

**TOWN OF MENDON, MASSACHUSETTS**

Report on Examination of  
Basic Financial Statements  
and Additional Information  
Year Ended June 30, 2017

Report on Internal Control  
Over Financial Reporting and  
On Compliance and Other Matters  
Year Ended June 30, 2017

# TOWN OF MENDON, MASSACHUSETTS

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## **INDEPENDENT AUDITORS' REPORT**

The Honorable Members of the 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, (the "Town") as of and for the year ended June 30, 2017, 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.

### **Auditors' Responsibility**

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2017, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Restatement

The Town's basic financial statements as of and for the year ended June 30, 2016 were audited by other auditors whose opinion, dated August 24, 2017, on those basic financial statements was unmodified. As discussed in Note V, the Town restated its fiscal year 2016 basic financial statements during the current year. The other auditors reported on the basic financial statements before this restatement.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of the Town's proportionate share of net pension liability and contributions to pension plan, the funding progress and contribution funding for other postemployment benefits, the schedules of changes in net other postemployment liability, ratios and contributions, schedule of investment returns for other postemployment benefit plans and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued a report dated May 23, 2018 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

*Roselli, Clark & Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
May 23, 2018

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Mendon, Massachusetts (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, 2017. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information.

### **Financial Highlights**

- The Town's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by over \$15.8 million (*total net position*) at June 30, 2017. This represents an increase of approximately \$1.8 million from the prior year.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of over \$4.1 million, which is approximately \$530,000 greater than the prior year. The Town reported positive changes in fund balances in all its reported major governmental funds. The general fund increased approximately \$401,000 in 2017 with small increases in its other governmental major funds.
- Of the ending fund balance in the Town's governmental funds, approximately \$1.3 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was approximately 7.2% of the total current year general fund expenditures. The total general fund balance was approximately 12.6% of the total current year general fund expenditures.
- The Town's total long-term debt decreased by over \$541,000 in 2017 to \$4,435,000. This decrease was due to normal schedule paydowns; the Town did not incur any new long-term debt in 2017.
- The Town will adopt a new accounting standard in fiscal year 2018 relative to other postemployment benefits, or OPEB. The Town will be required to present in its government-wide its net OPEB *liability*. Under the current accounting standards, the Town presents its net OPEB *obligation* in the government-wide fund financial statements, which at June 30, 2017 was approximately \$1.9 million lower than its net OPEB *liability*. The adoption of this accounting standard, like the Town's adoption of pension accounting standard in fiscal year 2015, will have a material impact on the Town's unrestricted net position in the affected financial statements.

## **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education through a regional school district, community development, health and human services, culture and recreation, fringe benefits and debt service. The Town does not report any business-type activities.

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

Accounting guidelines distinguish fund balance between amounts that are considered nonspendable, such as fund balance associated with inventories, and other amounts that are classified based on the relative strength of the constraints that control the purposes for which specific amounts can be spent. Beginning with the most binding constraints, fund balance amounts are reported in the following classifications:

- Nonspendable —amounts that cannot be spent because they are either (a) not in spendable form (i.e., inventory or prepaid expenses) or (b) legally or contractually required to be maintained intact.
- Restricted—amounts constrained by external parties, constitutional provision, or enabling legislation.
- Committed—amounts constrained by a government using its highest level of decision-making authority.
- Assigned—amounts a government intends to use for a particular purpose.
- Unassigned—amounts that are not constrained at all will be reported in the general fund.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Reconciliations are provided in the basic financial statements to help the reader understand the differences.

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, community preservation fund, and Town capital projects fund. Data from the other governmental funds are combined into a single, aggregated presentation.

The Town adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. This schedule has been prepared as required supplementary information and can be found along with the corresponding notes to the financial statements.

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

**Notes to the 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.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees as well as the Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget to Actual – General Fund.

## **Government-Wide Financial Analysis**

The condensed comparative statements of net position as of June 30, 2017 and 2016 are as follows:

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b><u>Assets</u></b>		
Current and other assets	\$ 5,479,927	\$ 4,900,508
Capital assets, net	<u>24,252,371</u>	<u>22,850,001</u>
<b>Total assets</b>	<u>29,732,298</u>	<u>27,750,509</u>
<b><u>Deferred Outflows of Resources</u></b>		
Pensions	<u>1,591,258</u>	<u>842,311</u>
<b><u>Liabilities</u></b>		
Long-term liabilities	14,813,413	13,733,246
Other liabilities	<u>710,108</u>	<u>903,694</u>
<b>Total liabilities</b>	<u>15,523,521</u>	<u>14,636,940</u>
<b><u>Deferred Inflows of Resources</u></b>	<u>-</u>	<u>-</u>
<b><u>Net Position</u></b>		
Net investment in capital assets	19,748,437	17,712,815
Restricted	2,588,075	2,527,526
Unrestricted	<u>(6,536,477)</u>	<u>(6,284,461)</u>
<b>Net Position</b>	<u>\$ 15,800,035</u>	<u>\$ 13,955,880</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of the Town exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by over \$15.8 million (*total net position*). The approximate \$1.8 million increase is due primarily to the Town's acceptance of donated roadways and related infrastructure assets totaling over \$1.8 million in fiscal year 2017. Additionally, the Town reported positive results for operations in its community preservation fund. The positive financial items were offset by increases in pension and OPEB costs in 2017.

The largest portion (approximately \$19.7 million) of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion (approximately \$2.6 million) of the Town's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* may be used to meet the government's ongoing obligations to citizens and creditors.



The condensed comparative statements of activities for the years ended June 30, 2017 and 2016 are as follows:

	Year Ended	
	<u>June 30, 2017</u>	<u>June 30, 2016 (a)</u>
<b><u>Revenues</u></b>		
Program revenues:		
Charges for services	\$ 1,441,259	\$ 1,274,495
Operating grants and contributions	372,639	299,575
Capital grants and contributions	2,148,035	666,452
General revenues:		
Property taxes	15,328,759	14,481,319
Excise taxes	1,189,303	1,178,359
Intergovernmental	392,923	376,724
Other	52,087	84,673
Total revenues	<u>20,925,005</u>	<u>18,361,597</u>
<b><u>Expenses</u></b>		
General government	1,538,989	1,722,684
Public safety	3,914,046	4,008,184
Education	10,362,310	10,103,560
Public works	1,797,495	1,717,513
Health and human services	622,539	641,561
Culture and recreation	674,343	516,662
Debt service	171,128	182,922
Total expenses	<u>19,080,850</u>	<u>18,893,086</u>
Change in net position	1,844,155	(531,489)
Net position, beginning of year	<u>13,955,880</u>	<u>14,487,369</u>
Net position, end of year	<u>\$ 15,800,035</u>	<u>\$ 13,955,880</u>

(a) Certain reclassifications were made to prior year balances to conform to current year presentation.

**Governmental Activities** - During fiscal year 2017, Town property taxes comprised approximately 73% of total revenues, which is down from prior year's ratio of 79%. This decrease is primarily attributed to the increase in capital grants and contributions, which represented 10% of total revenues in current year and 4% of total revenues in the prior year. In 2017, the Town accepted donated roadways and related infrastructure assets totaling over \$1.8 million. In terms of actual dollars, the Town's property taxes increased over \$847,000, or approximately 5.9%, from the prior year. The increase was consistent with the normal growth under Proposition 2 ½ plus new growth. No other revenues were greater than 10% of total revenues in fiscal years 2017 or 2016.

The Town's largest expense category is education, which the Town continues to devote substantial resources towards. Education expenses totaled approximately 54% of total annual expenditures in fiscal year 2017, which was consistent with the prior year's ratio of 53%. Public safety expenses represented approximately 21% annual expenditures in both fiscal years 2017 and 2016. No other expense categories were greater than 10% in fiscal years 2017 or 2016.

### **Governmental Funds Financial Analysis**

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

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of over \$4.1 million, which is an approximate \$530,000 increase from the prior year. The Town reported positive changes in fund balances in all its reported major governmental funds. The general fund increased approximately \$401,000 in 2017 with small increases in its other governmental major funds. Of the ending fund balance, approximately \$1.3 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, the unassigned fund balance of the general fund was approximately \$1.3 million, while total fund balance was nearly \$2.3 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 7.2% of total fiscal year 2017 general fund expenditures, while total fund balance represents approximately 12.6% of that same amount.

The Town maintains a Community Preservation Fund which is restricted for historical preservation and conservation of open space. At June 30, 2017, the Community Preservation Fund balance totaled nearly \$1.3 million, which was consistent with the prior year.

In fiscal year 2017, the Town began reporting its capital projects fund as a major governmental fund.

