

TOWN OF MENDON, MASSACHUSETTS

**REPORT ON EXAMINATION OF
BASIC FINANCIAL STATEMENTS**

JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Board of Selectmen
Town of Mendon, Massachusetts

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Mendon, Massachusetts, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Mendon, Massachusetts, as of June 30, 2016, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Worcester Regional Retirement System schedules of funding progress, employer contributions, Town's proportionate share of the net pension liability, Town's contribution, and other post-employment benefits – schedules of funding progress and employer contributions and notes to the retirement system on pages 3 – 14 and 61 –63, 64 – 65 and 66 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.

A handwritten signature in blue ink that reads "R. E. Brown + Company". The signature is written in a cursive, flowing style.

August 24, 2017

Management's Discussion and Analysis

As management of the Town of Mendon (the Town), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2016. We encourage readers to consider this information in addition to the statements and notes.

The Town complies with financial reporting requirements issued by the Governmental Accounting Standards Board (GASB). GASB is the authoritative standard setting body that provides guidance on how to prepare financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Users of these financial statements, such as investors and rating agencies, rely on the GASB to establish consistent reporting standards for all governments in the United States. This consistent application is the only way users can assess the financial condition of one government compared to others.

Financial Highlights

The combined total net position of the Town exceeded the combined total liabilities by \$13.9 million, a decrease of \$0.5 million or 3.7% less than the combined net position for the previous fiscal year. A total of \$17.7 million of this sum represents the Town's investment in capital assets net of related debt. A total of \$2.5 million is legally reserved or designated for specific future uses by the Town. The unrestricted fund balance deficit of \$6.3 million is primarily driven by the Town requirement to recognize the net pension liability. This recognition is pursuant to the issuance and compliance with GASB Statement #68, Accounting and Financial Reporting for Pensions.

Total revenues for the year for all funds was \$18.4 million - \$0.7 million or 4.11% more than the total revenues for the fiscal year ended June 30, 2015.

	Fiscal Year Ended June 30, 2016		Fiscal Year Ended June 30, 2015	
		% Total		% Total
Property taxes	\$ 14,481,319	78.87%	\$ 12,818,599	72.68%
Motor vehicle and other excise	1,061,465	5.78%	938,821	5.32%
Penalties and interest	54,847	0.30%	76,201	0.43%
Charges for services	1,274,495	6.94%	1,350,237	7.66%
Meals Tax	116,894	0.64%	108,188	0.61%
Operating grants and contributions	299,575	1.63%	792,368	4.49%
Capital grants and contributions	129,840	0.71%	314,656	1.78%
Nonrestricted grants and contributions	913,336	4.97%	1,197,717	6.79%
Departmental	21,972	0.12%	32,571	0.18%
Unrestricted investment income and other	7,854	0.04%	6,855	0.04%
Total revenues	\$ 18,361,597	100.00%	\$ 17,636,213	100.00%

Total expenses for the year for all funds was \$18.9 million - \$1.7 million or 9.62% more than the total expenditures for the fiscal year ended June 30, 2015.

	Fiscal Year Ended June 30, 2016		Fiscal Year Ended June 30, 2015	
		% Total		% Total
General government	\$ 1,393,117	7.37%	\$ 1,461,078	8.48%
Public safety	2,770,840	14.67%	2,895,127	16.80%
Education	10,103,560	53.48%	8,754,616	50.80%
Public works	1,475,507	7.81%	1,566,681	9.09%
Human services	588,913	3.12%	559,579	3.25%
Culture and recreation	381,268	2.02%	385,478	2.24%
Employee benefits	1,991,435	10.54%	1,408,055	8.17%
State and county assessments	5,524	0.03%	5,564	0.03%
Interest	182,922	0.97%	198,452	1.15%
Total expenses	\$ 18,893,086	100.00%	\$ 17,234,630	100.00%

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Mendon's basic financial statements. The Town of Mendon's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

The government-wide financial statements provide both short-term and long-term information about the Town. The fund financial statements focus on the individual parts of the Town government, reporting the operations in more detail than the government-wide statements. Both presentations (government-wide and fund) allow the user to address relevant questions, broaden the basis of comparison, and improve the Town's accountability.

Government-Wide Financial Statements

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

Statement of Net Position – Presents all of the government's assets and liabilities, with the difference being reported as "net position". The amount of net position is widely considered a good measure of the Town's financial health. Over time increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating. The reader should also consider other non-financial factors, such as the condition of the Town's infrastructure and changes in the property tax base, to assess the overall health of the Town.

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 the cash flows. Thus, revenues and expenses are reported for some items that will not result in cash flows until future fiscal periods (i.e. uncollected taxes and earned but unused vacation leave).

In the government-wide statements, financial information is presented in one column in order to summarize the Town's programs or activities.

Governmental Activities – Taxes and intergovernmental revenues primarily support the functions of the government and are reported in this section. Most of the Town's basic services are reported here including general government, public safety, education, public works, water, human services, culture and recreation, debt service, state and county charges, employee benefits, and interest.

Fund Financial Statements

Traditional readers of government financial statements will find the fund financial statement presentation to be most familiar. 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 of Mendon, like most other local governments, uses a fund accounting system to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories:

Governmental Funds – Most of the basic services provided by the Town are financed through 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 spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. This information is useful in evaluating the Town's near-term financing requirements. This approach reflects the modified accrual basis of accounting, which uses the flow of current financial resources measurement focus. Such statements provide a detailed short-term view of the Town's finances that assist in determining whether there will be adequate financial resources available to meet current needs.

Because the focus of governmental funds financial statements is narrower than that of 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. This comparison will assist the reader in understanding the long-term impact 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 the comparison between governmental funds and governmental activities.

The Town maintains three (3) major governmental funds that are presented separately in the governmental funds financial statements. The remaining non-major funds are combined into a single, aggregated presentation.

The Town adopts an annual budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the budget.

Fiduciary Funds – Such funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the Town's programs.

Notes to Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-Wide Financial Analysis

Statement of Net Position

The largest portion of the Town's net position, reflects its investment in capital assets (land, buildings, capital improvements other than buildings, machinery and equipment, vehicles, software, infrastructure, and construction in progress); less any related debt used to acquire those assets that remains outstanding. The Town uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. It is important to note that other resources are needed to repay the debt because the capital assets cannot be used to finance these liabilities.

A modest amount of the Town's net position is subject to external restrictions on how they may be used. The remaining deficit balance is the unrestricted net position mainly due to the net pension liability. The net pension liability is the difference between the total pension liability (Present value of projected benefit payments to employees based on their past service) and the assets (mostly investments reported at fair value), set aside to pay current employees, retirees, and beneficiaries.

Total current assets within the governmental activities were \$4.9 million and included cash & investments of \$4.2 million and receivables net of allowances of \$0.7 million.

Total current liabilities within the governmental activities were \$0.9 million, and included accounts payable of \$0.5 million, compensated absences of \$0.2 million and other liabilities \$0.2 million. Current debt mainly included bonds and notes payable of \$0.7 million

Noncurrent liabilities within the governmental activities were \$8.6 million, including \$1.9 million of postemployment benefits and the net pension liability of \$6.7 million. Noncurrent debt within the governmental activities were \$4.5 million, including \$4.4 million of general obligation bonds payable and \$0.1 million capital leases payable.

Comparative Net Position

	Governmental Activities	
	FY 2016	FY 2015
Assets:		
Current assets	\$ 4,900,508	\$ 6,251,720
Noncurrent assets (excluding capital)	99,060	14,795
Net investments in capital assets	22,750,941	21,267,821
Total assets	27,750,509	27,534,336
 Deferred Outflows of Resources	 842,311	 3,203
Liabilities:		
Current liabilities (excluding debt)	903,694	692,509
Noncurrent liabilities (excluding debt)	8,585,902	6,962,324
Current debt	669,810	612,210
Noncurrent debt	4,477,534	4,783,127
Total liabilities	14,636,940	13,050,170
Net Position:		
Net investment in capital assets	17,712,815	15,930,502
Restricted	2,527,526	3,805,324
Unrestricted	(6,284,461)	(5,248,457)
Total net position	\$ 13,955,880	\$ 14,487,369

Governmental activities current assets decreased by \$1.4 million primarily due to the Library Project Funding as compared to FY2015. Capital assets, net of depreciation, increased by \$1.5 million; primarily due to Buildings and Improvements.

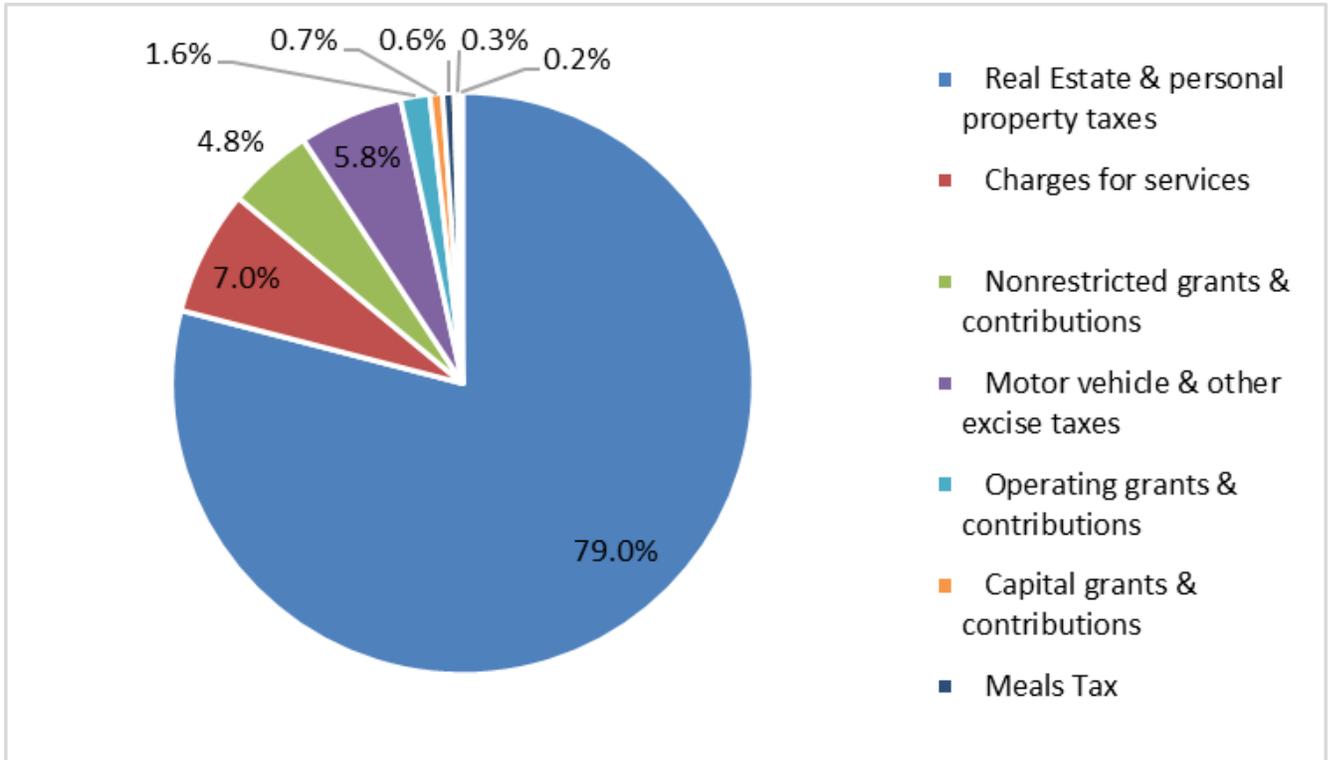
Governmental activities current liabilities increased by \$0.2 million as compared with the prior year. Noncurrent liabilities increased by \$1.6 million primarily due to \$0.2 million postemployment benefits and \$1.4 million net pension liability. Noncurrent debt decreased by \$0.3 million due to the pay down of debt.

