and equipment, vehicles and infrastructure. The total net decrease in the investment in capital assets for the current fiscal year was \$1,176,502.

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

- Golf course irrigation system upgrades (approximately \$586,000)
- Various road improvements (approximately \$497,000)
- Sewer rehabilitation projects (approximately \$365,000)

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 6,258,486	\$ 6,258,486	\$ 215,801	\$ 215,801	\$ 6,474,287	\$ 6,474,287
Construction in Progress	323,451	-	-	-	323,451	-
Land Improvements	676,741	130,324	-	-	676,741	130,324
Buildings and Improvements	66,598,285	68,751,048	736,478	777,544	67,334,763	69,528,592
Machinery, Vehicles and Equipment	2,998,531	3,486,077	102,215	138,523	3,100,746	3,624,600
Infrastructure	10,881,882	10,310,046	11,923,519	11,824,042	22,805,401	22,134,088
Total Capital Assets	<u>\$ 87,737,376</u>	<u>\$ 88,935,981</u>	<u>\$ 12,978,013</u>	<u>\$ 12,955,910</u>	<u>\$ 100,715,389</u>	<u>\$ 101,891,891</u>

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

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

Long-Term Debt

At the end of the current fiscal year, total bonded debt outstanding was \$29,883,084, which is backed by the full faith and credit of the Town, and is summarized as follows:

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
General Obligation Bonds	\$ 27,810,000	\$ 29,728,000	\$ -	\$ -	\$ 27,810,000	\$ 29,728,000
MWRA Notes	-	-	2,073,084	2,509,127	2,073,084	2,509,127
Total Bond and Notes	<u>\$ 27,810,000</u>	<u>\$ 29,728,000</u>	<u>\$ 2,073,084</u>	<u>\$ 2,509,127</u>	<u>\$ 29,883,084</u>	<u>\$ 32,237,127</u>

The Town's total outstanding bonded debt (excluding unamortized premiums) decreased by \$2,354,043, or 7.3%, during the fiscal year.

The Town's most recent bond ratings from Moody's Investors Services and Standard and Poor's were Aaa. Additional information on the Town's long-term debt can be found in Notes 8 and 9 of this report.

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

The FY19 budget consists of total anticipated expenditures of \$72 million. This is an increase of 8.19% over FY18, which includes General Government, Education, State Assessments and Offsets, Overlay Reserve and Special Article Expenditures. General Government increased by 7.95%, which includes shared services like pension and health insurance, with Education. Education increased by 4.26% over FY18, for a combined increase of 6.35%. \$1.7 million of free cash was used to cover one-time items for Munis upgrade, Other Post-Employment Benefits (OPEB), Capital Stabilization, Stabilization, and non-routine capital items. We increased our reserves in the Stabilization Fund, Capital Stabilization Fund, OPEB Fund, and Water and Sewer Reserve Funds. This is very important as we look towards the future and attempt to improve our bond rating which would provide savings when we borrow for projects.

We also reduced our reliance on one-time revenues to fund various recurring items within the budget. This is frowned upon when bonding agencies are reviewing towns for bond ratings.

Although we have made many improvements in FY18 and look to continue to build on those improvements in FY19, there is still much work that needs to be done. Demands on certain departments continue to grow. We have begun to implement a five-year capital plan at the annual town meeting and will continue to work with the School Department as we look to shared services to improve efficiencies.

With the Town Code providing the framework, this FY19 budget submission provides the funding necessary to sustain town services at FY 2018 levels. Town staff worked hard to control expenditures this year and we truly appreciate their teamwork and effort. However, we are approaching the point at which we will need to discuss whether the Town captures more of the tax base or limits services.

We will continue to plan and look at alternative ways to deliver services. We will focus on obtaining additional funding from our state and federal focuses for many of our one time purchases or projects. We also need to continue our focus on planning for the future. Not just financially but what we expect our community is to be in the next twenty years. How do we improve the delivery of our governmental and educational services, maintain and improve our assets. There are many questions and issues that we will be facing over the upcoming 12 months and years but I am confident working with our fine team of employees, dedicated boards and committees, and most importantly, our exceptional town residents of all walks of life we will continue to make our Town of Stoneham a wonderful place to live, work and play and especially to enjoy.

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

***Requests for Information***

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

**TOWN OF STONEHAM, MASSACHUSETTS  
STATEMENT OF NET POSITION  
JUNE 30, 2018**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 12,164,125	4,131,836	\$ 16,295,961
Investments	4,950,882	-	4,950,882
Receivables, Net of Allowance for Uncollectible Amounts:			
Real Estate and Personal Property Taxes	646,882	-	646,882
Tax, Trash and Utility Liens	712,937	29,182	742,119
Motor Vehicle and Other Excise Taxes	274,056	-	274,056
User Charges	-	4,041,467	4,041,467
Departmental and Other	120,359	-	120,359
Intergovernmental	1,708,565	-	1,708,565
Total Current Assets	<u>20,577,806</u>	<u>8,202,485</u>	<u>28,780,291</u>
Noncurrent Assets:			
Receivables, Net of Allowance for Uncollectible Amounts:			
Intergovernmental	2,823,846	-	2,823,846
Capital Assets not being Depreciated	6,581,937	215,801	6,797,738
Capital Assets, Net of Accumulated Depreciation	81,155,439	12,762,212	93,917,651
Total Noncurrent Assets	<u>90,561,222</u>	<u>12,978,013</u>	<u>103,539,235</u>
Total Assets	<u>111,139,028</u>	<u>21,180,498</u>	<u>132,319,526</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Related to Pension	758,878	21,746	780,624
<b>LIABILITIES</b>			
Current Liabilities:			
Warrants Payable	636,162	8,310	644,472
Accrued Payroll	255,993	20,846	276,839
Payroll Withholdings	559,733	-	559,733
Abandoned Property	23,000	-	23,000
Accrued Interest	219,591	-	219,591
Compensated Absences	97,871	5,402	103,273
BAN Payable	510,000	-	510,000
Bonds and Notes Payable	3,514,472	422,445	3,936,917
Total Current Liabilities	<u>5,816,822</u>	<u>457,003</u>	<u>6,273,825</u>
Noncurrent Liabilities:			
Compensated Absences	880,834	48,618	929,452
Net Pension Liability	20,759,856	594,894	21,354,750
Total OPEB Liability	134,155,376	3,823,284	137,978,660
Bonds and Notes Payable	25,037,606	1,650,639	26,688,245
Total Noncurrent Liabilities	<u>180,833,672</u>	<u>6,117,435</u>	<u>186,951,107</u>
Total Liabilities	<u>186,650,494</u>	<u>6,574,438</u>	<u>193,224,932</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to OPEB	1,834,045	52,268	1,886,313
Related to Pension	4,908,105	140,646	5,048,751
Total Deferred Inflows of Resources	<u>6,742,150</u>	<u>192,914</u>	<u>6,935,064</u>
<b>NET POSITION</b>			
Net Investment in Capital Assets	58,675,298	10,904,929	69,580,227
Restricted for:			
Other Post Employment Benefits	97,547	-	97,547
Permanent Funds:			
Expendable	317,253	-	317,253
Nonexpendable	1,124,328	-	1,124,328
Other Specific Purposes	5,189,552	-	5,189,552
Unrestricted	(146,898,716)	3,529,963	(143,368,753)
Total Net Position	<u>\$ (81,494,738)</u>	<u>\$ 14,434,892</u>	<u>\$ (67,059,846)</u>

See accompanying Notes to Financial Statements.

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

Functions/Programs	Expenses	Program Revenues			Net (Expense)/ Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Primary Government:</b>					
Governmental Activities:					
General Government	\$ 5,056,516	\$ 503,353	\$ 839,768	\$ -	\$ (3,713,395)
Public Safety	14,813,377	1,495,949	213,767	-	(13,103,661)
Education	50,922,199	1,728,351	12,620,647	824,494	(35,748,707)
Public Works	5,807,074	1,146,374	478,700	322,252	(3,859,748)
Health and Human Services	1,291,153	171,095	103,109	-	(1,016,949)
Culture and Recreation	1,986,345	763,695	31,302	-	(1,191,348)
Debt Service-Interest	997,903	-	-	-	(997,903)
Total Governmental Activities	<u>80,874,567</u>	<u>5,808,817</u>	<u>14,287,293</u>	<u>1,146,746</u>	<u>(59,631,711)</u>
Business-Type Activities:					
Sewer	4,783,305	6,250,582	-	-	1,467,277
Water	<u>3,313,081</u>	<u>5,224,728</u>	<u>-</u>	<u>-</u>	<u>1,911,647</u>
Total Business-Type Activities	<u>8,096,386</u>	<u>11,475,310</u>	<u>-</u>	<u>-</u>	<u>3,378,924</u>
Total Primary Governments	<u>\$ 88,970,953</u>	<u>\$ 17,284,127</u>	<u>\$ 14,287,293</u>	<u>\$ 1,146,746</u>	<u>\$ (56,252,787)</u>

See accompanying Notes to Financial Statements.

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

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>CHANGES IN NET POSITION</b>			
Net (Expense) Revenue (From Previous Page)	\$ (59,631,711)	\$ 3,378,924	\$ (56,252,787)
General Revenues:			
Real Estate and Personal Property Taxes	48,766,330	-	48,766,330
Motor Vehicle and Other Excise Taxes	3,797,312	-	3,797,312
Meals Tax	354,222	-	354,222
Penalties and Interest on Taxes	158,288	-	158,288
Payments in Lieu of Taxes	67,900	-	67,900
Grants and Contributions Not Restricted to Specific Programs	4,103,361	-	4,103,361
Unrestricted Investment Income	61,399	37,170	98,569
Transfers, Net	575,375	(575,375)	-
Total General Revenues and Transfers	57,884,187	(538,205)	57,345,982
<b>CHANGE IN NET POSITION</b>	(1,747,524)	2,840,719	1,093,195
Net Position - Beginning of Year, as restated	(79,747,214)	11,594,173	(68,153,041)
<b>NET POSITION - END OF YEAR</b>	<u>\$ (81,494,738)</u>	<u>\$ 14,434,892</u>	<u>\$ (67,059,846)</u>

See accompanying Notes to Financial Statements.