**Fiduciary Funds.** The Town's fiduciary funds are comprised of the Town's OPEB trust fund, private purpose funds and agency funds. The OPEB Trust increased nearly \$28,000 in fiscal year 2017, which was due to the Town appropriating \$25,000 to this fund.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were not significant. A reconciliation of these differences is found in the required supplementary information.

### **Capital Asset and Debt Administration**

**Capital Assets.** As of June 30, 2017, the Town's investment in capital assets for its governmental activities approximated \$24.3 million. Governmental net fixed assets increased by approximately \$1.5 million in 2017 as capital additions exceeded depreciation expense. Additional information on the Town capital assets can be found in the notes to the financial statements.

**Long-term Debt.** At the end of the current fiscal year, the Town had total long-term bonded debt outstanding of approximately \$4,435,000. The Town's total long-term bonded debt decreased by approximately \$541,000 during the current fiscal year due to normal scheduled debt paydowns.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5% of its total assessed valuation. The current debt limitation for the Town is approximately \$40.4 million, which significantly exceeds the Town's outstanding general obligation debt.

Additional information on the Town's debt can be found in the notes to the financial statements.

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

- The Town's real estate tax base is made up predominantly of residential taxes, which in 2017 are approximately 88% of the entire levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2 ½% of the previous year's tax levy. The Town typically taxes at or near its levy limit annually.
- The Town is experiencing an uptick in new home building and expects several additional residential housing projects to commence in the near future.
- The Town anticipates state aid for 2018 to remain consistent with the prior year.
- Property values within the Town have recouped the losses experienced during the recent nationwide housing crisis. However, the Town's median house price lags the statewide average by over 20%. The disparity between household income (see above) and housing prices presents opportunities to attract potential residents from other suburban Massachusetts areas.

Each of these factors were considered in preparing the Town's budget for the 2018 fiscal year, which was adopted at Town Meeting in May 2017.

### **Requests for Information**

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or request for additional financial 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, 2017**

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	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and cash equivalents	\$ 2,820,305
Investments	1,726,799
Receivables, net of allowance for uncollectible accounts:	
Property taxes	303,578
Excise taxes	75,159
Departmental and other	363,106
Intergovernmental	190,980
Capital assets not being depreciated	10,811,628
Capital assets, net of depreciation	13,440,743
<b>Total Assets</b>	<u>29,732,298</u>
<b>Deferred Outflows of Resources</b>	<u>1,591,258</u>
<b>Liabilities</b>	
Current liabilities:	
Warrants and accounts payable	404,604
Accrued payroll and related expenses	44,080
Accrued interest expense	26,400
Unearned revenue	125,806
Short-term notes payable	109,218
Noncurrent liabilities:	
Due in one year or less	591,155
Due in more than one year	14,222,258
<b>Total Liabilities</b>	<u>15,523,521</u>
<b>Deferred Inflows of Resources</b>	<u>-</u>
<b>Net Position</b>	
Net investment in capital assets	19,748,437
Restricted for:	
Nonexpendable perpetual funds	40,924
Expendable perpetual funds	26,299
Community preservation	1,266,827
Other purposes	1,254,025
Unrestricted	(6,536,477)
<b>Total Net Position</b>	<u><u>\$ 15,800,035</u></u>

See accompanying notes to basic financial statements.

**TOWN OF MENDON, MASSACHUSETTS**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2017**

					Net (Expenses) Revenues and Changes in Net Position
Functions/Programs	Expenses	Program Revenues			Governmental Activities
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<u>Governmental Activities</u>					
General government	\$ 1,538,989	\$ 212,150	\$ 86,573	\$ -	\$ (1,240,266)
Public safety	3,914,046	456,529	89,200	-	(3,368,317)
Education	10,362,310	40,000	17,369	-	(10,304,941)
Public works	1,797,495	521,376	-	2,021,599	745,480
Health and human services	622,539	130,427	105,398	-	(386,714)
Culture and recreation	674,343	80,777	74,099	126,436	(393,031)
Interest expense	171,128	-	-	-	(171,128)
Total Primary Government	<u>\$ 19,080,850</u>	<u>\$ 1,441,259</u>	<u>\$ 372,639</u>	<u>\$ 2,148,035</u>	(15,118,917)
<u>General Revenues</u>					
					15,328,759
					392,923
					1,189,303
					54,863
					(2,776)
					<u>16,963,072</u>
					Change in Net Position
					1,844,155
					Net Position - Beginning of year
					<u>13,955,880</u>
					Net Position - End of year
					<u>\$ 15,800,035</u>

See accompanying notes to basic financial statements.

**TOWN OF MENDON, MASSACHUSETTS**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2017**

	General	Community Preservation Fund	Town Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>					
Cash and cash equivalents	\$ 1,796,238	\$ 478,707	\$ 275,701	\$ 269,659	\$ 2,820,305
Investments	872,807	788,300	-	65,692	1,726,799
Receivables, net of allowance					
Real and personal property	296,602	6,976	-	-	303,578
Excise taxes	75,159	-	-	-	75,159
Departmental and other	363,106	-	-	-	363,106
Due from other governments	-	-	-	190,980	190,980
Total Assets	<u>3,403,912</u>	<u>1,273,983</u>	<u>275,701</u>	<u>526,331</u>	<u>5,479,927</u>
<b>Deferred Outflows of Resources</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<u>\$ 3,403,912</u>	<u>\$ 1,273,983</u>	<u>\$ 275,701</u>	<u>\$ 526,331</u>	<u>\$ 5,479,927</u>
<b>Liabilities</b>					
Warrants and accounts payable	\$ 311,071	\$ 180	\$ -	\$ 93,353	\$ 404,604
Accrued payroll and related expenses	44,080	-	-	-	44,080
Unearned revenue	125,806	-	-	-	125,806
Short-term notes payable	-	-	-	109,218	109,218
Total Liabilities	<u>480,957</u>	<u>180</u>	<u>-</u>	<u>202,571</u>	<u>683,708</u>
<b>Deferred Inflows of Resources</b>					
Unavailable revenues - property taxes	221,780	6,976	-	-	228,756
Unavailable revenues - excise taxes	75,159	-	-	-	75,159
Unavailable revenues - departmental and other	363,106	-	-	-	363,106
Total Deferred Inflows of Resources	<u>660,045</u>	<u>6,976</u>	<u>-</u>	<u>-</u>	<u>667,021</u>
<b>Fund Balances</b>					
Nonspendable	-	-	-	26,299	26,299
Restricted	304,609	1,266,827	275,701	323,651	2,170,788
Committed	637,127	-	-	-	637,127
Assigned	29,562	-	-	-	29,562
Unassigned	1,291,612	-	-	(26,190)	1,265,422
Total Fund Balances	<u>2,262,910</u>	<u>1,266,827</u>	<u>275,701</u>	<u>323,760</u>	<u>4,129,198</u>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<u>\$ 3,403,912</u>	<u>\$ 1,273,983</u>	<u>\$ 275,701</u>	<u>\$ 526,331</u>	<u>\$ 5,479,927</u>

See accompanying notes to 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, 2017**

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<b>Total Governmental Fund Balances</b>	\$ 4,129,198
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	24,252,371
Other long-term assets are not available to pay for current-period expenditures and are therefore unavailable within the funds.	667,021
In the statement of net position, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(26,400)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Bonds and notes payable	(4,435,000)
Capital lease obligations	(42,534)
Compensated absences	(203,353)
Other postemployment benefits	(2,064,871)
Net pension liability	<u>(6,476,397)</u>
<b>Fund Balances of Governmental Activities</b>	<u><u>\$ 15,800,035</u></u>

See accompanying notes to basic financial statements.