Governmental activities total net position decreased by \$0.5 million or 3.7% as compared with the prior year. Presented below are the components that contributed to the change in net position, along with comparative data for the previous fiscal year:

Comparative Changes in Net Position

	Governmental Activities		Increase/ (Decrease)
	FY 2016	FY 2015	
Revenues			
<i>Program Revenues:</i>			
Charges for services	\$ 1,274,495	\$ 1,350,237	\$ (75,742)
Operating grants and contributions	299,575	792,368	(492,793)
Capital grants and contributions	129,840	314,656	(184,816)
<i>General Revenues:</i>			
Real Estate and personal property taxes	14,481,319	12,818,599	1,662,720
Motor vehicle and other excise taxes	1,061,465	938,821	122,644
Meals Tax	116,894	108,188	8,706
Penalties and interest	54,847	76,201	(21,354)
Nonrestricted grants and contributions	913,336	1,197,717	(284,381)
Departmental	21,972	32,571	(10,599)
Unrestricted investment income & other	7,854	6,855	999
Total Revenues	<u>18,361,597</u>	<u>17,636,213</u>	<u>725,384</u>
Expenses:			
General Government	1,393,117	1,461,078	(67,961)
Public Safety	2,770,840	2,895,127	(124,287)
Education	10,103,560	8,754,616	1,348,944
Public Works	1,475,507	1,566,681	(91,174)
Human Services	588,913	559,579	29,334
Culture and Recreation	381,268	385,478	(4,210)
Employee Benefits	1,991,435	1,408,055	583,380
State and County Assessments	5,524	5,564	(40)
Interest	182,922	198,452	(15,530)
Total Expenses	<u>18,893,086</u>	<u>17,234,630</u>	<u>1,658,456</u>
Transfers	<u>-</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>(531,489)</u>	<u>401,583</u>	<u>(933,072)</u>
Net Position - beginning	<u>14,487,369</u>	<u>14,085,786</u>	
Net Position - ending	<u>\$ 13,955,880</u>	<u>\$ 14,487,369</u>	

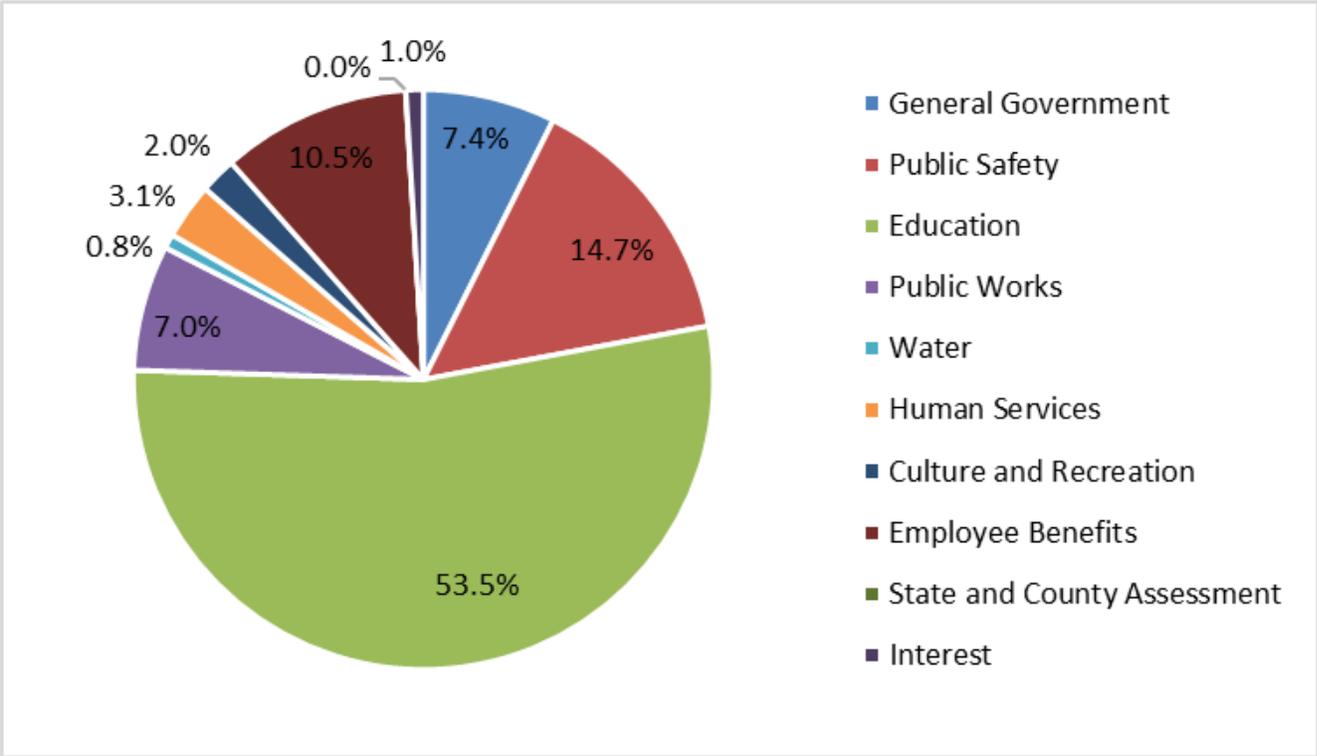
Governmental Activities – FY2016 Revenues



Revenues

Property taxes support 79.0 % of the Town’s governmental activities. Program Revenues decreased by \$0.8M as compared to FY2015.

Governmental Activities – FY2016 Expenses



Expenses

Education is by far the largest governmental activity of the Town. Over \$10.1 million in taxes and other revenues were needed to cover the FY2016 operating expenses.

Public safety represents the second largest activities of the Town. Approximately \$2.1 million taxes and other revenues were needed to cover the FY2016 operating expenses.

Financial Analysis of the Government's Funds

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

Governmental Funds

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

At the end of the fiscal year, the Town's governmental funds reported combined ending fund balance of \$3.6 million, a decrease of \$1.3 million in comparison with the prior fiscal year. The decrease was primarily due to the Library Building Fund.

The General Fund is the chief operating fund of the Town. At the end of the fiscal year, unassigned fund balance was \$1,183,913 while total fund balance was \$1,860,105. As a measure of the General fund's liquidity, it may be useful to compare both unassigned fund balance and the total fund balance to total fund expenditures.

Fiduciary Funds

Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the Town's programs. This reflects activities on resources held for the benefit of parties outside the government.

General Fund Budgetary Highlights

The original general fund budget was increased by \$233,356 to the final budget of approximately \$18.3 million. Increases were approved for general government, public safety, public works, human services and culture & recreation.

Actual revenues were more than budgetary amounts by \$219,995 and expenditures were less than budgetary amounts by \$665,278. The majority of revenue types yielded favorable results. Most departments realized modest budget savings; in particular, unused general government and public works realized favorable results of \$304,887 and \$150,128 respectively.

Capital Asset and Debt Administration

Capital Assets

The Town's investment in capital assets for its governmental activities as of June 30, 2016 amounted to \$22,750,941 (net of accumulated depreciation). This investment includes land, buildings, capital improvements other than buildings, machinery and equipment, vehicles, software, and infrastructure. The total increase in the Town's investment for the fiscal year was approximately \$1.5 million, primarily related to Library Building.

**Capital Assets
(Net of Accumulated Depreciation)**

Governmental activities	FY 2016	FY 2015	Increase/ (Decrease)
Land	\$ 10,811,628	\$ 10,451,626	360,002
Buildings	3,416,493	1,535,578	1,880,915
Capital improvements other than buildings	213,323	234,855	(21,532)
Machinery and equipment	306,018	344,908	(38,890)
Vehicles	815,711	760,537	55,174
Software	8,137	12,529	(4,392)
Infrastructure	7,179,631	7,369,649	(190,018)
Construction in progress	-	558,139	(558,139)
Total Capital Assets	\$ 22,750,941	\$ 21,267,821	\$ 1,483,120

Debt

At the end of the fiscal year the Town had a total bonded debt outstanding of \$4,976,100. The entire amount is classified as general obligation debt and is backed by the full faith and credit of the government. The Town has no revenue bonds outstanding, which are bonds secured solely by specified revenue sources. The Town issued a bond for a DPW truck and library extras during FY2016.

Outstanding Debt at Year End		
Governmental Activities	Outstanding June 30, 2016	Outstanding June 30, 2015
Title V	\$ 11,100	\$ 22,201
Fire Station	1,642,000	1,771,000
Land Acquisition	1,053,000	1,384,000
Library	2,015,000	2,040,000
DPW Truck/Library Extras	255,000	-
Total Governmental Activities	\$ 4,976,100	\$ 5,217,201

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Town of Mendon's finances. Questions concerning the information provided in this report or requests for additional information should be addressed to the Office of the Town Accountant, 20 Main Street, Mendon, MA 01756.

**TOWN OF MENDON, MASSACHUSETTS
STATEMENT OF NET POSITION
JUNE 30, 2016**

	PRIMARY GOVERNMENT
	GOVERNMENTAL ACTIVITIES
<u>ASSETS</u>	
CURRENT:	
CASH AND SHORT-TERM INVESTMENTS	\$ 2,888,823
INVESTMENTS	1,278,682
RECEIVABLES, NET OF ALLOWANCE FOR UNCOLLECTIBLES:	
REAL ESTATE AND PERSONAL PROPERTY TAXES	221,017
TAX LIENS	254,691
MOTOR VEHICLE EXCISE TAXES	46,291
USER FEES	72,940
DEPARTMENTAL AND OTHER	12,681
INTERGOVERNMENTAL	125,383
NONCURRENT:	
RECEIVABLES, NET OF ALLOWANCE FOR UNCOLLECTIBLES:	
DEPARTMENTAL AND OTHER	99,060
CAPITAL ASSETS, NET OF ACCUMULATED DEPRECIATION	22,750,941
TOTAL ASSETS	27,750,509
DEFERRED OUTFLOWS OF RESOURCES	
RELATED TO PENSIONS	842,311
<u>LIABILITIES</u>	
CURRENT:	
ACCOUNTS PAYABLE	517,724
OTHER LIABILITIES	141,108
ACCRUED INTEREST	26,420
CAPITAL LEASE PAYABLE	19,492
LANDFILL POSTCLOSURE CARE COSTS	19,400
COMPENSATED ABSENCES	199,042
BONDS AND NOTES PAYABLE	650,318
NONCURRENT:	
CAPITAL LEASE PAYABLE	42,534
POSTEMPLOYMENT BENEFITS	1,858,094
NET PENSION LIABILITY	6,727,808
BONDS AND NOTES PAYABLE	4,435,000
TOTAL LIABILITIES	14,636,940
<u>NET POSITION</u>	
NET INVESTMENT IN CAPITAL ASSETS	17,712,815
RESTRICTED FOR:	
PERMANENT FUNDS:	
EXPENDABLE	25,876
NONEXPENDABLE	26,299
OTHER PURPOSES	2,475,351
UNRESTRICTED	(6,284,461)
TOTAL NET POSITION	\$ 13,955,880

