

TOWN OF STONEHAM

STONEHAM, MAINE

FINANCIAL AUDIT REPORT

DECEMBER 31, 2015

DRAFT

**TOWN OF STONEHAM
STONEHAM, MAINE
DECEMBER 31, 2015**

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REPORT OF CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

Board of Selectmen and Treasurer
TOWN OF STONEHAM
Stoneham, Maine

We have audited the accompanying financial statements of the governmental activities and remaining fund information, which collectively comprise the financial statements, of the Town of Stoneham, Maine as of and for the year ended December 31, 2015, as listed in the table of contents, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and remaining fund information of the Town of Stoneham and the changes in financial position and cash flows, where applicable, of those activities and funds and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matter

The Town of Stoneham, Maine has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the financial statements.

SMITH & ASSOCIATES, CPAs
A Professional Association

Yarmouth, Maine
February 5, 2016

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EXHIBIT I**TOWN OF STONEHAM
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

	<u>Primary Government Governmental Activities</u>
Assets	
Cash and Cash Equivalents	\$ 501,769
Taxes Receivable	88,086
Tax Liens Receivable	9,295
Accounts Receivable	798
Capital Assets, Net of Accumulated Depreciation	<u>126,127</u>
Total Assets	<u>\$ 726,075</u>
Deferred Outflow of Resources	<u>\$ 0</u>
Total Assets and Deferred Outflow of Resources	<u>\$ 726,075</u>
Liabilities	
Accounts Payable	\$ 1,737
Accrued Expenses	2,299
Prepaid Taxes	2,797
Non Current Liabilities	
Due Within One Year	5,611
Due in More Than One Year	<u>11,792</u>
Total Liabilities	<u>\$ 24,236</u>
Deferred Inflow of Resources	<u>\$ 0</u>
Net Position	
<i>Net Investment in Capital Assets</i>	\$ 108,724
<i>Restricted</i>	
Permanent Funds, Non-Expendable	14,071
<i>Unrestricted</i>	<u>579,044</u>
Total Net Position	<u>\$ 701,839</u>

The Notes to the Financial Statements are an Integral Part of This Statement.

EXHIBIT II

**TOWN OF STONEHAM
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Position Primary Government</u>
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>
Primary Government				
Governmental Activities				
General Government	\$ 60,881	\$ 6,122	\$ 0	\$ (54,759)
Public Works	41,963	0	9,812	(32,151)
Public Safety	21,193	0	0	(21,193)
Highways and Bridges	47,142	0	0	(47,142)
Health and Sanitation	24,369	0	0	(24,369)
Welfare	1,708	0	0	(1,708)
Education	495,234	0	0	(495,234)
Culture and Recreation	8,440	0	0	(8,440)
Fixed Charges	62,862	0	0	(62,862)
Depreciation - Unallocated	<u>14,986</u>	<u>0</u>	<u>0</u>	<u>(14,986)</u>
Total Primary Government	\$ 778,778	\$ 6,122	\$ 9,812	\$ (762,844)
General Revenues				
Property and Other Taxes				\$ 727,685
Grants and Contributions Not Restricted to Special Programs				47,501
Unrestricted Investment Earnings				18
Miscellaneous				<u>2,300</u>
Total General Revenues				\$ 777,504
Changes in Net Position				\$ 14,660
Net Position – January 1, 2015				<u>687,179</u>
Net Position – December 31, 2015				<u>\$ 701,839</u>

The Notes to the Financial Statements are an Integral Part of This Statement.