**TOWN OF MENDON, MASSACHUSETTS**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
YEAR ENDED JUNE 30, 2017**

	General	Community Preservation Fund	Town Capital Projects Fund	Library Building	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Real estate and personal property taxes	\$ 14,871,425	\$ 380,456	\$ -	\$ -	\$ -	\$ 15,251,881
Intergovernmental	531,746	126,436	-	-	405,669	1,063,851
Motor vehicle and other excises	1,160,435	-	-	-	-	1,160,435
Departmental and other revenue	958,287	-	-	-	176,517	1,134,804
License and permits	344,519	-	-	-	-	344,519
Penalties and interest on taxes	54,863	-	-	-	-	54,863
Fines and forfeitures	32,481	-	-	-	-	32,481
Investment income	11,474	(14,432)	-	-	182	(2,776)
Contributions and donations	-	-	1,826,575	-	23,171	1,849,746
Total Revenues	<u>17,965,230</u>	<u>492,460</u>	<u>1,826,575</u>	<u>-</u>	<u>605,539</u>	<u>20,889,804</u>
<b>Expenditures</b>						
Current:						
General government	1,259,123	3,214	-	-	38,984	1,301,321
Public safety	2,465,902	-	-	-	18,918	2,484,820
Education	10,362,310	-	-	-	-	10,362,310
Public works	1,015,203	-	1,826,575	-	203,629	3,045,407
Health and human services	536,816	-	-	-	23,560	560,376
Culture and recreation	312,024	-	86,639	-	137,805	536,468
Pensions and other fringe benefits	1,351,784	-	-	-	-	1,351,784
State and county tax assessments	5,570	-	-	-	-	5,570
Debt service:						
Principal	530,000	-	-	-	11,100	541,100
Interest	170,524	-	-	-	624	171,148
Total Expenditures	<u>18,009,256</u>	<u>3,214</u>	<u>1,913,214</u>	<u>-</u>	<u>434,620</u>	<u>20,360,304</u>
<b>(Deficiency) Excess of Revenues over Expenditures</b>	<u>(44,026)</u>	<u>489,246</u>	<u>(86,639)</u>	<u>-</u>	<u>170,919</u>	<u>529,500</u>
<b>Other Financing Sources (Uses):</b>						
Transfers in	528,747	81,316	111,062	-	600	721,725
Transfers out	(81,916)	(521,347)	-	-	(118,462)	(721,725)
Total Other Financing Sources (Uses)	<u>446,831</u>	<u>(440,031)</u>	<u>111,062</u>	<u>-</u>	<u>(117,862)</u>	<u>-</u>
<b>Net Change in Fund Balances</b>	402,805	49,215	24,423	-	53,057	529,500
<b>Fund Balances - Beginning of year</b>	1,860,105	1,217,612	-	(50,295)	572,276	3,599,698
<b>Prior Period adjustment (See Note V)</b>	<u>-</u>	<u>-</u>	<u>251,278</u>	<u>50,295</u>	<u>(301,573)</u>	<u>-</u>
<b>Fund Balances - End of year</b>	<u>\$ 2,262,910</u>	<u>\$ 1,266,827</u>	<u>\$ 275,701</u>	<u>\$ -</u>	<u>\$ 323,760</u>	<u>\$ 4,129,198</u>

See accompanying notes to 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  
YEAR ENDED JUNE 30, 2017**

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**Net Change in Fund Balances - Total Governmental Fund Balances** **\$ 529,500**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and depreciated over their estimated useful lives. This amount represents the net amount of depreciation expense in excess of capital outlay. The amounts are represented here as reconciling items:

Capital outlays	\$ 2,264,003	
Depreciation expense	(762,573)	
Net effect of reporting capital assets		1,501,430

The issuance of long-term debt 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 has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are amortized in the Statement of Activities. The amount presented here as a reconciling item represents repayments on long-term debt in fiscal year

Repayments on capital lease obligations	19,492	
Repayments on long-term debt	541,100	
Net effect of reporting long-term debt		560,592

In the Statement of Activities, interest is accrued on outstanding long-term debt; whereas in governmental funds interest is not reported until due. The net amount presented here as a reconciling item represents the difference in accruals between this year and the prior year.

20

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 differ between the two statements. The amount presented represents the following differences derived from unavailable revenue.

35,201

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:

Compensated absences, net	(4,311)	
Post closure landfill monitoring	19,400	
Other postemployment benefits	(206,777)	
Net pension liability	(590,900)	
Net effect of reporting long-term liabilities		(782,588)

**Net Change in Fund Balances of Governmental Activities** **\$ 1,844,155**

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See accompanying notes to basic financial statements.

**TOWN OF MENDON, MASSACHUSETTS**  
**FIDUCIARY FUNDS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2017**

	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds	Agency Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 50,566	\$ 28,343	\$ 97,014
Investments	27,751	21,897	-
Public safety details receivable	-	-	48,944
<b>Total Assets</b>	<u>78,317</u>	<u>50,240</u>	<u>145,958</u>
<b>Liabilities</b>			
Performance bonds	-	-	124,690
Other agency liabilities	-	-	21,268
<b>Total Liabilities</b>	<u>-</u>	<u>-</u>	<u>145,958</u>
<b>Net Position Held in Trust for</b>			
Other purposes	-	50,240	-
Other postemployment benefits	78,317	-	-
<b>Total Net Position</b>	<u>\$ 78,317</u>	<u>\$ 50,240</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

**TOWN OF MENDON, MASSACHUSETTS**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
YEAR ENDED JUNE 30, 2017**

	Other Postemployment Benefits Trust Fund	Private Purpose Trust Funds
<b>Additions</b>		
Employer contributions	\$ 156,653	\$ -
Employee contributions	37,133	-
Private donations	-	2,000
Total contributions	<u>193,786</u>	<u>2,000</u>
Investment income	<u>2,571</u>	<u>(373)</u>
<b>Total Additions</b>	<u>196,357</u>	<u>1,627</u>
<b>Deductions</b>		
Benefit payments to retirees and beneficiaries	168,786	-
Scholarships and public assistance	<u>-</u>	<u>1,000</u>
<b>Total Deductions</b>	<u>168,786</u>	<u>1,000</u>
<b>Change in Net Position</b>	27,571	627
<b>Net Position - Beginning of year</b>	<u>50,746</u>	<u>49,613</u>
<b>Net Position - End of year</b>	<u><u>\$ 78,317</u></u>	<u><u>\$ 50,240</u></u>

The notes to the financial statements are an integral part of this statement.

# **TOWN OF MENDON, MASSACHUSETTS**

## **NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2017**

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### **I. Summary of Significant Accounting Policies**

The accompanying basic financial statements of the Town of Mendon (the “Town”) have been prepared in conformity with generally accepted accounting principles (“GAAP”) as applied to state and local governments. GAAP is prescribed by the Governmental Accounting Standards Board (“GASB”), which is the primary standard-setting body for state and local governmental entities. The following is a summary of the more significant policies and practices used by the Town.

#### **A. Reporting Entity**

The Town, which is located in Worcester County, is approximately thirty-four miles southwest of Boston and twenty miles southeast of Worcester. The Town was incorporated as a town in 1667. The governing structure utilizes an open town meeting format with an elected three-member Board of Selectmen and an appointed Town Administrator, who performs and oversees the Town’s daily executive and administrative duties. Selectmen serve staggered three-year terms. The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education from kindergarten to grade 12 through a regional school district, library, street maintenance, parks and recreational facilities.

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria. Pursuant to these criteria there are no component units required to be included in the financial statements.

The Town is a member community of the Mendon-Upton Regional School District (the “District”), which provides educational services to the towns of Mendon and Upton. The District is governed by a six member school committee consisting of three elected representatives from the Town of Mendon. This joint venture assesses each town its share of operational and debt service costs based on student population and other factors. In fiscal year 2017, the Town’s assessment was \$9,442,245. Complete audited financial statements can be obtained directly from the District’s administrative office located at 150 North Avenue, Mendon, MA 01756.

In addition, the Town is a member community of the Blackstone Valley Regional Technical High School (“BVRTHS”). The BVRTHS is governed by a thirteen member school committee. The Town of Mendon has one representative on the BVRTHS’ school committee. This joint venture assesses each of the member communities its share of the operational and debt services costs based on student population and other factors. In fiscal year 2017, the Town’s assessment was \$920,062. Complete audited financial statements can be obtained directly from the District’s administrative office located at 65 Pleasant Street, Upton, MA 01568.

## B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The primary government reports no business-type activities on these 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 government funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

Major Fund Criteria – Major funds must be reported if both of the following criteria are met:

- 1) The total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding total for all funds of that category or type, and
- 2) The total assets and deferred outflows of resources, liabilities and deferred inflows of resources, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding element for all governmental and enterprise funds combined.

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

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

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 a liability is incurred, regardless of the timing of related cash flows. 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 given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

The governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. measurable and available). Revenues are considered to be *available* when they are 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 payment is due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The Town applies the susceptible to accrual criteria to intergovernmental revenues. In applying the susceptible to accrual concept, there are two types of revenues. In one, moneys must be expended for a specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized as expenditures are incurred. In the other, moneys are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues when cash is received, or earlier if the susceptible to accrual criteria are met. State aid is accrued as revenue in the year that the funds are appropriated by the Commonwealth of Massachusetts (the “Commonwealth”).

The Town considers property tax revenues to be available if they are both material and collected within sixty days after the end of the fiscal year. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

The Town reports the following major governmental funds:

*General Fund* – is the government’s primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

*Community Preservation Fund* – is a special revenue fund used to account for the accumulation of resources to purchase open space, provided for affordable housing, or preservation of historical property under the guidelines of the Community Preservation Act of the Massachusetts General Laws.

*Town Capital Project Fund* – is used to account for the purchase or construction of the Town’s capital asset activities.