See accompanying notes to the basic financial statements

**TOWN OF MENDON, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2016**

FUNCTIONS/PROGRAMS	PROGRAM REVENUES				NET (EXPENSE) REVENUE
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS	
PRIMARY GOVERNMENT:					
GOVERNMENTAL ACTIVITIES:					
GENERAL GOVERNMENT	\$ 1,393,117	\$ 138,813	\$ 22,789	\$ -	\$ (1,231,515)
PUBLIC SAFETY	2,770,840	463,833	167,434	-	(2,139,573)
EDUCATION	10,103,560	-	-	-	(10,103,560)
PUBLIC WORKS	1,324,447	14,224	702	129,840	(1,179,681)
WATER	151,060	146,621	-	-	(4,439)
HUMAN SERVICES	588,913	436,390	44,650	-	(107,873)
CULTURE & RECREATION	381,268	74,614	64,000	-	(242,654)
EMPLOYEE BENEFITS	1,991,435	-	-	-	(1,991,435)
STATE & COUNTY ASSESSMENTS	5,524	-	-	-	(5,524)
INTEREST	182,922	-	-	-	(182,922)
 TOTAL PRIMARY GOVERNMENT	 \$ 18,893,086	 \$ 1,274,495	 \$ 299,575	 \$ 129,840	 \$ (17,189,176)

See accompanying notes to the basic financial statements

(continued)

**TOWN OF MENDON, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2016**

	PRIMARY GOVERNMENT
	GOVERNMENTAL ACTIVITIES
CHANGES IN NET POSITION:	
NET (EXPENSE) REVENUE FROM PREVIOUS PAGE	\$ (17,189,176)
GENERAL REVENUES:	
REAL ESTATE AND PERSONAL PROPERTY TAXES, NET OF TAX REFUNDS PAYABLE	14,448,874
TAX LIENS	32,445
MOTOR VEHICLE EXCISE TAXES	1,061,465
MEALS TAX	116,894
PENALTIES AND INTEREST ON TAXES	54,847
GRANTS AND CONTRIBUTIONS NOT RESTRICTED TO SPECIFIC PROGRAMS	913,336
UNRESTRICTED INVESTMENT INCOME	7,854
MISCELLANEOUS	21,972
TOTAL GENERAL REVENUES	16,657,687
CHANGE IN NET POSITION	(531,489)
NET POSITION:	
BEGINNING OF YEAR	14,487,369
END OF YEAR	\$ 13,955,880

See accompanying notes to the basic financial statements

(concluded)

**TOWN OF MENDON, MASSACHUSETTS
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016**

<u>ASSETS</u>	GENERAL	COMMUNITY PRESERVATION	LIBRARY BUILDING	NONMAJOR GOVERNMENTAL FUNDS	TOTAL GOVERNMENTAL FUNDS
CASH AND SHORT-TERM INVESTMENTS	\$ 2,169,959	\$ 56,020	\$ 214,663	\$ 448,181	\$ 2,888,823
INVESTMENTS	-	1,161,638	-	117,044	1,278,682
RECEIVABLES, NET OF ALLOWANCE FOR UNCOLLECTIBLES:					
REAL ESTATE AND PERSONAL PROPERTY TAXES	221,017	-	-	-	221,017
TAX LIENS	254,691	-	-	-	254,691
MOTOR VEHICLE EXCISE TAXES	46,291	-	-	-	46,291
USER FEES	72,940	-	-	-	72,940
DEPARTMENTAL AND OTHER	-	5,721	-	106,020	111,741
INTERGOVERNMENTAL	-	-	-	125,383	125,383
TOTAL ASSETS	\$ 2,764,898	\$ 1,223,379	\$ 214,663	\$ 796,628	\$ 4,999,568
 <u>LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES</u>					
LIABILITIES:					
ACCOUNTS PAYABLE	\$ 243,652	\$ -	\$ 264,958	\$ 9,114	\$ 517,724
OTHER LIABILITIES	141,062	46	-	-	141,108
NOTES PAYABLE	-	-	-	109,218	109,218
TOTAL LIABILITIES	384,714	46	264,958	118,332	768,050
DEFERRED INFLOW OF RESOURCES:					
UNAVAILABLE REVENUE	520,079	5,721	-	106,020	631,820
FUND BALANCES:					
NONSPENDABLE	-	-	-	26,299	26,299
RESTRICTED	202,760	1,217,612	-	710,389	2,130,761
COMMITTED	430,832	-	-	-	430,832
ASSIGNED	42,600	-	-	-	42,600
UNASSIGNED	1,183,913	-	(50,295)	(164,412)	969,206
TOTAL FUND BALANCES	1,860,105	1,217,612	(50,295)	572,276	3,599,698
TOTAL LIABILITIES, DEFERRED INFLOW OF RESOURCES AND FUND BALANCES	\$ 2,764,898	\$ 1,223,379	\$ 214,663	\$ 796,628	\$ 4,999,568

See accompanying notes to the basic financial statements

**TOWN OF MENDON, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FISCAL YEAR ENDED JUNE 30, 2016**

	<u>GENERAL</u>	<u>COMMUNITY PRESERVATION</u>	<u>LIBRARY BUILDING</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>	<u>TOTAL GOVERNMENTAL FUNDS</u>
REVENUES:					
REAL ESTATE AND PERSONAL PROPERTY TAXES, NET OF TAX REFUNDS	\$ 14,499,788	\$ -	\$ -	\$ -	\$ 14,499,788
MOTOR VEHICLE EXCISE TAXES	1,058,409	-	-	-	1,058,409
PENALTIES AND INTEREST ON TAXES	54,847	-	-	-	54,847
INTERGOVERNMENTAL	424,856	164,893	-	477,485	1,067,234
MEALS TAX	116,894	-	-	-	116,894
CHARGES FOR SERVICES - WATER	146,890	-	-	-	146,890
CHARGES FOR SERVICES	-	-	-	118,352	118,352
INVESTMENT INCOME	7,855	33,210	-	3,030	44,095
CONTRIBUTIONS & DONATIONS	-	-	-	62,133	62,133
DEPARTMENTAL AND OTHER	1,005,516	309,993	-	39,323	1,354,832
TOTAL REVENUES	17,315,055	508,096	-	700,323	18,523,474
EXPENDITURES:					
CURRENT:					
GENERAL GOVERNMENT	1,322,971	18,725	-	70,993	1,412,689
PUBLIC SAFETY	2,459,416	-	-	199,857	2,659,273
EDUCATION	10,103,560	-	-	-	10,103,560
PUBLIC WORKS	800,133	-	-	495,322	1,295,455
WATER	151,060	-	-	-	151,060
HUMAN SERVICES	525,946	-	-	58,912	584,858
CULTURE & RECREATION	390,155	-	1,552,156	104,551	2,046,862
EMPLOYEE BENEFITS	1,162,114	-	-	-	1,162,114
STATE & COUNTY ASSESSMENTS	5,524	-	-	-	5,524
DEBT SERVICE					
PRINCIPAL	485,000	-	-	11,101	496,101
INTEREST	179,599	-	-	2,046	181,645
TOTAL EXPENDITURES	17,585,478	18,725	1,552,156	942,782	20,099,141
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(270,423)	489,371	(1,552,156)	(242,459)	(1,575,667)
OTHER FINANCING SOURCES (USES)					
PROCEEDS FROM BONDS AND NOTES	-	-	-	255,000	255,000
OPERATING TRANSFERS IN	250,283	-	-	42,985	293,268
OPERATING TRANSFERS OUT	-	(289,268)	-	(4,000)	(293,268)
TOTAL OTHER FINANCING SOURCES (USES)	250,283	(289,268)	-	293,985	255,000
NET CHANGE IN FUND BALANCES	(20,140)	200,103	(1,552,156)	51,526	(1,320,667)
FUND BALANCES AT BEGINNING OF YEAR	1,880,245	1,017,509	1,501,861	520,750	4,920,365
FUND BALANCES AT END OF YEAR	\$ 1,860,105	\$ 1,217,612	\$ (50,295)	\$ 572,276	\$ 3,599,698

See accompanying notes to the basic financial statements

**TOWN OF MENDON, MASSACHUSETTS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

TOTAL GOVERNMENTAL FUND BALANCES		\$ 3,599,698
CAPITAL ASSETS (NET) USED IN GOVERNMENTAL ACTIVITIES ARE NOT FINANCIAL RESOURCES AND, THEREFORE, ARE NOT REPORTED IN THE FUNDS		22,750,941
ACCOUNTS RECEIVABLE ARE NOT AVAILABLE TO PAY FOR CURRENT-PERIOD EXPENDITURES AND, THEREFORE, ARE DEFERRED IN THE FUNDS		631,820
IN THE STATEMENT OF ACTIVITIES, INTEREST IS ACCRUED ON OUTSTANDING LONG-TERM DEBT, WHEREAS IN GOVERNMENTAL FUNDS INTEREST IS NOT REPORTED UNTIL DUE		(26,420)
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	(4,976,100)	
NET PENSION LIABILITY	(6,727,808)	
DEFERRED OUTFLOWS OF RESOURCES	842,311	
CAPITAL LEASE PAYABLE	(62,026)	
COMPENSATED ABSENCES	(199,042)	
POSTEMPLOYMENT BENEFITS	(1,858,094)	
LANDFILL POSTCLOSURE CARE COSTS	<u>(19,400)</u>	
NET EFFECT OF REPORTING LONG-TERM LIABILITIES		<u>(13,000,159)</u>
NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ 13,955,880</u>