**TOWN OF STONEHAM
BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2015**

	General Fund	Other Governmental Funds	Total Governmental Funds
Assets			
Cash and Cash Equivalents	\$ 461,632	\$ 40,137	\$ 501,769
Taxes Receivable	88,086	0	88,086
Tax Liens Receivable	9,295	0	9,295
Accounts Receivable	798	0	798
Due From Other Funds	<u>0</u>	<u>99,773</u>	<u>99,773</u>
Total Assets	\$ 559,811	\$ 139,910	\$ 699,721
Deferred Outflows of Resources	<u>0</u>	<u>0</u>	<u>0</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 559,811</u>	<u>\$ 139,910</u>	<u>\$ 699,721</u>
Liabilities			
Accounts Payable	\$ 1,737	\$ 0	\$ 1,737
Accrued Expenses	607	0	607
Prepaid Taxes	2,797	0	2,797
Due to Other Funds	<u>99,773</u>	<u>0</u>	<u>99,773</u>
Total Liabilities	<u>\$ 104,914</u>	<u>\$ 0</u>	<u>\$ 104,914</u>
Deferred Inflows of Resources	<u>\$ 33,000</u>	<u>\$ 0</u>	<u>\$ 33,000</u>
Fund Balance			
<i>Reserved, Reported In:</i>			
<i>Nonspendable</i>			
Permanent Funds, Non-Expendable Principal	\$ 0	\$ 14,071	\$ 14,071
<i>Restricted</i>	0	0	0
<i>Committed</i>			
Capital Projects	0	74,773	74,773
<i>Unreserved, Reported In:</i>			
<i>Assigned</i>			
Special Revenue Funds	0	25,000	25,000
Permanent Funds, Expendable	0	26,066	26,066
General Fund, Designated	40,239	0	40,239
<i>Unassigned</i>			
General Fund	<u>381,658</u>	<u>0</u>	<u>381,658</u>
Total Fund Balance	<u>\$ 421,897</u>	<u>\$ 139,910</u>	<u>\$ 561,807</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	<u>\$ 559,811</u>	<u>\$ 139,910</u>	<u>\$ 699,721</u>

The Notes to the Financial Statements are an Integral Part of This Statement.

**TOWN OF STONEHAM
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET POSITION
DECEMBER 31, 2015**

Total Fund Balance – Total Governmental Funds \$ 561,807

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

Capital Assets Used in Governmental Activities are Not Current Financial Resources and Therefore are Not Reported in the Governmental Funds Balance Sheet 126,127

Interest Payable on Long-Term Debt Does Not Require Current Financial Resources and Therefore Interest Payable is Not Reported as a Liability in Governmental Funds Balance Sheet. (474)

Unavailable Property Tax Revenues are Not Available to Pay for Current Period Expenditures and, Therefore, are Deferred Inflows of Resources. 33,000

Long Term Liabilities are Not Due and Payable in the Current Period and Therefore, They are Not Reported in the Governmental Funds Balance Sheet:

Due in One Year	\$ 5,611	
Due in More Than One Year	11,792	
Accrued Compensation	<u>1,218</u>	<u>(18,621)</u>

Net Position of Governmental Activities \$ 701,839

The Notes to the Financial Statements are an Integral Part of This Statement.

**TOWN OF STONEHAM
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues			
Taxes	\$ 720,984	\$ 0	\$ 720,984
Intergovernmental	57,314	0	57,314
Licenses, Permits and Fees	2,173	0	2,173
Investment Income (Loss)	(62)	80	18
Miscellaneous	<u>3,949</u>	<u>0</u>	<u>3,949</u>
Total Revenues	<u>\$ 784,358</u>	<u>\$ 80</u>	<u>\$ 784,438</u>
Expenditures			
<i>Current</i>			
General Government	\$ 60,777	\$ 0	\$ 60,777
Public Works	41,963	0	41,963
Public Safety	26,623	0	26,623
Highways and Bridges	47,142	0	47,142
Health and Sanitation	24,369	0	24,369
Welfare	1,708	0	1,708
Education	495,234	0	495,234
Culture and Recreation	8,440	0	8,440
Fixed Charges	62,862	0	62,862
<i>Capital Outlay</i>	<u>0</u>	<u>0</u>	<u>0</u>
Total Expenditures	<u>\$ 769,118</u>	<u>\$ 0</u>	<u>\$ 769,118</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ 15,240	\$ 80	\$ 15,320
Other Financing Sources (Uses)			
Transfers In (Out)	<u>(20,000)</u>	<u>20,000</u>	<u>0</u>
Net Change in Fund Balances	\$ (4,760)	\$ 20,080	\$ 15,320
Fund Balance – January 1, 2015	<u>426,657</u>	<u>119,830</u>	<u>546,487</u>
Fund Balance – December 31, 2015	<u>\$ 421,897</u>	<u>\$ 139,910</u>	<u>\$ 561,807</u>

The Notes to the Financial Statements are an Integral Part of This Statement.