*Nonmajor Governmental Funds* – consist of special revenue and permanent funds that are aggregated and presented in the nonmajor governmental funds column on the governmental funds financial statements. The following describes the general use of these fund types:

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

Permanent funds are used to account for financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Fiduciary fund financial statements are reported using the *economic resources measurement focus* and use the *accrual basis of accounting*. Fiduciary funds are used to account for assets held in a trustee capacity and cannot be used to support the governmental programs. The Town reports the following fiduciary funds:

*Other Postemployment Benefits Trust Fund* – is used to account for funds accumulated by the Town to assist it in its future payments of other postemployment benefits for retirees, such as health and life insurance.

*Private-Purpose Trust Funds* – are 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.

*Agency Funds* – are used to account for funds received for and paid to other funds, individuals or organizations such as those held on deposit or escrow by the Town for various purposes including planning board deposits.

#### **D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Fund Equity**

*Deposits and Investments* – The Town’s cash and cash equivalents 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 recorded at fair value.

*Receivables* – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent semiannually and are due on August 1, November 1, February 1, and May 1 each year. Interest accrues on delinquent taxes up to the statutory percentage rate per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy. The Town is permitted to take delinquent tax accounts into tax titles fourteen days subsequent to the mailing of demand of delinquent taxes.

Real estate taxes are secured through a lien process and are considered 100% collectible. Accordingly, an allowance for uncollectible accounts for these receivables is not reported. All personal property tax and excise tax receivables are shown net of an allowance for uncollectible accounts, which are comprised of those outstanding amounts greater than five years old, if material. Departmental receivables such as ambulance receivables are shown net of an allowance for uncollectible balances based on historical trends and specific account analysis.

*Inventories and Prepaid Items* – Inventories, which are not material to the Town’s basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to vendors reflect costs applicable to future accounting periods and may be recorded as prepaid items in both government-wide and governmental fund financial statements.

*Capital Assets* – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, water and sewer mains and similar items) are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation.

All purchases and construction costs in excess of \$15,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of four years or greater. All land acquisitions are capitalized regardless of the dollar amount. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Capital assets (excluding land and construction-in-process) are depreciated using the straight-line method over the following estimated useful lives:

Building and improvements	40 years
Infrastructure	40 years
Machinery and equipment	10 to 20 years
Vehicles	4 to 10 years

*Interfund Balances* – Activity between funds that are representative of lending arrangements outstanding at the end of the fiscal year are referred to as either *due to/from other funds* or *advances to/from other funds*. All other outstanding balances between funds are reported as due to/from other funds.

*Interfund Transfers* – During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as transfers in and transfers out in the individual fund statements. Transfers between and within governmental and fiduciary funds are eliminated from the governmental activities in the statement of activities.

*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 state law.

*Compensated Absences* – The Town permits employees to accumulate earned but unused vacation and personal time off. Amounts related to these benefits are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured.

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

In the governmental fund financial statements, the face amount of long-term debt issued is reported as other financing sources. Premiums received on a debt issuance are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are exclusively reported as general government expenditures regardless of whether they are withheld from the actual proceeds.

*Deferred Outflows/Inflows of Resources* – 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 reports one item that is reported on the government-wide statement of net position which relate to outflows from changes in the net pension liability, which it expects to recognize as pension expense over the next four years. The Town does not report deferred outflows of resources in its governmental funds financial statements.



In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *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 does not report any deferred inflows of resources in its government-wide financial statements. The Town reports unavailable revenues as deferred inflows of resources in its governmental funds financial statements, which will be recognized when these revenues become available.

*Net Position* – In the government-wide financial statements, net position reported as *net investment in capital assets* includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital related debt.

Net position is reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific use. Net Position has been *restricted* for the following:

*Nonexpendable permanent funds* represent the endowment portion of donor restricted trusts that support governmental programs.

*Expendable perpetual funds* represent the spendable, yet restricted, amount of various trust funds that support governmental programs.

*Community preservation funds* represent financial resources accumulated for community and historical preservation projects.

*Other purposes* represent assets that are restricted by donors for specific governmental programs and uses.

*Fund Equity* – The Town presents fund balances in its governmental funds using classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

Fund balance is reported in five components – nonspendable, restricted, committed, assigned and unassigned as described below:

*Nonspendable* represents amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid expenses) or (b) legally or contractually required to be maintained intact such as the corpus of an endowment.

*Restricted* represents amounts that have constraints placed either externally by third-parties (creditors, grantors, contributors, or laws or regulations of other governments) or by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the Town to assess, levy, charge or otherwise mandate payment of resources (from external resource providers) and includes a legally enforceable requirement (compelled by external parties) that those resources be used only for the specific purposes stipulated in the legislation.

*Committed* represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority, which is the Town Meeting action, and can be modified or rescinded through these actions.

*Assigned* represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed.

*Unassigned* represents amounts that have not been restricted, committed or assigned to specific purposes within the Town's general fund. The general fund is the only fund that reports a positive unassigned fund balance amount. Other governmental funds besides the general fund can only report a negative unassigned fund balance amount.

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

The following table reflects the Town's fund equity categorizations:

	General Fund	Community Preservation Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Nonspendable:					
Nonexpendable trust funds	\$ -	\$ -	\$ -	\$ 26,299	\$ 26,299
Restricted:					
General government	304,609	-	22,975	55,983	383,567
Public safety	-	-	157,235	81,852	239,087
Public works	-	-	3,378	9,647	13,025
Health and human services	-	-	-	41,843	41,843
Culture and recreation	-	1,266,827	92,113	134,326	1,493,266
Committed:					
General government	566,394	-	-	-	566,394
Public works	60,733	-	-	-	60,733
Other purposes	10,000	-	-	-	10,000
Assigned:					
Public works	29,562	-	-	-	29,562
Unassigned:					
Stabilization - general	891,073	-	-	-	891,073
Unrestricted	400,539	-	-	(26,190)	374,349
	<u>\$ 2,262,910</u>	<u>\$ 1,266,827</u>	<u>\$ 275,701</u>	<u>\$ 323,760</u>	<u>\$ 4,129,198</u>

*Stabilization Fund* – The Town maintains a general stabilization fund, which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund reported as unassigned fund balance in the general fund.

The Town maintains a second stabilization fund that is intended to be used for capital purchases. The additions or the use of the fund requires a two-third vote of annual or special town meeting. This stabilization fund, which totals \$304,609 at December 31, 2017, is reported in the restricted fund balance in the general fund.

Encumbrances – The Town’s encumbrance policy regarding the general fund is to (1) classify encumbrances that arise from the issuance of purchase orders resulting from normal, approved purchasing activity as assigned, and (2) classify encumbrances that result from an action of the Town Meeting as committed. Encumbrances of funds already restricted or committed are included within the classification of those fund balances and not reported separately.

#### **E. Excess of Expenditures Over Appropriations and Deficits**

During the fiscal year ended June 30, 2017, snow and ice expenditures exceeded appropriations in the Town’s public works function, which is permissible under Massachusetts General Law (“MGL”). This deficit will be funded by available funds in fiscal year 2018.

The Town incurred deficits of \$26,190 in the nonmajor funds that will be funded in future years through grants, notes or other available sources.

#### **F. Use of Estimates**

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

## **II. Detailed Notes to All Funds**

### **A. Deposits and Investments**

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

State laws and regulations require the Town to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer’s investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

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

*Fair Value of Investments* – The Town reports its investments at fair value. When actively quoted observable prices are not available, the Town generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The Town categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- *Level 1* – Inputs are quoted prices in active markets for identical investments at the measurement date.
- *Level 2* – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument's anticipated life.
- *Level 3* – Inputs reflect the Town's best estimate of what market participants would use in pricing the investment at the measurement date.

The following table presents the Town's investments carried at fair value on a recurring basis in the statement of net position at June 30, 2017:

Investment Type	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Government obligations	\$ 213,891	\$ 213,891	\$ -	\$ -
U.S. Agencies	384,874	384,874	-	-
Total debt securities	598,765	598,765	-	-
Equity securities	213,264	213,264	-	-
Mutual funds	91,611	91,611	-	-
Total investments by fair value level	903,640	\$ 903,640	\$ -	\$ -
<u>Investments measured at amortized cost</u>				
MMDT	872,807			
Total investments at fair value	\$ 1,776,447			

All of the Town's investments in debt, equity securities and mutual funds were classified in Level 1 as each investment is quoted in an active market. Short-term investments in the MMDT are measured at amortized cost. The MMDT's investment advisor may value the pool using an alternative valuation method that more accurately reflect the fair value in accordance with the pool's fair value pricing policies should amortized cost not approximate the fair value of the pool.