See accompanying notes to the basic financial statements

**TOWN OF MENDON, MASSACHUSETTS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2016**

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ (1,320,667)
<p>GOVERNMENTAL FUNDS REPORT CAPITAL OUTLAYS AS EXPENDITURES. HOWEVER, IN THE STATEMENT OF ACTIVITIES THE COST OF THOSE ASSETS IS ALLOCATED OVER THEIR ESTIMATED USEFUL LIVES AND REPORTED AS DEPRECIATION EXPENSE.</p>		
CAPITAL OUTLAY	2,276,055	
DEPRECIATION EXPENSE	<u>(792,935)</u>	
NET EFFECT OF REPORTING CAPITAL ASSETS		1,483,120
<p>REVENUES IN THE STATEMENT OF ACTIVITIES THAT DO NOT PROVIDE CURRENT FINANCIAL RESOURCES ARE FULLY DEFERRED IN THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES. THEREFORE, THE RECOGNITION OF REVENUE FOR VARIOUS TYPES OF ACCOUNTS RECEIVABLE (I.E. REAL ESTATE AND PERSONAL PROPERTY, MOTOR VEHICLE EXCISE, ETC.) DIFFER BETWEEN THE TWO STATEMENTS. THIS AMOUNT REPRESENTS THE NET CHANGE IN DEFERRED REVENUE</p>		
		(161,877)
<p>THE ISSUANCE OF LONG-TERM DEBT (E.G., BONDS) PROVIDES CURRENT FINANCIAL RESOURCES TO GOVERNMENTAL FUNDS, WHILE THE REPAYMENT OF THE PRINCIPAL OF LONG-TERM DEBT CONSUMES THE FINANCIAL RESOURCES OF GOVERNMENTAL FUNDS. NEITHER TRANSACTION, HOWEVER, HAS ANY EFFECT ON NET ASSETS. ALSO, GOVERNMENTAL FUNDS REPORT THE EFFECT OF ISSUANCE COSTS, PREMIUMS, DISCOUNTS, AND SIMILAR ITEMS WHEN DEBT IS FIRST ISSUED, WHEREAS THESE AMOUNTS ARE DEFERRED AND AMORTIZED IN THE STATEMENT OF ACTIVITIES.</p>		
PROCEEDS FROM BONDS AND NOTES	(255,000)	
CAPITAL LEASE PAYMENTS	58,092	
DEBT SERVICE PRINCIPAL PAYMENT	<u>496,101</u>	
NET EFFECT OF REPORTING LONG-TEM DEBT		299,193
<p>SOME EXPENSES REPORTED IN THE STATEMENT OF ACTIVITIES DO NOT REQUIRE THE USE OF CURRENT FINANCIAL RESOURCES AND, THEREFORE, ARE NOT REPORTED AS EXPENDITURES IN THE GOVERNMENTAL FUNDS.</p>		
NET CHANGE IN COMPENSATED ABSENCES ACCRUAL	(44,851)	
NET CHANGE IN POSTEMPLOYMENT BENEFITS ACCRUAL	(221,817)	
NET CHANGE IN DEFERRED OUTFLOWS OF RESOURCES	839,108	
NET CHANGE IN NET PENSION LIABILITY	(1,401,761)	
NET CHANGE IN LANDFILL POSTCLOSURE CARE ACCRUAL	(660)	
NET CHANGE IN ACCRUED INTEREST ON LONG-TERM DEBT	<u>(1,277)</u>	
NET EFFECT OF RECORDING LONG-TERM LIABILITIES		<u>(831,258)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES		<u>\$ (531,489)</u>

See accompanying notes to the basic financial statements

**TOWN OF MENDON, MASSACHUSETTS
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FISCAL YEAR ENDED JUNE 30, 2016**

	<u>BUDGETED AMOUNTS</u>		<u>ACTUAL BUDGETARY AMOUNTS</u>	<u>VARIANCE OVER/UNDER</u>
	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>		
<u>REVENUES:</u>				
REAL ESTATE AND PERSONAL PROPERTY TAXES, NET OF TAX REFUNDS	\$ 14,458,527	\$ 14,458,527	\$ 14,499,788	\$ 41,261
MOTOR VEHICLE AND OTHER EXCISE TAXES	902,990	902,990	1,058,409	155,419
MEALS TAX	108,000	108,000	116,894	8,894
PENALTIES & INTEREST ON TAXES	35,000	35,000	54,847	19,847
INTERGOVERNMENTAL	443,654	443,654	424,856	(18,798)
CHARGES FOR SERVICES - WATER	135,500	135,500	146,890	11,390
INVESTMENT INCOME	2,500	2,500	4,759	2,259
DEPARTMENTAL AND OTHER	1,005,793	1,005,793	1,005,516	(277)
TOTAL REVENUES	17,091,964	17,091,964	17,311,959	219,995
<u>EXPENDITURES:</u>				
CURRENT:				
GENERAL GOVERNMENT	1,550,522	1,627,858	1,322,971	304,887
PUBLIC SAFETY	2,448,378	2,500,580	2,459,416	41,164
EDUCATION	10,103,561	10,103,561	10,103,560	1
PUBLIC WORKS	880,055	950,261	800,133	150,128
WATER	154,900	154,900	151,060	3,840
HUMAN SERVICES	513,647	537,182	525,946	11,236
CULTURE & RECREATION	483,208	509,208	390,155	119,053
EMPLOYEE BENEFITS	1,213,005	1,197,082	1,162,114	34,968
STATE & COUNTY ASSESSMENTS	5,524	5,524	5,524	-
DEBT SERVICE:				
PRINCIPAL	485,000	485,000	485,000	-
INTEREST	179,600	179,600	179,599	1
TOTAL EXPENDITURES	18,017,400	18,250,756	17,585,478	665,278
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(925,436)	(1,158,792)	(273,519)	885,273
<u>OTHER FINANCING SOURCES (USES):</u>				
OPERATING TRANSFERS IN	204,483	254,483	250,283	(4,200)
NET CHANGE IN FUND BALANCE	(720,953)	(904,309)	(23,236)	881,073
BUDGETARY FUND BALANCE, BEGINNING OF YEAR	1,038,421	1,038,421	1,038,421	-
BUDGETARY FUND BALANCE, END OF YEAR	\$ 317,468	\$ 134,112	\$ 1,015,185	\$ 881,073

See accompanying notes to the basic financial statements

**TOWN OF MENDON, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016**

	<u>POSTEMPLOYMENT BENEFITS TRUST</u>	<u>PRIVATE PURPOSE TRUST FUNDS</u>	<u>AGENCY FUNDS</u>
<u>ASSETS</u>			
CASH AND SHORT-TERM INVESTMENTS	\$ 24,965	\$ 37,055	\$ 119,460
INVESTMENTS	<u>25,781</u>	<u>12,558</u>	<u>-</u>
TOTAL ASSETS	<u>50,746</u>	<u>49,613</u>	<u>119,460</u>
<u>LIABILITIES</u>			
OTHER LIABILITIES	<u>-</u>	<u>-</u>	<u>119,460</u>
<u>NET POSITION</u>			
HELD IN TRUST FOR PLAN PARTICIPANTS	50,746	-	-
HELD IN TRUST FOR OTHER PURPOSES	-	49,613	-
TOTAL	<u>\$ 50,746</u>	<u>\$ 49,613</u>	<u>\$ -</u>

See accompanying notes to the basic financial statements

**TOWN OF MENDON, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FISCAL YEAR ENDED JUNE 30, 2016**

	POSTEMPLOYMENT BENEFITS TRUST	PRIVATE PURPOSE TRUST FUNDS
<u>ADDITIONS:</u>		
CONTRIBUTIONS:		
PRIVATE DONATIONS	\$ -	\$ 2,500
DEPARTMENTAL	25,000	-
NET INVESTMENT INCOME (LOSS):		
INVESTMENT INCOME	640	1,788
TOTAL ADDITIONS	25,640	4,288
<u>DEDUCTIONS:</u>		
EDUCATIONAL SCHOLARSHIPS	-	2,500
CHANGE IN NET POSITION	25,640	1,788
NET POSITION AT BEGINNING OF YEAR	25,106	47,825
NET POSITION AT END OF YEAR	\$ 50,746	\$ 49,613

See accompanying notes to the basic financial statements

**TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying basic financial statements of the Town of Mendon, Massachusetts (the Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant Town accounting policies:

A. Reporting Entity

Primary Government

The Town is a municipal corporation that is governed by an elected three member Board of Selectmen (the Board). The Board is responsible for appointing a Town Administrator whose responsibility is to manage the day to day operations. For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units, blended or discretely presented, for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. Blended component units, although legally separate entities, are, in substance, part of the government’s operations and discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government. It has been determined that there are no component units (blended or discretely presented) for inclusion in the primary government’s financial reporting entity.

Joint Ventures

Municipal joint ventures pool resources to share the costs, risks and rewards of providing services to their participants, the general public or others. The Town is a participant in the following joint ventures:

Name	Purpose	Address	Annual Assessment
Mendon-Upton Regional School District	To provide K-12 secondary education	150 North Avenue Mendon, MA 01756	\$ 9,290,146
Blackstone Valley Regional Technical High School	To provide vocational education	65 Pleasant Street Upton, MA 01568	\$ 813,414

The Mendon-Upton Regional School District (the District) is governed by a six (6) member school committee consisting of three (3) elected representatives from the Town of Mendon. The Town is indirectly liable for debt and other expenditures of the District and is assessed annually for its share of the operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the District at the above address. The Town has an equity interest of approximately 44.2% in the joint venture.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

The Blackstone Valley Regional Technical High School (the **BVRTHS**) is governed by a thirteen (13) member school committee. The Town of Mendon has one (1) representative on the **BVRTHS**' school committee. The Town is indirectly liable for debt and other expenditures of the **BVRTHS** and is assessed annually for its share of the operating and capital costs. Separate financial statements may be obtained by writing to the Treasurer of the **BVRTHS** at the above address. The Town has an equity interest of approximately 2.6% in the joint venture.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government. *Governmental activities*, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges. The Town of Mendon has no *business-type activities* as of June 30, 2016.

Fund Financial Statements

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

Major Fund Criteria

A fund is considered major if it is the primary operating fund of the Town or it meets the following criteria:

- a. If the total assets, liabilities, revenues, or expenditures of an individual governmental fund are at least 10 percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental funds), and
- b. If the total assets, liabilities, revenues, or expenditures of the individual governmental fund are at least 5 percent of the corresponding element for all governmental funds combined.

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

Fiduciary funds are reported by fund type.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when the liabilities are incurred. Real estate and personal property taxes are recognized as revenues in the 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 particular function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include the following:

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

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

The effect of interfund activity has been removed from the government-wide financial statements.

Fund Financial Statements

Governmental Fund Financial Statements

Governmental fund financial statements are reported using the 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., when they become both 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 interest on general long-term debt which is recognized when due, and the non current portion of other post-employment benefits (OPEB), net pension liability, and capital lease which are recognized when the obligations are expected to be liquidated with current expendable available resources.

In applying the susceptible to accrual concept to intergovernmental revenues, there are essentially two types of revenues. In one, moneys must be expended on the specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

The Town considers property taxes as available if they are due and collected within 60 days after fiscal year-end. Licenses and permits, user charges, fines and forfeitures, and miscellaneous revenues are recorded as revenues when received. Investment earnings are recorded as earned.

The Town reports the following major governmental funds:

- The *General fund* is the primary operating fund of the Town. It is used to account for all financial resources, except those that are required to be accounted for in another fund.
- The *Community Preservation fund* is a special revenue fund used to account for the accumulation of resources to purchase open space, provide for affordable housing, or preservation of historical property under the guidelines of the Community Preservation Act of the Massachusetts General Laws.
- The *Library Building fund* is a capital project fund used to account for the construction activity of the library.
- 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:
 - The *Special Revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.
 - The *Capital Projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by trust funds).
 - The *Permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Fiduciary Fund Financial Statements

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

The following fiduciary fund types are reported:

- The *Private-Purpose Trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund (nonmajor governmental funds), under which principal and investment income exclusively benefit individuals, private organizations, or other governments.
- The *Postemployment Benefits Trust* fund is used to account for assets held to fund future postemployment benefits of current and retired employees.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

- The *Agency fund* is used to account for assets held in a purely custodial capacity.

Government-Wide and Fund Financial Statements

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide, proprietary fund, and fiduciary funds financial statements to the extent that those standards do not conflict with or contradict guidance of *the Governmental Accounting Standards Board*. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Town has elected not to follow subsequent private-sector guidance.

D. Cash and Investments

Government-Wide and Fund Financial Statements

Cash and short term investments are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments are reported at fair value.