**TOWN OF STONEHAM
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2015**

Net Change in Fund Balance – Total Governmental Funds \$ 15,320

Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:

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. This is the Amount of Capital Assets Recorded in the Current Period. 0

Depreciation Expense on Capital Assets is Reported in the Government-Wide Statement of Activities and Changes in Net Position, But They Do Not Require the Use of Current Financial Resources. Therefore, Depreciation Expense is Not Reported as Expenditure in Governmental Funds. (14,986)

Some Property Tax will not be Collected for Several Months After the Town’s Fiscal Year End; They are not Considered Current Financial Resources in the Governmental Funds. This Amount is the Net Effect of the Differences. 6,701

The Issuance of Long-Term Debt (e.g. Bonds, Leases and Accrued Compensated Absence Pay) Provides Current Financial Resources to Governmental Funds, While the Repayment of the Principal of Long-Term Debt Consumes the Current Financial Resources of Governmental Funds. Neither Transaction, However, has Any Effect on Net Position. Also, Governmental Funds Report the Effect of Issuance Cost, Premiums, Discounts, and Similar Items When Debt is First Issued, Whereas the Amounts are Deferred and Amortized in the Statement of Activities. This Amount is the Net Effect of These Differences in the Treatment of Long-Term Debt and Related Items. 7,625

Change in Net Position of Governmental Activities \$ 14,660

The Notes to the Financial Statements are an Integral Part of This Statement.

EXHIBIT VII

**TOWN OF STONEHAM
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2015**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues				
Taxes	\$ 676,427	\$ 676,427	\$ 720,984	\$ 44,557
Intergovernmental	17,541	17,541	57,314	39,773
Licenses, Permits and Fees	0	0	2,173	2,173
Investment Income (Loss)	0	0	(62)	(62)
Miscellaneous	<u>0</u>	<u>0</u>	<u>3,949</u>	<u>3,949</u>
Total Revenues	<u>\$ 693,968</u>	<u>\$ 693,968</u>	<u>\$ 784,358</u>	<u>\$ 90,390</u>
Expenditures				
<i>Current</i>				
General Government	\$ 69,826	\$ 69,826	\$ 60,777	\$ 9,049
Public Works	51,350	51,350	41,963	9,387
Public Safety	28,568	28,568	26,623	1,945
Highways and Bridges	44,812	44,812	47,142	(2,330)
Health and Sanitation	28,200	28,200	24,369	3,831
Welfare	3,000	3,000	1,708	1,292
Education	495,234	495,234	495,234	0
Culture and Recreation	8,455	8,455	8,440	15
Fixed Charges	<u>65,522</u>	<u>65,522</u>	<u>62,862</u>	<u>2,660</u>
Total Expenditures	<u>\$ 794,967</u>	<u>\$ 794,967</u>	<u>\$ 769,118</u>	<u>\$ 25,849</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	\$(100,999)	\$(100,999)	\$ 15,240	\$ 116,239
Other Financing Sources (Uses)				
Transfers Out	<u>(20,000)</u>	<u>(20,000)</u>	<u>(20,000)</u>	<u>0</u>
Net Change in Fund Balance	\$(120,999)	\$(120,999)	\$ (4,760)	\$ 116,239
Fund Balance – January 1, 2015	<u>426,657</u>	<u>426,657</u>	<u>426,657</u>	<u>0</u>
Fund Balance – December 31, 2015	<u>\$ 305,658</u>	<u>\$ 305,658</u>	<u>\$ 421,897</u>	<u>\$ 116,239</u>

The Notes to the Financial Statements are an Integral Part of This Statement.