*Custodial Credit Risk: Deposits* – In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. The Town relies on depository insurance at its banking institutions to manage this risk. At June 30, 2017, \$2,060,746 in Town deposits were not subject to depository insurance from the Federal Depository Insurance Corporation or other depository insurance programs.

**Custodial Credit Risk: Investments** – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. All of the Town’s investments are registered in its name and cannot be pledged or assigned. The Town is not exposed to custodial credit risk on its investments.

**Interest Rate Risk** – In the case of investments, this is the risk that changes in market interest rates will adversely affect the fair value of an investment. In general, the longer the maturity of an investment, the more sensitive it is to changes in 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. The Town limits its exposure to interest rate risk by managing the duration of its investments.

The Town had the following investments with maturities at June 30, 2017:

Investment Type	Fair Value	Maturity in Years	
		Less than Year	1 to 5 Years
<u>Debt securities:</u>			
U.S. government and agency obligations	\$ 598,765	\$ -	\$ 598,765
Total investments with maturities	<u>598,765</u>	<u>\$ -</u>	<u>\$ 598,765</u>
<u>Other investments:</u>			
MMDT	872,807		
Equity securities	213,264		
Mutual funds	<u>91,611</u>		
Total Investments	<u>\$ 1,776,447</u>		

**Credit Risk** – At June 30, 2017, all of the Town’s investments in U.S. government and agency obligations were rated Aaa by Moody’s Investors Services.

**Concentration of Credit Risk** – The Town places no limit on the amount that may be invested in any one issuer. Of the Town’s investments at June 30, 2017, 49% was invested with the MMDT, 22% in U.S. government agency obligations and 12% in U.S. treasuries. No other individual investment represented more than 5% of the Town’s total investments at June 30, 2017.

## B. Receivables

Receivables for the Town's major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows as of June 30, 2017:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Real estate and personal property taxes	\$ 304,026	\$ (448)	\$ 303,578
Tax liens and foreclosures	262,716	-	262,716
Motor vehicle and other taxes	123,162	(48,003)	75,159
Water receivables	10,329	-	10,329
Ambulance	180,134	(116,000)	64,134
Title V	25,927	-	25,927
Intergovernmental	190,980	-	190,980
Total	<u>\$ 1,097,274</u>	<u>\$ (164,451)</u>	<u>\$ 932,823</u>

Governmental funds report unavailable revenues in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following identifies the components of unavailable revenues in the governmental funds:

	General Fund	Other Governmental Funds	Total
Receivable type:			
Real estate and personal property taxes	\$ 221,780	\$ 6,976	\$ 228,756
Tax liens and foreclosures	262,716	-	262,716
Motor vehicle and other taxes	75,159	-	75,159
Water receivables	10,329	-	10,329
Title V receivables	25,927	-	25,927
Ambulance	64,134	-	64,134
Total	<u>\$ 660,045</u>	<u>\$ 6,976</u>	<u>\$ 667,021</u>

## C. Capital Assets

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

	Beginning Balances (a)	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 10,811,628	\$ -	\$ -	\$ 10,811,628
Total capital assets not being depreciated	<u>10,811,628</u>	<u>-</u>	<u>-</u>	<u>10,811,628</u>
Capital assets being depreciated:				
Buildings and improvements	4,371,893	203,161	-	4,575,054
Infrastructure	10,804,201	2,021,630	-	12,825,831
Machinery and equipment	2,609,028	14,858	-	2,623,886
Vehicles	<u>682,559</u>	<u>52,299</u>	<u>(27,945)</u>	<u>706,913</u>
Total capital assets being depreciated	<u>18,467,681</u>	<u>2,291,948</u>	<u>(27,945)</u>	<u>20,731,684</u>
Less accumulated depreciation for:				
Buildings and improvements	(742,076)	(131,373)	-	(873,449)
Infrastructure	(3,624,570)	(472,601)	-	(4,097,171)
Machinery and equipment	(1,645,172)	(124,805)	-	(1,769,977)
Vehicles	<u>(516,550)</u>	<u>(61,739)</u>	<u>27,945</u>	<u>(550,344)</u>
Total accumulated depreciation	<u>(6,528,368)</u>	<u>(790,518)</u>	<u>27,945</u>	<u>(7,290,941)</u>
Total capital assets being depreciated, net	<u>11,939,313</u>	<u>1,501,430</u>	<u>-</u>	<u>13,440,743</u>
Capital assets, net	<u>\$ 22,750,941</u>	<u>\$ 1,501,430</u>	<u>\$ -</u>	<u>\$ 24,252,371</u>

(a) Certain reclassifications have been made to the beginning balances to conform with current year presentation.

Depreciation expense was charged to functions/programs as follows:

### Governmental Activities:

General government	\$ 31,534
Public safety	146,097
Public works	531,163
Health and human services	3,395
Culture and recreation	<u>78,329</u>
	<u>\$ 790,518</u>

## D. Interfund Receivables, Payables and Transfers

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

Transfers Out	Transfers In				Total	
	General Fund	Community Preservation Fund	Town Capital Projects Fund	Nonmajor Governmental Funds		
General Fund	\$ -	\$ 81,316	\$ -	\$ 600	\$ 81,916	(1)
Community Preservation Fund	521,347	-	-	-	521,347	(2)
Nonmajor Governmental Funds	7,400	-	111,062	-	118,462	(3)
	<u>\$ 528,747</u>	<u>\$ 81,316</u>	<u>\$ 111,062</u>	<u>\$ 600</u>	<u>\$ 721,725</u>	

(1) Transfers to other funds from general fund to close out prior year articles.

(2) Transfers to general fund to fund community preservation articles.

(3) Transfers to general fund to supplement operating budgets and transfer to capital projects fund to complete Library construction.

## E. Temporary Debt

The Town is authorized to borrow on a temporary basis to fund the following:

Current Operating Costs – Prior to the collection of revenues, expenditures may be financed through the issuance of revenue or tax anticipation notes.

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes or state aid anticipation notes. In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount.

Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law. Activity in the Town's temporary notes for fiscal year 2017 included:

Type	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance
BAN - MCWT Septic	0.00%	<u>\$ 109,218</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 109,218</u>

The Town borrowed these temporary funds under a program offered by the Massachusetts Clean Water Trust, or MCWT, to assist Town residents in funding septic repairs. These amounts are expected to be repaid by the Town in fiscal year 2018.



## F. Long-term Obligations

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. In addition, the Town incurs various other long-term obligations relative to post-retirement personnel costs.

State law permits the Town, under the provisions of Section 10 of Chapter 44 of MGL, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, the Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit.”

The following reflects the activity in the long-term liability accounts during the fiscal year ended June 30, 2017:

Description of Issue	Beginning Balances	Additions	Deletions	Ending Balances	Due Within One Year
General obligation bonds and notes payable	\$ 4,976,100	\$ -	\$ (541,100)	\$ 4,435,000	\$ 540,000
Capital lease obligations	62,026	-	(19,492)	42,534	20,652
Compensated absences	199,042	4,311	-	203,353	30,503
Post closure landfill monitoring	19,400	-	(19,400)	-	-
Other postemployment benefits	1,858,094	400,563	(193,786)	2,064,871	-
Net pension liability	6,727,808	2,650,028	(1,310,181)	8,067,655	-
Total	<u>\$ 13,842,470</u>	<u>\$ 3,054,902</u>	<u>\$ (2,083,959)</u>	<u>\$ 14,813,413</u>	<u>\$ 591,155</u>

These liabilities will be liquidated by the general fund.

General obligation bonds outstanding at June 30, 2017 were as follows:

Description of Issue	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance
General obligation bonds	3.00 - 4.00%	\$ 4,710,000	\$ -	\$ (445,000)	\$ 4,265,000
State House notes	1.75%	255,000	-	(85,000)	170,000
MCWT note	0.00%	11,100	-	(11,100)	-
Total		<u>\$ 4,976,100</u>	<u>\$ -</u>	<u>\$ (541,100)</u>	<u>\$ 4,435,000</u>

Future Debt Payoff – Payments on general long-term debt obligation bonds due in future years consists of the following:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 540,000	\$ 154,770	\$ 694,770
2019	545,000	137,113	682,113
2020	465,000	119,170	584,170
2021	480,000	102,475	582,475
2022	495,000	85,195	580,195
2023 - 2027	1,660,000	195,663	1,855,663
2028 - 2029	250,000	12,656	262,656
Total	<u>\$ 4,435,000</u>	<u>\$ 807,042</u>	<u>\$ 5,242,042</u>

Authorized and Unissued Debt – At June 30, 2017, the Town had authorized but not issued debt in the amount of \$5,000,000 for the construction of a police station.