**TOWN OF STONEHAM, MASSACHUSETTS  
GOVERNMENT FUNDS  
BALANCE SHEET  
JUNE 30, 2018**

	General	Highway Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 5,719,966	\$ -	\$ -	\$ 5,719,966
Investments	4,950,882	-	-	4,950,882
Receivables, Net of Allowance for Uncollectible Amounts:				
Real Estate and Personal Property Taxes	646,882	-	-	646,882
Tax and Trash Liens	709,320	-	3,617	712,937
Motor Vehicle and Other Excise Taxes	274,056	-	-	274,056
Departmental and Other	22,100	-	98,259	120,359
Intergovernmental	3,911,837	286,010	334,564	4,532,411
Due from Other Funds	237,765	-	-	237,765
Restricted Assets:				
Cash and Cash Equivalents	-	-	6,444,159	6,444,159
Total Assets	\$ 16,472,808	\$ 286,010	\$ 6,880,599	\$ 23,639,417
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Warrants Payable	\$ 406,369	\$ 50,323	\$ 179,470	\$ 636,162
Accrued Payroll	249,486	-	6,507	255,993
Payroll Withholdings	559,733	-	-	559,733
Abandoned Property	23,000	-	-	23,000
Due to Other Funds	-	237,765	-	237,765
Short-Term Notes Payable	-	-	510,000	510,000
Total Liabilities	1,238,588	288,088	695,977	2,222,653
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	5,400,756	-	101,876	5,502,632
<b>FUND BALANCES</b>				
Nonspendable	-	-	1,124,328	1,124,328
Restricted	97,547	-	5,407,007	5,504,554
Committed	3,696,108	-	-	3,696,108
Assigned	119,842	-	-	119,842
Unassigned	5,919,967	(2,078)	(448,589)	5,469,300
Total Fund Balances	9,833,464	(2,078)	6,082,746	15,914,132
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 16,472,808	\$ 286,010	\$ 6,880,599	\$ 23,639,417

See accompanying Notes to Financial Statements.

**TOWN OF STONEHAM, MASSACHUSETTS  
GOVERNMENT FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2018**

	General	Highway Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Real Estate and Personal Property Taxes	\$ 48,507,622	\$ -	\$ -	\$ 48,507,622
Motor Vehicle and Other Excise Taxes	3,751,990	-	-	3,751,990
Meals Tax	354,222	-	-	354,222
Tax and Trash Liens	151,250	-	-	151,250
Payments in Lieu of Taxes	67,900	-	-	67,900
Intergovernmental	15,558,050	939,256	2,803,248	19,300,554
Penalties and Interest on Taxes	158,288	-	-	158,288
Licenses and Permits	1,348,464	-	-	1,348,464
Fines and Forfeitures	82,083	-	-	82,083
Departmental and Other	1,379,454	-	3,927,250	5,306,704
Contributions	-	-	242,472	242,472
Investment Income	59,774	-	1,626	61,400
Total Revenues	<u>71,419,097</u>	<u>939,256</u>	<u>6,974,596</u>	<u>79,332,949</u>
<b>EXPENDITURES</b>				
Current:				
General Government	2,929,077	-	845,708	3,774,785
Public Safety	8,236,604	-	606,177	8,842,781
Education	29,115,035	-	3,493,905	32,608,940
Public Works	2,445,752	941,334	1,845,282	5,232,368
Health and Human Services	722,949	-	196,302	919,251
Culture and Recreation	1,245,225	-	982,517	2,227,742
Pension Benefits	12,010,183	-	-	12,010,183
Employee Benefits	8,704,579	-	-	8,704,579
State and County Charges	1,528,894	-	-	1,528,894
Debt Service:				
Principal	3,428,000	-	-	3,428,000
Interest	1,059,738	-	-	1,059,738
Total Expenditures	<u>71,426,036</u>	<u>941,334</u>	<u>7,969,891</u>	<u>80,337,261</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(6,939)</u>	<u>(2,078)</u>	<u>(995,295)</u>	<u>(1,004,312)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Proceeds of Bonds and Notes	-	-	1,510,000	1,510,000
Premium from Issuance of Bonds and Notes	-	-	137,820	137,820
Transfers In	1,412,881	-	525,000	1,937,881
Transfers Out	(525,000)	-	(837,506)	(1,362,506)
Total Other Financing Sources (Uses)	<u>887,881</u>	<u>-</u>	<u>1,335,314</u>	<u>2,223,195</u>
<b>NET CHANGE IN FUND BALANCES</b>	880,942	(2,078)	340,019	1,218,883
Fund Balances - Beginning of Year, as restated	<u>8,952,522</u>	<u>-</u>	<u>5,742,727</u>	<u>14,695,249</u>
<b>FUND BALANCES - END OF YEAR</b>	<u>\$ 9,833,464</u>	<u>\$ (2,078)</u>	<u>\$ 6,082,746</u>	<u>\$ 15,914,132</u>

See accompanying Notes to Financial Statements.

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

Total Governmental Fund Balances	\$ 15,914,132
Capital assets (net of accumulated depreciation) used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	87,737,376
Other assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the governmental funds	5,502,632
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due	(219,591)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds and Notes Payable, Net	(28,552,078)
Compensated Absences	(978,705)
Net Pension Liability	(20,759,856)
Total OPEB Liability	(134,155,376)
In the statement of net position, deferred outflows and inflows of resources are reported for amounts related to OPEB. This amount represents the net deferrals.	(1,834,045)
In the statement of net position, deferred outflows and inflows of resources are reported for amounts related to pensions. This amount represents the net deferrals.	<u>(4,149,227)</u>
Net Position of Governmental Activities	<u><u>\$ (81,494,738)</u></u>

*See accompanying Notes to Financial Statements.*

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

Net Change in Fund Balances - Total Governmental Funds	\$ 1,218,883
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. These amounts represent the related activity of the current period.</p>	
Capital Outlays	2,426,160
Depreciation	(3,624,764)
<p>Revenues in the statement of activities that do not provide current financial resources are reported as deferred inflows of resources in the governmental funds. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred inflows of resources.</p>	
	(781,283)
<p>The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any impact on net position. Also, governmental funds report the effect of material premiums and discounts when debt is first issued, whereas these amounts are amortized in the statement of activities. These amounts represent the related activity of the current period.</p>	
Proceeds of Bonds	(1,510,000)
Premium from Issuance of Bonds	(137,820)
Bond Maturities	3,428,000
Net Amortization of Bond Premiums	40,284
<p>In the statement of activities, interest is accrued on outstanding long-term debt, whereas in the governmental funds interest is not reported until due. This amount represents the net change in accrued interest payable.</p>	
	21,551
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported in the governmental funds. These amounts represent the net changes:</p>	
Compensated Absences	(28,637)
Net Pension Liability	7,968,401
Total OPEB Liability	(3,109,465)
<p>In the statement of activities, deferred inflows of resources related to OPEB are amortized and recognized as OPEB expense. This amount represents the net change in deferred inflows of resources related to OPEB.</p>	
	(1,834,045)
<p>In the statement of activities, deferred outflows and inflows of resources related to pensions are amortized and recognized as pension expense. This amount represents the net change in deferred outflows and inflows related to pensions.</p>	
	<u>(5,824,789)</u>
Changes in Net Position of Governmental Activities	<u>\$ (1,747,524)</u>

See accompanying Notes to Financial Statements.

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

	Business-Type Activities - Enterprise Funds		
	Sewer Enterprise	Water Enterprise	Total
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 2,729,140	1,402,696	\$ 4,131,836
Receivables, Net of Allowance for Uncollectible Amounts:			
User Charges	2,241,709	1,799,758	4,041,467
Utility Liens	13,942	15,240	29,182
Total Current Assets	<u>4,984,791</u>	<u>3,217,694</u>	<u>8,202,485</u>
Noncurrent Assets:			
Capital Assets not being Depreciated	215,801	-	215,801
Capital Assets, Net of Accumulated Depreciation	<u>5,979,318</u>	<u>6,782,894</u>	<u>12,762,212</u>
Total Noncurrent Assets	<u>6,195,119</u>	<u>6,782,894</u>	<u>12,978,013</u>
Total Assets	<u>11,179,910</u>	<u>10,000,588</u>	<u>21,180,498</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension Related	<u>11,519</u>	<u>10,227</u>	<u>21,746</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Warrants Payable	2,852	5,458	8,310
Accrued Payroll	11,949	8,897	20,846
Compensated Absences	2,628	2,774	5,402
Long-Term Bonds and Notes Payable	<u>73,258</u>	<u>349,187</u>	<u>422,445</u>
Total Current Liabilities	<u>90,687</u>	<u>366,316</u>	<u>457,003</u>
Noncurrent Liabilities:			
Compensated Absences	23,653	24,965	48,618
Net Pension Liability	315,125	279,769	594,894
Total OPEB Liability	2,026,937	1,796,347	3,823,284
Long-Term Bonds and Notes Payable	<u>268,150</u>	<u>1,382,489</u>	<u>1,650,639</u>
Total Noncurrent Liabilities	<u>2,633,865</u>	<u>3,483,570</u>	<u>6,117,435</u>
Total Liabilities	<u>2,724,552</u>	<u>3,849,886</u>	<u>6,574,438</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Related to OPEB	27,710	24,558	52,268
Related to Pension	<u>74,502</u>	<u>66,144</u>	<u>140,646</u>
Total Deferred Inflows of Resources	<u>102,212</u>	<u>90,702</u>	<u>192,914</u>
<b>FUND NET POSITION</b>			
Net Investment in Capital Assets	5,853,711	5,051,218	10,904,929
Unrestricted	<u>2,510,954</u>	<u>1,019,009</u>	<u>3,529,963</u>
Total Net Position	<u>\$ 8,364,665</u>	<u>\$ 6,070,227</u>	<u>\$ 14,434,892</u>

See accompanying Notes to Financial Statements.