E. Fair Value Measurements

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

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

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

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument. The inputs into the determination of fair value require significant management judgment or estimation. In some instances the inputs used to measure fair value may fall into different levels of the fair value hierarchy and is based on the lowest level of input that is significant to the fair value measurement. Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that change in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in these financial statements. For more information on the fair value of the Town’s financial instruments, see Note 3 – Fair Market Value of Investments.

F. Accounts Receivable

Government-Wide and Fund Financial Statements

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

Real Estate, Personal Property Taxes and Tax Liens

Real estate and personal property taxes are based on values assessed as of each January 1 and are normally due on the subsequent August 1, November 1, February 1, and May 1. Property taxes that remain unpaid after the respective due dates are subject to penalties and interest charges. By law, all taxable property in the Commonwealth must be assessed at 100% of fair market value. Once levied, which is required to be at least 30 days prior to the due date, these taxes are recorded as receivables in the fiscal year of levy. Based on the Town’s experience, most property taxes are collected during the year in which they are assessed. Liening of properties on which taxes remain unpaid occurs annually. The Town ultimately has the right to foreclose on all properties where the taxes remain unpaid.

A statewide property tax limitation statute known as “Proposition 2 ½” limits the amount of increase in property tax levy in any fiscal year. Generally, Proposition 2 ½ limits the total levy to an amount not greater than 2 ½ % of the total assessed value of all taxable property within the Town. Secondly, the tax levy cannot increase by more than 2 ½ % of the prior year’s levy plus the taxes on property newly added to the tax rolls. Certain provisions of Proposition 2 ½ can be overridden by a Town-wide referendum.

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

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

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Motor Vehicle Excise

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. The tax calculation is the fair value of the vehicle multiplied by \$25 per \$1,000 of value.

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

User Fees

User fees consist primarily of ambulance receivables and are recorded as receivables in the fiscal year accrued. The allowance for uncollectible for the ambulance receivables is estimated based on historical trends and specific account analysis.

Departmental and Other

Departmental and other receivables consist primarily of title V receivables and Community Preservation Act (CPA) and are recorded as receivables in the fiscal year accrued. The above receivables are secured via the lien process and these accounts are considered 100% collectible and therefore do not report an allowance for uncollectibles.

Intergovernmental

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

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

G. Inventories

Government-Wide and Fund Financial Statements

Inventories of the governmental funds are recorded as expenditures at the time of purchase. Such inventories are not material in total to the basic financial statements, and therefore are not reported.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

H. Capital Assets

Government-Wide Financial Statements

Capital assets, which include land, buildings and improvements, capital improvements (other than buildings), software, machinery and equipment, vehicles, infrastructure (e.g. roadways, bridges and similar items), and construction in progress are reported in the governmental activities column of the government-wide financial statements. Capital assets are recorded at historical cost, or at estimated historical cost, if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value at the date of donation. Except for the capital assets of the governmental activities column in the government-wide financial statements, construction period interest is capitalized on constructed capital assets if material.

All purchases and construction costs in excess of \$15,000 (all land costs) are capitalized at the date of acquisition or construction, respectively, with expected useful lives of four (4) years or greater.

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

<u>Asset Class</u>	<u>Estimated Useful Life (in years)</u>
Buildings and Improvements	40
Capital Improvements (other than buildings)	10
Software	4-20
Machinery and Equipment	10-20
Vehicles	4-20
Infrastructure	40

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 fiscal year of purchase for the various funds.

I. Interfund Receivables and Payables

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

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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.

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.

J. Interfund Transfers

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

Government-Wide Financial Statements

Operating transfers between and within governmental funds are eliminated from the governmental activities in the statement of net position.

Fund Financial Statements

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

K. Deferred Outflows/Inflows of Resources

Government-Wide Financial Statements (Net Position)

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, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/ expenditure) until then. The Town reported deferred outflows of resources related to pensions in this category.

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, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The Town reported no deferred inflows of resources related to pensions in this category.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Governmental Funds Financial Statements

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

L. Net Position and Fund Equity

Government-Wide Financial Statements (Net Position)

Net position are classified into three components:

- a. *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.
- b. *Restricted net position* – Consists 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.

Net position have been “restricted” for the following:

- *Permanent funds - expendable* represents amounts held in trust for which the expenditures are restricted by various trust agreements.
 - *Permanent funds - nonexpendable* represents amounts held in trust for which only investment earnings may be expended.
 - *Other specific purposes* represent restrictions placed on assets from outside parties.
- c. *Unrestricted net position* – All other net position that do not meet the definition of “restricted” or “net investment in capital assets.”

Fund Financial Statements (Fund Balances)

The Town uses the following criteria for fund balance classification:

- For *nonspendable* fund balance: includes amounts that cannot be spent because they are either (1) not in spendable form or (2) legally or contractually required to be maintained intact.
- For *restricted* fund balance: when constraints placed on the use of the resources are either (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (2) imposed by law through constitutional provisions or enabling legislation.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

- For *committed* fund balance: (1) the government's highest level of decision-making authority and (2) the formal action that is required to be taken to establish (and modify or rescind) a fund balance commitment.
- For *assigned* fund balance: (1) the body or official authorized to assign amounts to a specific purpose and (2) the policy established by the governing body pursuant to which the authorization is given.
- For *unassigned* fund balance: is the residual classification for the general fund. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The Town uses the following criteria for fund balance policies and procedures:

- When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the unrestricted amount will be considered to have been spent.
- When an expenditure is incurred for purposes for which committed, assigned, or unassigned fund balance is available, the least restricted amount will be considered to have been spent.

M. Long-term debt

Government-Wide Financial Statements

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

Governmental Fund Financial Statements

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

N. Investment Income

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

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

O. Compensated Absences

Employees are granted vacation leave in varying amounts. Upon retirement, termination or death, certain employees are compensated for unused vacation leave (subject to certain limitations) at their then current rates of pay.

Government-Wide Financial Statements

The total amount to be paid in future years is presented in the government-wide statement of net position. The liability for vacation leave is based on the amount earned but not used.

Governmental Fund Financial Statements

The portion of the liability related to unused vacation time that has matured or is due as of June 30, 2016 is recorded in the governmental fund financial statement.

P. Net Pension Liability

Governmental Accounting Standards Board (GASB) Statement #68 requires employers participating in a cost-sharing pension plan to recognize pension liabilities as employees provide services to the government and earn their pension benefits. Employers participating in cost-sharing plans are required to recognize their proportionate share of the plan's collective pension amounts for all benefits provided through the plan including the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense.

Q. Post Retirement Benefits

Government-Wide and Fund Financial Statements

In addition to providing pension benefits, health and life insurance coverage is provided for retired employees and their survivors in accordance with Chapter 32B, of Massachusetts General Laws, under various contributory plans. The cost of providing health and life insurance is recognized by recording the employer's 75% or 80% share of insurance premiums (depending on the plan selected) in the general fund in the fiscal year paid. All benefits are provided through third-party insurance carriers and health maintenance organizations that administer, assume, and pay all claims.

R. Use of Estimates

Government-Wide and Fund Financial Statements

The preparation of the accompanying financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could vary from estimates that were used.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

S. Total Column

Fund Financial Statements

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

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Basis of Accounting

Pursuant to Chapter 44, Section 32 of the Massachusetts General Laws, the Town adopts an annual budget for the general fund. The budgets for all departments and operations of the Town, except that of the public school districts, are prepared under the direction of the Board of Selectmen. The School Districts' budgets are prepared under the direction of the School Committees.

Generally, expenditures may not exceed the legal level of spending authorized for an appropriation account. Most departmental budgets are adopted with the following categories: (1) salaries and wages; (2) ordinary maintenance; and (3) capital outlays.

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

Original and supplemental appropriations are enacted upon by a Town Meeting vote. Management may not amend the budget without seeking the approval of the governing body. The Town's Finance Committee can legally transfer funds from its reserve fund to other appropriations within the budget without seeking Town Meeting approvals. The original fiscal year 2016 approved budget authorized \$17,607,839 in current year appropriations and other amounts to be raised and \$409,561 in encumbrances and appropriations carried over from previous fiscal years. Supplemental appropriations of \$233,356 were approved at three Town Meetings for fiscal year 2016.

The Town Accountant has the responsibility to ensure that budgetary controls are maintained and monitored through the accounting system.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

B. Budgetary – GAAP Reconciliation

For budgetary financial reporting purposes, the Uniform Municipal Accounting System basis of accounting (established by the Commonwealth) is followed, which differs from the GAAP basis of accounting. A reconciliation of budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2016, is presented below:

Net change in fund balance - budgetary basis	\$ (23,236)
Basis of accounting differences:	
Net Stabilization Fund activity	<u>3,096</u>
Net change in fund balance - GAAP basis	<u><u>\$ (20,140)</u></u>

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2016, actual expenditures exceeded appropriations for the Finance Committee and Highway Department. These over expenditures will be funded by available funds during fiscal year 2017, as allowed by Massachusetts General Law (MGL).

D. Deficit Fund Balance

Individual fund deficits exist within the special revenue funds and a fund deficit exists within the capital project fund. These deficits will be eliminated through subsequent fiscal year budget transfers, grants, or proceeds of long-term debt during fiscal year 2017.

NOTE 3 – DEPOSITS AND INVESTMENTS

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels unless collateralized by the financial institutions involved.

Deposits

▪ *Custodial Credit Risk – Deposits*

Custodial credit risk is the risk that in the event of bank failure, the Town’s deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the deposits “in a bank or trust company, or banking company to an amount not exceeding sixty percent (60%) of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess.”

The Town does not have a formal deposit policy for custodial credit risk.

The Town carries deposits that are fully insured by the Federal Deposit Insurance Corporation (FDIC) and Depositor’s Insurance Fund (DIF) and. The Town also carries deposits that are uninsured and uncollateralized.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

The following table illustrates how much of the Town's bank deposits are insured and how much of the Town's bank deposits are uninsured and uncollateralized as of June 30, 2016:

Total bank balances		\$ 2,417,129
		<u> </u>
Bank balances covered by deposit insurance		
Federal Deposit Insurance Corporation (FDIC)	776,313	
Depositors Insurance Fund (DIF)	<u>330,795</u>	
Total bank balances covered by deposit insurance		1,107,108
Balances subject to custodial credit risk		
Bank balances uninsured & uncollateralized	<u>1,310,021</u>	
Total bank balances subject to custodial credit risk		<u>1,310,021</u>
Total bank balances		<u>\$ 2,417,129</u>

Investments

Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreement guaranteed by the U.S. government or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Municipal Depository Trust (MMDT). The Treasurer of the Commonwealth of Massachusetts oversees the financial management of the MMDT, a local investment pool for cities, towns, and other state and local agencies within the Commonwealth. The Town's fair value of its investment in MMDT represents their value of the pool's shares. The Town's Trust Funds have expanded investment powers including the ability to invest in equity securities, corporate bonds, annuities and other specified investments.

The composition of the Town's bank recorded deposits and investments fluctuates depending primarily on the timing of property tax receipts, proceeds from borrowings, collections of state and federal aid, and capital outlays throughout the year.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

a) Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law Chapter 44, Section 55, limits the Town's investments to the top rating issued by at least one nationally recognized statistical rating organization (NRSROs).