TOWN OF STONEHAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. – General Statement

The Town of Stoneham, Maine was incorporated in 1834 under the laws of the State of Maine and currently operates under a Town Meeting-Selectmen Form of Government.

The accounting and reporting policies of the Town relating to the funds and account groups included in the accompanying financial statements conform to generally accepted accounting principles as applicable to state and local governments. Generally, accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled *Audits of State and Local Governmental Units* and by the Financial Accounting Standards Board (when applicable). The more significant accounting policies of the Town are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain of the significant changes in the Statement include the following:

The financial statements include:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Town’s overall financial position and results of operations. Management of the Town has elected to omit the MD&A as indicated in the Independent Auditors’ Report.
- Financial statements prepared using full accrual accounting for all of the Town’s activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements including notes to financial statements.

B. – Financial Reporting Entity

The Town's combined financial statements include the accounts of all Town of Stoneham operations. The criteria for including organizations as component units within the Town's reporting entity, as set forth in Section 2100 of GASB's *Codification of Governmental Accounting and Financial Reporting Standards*, include whether:

- The organization is legally separate (can sue and be sued in their own name).
- The Town holds the corporate powers of the organization.
- The Town appoints a voting majority of the organization's board.
- The Town is able to impose its will on the organization.
- The organization has the potential to impose a financial benefit/burden on the Town.
- There is fiscal dependency by the organization on the Town.

**TOWN OF STONEHAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. – Financial Reporting Entity (Continued)

Based on the aforementioned criteria, the Town of Stoneham has no component units that are not included in this report.

C. – Financial Statements – Government-Wide Statements

The Town's financial statements include both government-wide (reporting the Town as a whole) and fund financial statements (reporting the Town's major funds). Both the government-wide and fund financial statements categorize primary activities as either governmental or business-type.

In the government-wide Statement of Net Position, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net position is reported in three parts – net investment of capital assets, restricted and unrestricted. The Town first utilizes restricted resources to finance qualifying activities.

The government-wide Statement of Activities reports both the gross and net cost of each of the Town's functions. The functions are also supported by general government revenues (property taxes, certain intergovernmental revenues, charges for services, etc). The Statement of Activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating-specific and discretionary (whether operating or capital) grants while the capital grants column reflects capital-specific grants.

The net costs (by function) are normally covered by general revenue (property taxes, intergovernmental revenues, interest income, etc).

D. – Financial Statements – Fund Financial Statements

The financial transactions of the Town are reported in individual funds in the fund financial statements. Each fund is accounted for by providing a separate set of self-balancing accounts that comprises its assets, liabilities, reserves, fund equity, revenues, and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The following fund types are used by the Town:

The focus of the governmental funds' measurement (in the fund statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the governmental funds of the Town:

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

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

TOWN OF STONEHAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. – Financial Statements – Fund Financial Statements (Continued)

Governmental Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by business-type/proprietary funds).

Permanent Funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs, that is, for the benefit of the government or its citizenry. A permanent fund would be used, for example, to account for the perpetual care endowment of a municipal cemetery.

The Town's fiduciary funds are presented in the fiduciary fund financial statements by type (private purpose and agency). Since by definition these assets are being held for the benefit of a third party (other local governments, private parties, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide statements.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds by category are summarized into a single column. GASB No. 34 sets forth minimum criteria (percentage of the assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements

E. – Measurement Focus/Basis of Accounting

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned. Expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available.

**TOWN OF STONEHAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

E. - Measurement Focus/Basis of Accounting (Continued)

“Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. A one-year availability period is used for recognition of all other governmental fund revenues. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

F. – Budgetary Control

Formal budgetary accounting is employed as a management control for the general fund of the Town of Stoneham.

The Town is currently preparing budgets under a net budgeting concept, which does not estimate total revenues of the Town. Budgets are not prepared annually for the special revenue funds.