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

	Business-Type Activities - Enterprise Funds		
	Sewer Enterprise	Water Enterprise	Total
<b>OPERATING REVENUES</b>			
Charges for Services	\$ 6,250,582	\$ 5,224,728	\$ 11,475,310
<b>OPERATING EXPENSES</b>			
Cost of Service and Administration	599,905	676,609	1,276,514
MWRA Assessment	4,600,334	3,035,253	7,635,587
Pension and OPEB Benefits Adjustments	(634,593)	(586,434)	(1,221,027)
Depreciation	217,659	187,653	405,312
Total Operating Expenses	4,783,305	3,313,081	8,096,386
<b>OPERATING INCOME</b>	1,467,277	1,911,647	3,378,924
<b>NONOPERATING REVENUES</b>			
Investment Income	19,525	17,645	37,170
<b>INCOME BEFORE TRANSFERS</b>	1,486,802	1,929,292	3,416,094
Transfers In	400,000	-	400,000
Transfers Out	(514,560)	(460,815)	(975,375)
Total Transfers, Net	(114,560)	(460,815)	(575,375)
<b>CHANGE IN FUND NET POSITION</b>	1,372,242	1,468,477	2,840,719
Fund Net Position - Beginning of Year, as restated	6,992,423	4,601,750	11,594,173
<b>FUND NET POSITION - END OF YEAR</b>	<u>\$ 8,364,665</u>	<u>\$ 6,070,227</u>	<u>\$ 14,434,892</u>

See accompanying Notes to Financial Statements.

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

	Business-Type Activities - Enterprise Funds		
	Sewer Enterprise	Water Enterprise	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from Customers and Users	\$ 6,023,108	\$ 4,835,027	\$ 10,858,135
Payments to Vendors	(4,795,984)	(3,291,378)	(8,087,362)
Payments to Employees	(464,529)	(418,560)	(883,089)
Net Cash Provided by Operating Activities	<u>762,595</u>	<u>1,125,089</u>	<u>1,887,684</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Transfers In	400,000	-	400,000
Transfers Out	(514,560)	(460,815)	(975,375)
Net Cash Provided (Used) by Noncapital Financing Activities	<u>(114,560)</u>	<u>(460,815)</u>	<u>(575,375)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and Construction of Capital Assets	(364,802)	(62,613)	(427,415)
Principal Payments on Bonds and Notes	(75,756)	(360,287)	(436,043)
Net Cash Used by Capital and Related Financing Activities	<u>(440,558)</u>	<u>(422,900)</u>	<u>(863,458)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment Income	19,525	17,645	37,170
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	227,002	259,019	486,021
Cash and Cash Equivalents - Beginning of Year	2,502,138	1,143,677	3,645,815
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>\$ 2,729,140</u>	<u>\$ 1,402,696</u>	<u>\$ 4,131,836</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH FROM OPERATING ACTIVITIES</b>			
Operating Income	\$ 1,467,277	\$ 1,911,647	\$ 3,378,924
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:			
Changes in Assets and Liabilities not Requiring Current Cash Flows:			
Depreciation	217,659	187,653	405,312
Net Pension Liability	(709,284)	(652,628)	(1,361,912)
Total OPEB Liability	74,691	66,194	140,885
Effect of Changes in Operating Assets and Liabilities:			
User Charges	(213,532)	(374,461)	(587,993)
Utility Liens	(13,942)	(15,240)	(29,182)
Warrants Payable	(69,110)	111	(68,999)
Accrued Payroll	6,285	(1,307)	4,978
Compensated Absences	2,551	3,120	5,671
Total Adjustments	<u>(704,682)</u>	<u>(786,558)</u>	<u>(1,491,240)</u>
Net Cash Provided by Operating Activities	<u>\$ 762,595</u>	<u>\$ 1,125,089</u>	<u>\$ 1,887,684</u>

See accompanying Notes to Financial Statements.

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

<b>ASSETS</b>	Pension Trust Fund (as of December 31, 2017)	Private Purpose Trust Funds	Agency Funds
Cash and Cash Equivalents	\$ 50,865	\$ 1,434,794	\$ 198,375
Investments:			
Equity Mutual Funds	41,062,167	-	-
Fixed Income Securities	15,088,263	-	-
External Investment Pool (PRIT)	36,117,840	-	-
Receivables, Net of Allowance for Uncollectible Amounts:			
Departmental and Other	239,954	-	-
Total Assets	92,559,089	1,434,794	198,375
 <b>LIABILITIES</b>			
Warrants Payable	7,082	1,000	16,387
Accrued Payroll	-	-	33,682
Liabilities Due Depositors	-	-	148,306
Total Liabilities	7,082	1,000	\$ 198,375
 <b>NET POSITION</b>			
Restricted for Pension Benefits and Other Purposes	\$ 92,552,007	\$ 1,433,794	

See accompanying Notes to Financial Statements.

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

	<u>Pension Trust Fund (Year Ended December 31, 2017)</u>	<u>Private Purpose Trust Funds</u>
<b>ADDITIONS</b>		
Contributions:		
Employer	\$ 6,099,564	\$ -
Plan Members	1,469,429	-
Private Donations	<u>-</u>	<u>41,564</u>
Total Contributions	<u>7,568,993</u>	<u>41,564</u>
Net Investment Income:		
Net Appreciation in Fair Value of Investments	11,189,547	-
Interest	<u>2,424,639</u>	<u>1,861</u>
Total Investment Income	13,614,186	1,861
Less: Investment Expense	<u>(500,878)</u>	<u>-</u>
Net Investment Income	<u>13,113,308</u>	<u>1,861</u>
Intergovernmental	<u>99,627</u>	<u>-</u>
Total Additions	<u>20,781,928</u>	<u>43,425</u>
<b>DEDUCTIONS</b>		
Administration	250,143	-
Retirement Benefits, Including Reimbursements and Refunds	7,877,514	-
Scholarships Awarded	<u>-</u>	<u>62,050</u>
Total Deductions	<u>8,127,657</u>	<u>62,050</u>
<b>CHANGE IN NET POSITION</b>	12,654,271	(18,625)
Net Position - Beginning of Year	<u>79,897,736</u>	<u>1,452,419</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 92,552,007</u>	<u>\$ 1,433,794</u>

See accompanying Notes to Financial Statements.

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. General**

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

**B. Reporting Entity**

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

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

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

Fiduciary Fund Component Unit

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

The System was established to provide retirement benefits to Town employees and their respective 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, a fourth member appointed by the Board of Selectmen and a fifth 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 in the fiduciary funds financial statements.

The System does not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' (Commonwealth) Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 35 Central Street, Stoneham, Massachusetts 02180.

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

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

**B. Reporting Entity (Continued)**

Joint Ventures

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

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

*Northeast Metropolitan Regional Vocational High School*

The Town is a member of the Northeast Metropolitan Regional Vocational High School District (District) which serves the members students seeking an education in academic and technical studies. The members share in the operations of the District and each member is responsible for its proportionate share of the operational and capital cost of the District, which are paid in the form of assessments. The Town's fiscal year 2018 assessment totaled \$1,046,697. Separate audited financial statements may be obtained by contacting the District Treasurer at 30 Log Bridge Road, Middleton, MA 01949.

**C. Implementation of New Accounting Principles**

For the year ended June 30, 2018, the Town implemented the following pronouncements issued by the GASB:

- GASB Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other than Pensions*
- GASB Statement No. 81, *Irrevocable Split-interest Agreements*
- GASB Statement No. 85, *Omnibus 2017*
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*

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

	Government-wide		Fund-basis		
	Governmental Activities	Business-type Activities	General Fund	Sewer Enterprise Fund	Water Enterprise Fund
Net position as previously reported	\$ 9,386,247	\$ 14,171,211	\$ 8,902,522	\$ 8,414,256	\$ 5,756,955
Employer OPEB assets	50,000	-	50,000	-	-
Impact of GASB 75 implementation	<u>(89,183,461)</u>	<u>(2,577,038)</u>	<u>-</u>	<u>(1,421,833)</u>	<u>(1,155,205)</u>
Net position as restated	<u>\$ (79,747,214)</u>	<u>\$ 11,594,173</u>	<u>\$ 8,952,522</u>	<u>\$ 6,992,423</u>	<u>\$ 4,601,750</u>

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

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

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

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

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

Government-Wide Financial Statements

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

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

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

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

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

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

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

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

Fund Financial Statements

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

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

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

The following major governmental funds are reported:

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

The *highway projects fund* is a special revenue fund used to account for and report costs incurred with the construction and reconstruction of Town owned roadways. Costs charged to the fund are subjected to reimbursement by the Commonwealth of Massachusetts. The fund does not have a legally adopted budget.

The nonmajor governmental funds consist of other special revenue, 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:

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

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

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

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

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

Fund Financial Statements (Continued)

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

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

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

The following major proprietary funds are reported:

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

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

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

The following fiduciary fund types are reported:

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

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

The *agency fund* is used to account for assets held in a custodial capacity. Such assets consist of bid deposits and payroll withholdings. Agency funds do not present the results of operations or have a measurement focus.

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

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

**E. 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, net asset value (NAV), or amortized cost, as further discussed in Note 3.

**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 fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

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

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

Real estate tax liens are processed in accordance with Massachusetts General Law (MGL) on delinquent properties and are recorded as receivables in the fiscal year they are processed.

**Motor Vehicle Excise Taxes**

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

**User Charges (Sewer and Water)**

User charges are levied quarterly based on individual meter readings and are subject to penalties and interest if they are not paid by the respective due date. Sewer and water liens are processed in accordance with MGL and are included as a lien on the property owner's tax bill. Sewer and water charges are recorded as receivables when levied.

**Departmental and Other**

Departmental and other receivables consist primarily of uncollected trash fees and police details and are recorded as receivables in the fiscal year accrued.

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

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

**G. Accounts Receivable (Continued)**

**Intergovernmental**

Various state and federal operating and capital grants are applied for and received annually. Grant revenue is recognized as soon as all eligibility requirements imposed by the provider have been met.

**H. Allowance for Uncollectible Amounts**

Government-Wide and Fund Financial Statements

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

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

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

- Real estate taxes and tax liens
- User charges (water and sewer)
- Trash liens
- Utility liens (water and sewer)

Intergovernmental receivables are considered 100% collectible.