Presented below is the actual rating as of year end for each investment type of the Town:

Investment type	Fair value	Minimum Legal Rating	Rating as of Year End	
			Aaa	Unrated
U.S. Government & Agency Securities	\$ 457,841	N/A	\$ 457,841	\$ -
Common Stock	215,022	N/A	-	215,022
Certificates of Deposit	362,127	N/A	-	362,127
Money Market Mutual Funds	192,213	N/A	-	192,213
Mutual Funds Equity	15,657	N/A	-	15,657
Fixed Income Mutual Funds	74,161	N/A	-	74,161
Total Investments	<u>\$ 1,317,021</u>		<u>\$ 457,841</u>	<u>\$ 859,180</u>

b) Custodial Credit Risk

For an investment, this is the risk that, in the event of a failure by the counterparty, the Town will not be able to recover the value of its investments or collateral security that are in possession of an outside party. The investments in U.S. Government and Agency securities and Common Stock are not exposed to custodial credit risk because the related securities are registered in the name of the Town. The investments in certificates of deposit are not exposed to custodial credit risk because the related certificates of deposit are fully insured by the Federal Depositors Insurance Corporation (FDIC). The mutual fund investments are not exposed to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

The Town does not have an investment policy for custodial credit risk.

c) Interest Rate Risk

Interest rate risk is the risk of changes in market interest rates which will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the risk of its fair value to change with the market interest rates. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

<u>Investment type</u>	<u>Fair value</u>	<u>Investment maturities</u> <u>(in years)</u>	
		<u>Less than 1</u>	<u>1-5</u>
<u>Debt Related Securities:</u>			
U.S. Government & Agency	\$ 457,841	\$ -	\$ 457,841
Common Stock	215,022	215,022	-
Certificates of Deposit	362,127	185,743	176,384
Fixed Income Mutual Funds	74,161	74,161	-
Total - Debt related securities	<u>1,109,151</u>	<u>474,926</u>	<u>634,225</u>
<u>Other Investments:</u>			
Money Market Mutual Funds	192,213	192,213	-
Mutual Funds Equity	15,657	15,657	-
Total Other Investments	<u>207,870</u>	<u>207,870</u>	<u>-</u>
Total Investments	<u>\$ 1,317,021</u>	<u>\$ 682,796</u>	<u>\$ 634,225</u>

d) Concentration of Credit Risk

The Town places no limit on the amount the government may invest in any one issuer. More than 5% of the Town's investments are in the following securities:

<u>Issuer</u>	<u>Percentage of Total</u> <u>Investments</u>
Certificates of Deposit	
Bank Baroda New York	7.60%
Ally Bank Midvale Utah	6.50%
Money Market	
Fidelity Govt MMKT Capital	14.60%

Fair Market Value of Investments

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

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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

The Town has the following recurring fair value measurement as of June 30, 2016.

Investment Type	June 30, 2016	Fair Value Measurements Using		
		Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Debt securities				
U.S. Government and Agency	\$ 457,841	\$ 457,841	\$ -	\$ -
Common Stock	215,022	215,022	-	-
Certificates of Deposit	362,127	-	362,127	-
Fixed Income Mutual Funds	74,161	-	74,161	-
Total debt securities	1,109,151	672,863	436,288	-
Other Investments				
Moutual Funds Equity	15,657	15,657	-	-
Money Market Mutual Funds	192,213	192,213	-	-
Total other investments	207,870	207,870	-	-
Total investments measured at fair value	1,317,021	\$ 880,733	\$ 436,288	\$ -
Investments measured at amortized cost				
Massachusetts Municipal Depository Trust - (MMDT)	864,920			
Total Investments	\$ 2,181,941			

U.S. Government and Agency, Common Stock, Mutual Fund Equities, and Money Market mutual funds classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Certificates of deposit, and fixed income mutual funds classified in Level 2 of the fair value hierarchy are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities relationship to benchmark quoted prices.

Massachusetts Municipal Depository Trust (MMDT) investments are valued at amortized cost. Under the amortized cost method an investment is valued initially at its cost and adjusted for the amount of interest income accrued each day over the term of the investment to account for any difference between the initial cost and the amount payable at its maturity. If amortized cost is determined not to approximate fair value, the value of the portfolio securities will be determined under procedures established by the Advisor.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 4 – RECEIVABLES

The receivables at June 30, 2016 for the Town’s individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Receivables:	Gross Amount	Allowance for Uncollectibles	Net Amount
Real estate and personal property taxes	\$ 229,517	\$ (8,500)	\$ 221,017
Tax liens	254,691	-	254,691
Motor vehicle and other taxes	107,676	(61,385)	46,291
User fees	212,233	(139,293)	72,940
Departmental and other	111,741	-	111,741
Intergovernmental	125,383	-	125,383
Total	\$ 1,041,241	\$ (209,178)	\$ 832,063

Governmental funds report deferred inflows of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with revenues that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred inflows of resources reported in the governmental funds are as follows:

Deferred Inflows of Resources Analysis				
Deferred Inflows:	General Fund	Community Preservation Fund	Nonmajor Governmental Funds	Total
Deferred Property Taxes	\$ 146,157	\$ -	\$ -	\$ 146,157
Deferred Other Revenue	373,922	5,721	106,020	485,663
Total	\$ 520,079	\$ 5,721	\$ 106,020	\$ 631,820

**TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 5 – CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

<u>Governmental Activities:</u>	Beginning Balance	Increases	Decreases	Ending Balance
<i>Capital assets not being depreciated :</i>				
Land	\$ 10,451,626	\$ 2,800	\$ 357,202	\$ 10,811,628
Construction in progress	558,139	-	(558,139)	-
	<u>11,009,765</u>	<u>2,800</u>	<u>(200,937)</u>	<u>10,811,628</u>
<i>Capital assets being depreciated :</i>				
Building and improvements	2,125,813	1,744,041	200,937	4,070,791
Capital improvements (other than buildings)	301,102	-	-	301,102
Software	151,252	-	-	151,252
Machinery and equipment	577,036	-	-	577,036
Vehicles	2,341,011	222,288	-	2,563,299
Infrastructure	<u>10,497,275</u>	<u>306,926</u>	<u>-</u>	<u>10,804,201</u>
Total capital asset being depreciated	<u>15,993,489</u>	<u>2,273,255</u>	<u>200,937</u>	<u>18,467,681</u>
<i>Less accumulated depreciation for :</i>				
Building and improvements	(590,235)	(64,063)	-	(654,298)
Capital improvements (other than buildings)	(66,247)	(21,532)	-	(87,779)
Software	(138,723)	(4,392)	-	(143,115)
Machinery and equipment	(232,128)	(38,890)	-	(271,018)
Vehicles	(1,580,474)	(167,114)	-	(1,747,588)
Infrastructure	<u>(3,127,626)</u>	<u>(496,944)</u>	<u>-</u>	<u>(3,624,570)</u>
Total accumulated depreciation	<u>(5,735,433)</u>	<u>(792,935)</u>	<u>-</u>	<u>(6,528,368)</u>
Total capital assets being depreciated, net	<u>10,258,056</u>	<u>1,480,320</u>	<u>200,937</u>	<u>11,939,313</u>
Total governmental activities capital assets, net	<u>\$ 21,267,821</u>	<u>\$ 1,483,120</u>	<u>\$ -</u>	<u>\$ 22,750,941</u>

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

<u>Governmental Activities:</u>	
General government	\$ 27,012
Public safety	169,659
Public works	558,206
Human services	3,395
Culture and recreation	<u>34,663</u>
Total depreciation expense - governmental activities	<u>\$ 792,935</u>

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 6 – CAPITAL LEASE

The Town has entered into a lease agreement as lessee for financing the acquisition of three public safety vehicles. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the inception date.

The assets acquired through the capital lease are as follows:

	Governmental Activities
Assets:	
Vehicles	\$ 103,608
Less: Accumulated depreciation	(38,853)
	\$ 64,755

The future minimum lease obligations and the net present value of the minimum lease payments as of June 30, 2016, are as follows:

Year Ending June 30	Governmental Activities
2017	\$ 23,183
2018	23,183
2019	23,183
Total minimum lease payments	69,549
Less: amount representing interest	(7,523)
Present value of minimum lease payments	\$ 62,026

**TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 7 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2016, are summarized as follows:

Operating Transfers Out:	Operating Transfers In		
	General Fund	Nonmajor Governmental Funds	Total
Nonmajor Governmental Funds	\$ 4,000	\$ -	\$ 4,000 (1)
Community Preservation Fund	246,283	42,985	289,268 (1)
Total	\$ 250,283	\$ 42,985	\$ 293,268

(1) Represents budgeted transfers to supplement the operating budgets.

NOTE 8 – SHORT-TERM FINANCING

Under state law, and with the appropriate authorization, the Town is authorized to borrow funds on a temporary basis as follows:

- To fund current operations prior to the collection of revenues by issuing revenue anticipation notes (RANS).
- To fund grants prior to reimbursement by issuing grant anticipation notes (GANS).
- To fund Capital project costs incurred prior to selling permanent debt by issuing bond anticipation notes (BANS).
- To fund current project costs and other approved expenditures incurred, that are anticipated to be reimbursed by the Commonwealth through the issuance of State Aid anticipation notes (SAANS).

Short-term loans are general obligations of the Town and maturity dates are governed by statute. Interest expenditures for short term borrowings are accounted for in the General Fund.

**TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

The following is a summary of changes in short-term debt for the year ended June 30, 2016:

Type	Purpose	Rate (%)	Due Date	Balance at June 30, 2015	Renewed/ Issued	Retired/ Redeemed	Balance at June 30, 2016
Governmental Funds							
BAN	MWPAT Septic	0.00%	ADVANCE	\$ 58,018	\$ 51,200	\$ -	\$ 109,218

NOTE 9 – LONG-TERM DEBT

The Town is subject to a dual-level, general debt limit: the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the Town as last equalized by the Commonwealth’s Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit however require the approval of the Commonwealth’s Emergency Finance Board. Additionally, there are many categories of general long-term debt which are exempt from the debt limit but are subject to other limitations.