G. – Cash and Cash Equivalents

Maine statutes authorize the Town to invest in obligations of the U.S. Treasury and U.S. agencies, repurchase agreements and certain corporate stocks and bonds. Generally, the Town invests certain funds in checking, savings accounts, or certificates of deposit.

The Town has defined cash and cash equivalents to include cash on hand, demand deposits, and cash with fiscal agent. Investments are recorded at fair market value.

H. - Capital Assets

Capital assets purchased or acquired with an original cost of \$5,000 or more are reported at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	40 Years
Equipment	4-10 Years
Vehicles	4-10 Years
Roads	7-12 Years

The Town of Stoneham has elected not to retroactively report their major general infrastructure assets.

I. - Compensated Absences

The Town of Stoneham recognizes accumulated sick and annual leave compensation during the period in which the related liability is incurred. In compliance with the Town’s personnel policies, the liability for accrued compensated absence pay at December 31, 2015 amounted to \$1,218.

**TOWN OF STONEHAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

J. – Deferred Outflows and Inflows of Resources

The Town has implemented the following statements:

GASB No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB No. 65, Items Previously Reported as Assets and Liabilities.

GASB No. 63 and GASB No. 65 amends GASB No. 34 to incorporate deferred outflows of resources and deferred inflows of resources into the financial reporting model. These terms are defined as follows:

Deferred Outflows of Resources - a consumption of net position by the government that is applicable to a future reporting period. It has a positive effect on net position, similar to assets.

Deferred Inflows of Resources - an acquisition of net position by the government that is applicable to a future reporting period. It has a negative effect on net position, similar to liabilities.

The GASB emphasizes in GASB No. 63 that deferred inflows and deferred outflows are not assets or liabilities and therefore should be separately categorized in the financial statements.

Per Exhibit I, there were no deferred outflows of resources or deferred inflows of resources at December 31, 2015. Per Exhibit III, the deferred inflows of resources listed at December 31, 2015 for the Town of Stoneham amounted to \$33,000 and there was no deferred outflow of resources at December 31, 2015.

K. - Interfund Activity

Interfund activity is reported as either loans, services provided, reimbursements or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

L. – Equity Classifications

Government-Wide Statements

Net position represent the differences between assets and liabilities. Equity is classified as net position and displayed in three components:

- Net Investment in capital assets – consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

**TOWN OF STONEHAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. – Equity Classifications (Continued)

- Restricted – consist of net position with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.
- Unrestricted – all other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Statements

Governmental fund equity is classified as fund balance. In the governmental fund financial statements, fund balances are classified as nonspendable, restricted, or unrestricted (committed, assigned or unassigned). Restricted represents those portions of fund balance where constraints placed on the resources are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Committed fund balance represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Selectmen, such as an appropriation. Assigned fund balance is constrained by the Board’s intent to be used for specific purposes by directive. See Note 9 for additional information about fund balances.

M. – Use of Estimates

Preparation of financial statements in conformity with GAAP requires the use of management’s estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

M. – Accounts Receivable

Accounts Receivable at December 31, 2015 primarily consists of miscellaneous intergovernmental receivables. There is no allowance for doubtful accounts as the Town believes they are 100% collectible.

NOTE 2 – PROPERTY TAXES

The Town is responsible for assessing, collecting, and distributing property taxes in accordance with enabling state legislation. The Town of Stoneham’s property tax is levied on the assessed value listed as of the prior April 1st for all taxable real and personal property located in the Town. Assessed values are periodically established by the Assessor at 100% of assumed market value. The assessed value for the list of April 1, 2015, upon which the levy for the year ended December 31, 2015 was based, amounted to \$81,162,209. This assessed value was 100.0% of the estimated market value and 109% of the 2015 State valuation of \$74,500,000.

**TOWN OF STONEHAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 2 – PROPERTY TAXES (CONTINUED)

The Town is permitted by the laws of the State of Maine to levy taxes up to 105% of its net budgeted expenditures for the related fiscal period. The amount raised in excess of 100% is referred to as overlay and amounted to \$6,008 for the year ended December 31, 2015.