**I. Inventories**

Government-Wide and Fund Financial Statements

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

**J. Restricted Assets**

Government-Wide and Fund Financial Statements

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

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

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

**K. Capital Assets**

Government-Wide and Proprietary Fund Financial Statements

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

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

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

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

Capital Asset Type	Estimated Useful Life
Buildings	10 - 40
Land Improvements	15 - 40
Machinery, Vehicles and Equipment	5 - 20
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 fiscal year of the purchase.

**L. Interfund Receivables and Payables**

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

Government-Wide Financial Statements

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

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

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

**L. Interfund Receivables and Payables (Continued)**

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.

**M. Interfund Transfers**

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

Government-Wide Financial Statements

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

**N. Deferred Outflows of Resources**

Government-Wide and Fund Financial Statements

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

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

**O. Deferred Inflows of Resources**

Government-Wide and Fund Financial Statements

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

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

Deferred inflows of resources related to pensions and OPEB are reported in the government-wide statement of net position. They represent deferred inflows of resources as defined and identified in GASB Statement No. 68 and GASB Statement No. 75.

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

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

**P. Net Position and Fund Balances**

Government-Wide Financial Statements and Proprietary Fund Financial Statements (Net position)

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

Net position is reported as restricted when amounts are restricted by outside parties for a specific future use. Net position has been "restricted" for the following:

*Other post-employment benefits* (OPEB) represent restrictions for current and future retirees' health and life insurance benefits.

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

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

*Other specific purposes* represent restrictions placed on assets from outside parties.

Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by outstanding borrowings attributable to those assets.

Unrestricted net position is the difference between total net position and net investment in capital assets and restricted net position.

Governmental Funds Financial Statements (Fund Balances)

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

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

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

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

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

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

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

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

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

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

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

**Q. Long-Term Debt**

Government-Wide and Proprietary Fund Financial Statements

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

Governmental Funds Financial Statements

The face amount of governmental funds long-term debt is reported as other financing sources when the debt is issued. Bond premiums and discounts, as well as issuance costs, are recognized in the current period. Bond premiums are reported as other financing sources and bond discounts are reported as other financing uses.

Issuance costs, whether or not withheld from the actual bond proceeds received, are reported as general government expenditures.

**R. Investment Income**

Government-Wide and Fund Financial Statements

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

Investment income from the proprietary funds is retained in the proprietary funds.

**S. Compensated Absences**

Government-Wide and Proprietary Fund Financial Statements

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

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

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

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

**S. Compensated Absences (Continued)**

Governmental Funds Financial Statements

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

**T. Pensions**

Government-Wide and Proprietary Fund Financial Statements

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

**U. Other Post-Employment Benefits**

Government-Wide and Proprietary Fund Financial Statements

In addition to providing pension benefits, and as more fully described in Note 10, the Town provides health and life insurance coverage for current and future retirees and their spouses.

**V. Use of Estimates**

Government-Wide and Fund Financial Statements

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

**W. Total Column**

Government-Wide Financial Statements

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

Fund Financial Statements

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

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

**NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. BUDGETARY INFORMATION**

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

Increases to the original budget subsequent to the approval of the annual budget require Special Town Meeting approval.

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

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

An annual budget is adopted for the General Fund in conformity with the guidelines described above. The original fiscal year 2018 approved budget for the General Fund authorized \$65,993,513 in appropriations. During fiscal year 2018, supplemental appropriations totaling \$735,392 were authorized.

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

The General Fund Schedule of Revenues, Expenditures, and Changes in Fund Balance – Non-GAAP Budgetary Basis – Budget and Actual, presented in the accompanying Required Supplementary Information, presents comparison of the legally adopted budget, as amended, with actual results. The originally adopted budget is presented for purposes of comparison to the final, amended budget.

**B. FUND DEFICITS**

At June 30, 2018, the following fund deficits exist in the governmental funds:

Fund	Amount	Funding Source
FY18 ATM Capital Articles	\$ 448,589	Issuance of long-term debt
Highway Projects	2,078	State Grant
Total Deficits	<u>\$ 450,667</u>	

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

**NOTE 3 DEPOSITS AND INVESTMENTS**

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

The municipal finance laws of the Commonwealth authorize the Town to invest temporarily idle cash in bank term deposits and certificates of deposits, and treasury and agency obligations of the United States government, with maturities of one year or less; U.S. Treasury or Agency repurchase agreements with maturities of not more than 90 days; money market accounts; and the state treasurer's investment pool – the Massachusetts Municipal Depository Trust (MMDT). The MMDT meets the criteria of an external investment pool and operates in accordance with applicable state laws and regulations. The Treasurer of the Commonwealth serves as Trustee. The reported value of the pool is the same as the fair value of pool shares.

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

Deposits - Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of a bank failure, the Town's deposits may not be recovered. The Town does not have a policy for custodial credit risk of deposits. As of June 30, 2018, \$3,938,348 of the Town's bank balance of \$13,336,442 was uninsured and uncollateralized.

Investments Summary

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

Investment Type	Total Amount	Investment Maturities (in Years)	
		Less Than 1	1 - 5
<u>Debt Securities:</u>			
Money Market Mutual Funds	\$ 1,525,248	\$ 1,525,248	\$ -
Certificates of Deposit	3,641,422	1,512,112	2,129,310
External Investment Pool (MMDT)	4,198,240	4,198,240	-
Total Debt Securities	9,364,910	\$ 7,235,600	\$ 2,129,310
<u>Other Investments:</u>			
Equity Securities	1,309,460		
Total Investments	\$ 10,674,370		

Investments - Interest Rate Risk of Debt Securities

Interest rate risk for debt securities is the risk that changes in interest rates of debt securities will adversely affect the fair value of an investment. The Town has a policy that the fixed income portion of the portfolio shall have an average maturity of not more than 10 years.

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

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

Investments - Custodial Credit Risk

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

Investments - Credit Risk of Debt Securities

Credit risk for investments is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. As of June 30, 2018, the Town's investments in money market mutual funds, certificates of deposit, and external investment pools were unrated by a national credit quality ratings association.

Investments – Fair Value Measurements

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

Investment Type	Total Amount	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)
<b>Investments by Fair Value Level:</b>				
Equity Securities	\$ 1,309,460	\$ 1,309,460	\$ -	\$ -
Money Market Mutual Funds	1,525,248	1,525,248	-	-
Certificates of Deposit	3,641,422	3,641,422	-	-
Total Investments by Fair Value Level	6,476,130	\$ 6,476,130	\$ -	\$ -
<b>Investments measured at Amortized Cost:</b>				
External Investment Pool (MMDT)	4,198,240			
Total Investments	\$ 10,674,370			

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

**Pension Trust Fund (The System)**

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

Deposits - Custodial Credit Risk

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

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

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

Investment Summary

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

<u>Investment Type</u>	<u>Total Amount</u>	<u>Investment Maturities (in Years) Less Than 1</u>
<u>Debt Securities:</u>		
Fixed Income Mutual Funds	\$ 3,663,900	\$ 3,663,900
Mutual Bond Funds	11,424,363	11,424,363
Total Debt Securities	15,088,263	\$ 15,088,263
<u>Other Investments:</u>		
Equity Mutual Funds	41,062,167	
PRIT Investments	36,117,840	
Total Other Investments	77,180,007	
Total Investments	\$ 92,268,270	

Investments - Interest Rate Risk of Debt Securities

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

Investments - Custodial Credit Risk

The Pension System does not have an investment policy for custodial credit risk. At December 31, 2017, the System's investments in PRIT totaling \$36,117,840 are not subject to custodial credit risk exposure because they are not evidenced by securities that exist in physical or book entry-form. At December 31, 2017, the System's other investments totaling \$56,150,430 are not subject to custodial credit risk exposure because they are registered in the name of the System.

Investments - Credit Risk of Debt Securities

Credit risk for debt securities is the risk that an issuer or other counterparty to a debt security will not fulfill its obligations. The System does not have a policy for credit risk of debt securities. As of December 31, 2017, the investments in mutual bond funds and external investments pools were unrated by a national credit quality ratings association.

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

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

Investments – Fair Value Measurements

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

Investment Type	Fair Value	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)
<b>Investments by Fair Value Level:</b>				
Equity Mutual Funds	\$ 41,062,167	\$ 41,062,167	\$ -	\$ -
Fixed Income Mutual Funds	3,663,900	3,663,900	-	-
Mutual Bond Funds	11,424,363	11,424,363	-	-
Total Investments by Fair Value Level	<u>56,150,430</u>	<u>\$ 56,150,430</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Investments measured at the NAV:</b>				
External Investment Pool (PRIT)	<u>36,117,840</u>			
Total Investments	<u>\$ 92,268,270</u>			

PRIT investments measured at the net asset value (NAV) per share or its equivalent. The PRIT fund is an external investment pool that is not registered with the Securities and Exchange Commission, but is subject to oversight provided by the Pension Reserves Investment Management Board (the PRIM Board). The PRIM Board was created by legislation to provide general supervision of the investments and management of PRIT. The fair value of the PRIT pooled fund is based on unit value (NAV) as reported by management of the PRIT fund. Investments can be redeemed on a monthly basis with 24 hours' notice.

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

**NOTE 4 ACCOUNTS RECEIVABLE**

At June 30, 2018, receivables for the individual major governmental funds and nonmajor governmental and fiduciary funds in the aggregate are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
<b>Receivables:</b>			
Real Estate and Personal Property Taxes	\$ 646,882	\$ -	\$ 646,882
Tax and Trash Liens	712,937	-	712,937
Motor Vehicle and Other Excise Taxes	274,056	-	274,056
Departmental and Other	120,359	-	120,359
Intergovernmental	4,532,411	-	4,532,411
<b>Total</b>	<b>\$ 6,286,645</b>	<b>\$ -</b>	<b>\$ 6,286,645</b>

No allowance for uncollectable amounts were reported as governmental and fiduciary receivables are secured via the lien process and are considered 100% collectible. See Note 1.