## **G. Capital Leases**

The Town is party to a non-cancellable lease for the purchase of three police cruisers. For financial reporting purposes, these leases are accounted for as capital leases. The future minimum lease payments on these capital lease obligations and the net present value of these minimum lease payments as of June 30, 2017 are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2018	\$ 23,183
2019	<u>23,183</u>
Total minimum lease payments	46,366
Less amount representing interest	<u>(3,832)</u>
Present value of minimum lease payments	<u>\$ 42,534</u>

Assets acquired through capital leases were as follows at June 30, 2017:

<u>Asset Description</u>	<u>Amount</u>
Police cruisers	\$ 103,608
Less accumulated depreciation	<u>(64,755)</u>
Net carrying value	<u>\$ 38,853</u>

## **H. Tax Abatements**

The Town may enter into property tax abatements with local business as an incentive for economic growth. These agreements are commonly referred to as tax increment financing, or TIF, agreements. Under Massachusetts General Laws, property owners may be granted property tax abatements of up to 100% of the value of a tax increment for a maximum term of twenty years provided the property is located in a TIF zone. TIF zones are approved by the Massachusetts Economic Assistance Coordinating Council. TIF agreements must be approved by the Town's Board of Selectmen and Town Meeting.

In May 2015, the Town executed a TIF agreement with a construction equipment company (the "Company"). Under the terms of the TIF agreement, the Company is, over a ten-year period, entitled to abatements on the incremental property values ranging from 100% in year one to 5% in year ten, in exchange for the Company's commitment to relocate and retain twenty-two full-time jobs and creating five permanent full-time jobs, the construction of a 45,000 square foot building and the investment of an estimated \$4,000,000 in construction costs and personal property.

As the Company has not yet completed this project, no amounts were abated in fiscal year 2017.

### III. Other Information

#### A. Retirement System

Pension Plan Description – The Town contributes to the Worcester Regional Retirement System (the “Retirement System”), a cost-sharing multiple-employer defined benefit pension plan. The Retirement System was established under Chapter 32 of MGL. The Retirement System is administered by the Worcester Regional Retirement Board (the “Retirement Board”). Stand-alone financial statements for the year ended December 31, 2016 were issued and are available by submitting a request to the Retirement System at 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

Current membership in the Retirement System for all ninety-seven employers as of December 31, 2017 was as follows:

Active members	7,473
Inactive members entitled to, but not receiving benefits	1,674
Inactive members (or beneficiaries) currently receiving benefits	<u>3,618</u>
	<u>12,765</u>

Benefit Terms – Membership in the Retirement System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Members of the Retirement System do not participate in the federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform from retirement system to system. The Retirement System provides for retirement allowance benefits up to a maximum of 80% of a participant’s highest three-year or five-year average annual rate of regular compensation, depending on the participant’s date of hire. Benefit payments are based upon a participant’s age, length of creditable service, level of compensation and job classification.

The most common benefits paid by the Retirement System include normal retirement, disability retirement and survivor benefits.

Normal retirement generally occurs at age 65. However, participants may retire after twenty years of service or at any time after attaining age 55, if hired prior to April 2, 2012 or at any time after attaining age 60 if hired on or after April 2, 2012. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years’ creditable service in order to retire at age 55. Participants become vested after ten years of service. Benefits commencing before age 65 are provided at a reduced rate. Members working in certain occupations may retire with full benefits earlier than age 65.

Ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. Accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status.

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

Cost-of-living adjustments granted to members of Massachusetts retirement systems granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth during those years have been the financial responsibility of the Commonwealth. Beginning in 1998, the funding of cost-of-living amounts became the responsibility of the participating units like the Retirement System.

The Retirement System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the Retirement System's benefit terms in 2017.

*Contributions Requirements* – The Retirement Board has elected provisions of Chapter 32, Section 22D (as amended) of MGL, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040. Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The Town contributed \$467,870 to the Retirement System in fiscal year 2017, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 18% in fiscal year 2017.

*Net Pension Liability* – At June 30, 2017, the Town reported a liability of \$8,067,655 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2016. There were no material changes to the Retirement System's benefit terms since the actuarial valuation. However, since the last actuarial valuation, the Retirement System decreased the discount rate used in the actuarial valuation decreased from 8.00% to 7.75%. There were no other material changes made in this update to the actuarial assumptions (see below).

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The Town's proportion was approximately 0.96% at December 31, 2016, which was consistent with the proportions measured at January 1, 2016.

*Fiduciary Net Position* – The elements of the Retirement System's basic financial statements (that is, all information about the Retirement System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the Retirement System's full financial statements as of and for the year ended December 31, 2016, which can be obtained by contacting the Retirement Board.

The Retirement System's fiduciary net position was determined using the accrual basis of accounting. The Retirement System's accounting records are maintained on a calendar-year basis in accordance with the standards and procedures established by the Massachusetts Public Employee Retirement Administration Commission, or PERAC. Contributions from employers and employees are recognized in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Benefit payments (including refunds of employee contributions) are recorded when incurred, regardless of the timing of payment.

Investments are reported at fair value; fair value is determined as the price one would receive in an orderly transaction between market participants at a measurement date.

Pension Expense – The Town recognized \$1,058,769 in pension expense in the statement of activities in fiscal year 2017.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 65,785	\$ -
Changes of assumptions	954,266	-
Net difference between projected and actual earnings on pension plan investments	279,951	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	291,256	-
	<u>\$ 1,591,258</u>	<u>\$ -</u>

The net deferred outflows of resources and deferred inflows of resources are expected to be recognized as a benefit in the Town’s pension expense as follows:

<u>Year ended June 30,</u>		
2018	\$	380,288
2019		380,288
2020		379,233
2021		274,219
2022		177,230
	<u>\$</u>	<u>1,591,258</u>

Actuarial Valuation – The measurement of the Retirement System’s total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2016. The significant actuarial assumptions used in the January 1, 2016 actuarial valuation included:

Inflation:	3.0% per year (3.5% per year for the actuarial valuation as of January 1, 2014)
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:	19 years, except for ERI for 2002 and 2003 (12 years) and 2010 (6 years)
Asset valuation method:	5-year smoothing

Salary increases:	Group 1: 4.20-6.00%, based on service (3.00% for the actuarial valuation as of January 1, 2014) Group 4: 4.75-7.00%, based on service (3.00% for the actuarial valuation as of January 1, 2014)
Investment rate of return:	7.75%, net of pension plan investment expense, including inflation (8.00% for the actuarial valuation as of January 1, 2014)
Mortality rates:	Based on the RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB
Disabled life mortality:	For disabled lives, the mortality rates were based on the RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB

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 returns (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 rates of return for each major asset class included in the Retirement System's target allocation as of December 31, 2016 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Rate of Return
Global equity	40%	4.97%
Fixed income	22%	2.29%
Private equity	11%	6.50%
Real estate	10%	3.50%
Timber/natural resources	4%	3.00%
Hedge funds	13%	3.48%

**Discount Rate** – The discount rate used to measure the total pension liability was 7.75%, which is a reduction from the previous 8.0% discount rate. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made in accordance with Sections 22D and 22F of Chapter 32 of MGL. Based on those assumptions, the Retirement System's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis – The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.75% as well as the Town’s proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current Discount (7.75%)	1% Increase (8.75%)
Town’s proportionate share of the net pension liability	\$ 9,717,583	\$ 8,067,655	\$ 6,674,838

## B. Risk Financing

The Town is exposed to various risks of loss related to general liability; torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Town carries commercial insurance. The amount of claim settlements has not exceeded insurance coverage in any of the previous three years.

## C. Other Postemployment Benefits

In addition to the pension benefits previously described, the Town provides health and life insurance benefits (other postemployment benefits, or OPEB) to current and future retirees, their dependents and beneficiaries in accordance with MGL Chapter 32B Section 20 (hereinafter referred to as the “OPEB Plan”). Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law and Town ordinance. All benefits are provided through the Town’s insurance program. The OPEB Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the OPEB Plan.

Under Chapter 32B Section 20, the Town Treasurer is the custodian of the OPEB Plan. OPEB Plan assets may be invested and reinvested by the custodian consistent with the prudent investor rule and an approved OPEB trust investment policy. OPEB Plan assets are segregated from other funds and shall not be subject to the claims of any general creditor of the Town.

For the year ended June 30, 2017 the Town records its net OPEB obligation under GASB Statement No. 45. However, additional note disclosures are also presented for the Town’s OPEB Plan since those note disclosures are required under GASB Statement No. 74. All GASB 45 references and disclosures will be removed from the Town’s financial statements in the fiscal year ended June 30, 2018 as they will no longer be applicable upon the Town’s adoption of GASB Statement No. 75 in fiscal year 2018. Refer to item F of this Note III for additional details on current year and future year accounting pronouncements.