In the fund financial statements, property taxes are recognized in compliance with NCGA Interpretation – 3, *Revenue Recognition – Property Taxes* which states that such revenue is recorded when it becomes measurable and available. Available means due, or past due and receivable within the current period and collected no longer than 60 days after the close of the current period.

Tax liens are placed on real property within twelve months following the tax commitment date if taxes are delinquent. The Town has the authority to foreclose on property eighteen months after the filing of the lien if tax liens and associated costs remain unpaid. The following summarizes the 2015 levy:

Assessed Value, Net of Homestead	\$81,164,209
Less Homestead Exemption	<u>(445,000)</u>
Net Assessed Value	\$80,719,209
Tax Rate (Per \$1,000)	<u>8.38</u>
Commitment	\$ 676,427
Supplemental Taxes Assessed	<u>0</u>
	\$ 676,427
Less: Abatements	(3,344)
Collections	<u>(584,996)</u>
Receivable at Year End	<u>\$ 88,087</u>
Collection Rate	<u>86.5%</u>

Property taxes were due on September 30, 2015 and December 31, 2015 with interest charged at a rate of 7% on delinquent accounts after those dates.

NOTE 3 - CASH AND CASH EQUIVALENTS

The Town's deposits are categorized as follows to give an indication of the level of risk assumed by the Town at year end: Category 1 includes deposits covered by federal depository insurance or by collateral held by the Town or by the Town's agent in the Town's name; Category 2 includes uninsured deposits covered by collateral held by the pledging financial institution's trust department or agent in the Town's name; Category 3 includes uninsured and uncollateralized deposits. At December 31, 2015, cash and cash equivalents were all insured or collateralized as Category I.

Custodial Credit Risk – Deposits – Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town's policy is to invest in only financial institutions that are insured by the F.D.I.C. or additional insurance. The Town's bank balances were covered by the F.D.I.C. or by additional insurance purchased on behalf of the Town by the respective banking institutions. The Town's deposits have been reported as follows:

	<u>Book</u>		<u>Bank</u>
Reported in Governmental Funds	\$ 501,767	\$	471,800

**TOWN OF STONEHAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

Interest Rate Risk – The Town does not currently have a deposit policy for interest rate risk.

Credit Risk – The Town does not have a formal policy regarding credit risk. Maine statutes authorized the Town to invest in obligations of the U.S. Treasury and U.S. agencies and certain bonds.

Concentration of Credit Risk – The Town does not have a policy for concentration of credit risk.

NOTE 4 – CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015 was as follows:

	<u>Balance January 1</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance December 31</u>
Governmental Activities				
<i>Capital Assets Not Being Depreciated</i>				
Land	\$ 0	\$ 0	\$ 0	\$ 0
<i>Capital Assets, Being Depreciated</i>				
Buildings and Improvements	\$ 238,633	\$ 0	\$ 0	\$ 238,633
Machinery and Equipment	30,585	0	0	30,585
Vehicles	29,027	0	0	29,027
Total Capital Assets, Being Depreciated	<u>\$ 298,245</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 298,245</u>
<i>Less Accumulated Depreciation For</i>				
Buildings and Improvements	\$ 133,787	\$ 5,966	\$ 0	\$ 139,753
Machinery and Equipment	21,410	6,117	0	27,527
Vehicles	1,935	2,903	0	4,838
Total Accumulated Depreciation	<u>\$ 157,132</u>	<u>\$ 14,986</u>	<u>\$ 0</u>	<u>\$ 172,118</u>
Total Capital Assets, Being Depreciated, Net	<u>\$ 141,113</u>	<u>\$ (14,986)</u>	<u>\$ 0</u>	<u>\$ 126,127</u>
Governmental Activities Capital Assets, Net	<u>\$ 141,113</u>	<u>\$ (14,986)</u>	<u>\$ 0</u>	<u>\$ 126,127</u>

Depreciation expense has not been charged as a direct expense.