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

	Gross Amount	Allowance for Uncollectibles	Net Amount
<b>Receivables:</b>			
Sewer	\$ 2,241,709	\$ -	\$ 2,241,709
Water	1,799,758	-	1,799,758
Utility Liens	29,182	-	29,182
<b>Total</b>	<b>\$ 4,070,649</b>	<b>\$ -</b>	<b>\$ 4,070,649</b>

No allowance for uncollectable amounts were reported as receivables for enterprise funds are secured via the lien process and are considered 100% collectible. See Note 1.

**Stoneham Central Middle School**

The Massachusetts School Building Authority (MSBA) provides contract assistance to the Town for the completed Stoneham Central Middle School construction project. The assistance program provides resources for future debt service of general obligation school bonds outstanding. During fiscal year 2018, \$1,148,092 of such assistance was received and is reported as revenue in the General Fund. \$4,127,931 will be received in future fiscal years. Of this amount, \$216,093 represents reimbursement of long-term interest costs, and \$3,911,838 represents reimbursement of approved construction costs. Accordingly, a \$3,911,838 intergovernmental receivable and corresponding deferred inflow have been reported on the General Fund balance sheet. The unavailable revenue has been recognized as revenue in the conversion to the government-wide financial statements.

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

**NOTE 5 CAPITAL ASSETS**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
<u>Capital Assets Not Being Depreciated:</u>				
Land	\$ 6,258,486	\$ -	\$ -	\$ 6,258,486
Construction in Progress	-	323,451	-	323,451
Total Capital Assets Not Being Depreciated	<u>6,258,486</u>	<u>323,451</u>	<u>-</u>	<u>6,581,937</u>
<u>Capital Assets Being Depreciated:</u>				
Land Improvements	202,883	585,500	-	788,383
Buildings	108,808,095	353,394	-	109,161,489
Machinery, Vehicles and Equipment	7,519,270	151,693	-	7,670,963
Infrastructure	17,879,561	1,012,122	(637,163)	18,254,520
Total Capital Assets Being Depreciated	<u>134,409,809</u>	<u>2,102,709</u>	<u>(637,163)</u>	<u>135,875,355</u>
<u>Less Accumulated Depreciation for:</u>				
Land Improvements	(72,559)	(39,083)	-	(111,642)
Buildings	(40,057,047)	(2,506,157)	-	(42,563,204)
Machinery, Vehicles and Equipment	(4,033,193)	(639,239)	-	(4,672,432)
Infrastructure	(7,569,515)	(440,285)	637,163	(7,372,637)
Total Accumulated Depreciation	<u>(51,732,314)</u>	<u>(3,624,764)</u>	<u>637,163</u>	<u>(54,719,915)</u>
Total Capital Assets Being Depreciated, Net	<u>82,677,495</u>	<u>(1,522,055)</u>	<u>-</u>	<u>81,155,439</u>
Total Governmental Activities Capital Assets, Net	<u>\$ 88,935,981</u>	<u>\$ (1,198,604)</u>	<u>\$ -</u>	<u>\$ 87,737,376</u>
	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activity- Sewer Enterprise:</b>				
<u>Capital Assets Not Being Depreciated:</u>				
Land	\$ 215,801	\$ -	\$ -	\$ 215,801
Total Capital Assets Not Being Depreciated	<u>215,801</u>	<u>-</u>	<u>-</u>	<u>215,801</u>
<u>Capital Assets Being Depreciated:</u>				
Buildings and Improvements	1,600,441	-	-	1,600,441
Machinery, Vehicles and Equipment	293,190	-	-	293,190
Infrastructure	5,906,319	364,802	-	6,271,121
Total Capital Assets Being Depreciated	<u>7,799,950</u>	<u>364,802</u>	<u>-</u>	<u>8,164,752</u>
<u>Less Accumulated Depreciation for:</u>				
Buildings and Improvements	(824,365)	(40,479)	-	(864,844)
Machinery, Vehicles and Equipment	(154,667)	(36,308)	-	(190,975)
Infrastructure	(988,743)	(140,872)	-	(1,129,615)
Total Accumulated Depreciation	<u>(1,967,775)</u>	<u>(217,659)</u>	<u>-</u>	<u>(2,185,434)</u>
Total Capital Assets Being Depreciated, Net	<u>5,832,175</u>	<u>147,143</u>	<u>-</u>	<u>5,979,318</u>
Total Sewer Enterprise Capital Assets, Net	<u>\$ 6,047,976</u>	<u>\$ 147,143</u>	<u>\$ -</u>	<u>\$ 6,195,119</u>

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

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-Type Activity- Water Enterprise:</b>				
<u>Capital Assets Being Depreciated:</u>				
Buildings	\$ 26,438	\$ -	\$ -	\$ 26,438
Machinery, Vehicles and Equipment	6,180	-	-	6,180
Infrastructure	8,488,524	62,613	-	8,551,137
Total Capital Assets Being Depreciated	<u>8,521,142</u>	<u>62,613</u>	<u>-</u>	<u>8,583,755</u>
<u>Less Accumulated Depreciation for:</u>				
Buildings	(24,970)	(587)	-	(25,557)
Machinery, Vehicles and Equipment	(6,180)	-	-	(6,180)
Infrastructure	(1,582,058)	(187,066)	-	(1,769,124)
Total Accumulated Depreciation	<u>(1,613,208)</u>	<u>(187,653)</u>	<u>-</u>	<u>(1,800,861)</u>
Total Capital Assets Being Depreciated, Net	<u>6,907,934</u>	<u>(125,040)</u>	<u>-</u>	<u>6,782,894</u>
Total Water Enterprise Capital Assets, Net	<u>\$ 6,907,934</u>	<u>\$ (125,040)</u>	<u>\$ -</u>	<u>\$ 6,782,894</u>
Total Business-Type Activities Capital Assets, Net	<u>\$ 12,955,910</u>	<u>\$ 22,103</u>	<u>\$ -</u>	<u>\$ 12,978,013</u>

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

**Governmental Activities:**

General Government	\$ 13,612
Public Safety	634,235
Education	2,283,095
Public Works	538,616
Culture and Recreation	155,206
Total Depreciation Expense - Governmental Activities	<u>\$ 3,624,764</u>

**Business-Type Activities:**

Sewer	\$ 217,659
Water	187,653
Total Depreciation Expense - Business-Type Activities	<u>\$ 405,312</u>

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

**NOTE 6 INTERFUND BALANCES AND TRANSFERS**

Interfund balances for the fiscal year ended June 30, 2018, are summarized below:

Receivable Fund	Payable Fund	Amount
General	Highway Projects	\$ 237,765 (1)

(1) Represents advance of cash in anticipation of state grant reimbursements.

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

Transfers Out:	Transfers In:			Total
	General Fund	Nonmajor Governmental Fund	Sewer Enterprise Fund	
General Fund	\$ -	\$ 525,000	\$ -	\$ 525,000 (1)
Nonmajor Governmental Funds	437,506	-	400,000	837,506 (2)
Sewer Enterprise Fund	514,560	-	-	514,560 (3)
Water Enterprise Fund	460,815	-	-	460,815 (4)
	\$ 1,412,881	\$ 525,000	\$ 400,000	\$ 2,337,881

- (1) Represents budgeted transfers from the general fund to nonmajor special revenue funds to subsidize waste and recycling.
- (2) Represents budgeted transfers from nonmajor capital projects funds to the general fund for capital expenditures (\$220,000). Also represents budgeted transfers from nonmajor cable franchise fees, sale of cemetery lots and other trust funds to subsidize the operating budget (\$96,000). Also represents close outs of various nonmajor special revenue funds to the general fund (\$121,506). Also represents an unbudgeted transfer from the Fallon Road mitigation capital project fund to the sewer capital project fund to support sewer capital activity (\$400,000).
- (3) Represents budgeted transfers from the sewer enterprise funds to the general fund for indirect costs.
- (4) Represents budgeted transfers from the water enterprise funds to the general fund for indirect costs.

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

**NOTE 7 SHORT-TERM FINANCING**

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

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

Short-term loans are general obligations and carry maturity dates that are limited by statute. Interest expenditures and expenses for short-term borrowings are accounted for in the General Fund and Enterprise Funds, respectively.

Details related to the short-term debt activity for the fiscal year ended June 30, 2018, is as follows:

**Governmental Funds**

Type	Description	Origination Date	Maturity Date	Interest Rate	Balance at June 30, 2017	Increases	Decreases	Balance at June 30, 2018
BAN	Golf Course Irrigation Replacement	12/21/17	12/21/18	2.25%	\$ -	\$ 510,000	\$ -	\$ 510,000

**Subsequent Event**

On December 21, 2018, the Town paid down \$100,000 of the BANs and renewed \$410,000 of BANs at an interest rate of 3.30% and a maturity date of December 21, 2019.

**NOTE 8 LONG-TERM OBLIGATIONS**

The following represents a summary of changes that occurred in long-term obligations during the fiscal year ended June 30, 2018:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
<b>Governmental Activities:</b>					
Bonds and Notes Payable	\$ 29,728,000	\$ 1,510,000	\$ (3,428,000)	\$ 27,810,000	\$ 3,465,000
Unamortized Bond Premiums	644,542	137,820	(40,284)	742,078	49,472
Total Bonds and Notes Payable	30,372,542	1,647,820	(3,468,284)	28,552,078	3,514,472
Compensated Absences	950,068	28,637	-	978,705	97,871
Total	<u>\$ 31,322,610</u>	<u>\$ 1,676,457</u>	<u>\$ (3,468,284)</u>	<u>\$ 29,530,783</u>	<u>\$ 3,612,343</u>
<b>Business-Type Activities:</b>					
Bonds and Notes Payable	\$ 2,509,127	\$ -	\$ (436,043)	\$ 2,073,084	\$ 422,445
Compensated Absences	48,349	5,671	-	54,020	5,402
Total	<u>\$ 48,349</u>	<u>\$ 5,671</u>	<u>\$ -</u>	<u>\$ 54,020</u>	<u>\$ 5,402</u>

The governmental activities long-term liabilities are generally liquidated by the General Fund. The business-type long-term liabilities are liquidated by the sewer and water enterprise funds.