Plan Membership – Current membership in the Plan as of June 30, 2017 was as follows:

Inactive employees or beneficiaries receiving benefits	33
Active employees	53
	<u>86</u>

**Contributions** – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Town retirees contribute between 20% and 25% of monthly insurance premiums depending on the insurance plan selected. The remaining monthly premium and all administrative costs are paid by the Town. The Town currently contributes enough money to the OPEB Plan to satisfy current obligations on a pay-as-you-go basis.

**Annual OPEB Cost and Net OPEB Obligation** – The Town's annual OPEB cost is calculated based on the annual required contribution ("ARC") of the employer, which is an actuarially determined amount. 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 liabilities over a period not to exceed thirty years. The following table reflects the activity regarding the Town's OPEB obligation:

Annual required contributions ("ARC")	\$ 409,498
Interest on net OPEB obligation	74,324
Adjustment to ARC	<u>(83,259)</u>
Annual OPEB cost	400,563
Contributions made	<u>(193,786)</u>
Increase in net OPEB obligation	206,777
Net OPEB obligation - beginning of year	<u>1,858,094</u>
Net OPEB obligation - end of year	<u><u>\$ 2,064,871</u></u>

Trend information regarding the Town's OPEB costs, the percentage of the annual OPEB cost contributed and the net OPEB obligation is as follows:

<u>Fiscal Year Ending</u>	<u>Annual OPEB Cost (AOPEBC)</u>	<u>Percentage of AOPEBC Contributed</u>	<u>Net OPEB Obligation</u>
June 30, 2017	\$ 400,563	48%	\$ 2,064,871
June 30, 2016	403,813	45%	1,858,094
June 30, 2015	407,954	38%	1,636,277

The fiscal year 2017 AOPEBC was charged to the following functional programs: general government \$65,178; public safety \$248,883; public works \$48,678; health and human services \$10,590; and culture and recreation \$27,234.

**Funding Status and Funding Progress** – The funded status of the Plan at June 30, 2017 for the most recent actuarial valuation performed as of June 30, 2016, was as follows:

Actuarial value of plan assets	\$ 51,554
Actuarial accrued liability ("AAL")	5,379,010
Unfunded AAL ("UAAL")	\$ 5,327,456
Funded ratio (actuarial value of plan asset/AAL)	0.96%
Covered payroll	\$ 2,217,933
UAAL as a percentage of covered payroll	240.2%



Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events into the future. Amounts determined regarding the funded status of the Plan and the ARC of the employer are subject to continual revision as estimates are compared to actual results and past expectations.

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

Investment Policy – The Plan does not have a formal investment policy at this time. The Plan invests its funds in permissible investments as stipulated by the Commonwealth.

Investment Rate of Return – For the year ended June 30, 2017, the annual money-weighted rate of return on investments, net of investment expense, was 3.28%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net OPEB Liability – The components of the net OPEB Liability of the Town at June 30, 2017 were as follows:

Total OPEB liability	\$ 4,081,937
Plan fiduciary net position	<u>(78,471)</u>
Net OPEB liability	<u>\$ 4,003,466</u>
Plan fiduciary net position as a percentage of the total OPEB liability	1.92%

The net OPEB liability is not reported in the accompanying financial statements. It is presented herein as prescribed under GASB Statement No. 74. The Town will report its net OPEB liability beginning in fiscal year 2018 upon adoption of GASB Statement No. 75. The Town presently reports its OPEB obligation in its government-wide and proprietary funds financial statements in accordance with GASB Statement No. 45.

Actuarial Assumptions – The total OPEB liability was determined by an actuarial valuation as of June 30, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Entry Age Actuarial Cost Method
Asset Valuation Method	Market value of assets as of reporting date
Healthcare cost trend rates	6.0% initial decreasing to an ultimate rate of 5.0% per annum in 2023
Salary increases	3.0% per annum
Mortality	For healthy participants, the mortality rates are from the RP-2000 Combined Fully Generational mortality table with a projected scale AA.

For disabled retirees, the mortality rates are from the RP-2000 Combined mortality table set forward 3 years for males.

Long-term Expected Rate of Return – The long-term expected rate of return on OPEB plan investments was determined using the S&P Municipal Bond 20-Year High Grade Index as of July 1, 2016. The discount rate used in the June 30, 2017 valuation report was 4.00%.

Sensitivity Analysis – The following presents the net OPEB liability of the Town, as well as what the Town’s net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (3.00%) or one percentage-point higher (5.00%) than the current discount rate:

	1% Decrease (3.00%)	Current Discount (4.00%)	1% Increase (5.00%)
Net OPEB liability	\$ 4,524,467	\$ 4,003,466	\$ 3,547,683

The following presents the net OPEB liability of the Town, as well as what the Town’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage-point higher than the current healthcare cost trend rates:

	1% Decrease (5.0% decreasing to 4.00%)	Healthcare Cost Trend Rates (6.0% decreasing to 5.00%)	1% Increase (7.0% decreasing to 6.00%)
Net OPEB liability	\$ 3,433,751	\$ 4,003,466	\$ 4,712,631

#### **D. Commitments and Contingencies**

General – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2017, cannot be determined, management believes that any resulting liability, if any, should not materially affect the basic financial statements of the Town at June 30, 2017.

Appellate Tax Board – Generally the Town has pending cases filed with the Massachusetts Appellate Tax Board of the Commonwealth of Massachusetts (“ATB”). At June 30, 2017, real estate properties with an aggregate assessed value of nearly \$2.4 million were filed and pending decisions in ATB.

Grant Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, would not have a material effect on its financial condition.

Arbitrage – The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The Town expects the amount if any, in these situations, to be immaterial.

#### **IV. Implementation of New GASB Pronouncements**

##### **A. Current Year Implementations**

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective was to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of this Statement increased disclosures surrounding the Town's OPEB Plan and the means by which it reports its OPEB activities in its fiduciary funds. Portions of this statement will be adopted in fiscal year 2018.

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. GASB 77 required the disclosure of the terms of certain tax abatement agreements entered into by a government with individuals or entities. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of this Statement did not have a material impact on the financial statements.

In December 2015, the GASB issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The provisions of GASB 78 were applicable to certain government pension plans that (i) are not administered as a trust by a state or local governmental pension plan, (ii) are shared between governmental and nongovernmental employees, and (iii) have not predominant state of local governmental employer. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of this Statement did not have a material impact on the financial statements.

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*. The provisions of GASB 80 applied to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of this Statement did not have a material impact on the financial statements.

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of GASB 73 was to address issues raised with respect to previously issued statements related to pensions. The provisions of this Statement became effective for the Town in fiscal year 2017. The adoption of this Statement did not have a material impact on the financial statements.

##### **B. Future Year Implementations**

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2016 (fiscal year 2018) and should be applied retroactively. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of the Statement is to address accounting and financial reporting for certain asset retirement obligations that have legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2018 (fiscal year 2019). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. The objective of the Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2018 (fiscal year 2020). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of the Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This Statement redefines the manner in which long-term leases are accounted and reported. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2021). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

## V. Restatement

The following tables illustrate the restatements made to the fund balances reported in the accompanying financial statements:

	Library Building	Town Capital Projects	Nonmajor Governmental Funds	Total
Fund balances at June 30, 2016, as previously reported	\$ (50,295)	\$ -	\$ 572,276	\$ 521,981
Present all capital projects in one combined fund	<u>50,295</u>	<u>251,278</u>	<u>(301,573)</u>	<u>-</u>
Fund balances at June 30, 2016, as restated	<u>\$ -</u>	<u>\$ 251,278</u>	<u>\$ 270,703</u>	<u>\$ 521,981</u>

\* \* \* \* \*

**TOWN OF MENDON, MASSACHUSETTS****REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**  
**YEARS ENDED JUNE 30, 2017**

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**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
*(dollar amounts are in thousands)*

	Years Ended December 31,		
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset)	0.963194%	0.947836%	0.895032%
Town's proportionate share of the net pension liability (asset)	\$ 8,067,655	\$ 6,727,808	\$ 5,326,047
Town's covered-employee payroll	\$ 2,642,723	\$ 2,491,075	\$ 2,395,264
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	305.3%	270.1%	222.4%
Plan fiduciary net position as a percentage of the total pension liability	42.00%	44.52%	48.00%

**SCHEDULE OF THE TOWN CONTRIBUTIONS TO PENSION PLAN**  
*(dollar amounts are in thousands)*

	Years Ended June 30,		
	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 467,870	\$ 426,394	\$ 353,708
Contributions in relation to the actuarially determined contribution	<u>467,870</u>	<u>426,394</u>	<u>353,708</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 2,642,723	\$ 2,491,075	\$ 2,395,264
Contributions as a percentage of covered-employee payroll	17.7%	17.1%	14.8%

This schedule is presented to illustrate the requirement to show information for ten years. However, until a full ten-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditor's report.