The following is a summary of the changes in long-term debt for the year ended June 30, 2016:

Bonds and Notes Payable Schedule -Governmental Funds

Project	Interest Rate (%)	Outstanding at June 30, 2015	Issued	Redeemed	Outstanding at June 30, 2016
MWPAT Title 5 Septic	Var.	\$ 22,201	\$ -	\$ 11,101	\$ 11,100
Land Acquisition	3.90	597,000	-	74,000	523,000
Land Acquisition	3.92	587,000	-	57,000	530,000
Fire Station	3.95	1,771,000	-	129,000	1,642,000
Land Acquisition	2.01	200,000	-	200,000	-
Municipal Purpose	2.81	2,040,000	-	25,000	2,015,000
Municipal Purpose	1.75	-	255,000	-	255,000
Total		\$ 5,217,201	\$ 255,000	\$ 496,101	\$ 4,976,100

TOWN OF MENDON, MASSACHUSETTS
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The annual debt service requirements for principal and interest for Governmental bonds and notes outstanding at June 30, 2016 are as follows:

Fiscal Year	Principal	Interest	Total
2017	\$ 541,100	\$ 172,662	\$ 713,762
2018	540,000	154,770	694,770
2019	545,000	137,112	682,112
2020	465,000	119,170	584,170
2021	480,000	102,475	582,475
2022-2026	2,005,000	267,920	2,272,920
2027-2029	400,000	25,594	425,594
Total	\$ 4,976,100	\$ 979,703	\$ 5,955,803

Loans Authorized and Unissued

As of June 30, 2016, the Town has loans authorized and unissued as follows:

Description	Date Authorized	Amount
Septic Abatement Program	#1 STM 6/6/11	\$ 400,000

Changes in Long-term Liabilities

The following is a summary of changes in long-term liabilities for the fiscal year ended June 30, 2016:

Governmental Activities:	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and notes payable	\$ 5,217,201	\$ 255,000	\$ (496,101)	\$ 4,976,100	\$ 541,100
Capital leases payable	120,118	-	(58,092)	62,026	19,492
Landfill Post Closure Care Costs	18,740	660	-	19,400	19,400
Net pension liability	5,326,047	1,401,761	-	6,727,808	-
Postemployment benefits	1,636,277	221,817	-	1,858,094	-
Total governmental activities long-term liabilities	\$ 12,318,383	\$ 1,879,238	\$ (554,193)	\$ 13,643,428	\$ 579,992

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

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Overlapping Debt

The Town pays assessments under formulas which include debt service payments to other governmental agencies providing services to the Town, (commonly referred to as overlapping debt). The following summary sets forth the long-term debt of such governmental agencies and the estimated share being financed by the Town as of June 30, 2016:

<u>Agency</u>	<u>Total Long- Term Debt Outstanding</u>	<u>Town's Estimated Share</u>	<u>Town's Indirect Debt</u>
Mendon-Upton Regional School District: Bonds	\$ 8,010,000	44.2%	\$ 3,540,420
Blackstone Valley Regional Technical High School: Bonds	<u>3,500,000</u>	2.6%	<u>91,000</u>
Totals	<u>\$ 11,510,000</u>		<u>\$ 3,631,420</u>

**TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 – GOVERNMENTAL FUND BALANCE CLASSIFICATIONS

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

	General Fund	Community Preservation Major Fund	Library Building Major Fund	Nonmajor Governmental Funds	Total
Fund Balances					
Nonspendable					
Permanent Fund Principal	\$ -	\$ -	\$ -	\$ 26,299	\$ 26,299
Restricted For:					
General Governemnt	-	-	-	55,617	55,617
Public Safety	-	-	-	221,204	221,204
Public Works	-	-	-	214,791	214,791
Human Services	-	-	-	45,975	45,975
Culture & Recreation	-	-	-	146,926	146,926
Capital Fund	202,760	-	-	-	202,760
Community Preservation Fund	-	1,217,612	-	-	1,217,612
Expendable Trust Funds	-	-	-	25,876	25,876
	<u>202,760</u>	<u>1,217,612</u>	<u>-</u>	<u>710,389</u>	<u>2,130,761</u>
Committed To:					
Continuing Appropriations					
General Governemnt	200,851	-	-	-	200,851
Public Safety	406	-	-	-	406
Public Works	128,006	-	-	-	128,006
Human Services	1,500	-	-	-	1,500
Culture & Recreation	100,069	-	-	-	100,069
	<u>430,832</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>430,832</u>
Assigned To:					
Encumbered For:					
General Government	7,850	-	-	-	7,850
Subsequent Years Expenditures	34,750	-	-	-	34,750
	<u>42,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>42,600</u>
Unassigned					
General Fund	521,753	-	-	-	521,753
General Stabilization Fund	662,160	-	-	-	662,160
Non Major Governmental Funds	-	-	-	(164,412)	(164,412)
Major Fund - Library Funding	-	-	(50,295)	-	(50,295)
	<u>1,183,913</u>	<u>-</u>	<u>(50,295)</u>	<u>(164,412)</u>	<u>969,206</u>
Total Governmental Fund Balances	<u>\$ 1,860,105</u>	<u>\$ 1,217,612</u>	<u>\$ (50,295)</u>	<u>\$ 572,276</u>	<u>\$ 3,599,698</u>

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 11 – STABILIZATION ARRANGEMENTS

The Town has established several funds where the Town has set aside amounts for a financial reserve emergency and capital needs. These funds consist of the following;

- The *Stabilization Fund* can be used for any purpose. The additions or the use of the fund requires a 2/3 vote of Annual or Special Town Meeting. The fund has been classified as an unassigned fund balance in the general fund.
- The *Municipal Capital Fund* is a stabilization fund that is intended to be used for capital purchases. The additions or the use of the fund requires a 2/3 vote of Annual or Special Town Meeting. The fund has been classified as an restricted fund balance in the general fund.

NOTE 12 – RISK FINANCING

The Town is exposed to various risks of loss related to torts; theft of, damage to or destruction of assets; errors and omissions; injuries to employees; employee's health and life; and natural disasters.

Buildings are fully insured against fire, theft, and natural disaster to the extent that losses exceed \$1,000 per incident. The fully insurable value of Town buildings is \$7,741,250.

The Town is insured for general liability; however, Chapter 258 of the Massachusetts General Laws limits the Town's liability to a maximum of \$100,000 per claim in all matters except in actions relating to federal civil rights, eminent domain and breach of contract. Such claims are charged to the general fund. There were no such claims in 2016.

The Town purchases accident insurance policies for all uniformed police and fire personnel which have a limit of \$100,000 per injury. Accident claims paid to uniformed police and fire personnel were not material in fiscal year 2016.

The Town has two contributory health care options for its employees and retirees. There are 53 employees and retirees who participate in the Town's health care programs. The Town contributes either 50% or 75% of the premium costs depending on the health care options and employee classification.

NOTE 13 – POST EMPLOYMENT BENEFITS OTHER THAN PENSIONS

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires the following disclosures with regard to the retiree medical and life insurance benefits:

Plan Description. The Town of Mendon Other Post-Employment Benefits Plan (The Plan), is a single-employer defined benefit healthcare plan administered by the Town of Mendon. The Plan provides medical and life insurance benefits to eligible retirees and their spouses. Town meeting vote is the authority to establish and amend benefit provisions to the Town. The Town has accepted various sections of Massachusetts General Laws Chapter 32B to provide ½ of the premium cost of retirees' health and life insurance costs.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

Funding Policy. The contribution requirements of plan members and the Town are established and may be amended by local by-law. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2016, the total Town's premiums plus implicit costs for the retiree medical program are \$181,996.

Annual OPEB Cost and Net OPEB Obligation. The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the *annual required contribution of the employer (ARC)*, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

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

Annual required contribution (ARC)	\$ 403,389
Interest on net OPEB obligation	65,451
Adjustment to annual required contribution (ARC)	<u>(65,027)</u>
Annual OPEB cost (expense)	403,813
Contributions made	<u>(181,996)</u>
Increase in net OPEB obligation	221,817
Net OPEB obligation - beginning of year	<u>1,636,277</u>
Net OPEB obligation - end of year	<u><u>\$ 1,858,094</u></u>

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2016 and the six previous years were as follows:

<u>Fiscal Year</u> <u>Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of</u> <u>Annual OPEB Cost</u> <u>Contributed</u>	<u>Increase in</u> <u>Net OPEB</u> <u>Obligation</u>	<u>Net OPEB</u> <u>Obligation</u>
6/30/2010	\$ 375,999	34.3%	\$ 246,862	\$ 246,862
6/30/2011	\$ 387,917	37.2%	\$ 243,558	\$ 490,420
6/30/2012	\$ 399,184	24.0%	\$ 303,467	\$ 793,887
6/30/2013	\$ 385,902	37.8%	\$ 239,973	\$ 1,033,860
6/30/2014	\$ 403,366	13.7%	\$ 348,188	\$ 1,382,048
6/30/2015	\$ 407,954	37.7%	\$ 254,229	\$ 1,636,277
6/30/2016	\$ 403,813	45.1%	\$ 221,817	\$ 1,858,094

Funded Status and Funding Progress. As of June 30, 2016, the most recent Alternative Measurement Method actuarial valuation date, the plan was 0.96% funded. The actuarial accrued liability for benefits was \$5.379 million, and the actuarial value of assets was \$51,554, resulting in an unfunded actuarial accrued liability (UAAL) of \$5.327 million. The covered payroll (annual payroll of active employees covered by the plan) was \$2.218 million, and the ratio of the UAAL to the covered payroll was 242.52%.

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

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

The AAL and ARC were calculated using the Alternative Measurement Method in accordance with Governmental Accounting Standards Board (GASB) methodology. In the June 30, 2016, actuarial valuation, the entry age actuarial cost method was used. The amortization method was the level percentage of payroll. The actuarial accrued liability is the actuarial present value of the projected benefit times the ratio of past service to total service. The actuarial assumptions included a 4.00% investment rate of return (net of administrative expenses), and an annual healthcare cost trend rate of, 5% for 2016 and thereafter. The actuarial value of assets was determined using market value. The UAAL is being amortized as a level dollar amount over 30 years at transition. The remaining amortization period at July 1, 2016, was 23 years.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 14 – PENSION PLANS

A. Plan Descriptions

The Town is a member of the Worcester Regional Retirement System (The System), a multiple-employer, cost sharing contributory defined benefit pension plan covering eligible employees of the 97 member units deemed eligible by the system. Chapter 32 of the Massachusetts General Law assigns authority to establish and amend benefit provisions of the system. Substantially all employees are members of the system.

The “System” is contributory defined benefit plan and membership in the “System” is mandatory upon commencement of employment for all permanent, full-time employees.

The System issues a publically available audited financial report that may be obtained by contacting the system at 23 Midstate Drive, Suite 106 Midstate Office Park, Auburn, Massachusetts 01501. The report can also be obtained online at <http://worcesterregionalretirement.org/>.

B. Benefits Provided

The System provides retirement, disability and death benefits to plan members and beneficiaries. Massachusetts Contributory Retirement System benefits are with certain minor exceptions, uniform from system to system. For persons who become members prior to April 2, 2012, the annual amount of retirement allowance is based on the member’s final three-year average salary multiplied by (1) the number of years and full months creditable service at the time of retirement and (2) a percentage based on age at retirement in accordance with a schedule provided by state law. Assuming normal retirement at age 65, this percentage is 2.5%, which is reduced for individuals who retire prior to age 65 to reflect the longer pay out period. For persons who become members on or after April 2, 2012, the annual amount of the retirement allowance is based on the member’s final five-year average salary multiplied by (1) the number of years and full months of creditable service at the time of retirement and (2) a percentage based on age at retirement in accordance with a schedule provided by the state law. Assuming normal retirement at age 67, this percentage is 2.5%. Members become vested after ten years of creditable service.

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

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

Cost-of living adjustments granted through June 30, 1998, and any increase in other benefits imposed by the Commonwealth’s state law during those years are borne by the Commonwealth and are deposited in to the pension fund. Cost-of-living adjustments granted subsequent to June 30, 1998 must be approved by the system and all costs are borne by the system.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

C. Contributions

Worcester Regional Retirement System

Chapter 32 of MGL governs the contributions of plan members and member employees. Active plan members are required to contribute to the system at rates ranging from 5 to 9% of their gross compensation. The rate is keyed to the date upon which an employee's membership commences. The member units are required to pay into the system, a legislatively mandated actuarial determined contribution that is apportioned among the employers based on active current payroll. The Town's proportionate share of the required contribution equaled its actual contribution for the year ended June 30, 2016 which was \$426,394 and 17.12% of covered payroll, actuarially determined as an amount that when combined with plan member contributions, is expected to finance the costs of benefits earned by plan members during the year, with an additional amount to finance any unfunded accrued liability.

D. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources Related to Pensions

Pension Liabilities

At June 30, 2016 the Town reported a liability of \$6,727,808 for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2014. Accordingly, updated procedures were used to roll forward the total pension liability to the measurement date. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating members. At December 31, 2015, the Town's proportion was 0.95% which was a minor increase from its proportion measured as of December 31, 2014.

Pension Expense and Deferred Outflows of Resources

For the year ended June 30, 2016 the Town recognized pension expense of \$989,048. At June 30, 2016 the Town reported deferred outflows of resources related to pensions of \$842,311 from the net difference between projected and actual investment earnings on pension plan investments. Since the system performs an actuarial valuation bi-annually, there are no reported differences between expected and actual experience or changes of assumptions as of December 31, 2015.

The deferred outflows of resources related to pensions will be recognized in future pension expense are as follows:

Year ended June 30	Amount
2017	\$ 193,395
2018	193,395
2019	193,395
2020	192,215
Thereafter	69,911
Totals	\$ 842,311

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

E. Actuarial assumptions

The total pension liability in the January 1, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement that was updated to December 31, 2015.

Valuation date	January 1, 2014
Actuarial cost method	Entry age normal
Amortization method	Payment increases 4.0% per year, except for early retirement incentive (ERI) programs for 2002 and 2003 (4.5%) and 2010 (level dollar).
Remaining amortization period	20 years, except for ERI for 2002 and 2003 (13 years) and 2010 (7 years)
Asset valuation method	5 year smoothed market value
Inflation rate	not explicitly assumed for the update to December 31, 2015 (3.5% per year for the actuarial valuation as of January 1, 2014)
Salary increases	3.0% per year, including longevity
Mortality rates:	
Pre-retirement	Based on the RP-2000 mortality table projected to 2014 with scale AA.
Post-retirement	For disabled lives, the mortality rates were based on the RP – 2000 mortality table set forward two years
Investment rate of return	7.75%, net of pension plan investment expense, including inflation

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

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 (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 rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2015 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed income	23%	5.09%
Global equity	40%	8.02%
Private equity	10%	9.50%
Real estate	10%	6.50%
Timber/Natural Resources	4%	7.07%
Hedge funds	9%	6.50%
Other	4%	6.18%
Total	<u>100%</u>	

For the year ended December 31, 2015 the System's annual money-weighted rate of return on pension plan investments net of pension plan investment expense was 0.05%. The money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

F. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions will be made at the current contribution rates and that member employer contributions will be made in accordance with section 22D and 22F of Chapter 32 of Massachusetts General Laws. 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 MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016**

G. Sensitivity of the net pension liability to changes on 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:

	1% Decrease (6.75%)	Current Discount Rate (7.75%)	1% Increase (8.75%)
The Towns proportionate share of the net pension liability	\$ 8,100,281	\$ 6,727,808	\$ 5,561,879

Detailed information about the pension plan's fiduciary net position is available in a separately issued Worcester Regional Retirement System financial report.

NOTE 15 – COMMITMENTS AND CONTINGENCIES

The Town participates in a number of federal award programs. However the Town is not subject to the provisions of the Single Audit Act Amendments of 1996, since the Town did not expend more than \$750,000 of federal awards during the period ended June 30, 2016. These programs may still be subject to financial and compliance audits. Accordingly, the amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although it is believed the amount, if any, would not be material.

The Town's estimated liability for postclosure care costs for the landfill is \$19,400 as of June 30, 2016. The Town is responsible for postclosure monitoring of the site for thirty years (one year remaining) and the estimated liability has been recorded in the Statement of Net Position, Governmental Activities. Actual costs may be higher due to inflation, changes in technology or changes in regulations.

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, 2016, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2016.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 16 – IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2016, the following GASB pronouncements were implemented:

The GASB issued **Statement #72**, *Fair Value Measurement and Application*, which is required to be implemented in 2016. Management's current assessment is that this pronouncement will not have a significant impact on the Basic Financial Statements.

The GASB issued **Statement #76**, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is required to be implemented in 2016. Management's current assessment is that this pronouncement will not have a significant impact on the Basic Financial Statements.

The GASB issued **Statement #79**, *Tax Abatement Disclosures* which is required to be implemented in 2015. Management's current assessment is that this pronouncement will not have a significant impact on the Basic Financial Statements.

Future GASB Pronouncements:

The GASB issued **Statement #73**, *Accounting and Financial Reporting for Pension and Related Assets that are not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statement 67 and 68*. The provisions of this Statement are effective for 2016 – except those provisions that address employers and governmental non-employer contributing entities for pensions that are not within the scope of Statements 68, which are effective for 2017. Management's current assessment is that this pronouncement will not have a significant impact on the Basic Financial Statements.

The GASB issued **Statement #74**, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is required to be implemented in 2017. Management's current assessment is that this pronouncement will not have a significant impact on the Basic Financial Statements.

The GASB issued **Statement #75**, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is required to be implemented in 2018. Management's current assessment is that this pronouncement will have a significant impact on the Basic Financial Statements.

The GASB issued **Statement #77**, *Tax Abatement Disclosures* which is required to be implemented in 2017. Management's current assessment is that this pronouncement will not have a significant impact on the Basic Financial Statements.

The GASB issued **Statement #78**, *Pension Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is required to be implemented in 2017. Management's current assessment is that this pronouncement will not have a significant impact on the Basic Financial Statements.

The GASB issued **Statement #80**, *Blending Requirements for Certain Component Units – an amendment of GASB Statement #14*, which is required to be implemented in 2017. Management's current assessment is that this pronouncement will not have a significant impact on the Basic Financial Statements.

TOWN OF MENDON, MASSACHUSETTS
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2016

The GASB issued **Statement #81**, *Irrevocable Split-Interest Agreements*, which is required to be implemented in 2018. Management's current assessment is that this pronouncement will not have a significant impact on the Basic Financial Statements.

The GASB issued **Statement #82**, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*, which is required to be implemented in 2017. Management's current assessment is that this pronouncement will not have a significant impact on the Basic Financial Statements.

**TOWN OF MENDON, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
WORCESTER REGIONAL RETIREMENT SYSTEM
JUNE 30, 2016**

The following schedules are presented in accordance with GASB Statement No. 27:

Schedules of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a)/c]
1/1/2014	\$ 488,346,471	\$ 1,087,769,903	\$ 599,423,432	44.9%	\$252,829,591	237.1%
1/1/2012	\$ 436,671,982	\$ 982,796,782	\$ 546,124,800	44.4%	\$238,952,079	228.5%
1/1/2010	\$ 413,976,785	\$ 863,002,067	\$ 449,025,282	48.0%	\$241,992,607	185.6%
1/1/2007	\$ 389,758,785	\$ 692,768,325	\$ 303,009,540	56.3%	\$211,518,755	143.3%

Schedule of Employer Contributions

Fiscal Year Ended June 30	System Wide			Town of Mendon	
	Annual Required Contributions	(A) Actual Contributions	Percentage Contributed	(B) Actual Contributions	(B/A) Town's Percentage of System Wide Actual Contributions
2016	\$ 44,986,040	\$ 44,986,040	100%	\$ 426,394	0.95%
2015	\$ 39,519,038	\$ 39,519,038	100%	\$ 353,708	0.90%
2014	\$ 37,510,266	\$ 37,510,266	100%	\$ 336,271	0.90%
2013	\$ 35,056,320	\$ 35,056,320	100%	\$ 335,163	0.96%
2012	\$ 33,072,000	\$ 33,072,000	100%	\$ 340,329	1.03%

**TOWN OF MENDON, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
WORCESTER REGIONAL RETIREMENT SYSTEM
JUNE 30, 2016**

The following schedules are presented in accordance with GASB Statement No. 68

Schedule of the Town's Proportionate Share of the Net Pension Liability

	<u>December 31, 2015</u>	<u>December 31, 2014</u>
Town's proportion of the net pension liability	0.95%	0.90%
Town's proportionate share of the net pension liability	\$ 6,727,808	\$ 5,326,047
Town's covered-employee payroll	\$ 2,491,075	\$ 2,395,264
Town's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	270.08%	222.36%
Plan fiduciary net position as a percentage of the total pension liability	44.52%	47.94%

Note: This schedule is intended to present information for 10 years. Until a 10 year trend is compiled by the (System), information is presented for those years for which the information is available.

See notes to Required Supplementary Information

**TOWN OF MENDON, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
WORCESTER REGIONAL RETIREMENT SYSTEM
JUNE 30, 2016**

SCHEDULE OF TOWNS CONTRIBUTION

	<u>December 31 ,2015</u>	<u>December 31 ,2014</u>
Actuarily determined contribution	\$ 426,394	\$ 353,708
Contribution in relation to the actuarilly determined contribution	<u>(426,394)</u>	<u>(353,708)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 2,491,075	\$ 2,395,264
Contribution as a percentage of covered - employee payroll	17.12%	14.77%

Note: This Town schedule is intended to present information for 10 years. Until a 10 year trend is compiled by the (System), information is presented for those years for which the information is available.

See notes to Required Supplementary Information

**TOWN OF MENDON, MASSACHUSETTS
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OTHER POSTEMPLOYMENT BENEFITS
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The following schedules are presented in accordance with GASB Statement No. 45:

Schedules of Funding Progress and Employer Contributions

Projected Schedule of Funding Progress:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b - a)/c]
6/30/2010	\$ -	\$ 4,986,420	\$ 4,986,420	0.0%	\$ 2,056,192	242.5%
6/30/2013	\$ -	\$ 4,946,614	\$ 4,946,614	0.0%	\$ 2,217,933	223.0%
6/30/2016	\$ 51,554	\$ 5,379,010	\$ 5,327,456	0.96%	\$ 2,217,933	242.5%

Schedule of Employer Contributions:

Year Ended June 30	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Increase in Net OPEB Obligation	Net OPEB Obligation
2010	\$ 375,999	34.3%	\$ 246,862	\$ 246,862
2011	\$ 387,917	37.2%	\$ 243,558	\$ 490,420
2012	\$ 399,184	24.0%	\$ 303,467	\$ 793,887
2013	\$ 385,902	37.8%	\$ 239,973	\$ 1,033,860
2014	\$ 403,366	13.7%	\$ 348,188	\$ 1,382,048
2015	\$ 407,954	37.7%	\$ 254,229	\$ 1,636,277
2016	\$ 403,813	45.1%	\$ 221,817	\$ 1,858,094

The required information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	June 30, 2016
Discount Rate	4.00%
UAL and ARC	Calculated using the alternative Method in accordance with GASB methodology
Cost Method	Entry age actuarial

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Amortization Method	Level percentage of payroll
Remaining Amortization Period	23 at July 1, 2016

Participation 100% of future retirees are assumed to participate in the retiree medical plan.
 100% of future retirees are expected to elect life insurance.

Plan Participants:

Current retirees, beneficiaries, and dependants	33
Current active members/participants	<u>53</u>
Total	<u><u>86</u></u>

**TOWN OF MENDON, MASSACHUSETTS
REQUIRED SUPPLEMENTARY INFORMATION
WORCESTER REGIONAL RETIREMENT SYSTEM
JUNE 30, 2016**

Pension Plan Schedules

A. Schedule of the Town's Proportionate Share of the Net Pension Liability

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

B. Schedule of Town's Contribution

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