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

**NOTE 9 LONG-TERM DEBT**

Details related to the outstanding indebtedness at June 30, 2018, and the debt service requirements are as follows:

**Bonds and Notes Payable - Governmental Funds**

Project	Maturity Date	Interest Rate	Outstanding at June 30, 2017	Issued	Redeemed	Outstanding at June 30, 2018
General Obligation Refunding Bonds 2010	11/15/20	2.25-5.00%	\$ 4,960,000	\$ -	\$ (1,380,000)	\$ 3,580,000
General Obligation Bonds 2010	06/01/21	2.00-5.00%	650,000	-	(60,000)	590,000
General Obligation Bonds 2011	06/15/31	2.00-4.00%	1,395,000	-	(125,000)	1,270,000
General Obligation Refunding Bonds 2012	06/15/23	2.00-4.00%	4,020,000	-	(760,000)	3,260,000
General Obligation Bonds 2013	02/15/33	2.00-4.00%	14,720,000	-	(680,000)	14,040,000
General Obligation Refunding Bonds 2016	12/15/26	2.00-3.00%	579,000	-	(120,000)	459,000
General Obligation Bonds 2016	12/15/26	2.00-3.00%	1,891,000	-	(230,000)	1,661,000
General Obligation Bonds 2017	06/30/42	3.00-4.00%	1,513,000	-	(73,000)	1,440,000
General Obligation Bonds 2018	12/15/31	3.00-4.00%	-	1,510,000	-	1,510,000
Total Governmental Funds			<u>\$ 29,728,000</u>	<u>\$ 1,510,000</u>	<u>\$ (3,428,000)</u>	<u>\$ 27,810,000</u>

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

Fiscal Year	Principal	Interest	Total
2019	\$ 3,465,000	\$ 1,012,066	\$ 4,477,066
2020	3,235,000	842,463	4,077,463
2021	3,080,000	709,662	3,789,662
2022	1,960,000	613,538	2,573,538
2023	1,745,000	546,762	2,291,762
2024	1,290,000	483,937	1,773,937
2025	1,335,000	434,312	1,769,312
2026	1,385,000	382,986	1,767,986
2027	1,360,000	329,788	1,689,788
2028	1,390,000	276,938	1,666,938
2029	1,415,000	232,361	1,647,361
2030	1,460,000	187,136	1,647,136
2031	1,460,000	140,538	1,600,538
2032	1,310,000	97,363	1,407,363
2033	1,340,000	57,988	1,397,988
2034	180,000	16,249	196,249
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
Total	<u>\$ 27,810,000</u>	<u>\$ 6,420,707</u>	<u>\$ 34,230,707</u>

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

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

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

Project	Maturity Date	Interest Rate	Outstanding at June 30, 2017	Issued	Redeemed	Outstanding at June 30, 2018
Sewer - MWRA	06/30/26	0.00%	<u>\$ 417,164</u>	<u>\$ -</u>	<u>\$ (75,756)</u>	<u>\$ 341,408</u>

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

Fiscal Year	Principal	Interest	Total
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>
Total	<u>\$ 341,408</u>	<u>\$ -</u>	<u>\$ 341,408</u>

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

Project	Maturity Dates	Interest Rate	Outstanding at June 30, 2017	Issued	Redeemed	Outstanding at June 30, 2018
Water - MWRA	06/30/23	0.00%	<u>\$ 2,091,963</u>	<u>\$ -</u>	<u>\$ (360,287)</u>	<u>\$ 1,731,676</u>

Debt service requirements (gross) for principal and interest for Water Enterprise Fund bonds and notes payable in future fiscal years are as follows:

Fiscal Year	Principal	Interest	Total
2019	\$ 349,187	\$ -	\$ 349,187
2020	311,186	-	311,186
2021	286,786	-	286,786
2022	197,786	-	197,786
2023	174,785	-	174,785
2024	144,146	-	144,146
2025	133,900	-	133,900
2026	<u>133,900</u>	<u>-</u>	<u>133,900</u>
Total	<u>\$ 1,731,676</u>	<u>\$ -</u>	<u>\$ 1,731,676</u>

**Subsequent Event**

On March 4, 2019, the Town issued an MWRA bond in the amount of \$242,500 with no interest and a maturity date of February 15, 2029.

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

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

**Authorized and Unissued Debt**

The Town is subject to various debt limits by statute and may issue additional general obligation debt under the normal debt limit. At June 30, 2018, the Town had the following authorized and unissued debt:

Purpose	Amount
Middle School Construction	\$ 1,096,232
Sewer (Phase 10)	610,500
Golf Course Irrigation Replacement	510,500
Drainage Study	100,000
School Feasibility Study	28,325
Total	\$ 2,345,557

**NOTE 10 POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)**

**Plan Description** – The Town provides lifetime healthcare insurance coverage for its retirees and their spouses (hereinafter referred to as the Plan) as a single-employer defined benefit Other Post-Employment Benefit (OPEB) plan. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions. The Plan does not issue a stand-alone financial report.

**Funding Policy** - The contribution requirements of Plan members and the Town are established and may be negotiated between the Town and Union representatives. The required health insurance contribution rates (including Medicare Part B) of Plan members and the Town vary by health plan and range from 15 - 25% and 85 - 75%, respectively. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

**Employees Covered by Benefit Terms** - At June 30, 2018 the following employees were covered by benefit terms:

Active Employees	519
Inactive Members Entitled to But Not Receiving Benefits	13
Retired Employees and Spouses	383
Total	915

**Total OPEB Liability**

The Town's total OPEB liability of \$137,978,660 was measured as of June 30, 2018, and was determined by an actuarial valuation as of July 1, 2017.

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

**NOTE 10 POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

The significant methods and assumptions used to measure the total OPEB liability as of the latest actuarial valuation are as follows:

Discount Rate:	3.87% (Bond Buyer 20 Bond Index for 20-year Municipal GO Bond as of June 30, 2018)
Healthcare/Medical Cost Trend Rate:	
Commercial Managed Care Plan	8.00% decreasing to an ultimate level of 5.0%
Commercial Indemnity Plan	8.00% decreasing to an ultimate level of 5.0%
Medicare Managed Care Plan	7.00% decreasing to an ultimate level of 5.0%
Medicare Indemnity Plan	8.00% decreasing to an ultimate level of 5.0%
Actives Mortality:	The RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Employees projected using generational mortality ad scale MP-2016
Retirees Mortality:	The RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Healthy Annuitants projected using generational mortality and scale MP-2016
Disabled Mortality:	The RP-2014 Mortality Tables adjusted to 2006, sex-distinct, for Healthy Annuitants projected using generational mortality and scale MP-2016. Set forward 2 years.

**Changes in the Total OPEB Liability**

	Increase (Decrease) Total OPEB Liability
Balance at June 30, 2017	\$ 134,780,578
Changes for the year:	
Service cost	4,851,472
Interest	4,923,108
Benefit payments	(4,230,108)
Changes of Assumptions	(2,346,390)
Net Changes	<u>3,198,082</u>
Balance at June 30, 2018	<u>\$ 137,978,660</u>

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

**NOTE 10 POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB) (CONTINUED)**

*Sensitivity of the total OPEB liability to changes in the discount rate.* The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

	1% Decrease (2.87%)	Current Discount Rate (3.87%)	1% Increase (4.87%)
Net OPEB Liability	\$ 161,193,584	\$ 137,978,660	\$ 119,524,937

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

	1% Decrease	Current Trend Rate	1% Increase
Net OPEB Liability	\$ 116,275,357	\$ 137,978,660	\$ 166,232,335

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

For the year ended June 30, 2018, the Town recognized OPEB expense of \$5,084,394. At June 30, 2018, the Town reported deferred inflows of resources related to OPEB from changes in assumptions of \$1,886,313.

The amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30	Amount
2019	\$ (460,077)
2020	(460,077)
2021	(460,077)
2022	(460,077)
2023	(46,005)
Total	\$ (1,886,313)

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

**NOTE 11 FUND BALANCE**

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

	<u>General</u>	<u>Highway Projects</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Nonspendable:</b>				
Permanent Fund Principal	\$ -	\$ -	\$ 1,124,328	\$ 1,124,328
<b>Restricted:</b>				
OPEB	97,547	-	-	97,547
Town Gift and Grant Funds	-	-	267,937	267,937
Town Other Funds	-	-	2,610,921	2,610,921
School Lunch	-	-	65,629	65,629
School Gift and Grant Funds	-	-	419,069	419,069
School Other Funds	-	-	222,003	222,003
Receipts Reserved for Appropriation	-	-	119,779	119,779
Capital Projects	-	-	1,230,288	1,230,288
Cemeteries	-	-	121,485	121,485
Libraries	-	-	32,643	32,643
Other Permanent Funds	-	-	317,253	317,253
Sub-Total - Restricted	<u>97,547</u>	<u>-</u>	<u>5,407,007</u>	<u>5,504,554</u>
<b>Committed:</b>				
Capital Stabilization	183,398	-	-	183,398
Subsequent Year's Expenditures	3,117,904	-	-	3,117,904
Continuing Appropriations	<u>394,806</u>	<u>-</u>	<u>-</u>	<u>394,806</u>
Sub-Total - Committed	<u>3,696,108</u>	<u>-</u>	<u>-</u>	<u>3,696,108</u>
<b>Assigned:</b>				
Encumbrances	<u>119,842</u>	<u>-</u>	<u>-</u>	<u>119,842</u>
<b>Unassigned</b>	<u>5,919,967</u>	<u>(2,078)</u>	<u>(448,589)</u>	<u>5,469,300</u>
<b>Total</b>	<u>\$ 9,833,464</u>	<u>\$ (2,078)</u>	<u>\$ 6,082,746</u>	<u>\$ 15,914,132</u>

**NOTE 12 STABILIZATION FUNDS**

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

The balance of the general and capital stabilization funds at June 30, 2018 total \$2,498,719, and \$183,398, respectively, and are reported as unassigned and committed fund balances in the general fund, respectively.