NOTE 5 – LONG TERM DEBT

At December 31, 2015, lease payable consisted of the following individual issues:

Gorham Savings Leasing Group LLC

2015 Dodge Ram 3500 Tradesman, Payment to Be Made by Stoneham Fire Association, 60 Month Term Lease, 3.35% Interest Rate, Five Annual Payments of \$6,194 Including Interest and Principal, Maturity May 15, 2018.

\$ 17,403

**TOWN OF STONEHAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 5 – LONG TERM DEBT (CONTINUED)

Changes in Outstanding Debt

Transactions for the year ended December 31, 2015, are summarized as follows:

	<u>Balance January 1</u>	<u>Increases or Additions</u>	<u>Payments or Expenditures</u>	<u>Balance December 31</u>	<u>Due Within One Year</u>
Governmental Activities					
Leases Payable	\$ 22,833	\$ 0	\$ 5,430	\$ 17,403	\$ 5,611
Compensated Absences	<u>1,114</u>	<u>104</u>	<u>0</u>	<u>1,218</u>	<u>0</u>
Total Governmental Activities	<u>\$ 23,947</u>	<u>\$ 104</u>	<u>\$ 5,430</u>	<u>\$ 18,621</u>	<u>\$ 5,611</u>

The following is a schedule of future minimum lease payments for the Town of Stoneham as of December 31, 2015:

<u>Year Ending December 31</u>	<u>Governmental Activities</u>
2016	\$ 6,194
2017	6,194
2018	<u>6,194</u>
Total Minimum Lease Payments	\$ 18,582
Less Amount Representing Interest	<u>(1,179)</u>
Present Value of Future Minimum Lease Payments	<u>\$ 17,403</u>

NOTE 6 - DESIGNATED FUND BALANCE

Designated fund balance of the general fund at year-end consists of amounts, which the Town intends to use for the following purposes:

Highways and Bridges	\$ 32,326
Public Works	3,370
Public Safety	1,561
General Government	1,359
Welfare	<u>1,623</u>
Total	<u>\$ 40,239</u>

Certain of these amounts must be earmarked to conform to State Law and comply with Federal Regulations.

TOWN OF STONEHAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 7 – FUND BALANCE APPROPRIATIONS

At the Annual Town Meeting on March 7, 2015, the Townspeople voted appropriations of general fund balance totaling \$120,999, which is reflected as the excess of budget expenditures over budgeted revenues on Exhibit VII. These appropriations were for the following purposes.

General Government	\$ 29,416
Health and Sanitation	28,200
Public Safety	28,478
Public Works	26,450
Culture and Recreation	<u>8,455</u>
Total	<u>\$ 120,999</u>

NOTE 8 – INTERFUND ACTIVITY

Interfund balances at December 31, 2015 consisted of the following:

Due To	
<i>Non Major Governmental Funds</i>	
Special Revenue Funds	\$ 25,000
Capital Project Funds	<u>74,773</u>
Total	<u>\$ 99,773</u>
Due From	
General Fund	<u>\$ 99,773</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Interfund transfers for the year ended December 31, 2015 consisted of the following:

Transfer To	
<i>Non Major Governmental Funds</i>	
Capital Project Funds	<u>\$ 20,000</u>
Transfer From	
General Fund	<u>\$ 20,000</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

**TOWN OF STONEHAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 – GOVERNMENTAL FUND BALANCES

Previously, the Town implemented the following accounting standard issued by the Governmental Accounting Standards Board (GASB):

- GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions.

GASB Statement 54 clarifies the existing governmental fund type definitions and provides clearer fund balance categories and classifications. The hierarchical fund balance classification is based primarily upon the extent to which a government is bound to follow constraints on resources in governmental funds and includes the terms: nonspendable, committed, restricted, assigned, and unassigned.