**TOWN OF MENDON, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION - OPEB  
YEARS ENDED JUNE 30, 2017**

**SCHEDULES OF FUNDING PROGRESS**

**Other Postemployment Benefits**

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a/c)
6/30/2016	\$ 51,554	\$ 5,379,010	\$ 5,327,456	1.0%	\$ 2,217,933	240%
6/30/2013	-	4,946,614	4,946,614	0.0%	2,217,933	223%
6/30/2010	-	4,986,420	4,986,420	0.0%	2,056,192	243%

**SCHEDULES OF CONTRIBUTION FUNDING**

**Other Postemployment Benefits**

Year Ended June 30,	Annual OPEB Cost	Actual Contributions	Percentage Contributed
2017	\$ 400,563	\$ 193,786	48.4%
2016	403,813	181,996	45.1%
2015	407,954	153,799	37.7%

See accompanying independent auditors' report.

# TOWN OF MENDON, MASSACHUSETTS

## REQUIRED SUPPLEMENTARY INFORMATION - OPEB YEAR ENDED JUNE 30, 2017

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### SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

	<u>2017</u>
Total OPEB liability:	
Service cost	\$ 195,723
Interest	155,962
Benefit payments	<u>(168,786)</u>
Net change in total OPEB liability	182,899
 Total OPEB liability - beginning of year	 3,899,038
Total OPEB liability - end of year (a)	<u><u>\$ 4,081,937</u></u>
 Plan fiduciary net position:	
Contributions	\$ 193,786
Net investment income	2,544
Benefit payments	<u>(168,786)</u>
Net change in Plan fiduciary net position	27,544
 Plan fiduciary net position - beginning of year	 50,927
Plan fiduciary net position - end of year (b)	<u><u>\$ 78,471</u></u>
 Net OPEB liability - end of year (a) - (b)	 <u><u>4,003,466</u></u>
 Plan fiduciary net position as a percentage of the total OPEB liability	  1.92%
 Covered-employee payroll	 \$ 2,217,933
 Net OPEB liability as a percentage of covered- employee payroll	  180.50%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

Note: This schedule is presented using the optional format of combining the required schedules in paragraph 36a and 36b of GASB Statement No. 74.

See accompanying independent auditor's report.

## TOWN OF MENDON, MASSACHUSETTS

### REQUIRED SUPPLEMENTARY INFORMATION - OPEB YEAR ENDED JUNE 30, 2017

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#### SCHEDULE OF CONTRIBUTIONS

	<u>2017</u>
Actuarially-determined contribution	\$ 351,685
Contributions in relation to the actuarially-determined contribution	<u>(193,786)</u>
Contribution deficiency (excess)	<u>\$ 157,899</u>
Covered-employee payroll	\$ 2,217,933
Contribution as a percentage of covered-employee payroll	8.74%

#### Notes to Schedule

Valuation Date	July 1, 2016
Actuarial Cost Method	Individual entry age normal
Amortization Period	30 years
Asset Valuation Method	Market value of assets as of reporting date
Healthcare cost trend rates	6.0% initial decreasing to an ultimate rate of 5.0% per annum in 2023
Salary increases	3.0% per annum
Investment rate of return	4.0% per annum
Mortality	For healthy participants, the mortality rates are from the RP-2000 Combined Fully Generational mortality table with a projected scale AA.

For disabled retirees, the mortality rates are from the RP-2000 Combined mortality table set forward 3 years for males.

#### SCHEDULE OF INVESTMENT RETURNS

	<u>2017</u>
Annual money-weighted rate of return, net of investment expense	3.28%

Note: These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditor's report.



TOWN OF MENDON, MASSACHUSETTS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL – GENERAL FUND  
YEAR ENDED JUNE 30, 2017**

	Budgeted Amounts		Actual		Actual	Variance
	Original Budget	Final Budget	Budgetary Amounts	Encumbrances	Budgetary Adjusted	Positive Negative
<b>Revenues:</b>						
Real estate and personal property	\$ 14,848,649	\$ 14,961,239	\$ 14,870,104		\$ 14,870,104	\$ (91,135)
Intergovernmental	471,674	471,674	499,663		499,663	27,989
Motor vehicle and other excises	1,117,405	1,117,405	1,160,435		1,160,435	43,030
Licenses and permits	252,000	252,000	344,519		344,519	92,519
Departmental and other revenue	887,000	887,000	944,390		944,390	57,390
Penalties and interest	50,000	50,000	54,863		54,863	4,863
Fines and forfeitures	53,000	53,000	32,481		32,481	(20,519)
Investment income	8,000	8,000	3,587		3,587	(4,413)
Total Revenues	<u>17,687,728</u>	<u>17,800,318</u>	<u>17,910,042</u>		<u>17,910,042</u>	<u>109,724</u>
<b>Expenditures:</b>						
General government	1,541,193	1,992,203	1,259,123	\$ 566,394	1,825,517	166,686
Public safety	2,488,574	2,530,930	2,465,902	-	2,465,902	65,028
Education	10,362,310	10,362,310	10,362,310	-	10,362,310	-
Public works	995,140	998,266	1,015,203	90,295	1,105,498	(107,232)
Health and human services	536,454	553,095	536,816	-	536,816	16,279
Culture and recreation	330,167	331,179	312,024	10,000	322,024	9,155
Fringe and pension benefits	1,320,474	1,342,412	1,328,559	-	1,328,559	13,853
State and county tax assessments	5,570	5,570	5,570	-	5,570	-
Debt service	700,524	700,524	700,524	-	700,524	-
Total Expenditures	<u>18,280,406</u>	<u>18,816,489</u>	<u>17,986,031</u>	<u>666,689</u>	<u>18,652,720</u>	<u>163,769</u>
<b>Other Financing Sources (Uses):</b>						
Transfers in	121,797	529,747	528,747		528,747	1,000
Transfers out	-	(390,708)	(397,708)		(397,708)	(7,000)
Total Other Financing Sources (Uses)	<u>121,797</u>	<u>139,039</u>	<u>131,039</u>		<u>131,039</u>	<u>(6,000)</u>
(DEFICIENCY) EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES/USE OF PRIOR YEAR BUDGETARY FUND BALANCE	<u>(470,881)</u>	<u>(877,132)</u>	<u>\$ 55,050</u>		<u>\$ (611,639)</u>	<u>\$ 267,493</u>
<b>Other Budgetary Items:</b>						
Prior year encumbrances	438,682	434,883				
Free cash transfers	34,750	444,800				
Other	(2,551)	(2,551)				
Total Other Budgetary Items	<u>470,881</u>	<u>877,132</u>				
<b>Net Budget</b>	<u>\$ -</u>	<u>\$ -</u>				

See accompanying independent auditors' report.

# TOWN OF MENDON, MASSACHUSETTS

## REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2017

### I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted from the Town’s general fund. The budget 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 schools’ budgets are prepared under the direction of the respective school committees. Generally, expenditures may not legally exceed appropriations at the department level or in categories of personnel and non-personnel expenses. 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 Town Accountant has the responsibility to ensure that budgetary controls are maintained and monitored through the accounting system.

Budgetary-to-GAAP Reconciliation – The Town’s general fund is prepared on a basis of accounting other than GAAP to conform to the Uniform Municipal Accounting System basis of accounting as prescribed by the Massachusetts Department of Revenue. A reconciliation of the budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2017, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues on a budgetary basis			\$ 17,910,042
Revenue recognition	\$ 15,218	\$ -	15,218
Stabilization revenue	-	39,970	39,970
Revenues on a GAAP basis	<u>\$ 15,218</u>	<u>\$ 39,970</u>	<u>\$ 17,965,230</u>
Expenditures on a budgetary basis			\$ 17,986,031
OPEB transfer recognition	\$ -	\$ 25,000	25,000
Expense recognition	(1,775)	-	(1,775)
Expenditures on a GAAP basis	<u>\$ (1,775)</u>	<u>\$ 25,000</u>	<u>\$ 18,009,256</u>
Net transfers on a budgetary basis			\$ 131,039
OPEB transfer recognition	\$ -	\$ 25,000	25,000
Stabilization transfers	-	290,792	290,792
Net transfers on a GAAP basis	<u>\$ -</u>	<u>\$ 315,792</u>	<u>\$ 446,831</u>

Appropriation Deficits – During the fiscal year ended, snow and ice expenditures exceeded appropriations. These over expenditures will be funded by available funds during fiscal year 2018.



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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED  
ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

The Honorable Members of the Board of Selectmen  
Town of Mendon, Massachusetts

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Mendon, Massachusetts (the "Town"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated May 23, 2018.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the Town in a separate letter dated May 23, 2018.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Roselli, Clark & Associates*

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
May 23, 2018