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

**NOTE 13 PENSION PLAN**

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

As of the most recent actuarial valuation, the System's membership consisted of the following:

Active Members	274
Inactive Members	74
Retirees and Beneficiaries currently receiving benefits	<u>282</u>
Total	<u><u>630</u></u>

The System is governed by a five-member board comprised of the Town Accountant (ex-officio), two members elected by the System's participants, a fourth member appointed by the Select Board and a fifth member appointed by the Retirement Board's members.

**Benefits Provided** - The System provides retirement, disability and death benefits to plan members and beneficiaries, pursuant to MGL Chapter 32, up to a maximum of 80% of the average of a member's three (if hired before April 1, 2012) or five (if hired on or after April 1, 2012) highest consecutive years' regular compensation. In addition to regular compensation, benefits are based upon a member's age, length of creditable service and group classification. Members become vested after ten years of creditable service. A normal retirement allowance may be received after the completion of 20 years of service or upon reaching age 55 (if hired before April 1, 2012) or 60 (if hired on or after April 1, 2012), with 10 years of service. Normal retirement for most employees occurs at age 65 (if hired before April 1, 2012) or 67 (if hired on or after April 1, 2012), except for certain hazardous duty and public safety employees who attain normal retirement at age 55 (if hired before April 1, 2012) or 57 (if hired on or after April 1, 2012).

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

For the year ended December 31, 2017, active member contributions totaled \$1,469,429 and employer contributions totaled \$6,099,564. Contributions to the System from the Town were \$5,943,258 for the year ended June 30, 2018.

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

**NOTE 13 PENSION PLAN (CONTINUED)**

***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions*** - The components of the net pension liability of the System at December 31, 2017, were as follows:

Total Pension Liability	\$ 114,474,273
Plan Fiduciary Net Position	<u>(92,552,007)</u>
Net Pension Liability	<u><u>\$ 21,922,266</u></u>

At June 30, 2018, the Town reported a liability of \$21,354,750 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016 that was updated to December 31, 2017. The Town's proportion of the net pension liability is the proportionate share of employer contributions to the System as of December 31, 2017, actuarially determined. At December 31, 2017, the Town's proportion was 97.38%, compared to a proportion of 97.29% as of December 31, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of approximately \$2,439,090. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ (3,728,797)
Changes in Assumptions	751,487	-
Changes in Proportion	29,137	(62,436)
Differences between expected and actual experience	<u>-</u>	<u>(1,257,518)</u>
Total	<u><u>\$ 780,624</u></u>	<u><u>\$ (5,048,751)</u></u>

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

<u>Year Ended June 30</u>	
2019	\$ 645,316
2020	664,497
2021	1,608,161
2022	<u>1,350,153</u>
Total	<u><u>\$ 4,268,127</u></u>

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

**NOTE 13 PENSION PLAN (CONTINUED)**

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, 2017:

Actuarial cost method:	Entry age normal
Asset valuation method:	Market value
Investment rate of return:	7.75%
Interest rate credited to annuity savings:	2.00%
Salary increases:	4.25% ultimate rate, plus the following steps: Group 4 – 3.75% base rate plus 4.50% steps for years 1 - 5; Others – 3.75% base rate plus 2.00% steps for years 1 - 8.
Cost of living adjustment:	3.0% on the first \$13,000 in benefits
Mortality rates:	RP-2000 mortality table projected with Generational Mortality, Scale BB, with a base year of 2000 (sex-distinct). 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-distinct) with scale BB set forward by 2 years. Death is assumed to be due to the same cause as disability 40% of the time.
Retirement rates:	General Employees (Group 1 and 2) - Ages 55 - 70. Police and Fire (Group 4) - Ages 50 - 65.

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

**NOTE 13 PENSION PLAN (CONTINUED)**

Investment Policies and Rates of Return

Deposits and investments made by the System are governed by Chapter 32 of the MGL.

For the year ended December 31, 2017, the annual money-weighted rate of return on System investments, net of investment expense, was 16.28%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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) 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Large Cap	34.00%	5.55%
International Equity	17.50%	5.55%
Core Fixed Income	15.00%	1.65%
Real Estate	10.00%	4.25%
Hedge Funds	7.00%	3.45%
Domestic Small Cap	5.50%	6.00%
Global Bonds	5.00%	1.85%
Private Equity	5.00%	7.05%
Commodities	1.00%	2.40%
Totals	100.00%	

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

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

**NOTE 13 PENSION PLAN (CONTINUED)**

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
System's Net Pension Liability	\$ 34,126,172	\$ 21,922,266	\$ 13,530,467

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

	<u>1% Decrease (6.75%)</u>	<u>Current Discount Rate (7.75%)</u>	<u>1% Increase (8.75%)</u>
Town's Proportionate Share of the Net Pension Liability	\$ 33,238,913	\$ 21,354,750	\$ 13,182,816

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

<u>Description</u>	<u>Amount</u>	<u>Purpose</u>
Annuity Savings Fund	\$ 15,719,685	Active members' contribution balance
Annuity Reserve Fund	4,220,088	Retired members' contribution account
Military Service Fund	46,237	Military leave of absense contribution balance
Pension Reserve Fund	72,553,591	Amounts appropriated to fund future retirement
Pension Fund	12,406	Remaining Net Position
Total	<u>\$ 92,552,007</u>	

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

**NOTE 14 MASSACHUSETTS TEACHERS RETIREMENT SYSTEM**

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

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

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

**Contributions** - The MTRS' funding policies have been established by Chapter 32 of the MGL. The Legislature has the authority to amend these policies. The annuity portion of the MTRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation. Member contributions for MTRS vary depending on the most recent date of membership, ranging from 5-11% of regular compensation. Members hired in 1979 or subsequent contribute an additional 2.0% of regular compensation in excess of \$30,000.

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

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** - Since the Town does not contribute directly to MTRS, the Town does not report a proportionate share of the net pension liability of the MTRS at June 30, 2018. The Commonwealth's net pension liability associated with the Town was \$58,054,777.

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

**NOTE 14 MASSACHUSETTS TEACHERS RETIREMENT SYSTEM (CONTINUED)**

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

For the year ended June 30, 2018, the Town recognized pension expense of \$6,059,346 associated with MTRS and revenue of the same amount for support provided by the Commonwealth.

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

Investment rate of return – 7.5%

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

Mortality Rates - Pre-retirement reflects RP-2014 White Collar Employees Table projected generationally with Scale MP-2016 (gender distinct). Post-retirement reflects RP-2014 White Collar Healthy Annuitant Table projected generationally with Scale MP-2016 (gender distinct). Disability is assumed to be in accordance with the RP-2014 Healthy Annuitant Table projected generationally with Scale BB and a base year of 2014 set forward 4 years.

Other - 3.5% interest rate credited to the annuity savings fund; 3.0% cost of living increase on the first \$13,000 per year.

Investment assets of the MTRS are with the Pension Reserves Investment Trust (PRIT) Fund. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage.

Best estimates of geometric rates of return for each major asset class included in the PRIT Fund's target asset allocation as of June 30, 2018 are summarized in the following table:

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

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

**NOTE 14 MASSACHUSETTS TEACHERS RETIREMENT SYSTEM (CONTINUED)**

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

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

**NOTE 15 COMMITMENTS**

The Town is entering into, or is planning to enter into, various construction projects totaling approximately \$2,350,000.

Other significant commitments include encumbrances and continuing appropriations totaling \$514,648 for the General Fund as of June 30, 2018.

**NOTE 16 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, 2018, 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, 2018, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2018.

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

**NOTE 17 FUTURE IMPLEMENTATION OF GASB PRONOUNCEMENTS**

The GASB has issued the following statements:

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

These pronouncements will be implemented by their respective implementation dates.

**TOWN OF STONEHAM, MASSACHUSETTS  
REQUIRED SUPPLEMENTARY INFORMATION  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
NON-GAAP BUDGETARY BASIS - BUDGET AND ACTUAL  
YEAR ENDED JUNE 30, 2018**

	Prior Year Encumbrances and Continuing Appropriations	Original Budget	Supplemental Appropriations and Transfers	Final Budget
<b>REVENUES</b>				
Real Estate and Personal Property Taxes	\$ -	\$ 48,616,309	\$ -	\$ 48,616,309
Motor Vehicle and Other Excise Taxes	-	3,480,367	-	3,480,367
Hotel/Motel Tax	-	325,000	-	325,000
Tax Liens	-	-	-	-
Payments in Lieu of Taxes	-	60,000	-	60,000
Intergovernmental	-	9,547,828	-	9,547,828
Penalties and Interest on Taxes	-	200,000	-	200,000
Licenses and Permits	-	700,000	-	700,000
Fines and Forfeitures	-	60,000	-	60,000
Departmental and Other	-	1,647,955	-	1,647,955
Investment Income	-	19,155	-	19,155
Total Revenues	<u>-</u>	<u>64,656,614</u>	<u>-</u>	<u>64,656,614</u>
<b>EXPENDITURES</b>				
Current:				
General Government	155,539	2,983,545	101,392	3,240,476
Public Safety	114,021	8,227,658	110,000	8,451,679
Education	44,152	29,138,095	-	29,182,247
Public Works	53,708	2,029,117	500,000	2,582,825
Health and Human Services	6,379	739,964	-	746,343
Culture and Recreation	36,935	1,346,758	24,000	1,407,693
Pension Benefits	-	5,950,837	-	5,950,837
Employee Benefits	91,785	8,794,636	-	8,886,421
State and County Charges	-	1,770,165	-	1,770,165
Debt Service:				
Principal	-	3,428,000	-	3,428,000
Interest	-	1,059,738	-	1,059,738
Total Expenditures	<u>502,519</u>	<u>65,468,513</u>	<u>735,392</u>	<u>66,706,424</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>(502,519)</u>	<u>(811,899)</u>	<u>(735,392)</u>	<u>(2,049,810)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	1,441,375	350,000	1,791,375
Transfers Out	-	(525,000)	-	(525,000)
Total Other Financing Sources (Uses)	<u>-</u>	<u>916,375</u>	<u>350,000</u>	<u>1,266,375</u>
<b>NET CHANGE IN FUND BALANCE</b>	(502,519)	104,476	(385,392)	(783,435)
Fund Balance - Beginning of Year	<u>5,551,667</u>	<u>5,551,667</u>	<u>5,551,667</u>	<u>5,551,667</u>
<b>FUND BALANCE - END OF YEAR</b>	<u>\$ 5,049,148</u>	<u>\$ 5,656,143</u>	<u>\$ 5,166,275</u>	<u>\$ 4,768,232</u>

See accompanying notes to required supplementary information.