The Town's fund balances represent: **(1) Nonspendable Fund Balance**, resources that cannot be spent because of legal or contractual provisions that require they be maintained intact (e.g. the principal of an endowment). **(2) Restricted Purposes**, which include balances that are legally restricted for specific purposes due to constraints that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; **(3) Committed Purposes**, which include balances that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Selectmen; **(4) Assigned Purposes**, which includes balances that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. **(5) Unassigned Fund Balance**, net resources in excess of what is properly categorized in one of the four categories already described. A positive amount of unassigned fund balance will never be reported in a governmental fund other than the general fund, because GASB Statement 54 prohibits reporting resources in another fund unless they are at least assigned to the purpose of that fund. However, funds other than the general fund could report a negative amount of unassigned fund balance should the total of nonspendable, restricted and committed fund balance exceeds the total net resources of the fund.

The Town of Stoneham has the responsibility for committing fund balance amounts and likewise would be required to modify or rescind those commitments.

When both restricted and unrestricted resources are available for use, it is the Town's policy to use restricted resources first, then unrestricted resources as they are needed. When committed, assigned, and unassigned resources are available for use, it is the Town's policy to use committed or assigned resources first, then unassigned resources as they are needed.

The General Fund unassigned fund balance total of \$381,658 represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the General Fund.

The Town of Stoneham adopted a Fund Balance Policy in 2007 as follows:

The Town shall develop an ensuing year's budget such that

- The General Fund Balance is sufficient to cover the anticipated cash flow requirements until a positive cash flow is met and sustained.
- The General Fund Balance shall not exceed the maximum of any ten (10) consecutive monthly cash flow requirements.

**TOWN OF STONEHAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015**

NOTE 9 – GOVERNMENTAL FUND BALANCES (CONTINUED)

The Town, as an alternative to the calculation of the above General Fund Balance criteria, may develop as ensuing year's budget such that the General Fund Balance is no less than 33.3% of the total appropriations (\$271,656) for the year and no more than 50% of the total appropriations (\$407,484).

The Town is in compliance with this policy at December 31, 2015.

As per Exhibit III, a summary of the nature and purpose of these reserves by fund type at December 31, 2015 follows.

<i>Nonspendable</i>	
Permanent Funds	
Cemetery Trust Funds Nonexpendable	\$ <u>14,071</u>
<i>Committed</i>	
Capital Project Funds	
Road Fund	\$ 45,637
Building Capital	20,582
Cemetery Capital Account	6,005
Dump Capital Account	<u>2,549</u>
Total Capital Projects Funds	 <u>\$ 74,773</u>
<i>Assigned</i>	
Special Revenue Funds	
Revaluation	\$ <u>25,000</u>
<i>Assigned</i>	
Permanent Funds	
Cemetery Trust Funds Expendable	\$ <u>26,066</u>
<i>Assigned</i>	
General Fund	
Designated	\$ <u>40,239</u>
<i>Unassigned</i>	
General Fund	
Undesignated	\$ <u>381,658</u>
Total Fund Balance	 <u>\$ 561,807</u>

TOWN OF STONEHAM
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2015

NOTE 10 – RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance.

There have been no significant reductions in insurance coverages during the fiscal year and no significant settlements that exceeded insurance coverage.

NOTE 11 – OVERLAPPING DEBT

The County of Oxford and Maine School Administrative District No. 72 had no debt outstanding at December 31, 2015.

NOTE 12 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. - Budgetary Accounting

The Town of Stoneham utilizes a formal budgetary accounting system to control revenues and expenditures accounted for in the General Fund. This budget is established by the Board of Selectmen and must be approved at the Annual Town Meeting.

B. - Excess of Expenditures over Appropriations

For the year ended December 31, 2015, expenditures did not exceed appropriations in total. Exhibit VII reflected highways and bridges over drafted by \$2,330.

C. - Deficit Balances

Generally accepted accounting principles require disclosure of individual funds that have deficit balances at year-end.

As of December 31, 2015, no individual funds held a deficit balance.

NOTE 13 – DATE OF MANAGEMENT’S REVIEW

Management has evaluated subsequent events through February 5, 2016, the date on which the financial statements were available to be issued.