Actual	Current Year Encumbrances and Continuing Appropriations	Actual and Encumbrances and Continuing Appropriations	Variance Positive/ (Negative)
\$ 48,511,183	\$ -	\$ 48,511,183	\$ (105,126)
3,751,990	-	3,751,990	271,623
354,222	-	354,222	29,222
151,250	-	151,250	151,250
67,900	-	67,900	7,900
9,498,704	-	9,498,704	(49,124)
158,288	-	158,288	(41,712)
1,348,464	-	1,348,464	648,464
82,083	-	82,083	22,083
1,379,454	-	1,379,454	(268,501)
64,064	-	64,064	44,909
<u>65,367,602</u>	<u>-</u>	<u>65,367,602</u>	<u>710,988</u>
2,979,077	247,611	3,226,688	13,788
8,236,604	58	8,236,662	215,017
29,115,035	67,212	29,182,247	-
2,445,752	80,626	2,526,378	56,447
722,949	-	722,949	23,394
1,245,225	47,672	1,292,897	114,796
5,950,837	-	5,950,837	-
8,704,579	71,469	8,776,048	110,373
1,528,894	-	1,528,894	241,271
3,428,000	-	3,428,000	-
1,059,738	-	1,059,738	-
<u>65,416,690</u>	<u>514,648</u>	<u>65,931,338</u>	<u>775,086</u>
<u>(49,088)</u>	<u>(514,648)</u>	<u>(563,736)</u>	<u>1,486,074</u>
1,912,881	-	1,912,881	121,506
<u>(525,000)</u>	<u>-</u>	<u>(525,000)</u>	<u>-</u>
<u>1,387,881</u>	<u>-</u>	<u>1,387,881</u>	<u>121,506</u>
1,338,793	(514,648)	824,145	1,607,580
<u>5,551,667</u>	<u>-</u>	<u>5,551,667</u>	<u>-</u>
<u>\$ 6,890,460</u>	<u>\$ (514,648)</u>	<u>\$ 6,375,812</u>	<u>\$ 1,607,580</u>

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

**SCHEDULE OTHER POST-EMPLOYMENT BENEFITS**

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

		<u>2018</u>
<b>Total OPEB Liability</b>		
Service cost	\$	4,851,472
Interest on unfunded liability		4,923,108
Changes of assumptions		(2,346,390)
Benefits payments		<u>(4,230,108)</u>
Net change in Total OPEB liability		3,198,082
Total OPEB liability - beginning		<u>134,780,578</u>
<b>Total OPEB liability - ending</b>	<b>\$</b>	<b><u><u>137,978,660</u></u></b>

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

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

**PENSION PLAN SCHEDULES**

**SCHEDULE OF CHANGES IN EMPLOYERS' NET PENSION LIABILITY AND  
RELATED RATIOS (SYSTEM) (1)**

	December 31, 2017	December 31, 2016	December 31, 2015	December 31, 2014
<u>Total Pension Liability</u>				
Service Cost	\$ 2,047,568	\$ 1,959,395	\$ 1,892,280	\$ 1,810,794
Interest	8,513,362	8,358,786	8,240,349	8,016,557
Changes in benefit terms	-	(2,284,697)	-	-
Change in Assumptions	-	1,365,326	-	-
Benefit Payments, including refunds of member contributions	<u>(7,777,887)</u>	<u>(7,206,972)</u>	<u>(6,760,615)</u>	<u>(7,373,458)</u>
Net Change in Total Pension Liability	2,783,043	2,191,838	3,372,014	2,453,893
Total Pension Liability - Beginning	<u>111,691,230</u>	<u>109,499,392</u>	<u>106,127,378</u>	<u>103,673,485</u>
Total Pension Liability - Ending (a)	<u><u>\$ 114,474,273</u></u>	<u><u>\$ 111,691,230</u></u>	<u><u>\$ 109,499,392</u></u>	<u><u>\$ 106,127,378</u></u>
<u>Plan Fiduciary Net Position</u>				
Contributions - Employer	\$ 6,099,564	\$ 5,690,889	\$ 5,276,670	\$ 4,892,601
Contributions - Member	1,469,429	1,376,935	1,323,924	1,394,426
Net Investment Income	13,113,308	6,476,051	427,356	5,239,667
Benefit Payments, including refunds of member contributions and net of transfers (to)/from other systems	<u>(7,777,887)</u>	<u>(7,206,972)</u>	<u>(6,760,615)</u>	<u>(7,373,458)</u>
Administrative Expense	<u>(250,143)</u>	<u>(282,419)</u>	<u>(239,647)</u>	<u>(229,368)</u>
Net Change in Plan Fiduciary Net Position	12,654,271	6,054,484	27,688	3,923,868
Plan Fiduciary Net Position - Beginning	<u>79,897,736</u>	<u>73,843,252</u>	<u>73,815,564</u>	<u>69,891,696</u>
Plan Fiduciary Net Position - Ending (b)	<u><u>\$ 92,552,007</u></u>	<u><u>\$ 79,897,736</u></u>	<u><u>\$ 73,843,252</u></u>	<u><u>\$ 73,815,564</u></u>
Net Pension Liability - Ending (a) - (b)	<u><u>\$ 21,922,266</u></u>	<u><u>\$ 31,793,494</u></u>	<u><u>\$ 35,656,140</u></u>	<u><u>\$ 32,311,814</u></u>
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.85%	71.53%	67.44%	69.55%
Covered Payroll	\$ 15,158,456	\$ 14,457,252	\$ 13,761,993	\$ 13,086,805
Net Pension Liability as a Percentage of Covered Payroll	144.6%	219.9%	259.1%	246.9%

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

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

**PENSION PLAN SCHEDULES**

**SCHEDULE OF EMPLOYER CONTRIBUTIONS (SYSTEM) (1)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially Determined Contribution	\$ 6,099,564	\$ 5,690,889	\$ 5,276,670	\$ 4,892,601
Contributions in Relation to the Actuarially Determined Contribution	<u>(6,099,564)</u>	<u>(5,690,889)</u>	<u>(5,276,670)</u>	<u>(4,892,601)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 15,158,456	\$ 14,457,252	\$ 13,761,993	\$ 13,086,805
Contributions as a Percentage of Covered Payroll	40.24%	39.36%	38.34%	37.39%

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

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Annual money-weighted rate of return, net of investment expense	16.28%	8.92%	0.50%	7.56%

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

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

**PENSION PLAN SCHEDULES**

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

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's Proportion of the Net Pension Liability	97.3800%	97.2900%	97.2600%	97.8700%
Town's Proportionate Share of the Net Pension Liability	\$ 21,354,750	\$ 30,932,526	\$ 34,690,539	\$ 31,622,155
Town's Covered Payroll	\$ 14,759,994	\$ 14,457,252	\$ 13,761,993	\$ 13,086,805
Town's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	144.68%	213.96%	252.07%	241.63%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	80.85%	71.53%	67.44%	69.55%

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

(2) The amounts presented were determined as of December 31 within the applicable fiscal year.

**SCHEDULE OF TOWN'S CONTRIBUTIONS (SYSTEM) (1)(2)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Actuarially Required Contribution	\$ 5,943,258	\$ 5,538,241	\$ 5,135,261	\$ 4,788,848
Contributions in Relation to the Actuarially Required Contribution	<u>(5,943,258)</u>	<u>(5,538,241)</u>	<u>(5,135,261)</u>	<u>(4,788,848)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's Covered Payroll	\$ 14,759,994	\$ 14,457,252	\$ 13,401,725	\$ 13,086,805
Contributions as a Percentage of Covered Payroll	40.27%	38.31%	38.32%	36.59%

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

(2) The amounts presented were determined as of December 31 within the applicable fiscal year.

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

**PENSION PLAN SCHEDULES**

**SCHEDULE OF TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (MTRS)  
(1)(2)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Town's Share of Net Pension Liability	\$ -	\$ -	\$ -	\$ -
Commonwealth's Share of the Town's Net Pension Liability	<u>58,054,777</u>	<u>56,983,323</u>	<u>52,804,623</u>	<u>41,542,919</u>
Total	<u>\$ 58,054,777</u>	<u>\$ 56,983,323</u>	<u>\$ 52,804,623</u>	<u>\$ 41,542,919</u>
 Town's Expense and Revenue Recognized for the Commonwealth's Support	 \$ 6,059,346	 \$ 5,812,673	 \$ 4,282,925	 \$ 2,886,186
 Plan Fiduciary Net Position as a Percentage of Total Net Pension Liability	 54.25%	 52.73%	 55.38%	 61.64%

- (1) Data is being accumulated annually to present 10 years of the reported information.  
(2) The amounts presented were determined as of June 30 of the previous year.

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

**NOTE A BUDGETARY-GAAP RECONCILIATION**

For budgetary financial reporting purposes, the Uniform Massachusetts Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the General Fund for the fiscal year ended June 30, 2018, is presented below:

	<u>Revenues</u>	<u>Expenditures</u>	<u>Other Financing Sources (Uses)</u>	<u>Fund Balance</u>
Budgetary Basis as Reported on the Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual	\$ 65,367,602	\$ 65,931,338	\$ 1,387,881	\$ 6,375,812
<u>Adjustments and Reclassifications</u>				
To record 60-day receipts	(3,561)	-	-	163,340
To record MTRS on-behalf payments	6,059,346	6,059,346	-	-
Stabilization fund activities	(2,153)	-	(350,000)	2,498,719
Capital stabilization fund activities	316	-	(150,000)	183,398
To record encumbrances and continuing appropriations	-	(514,648)	-	514,648
OPEB trust fund activities	(2,453)	(50,000)	-	97,547
GAAP Basis as Reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u>\$ 71,419,097</u>	<u>\$ 71,426,036</u>	<u>\$ 887,881</u>	<u>\$ 9,833,464</u>

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