

ROSELLI, CLARK & ASSOCIATES
Certified Public Accountants

TOWN OF MENDON, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2019

Report on Internal Control
Over Financial Reporting and
on Compliance and Other Matters
Year Ended June 30, 2019



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, 2019, 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, 2019, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules listed under the required supplementary information section in the accompanying 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 October 21, 2019 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
Certified Public Accountants
Woburn, Massachusetts
October 21, 2019

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, 2019. 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

- Construction on the Town's new police station materially commenced in fiscal year 2019 and is expected to be completed in fiscal year 2020. At June 30, 2019, the Town had approximately \$3.9 million in available funds to complete this project. These available funds were sourced from a \$5.0 million general obligation bond issuance completed in fiscal year 2018. Additionally, the Town had \$1.4 million in authorized but unissued long-term debt available to fund this capital project.
- 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 nearly \$12.2 million (*total net position*) at June 30, 2019. This represents an increase of approximately \$331,000 from the prior year.
- The Town, like so many other Massachusetts communities, reports a deficit in its unrestricted net position in its governmental activities. This deficit increased nearly \$752,000 in fiscal year 2019. Included in this deficit is approximately \$15.3 million in net other postemployment benefits and pension liabilities.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of nearly \$8.3 million, which is approximately \$1.2 million lower than the prior year. This decrease is due primarily to capital spending for the Town's new police station (approximately \$1.2 million) and for various street improvements under a grant program with the Massachusetts Department of Transportation (\$0.4 million), offset by a significant increase in the Town's community preservation fund (\$0.5 million), which did not make any meaningful expenditures in fiscal year 2019. The Town expects to be reimbursed over \$0.4 million for the street improvements in fiscal year 2020.
- Of the ending fund balance in the Town's governmental funds, approximately \$1.0 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 7.5% of the total current year general fund expenditures. The total general fund balance was approximately 11.0% of the total current year general fund expenditures.
- The Town's total long-term debt decreased \$705,000 in 2019 to \$8,140,000 due to normal, scheduled long-term debt repayments. The Town did not complete any long-term borrowings in fiscal year 2019.
- The Town continues to finance the acquisition of police cruisers through leases. In fiscal year 2019, the Town acquired four new police cruisers through the execution of two new five-year leases with the vehicle manufacturer.
- In its May 2019 Annual Town Meeting, the Town voted to establish an enterprise fund for its water department beginning on July 1, 2019.

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 and other postemployment 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 following table represents the condensed comparative statements of net position:

	<u>June 30, 2019</u>	<u>June 30, 2018</u>
Assets:		
Current and other assets	\$ 10,020,397	\$ 11,031,204
Capital assets, net	<u>25,658,083</u>	<u>24,493,106</u>
Total Assets	<u>35,678,480</u>	<u>35,524,310</u>
Deferred Outflows of Resources	<u>1,409,878</u>	<u>1,443,609</u>
Liabilities:		
Long-term liabilities	23,070,508	23,990,669
Other liabilities	<u>1,572,686</u>	<u>877,883</u>
Total Liabilities	<u>24,643,194</u>	<u>24,868,552</u>
Deferred Inflows of Resources	<u>275,762</u>	<u>260,982</u>
Net Position:		
Net investment in capital assets	21,085,667	20,352,604
Restricted	3,379,013	3,029,097
Unrestricted	<u>(12,295,278)</u>	<u>(11,543,316)</u>
Total Net Position	<u>\$ 12,169,402</u>	<u>\$ 11,838,385</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 nearly \$12.2 million (*total net position*). The Town's net position increased approximately \$331,000, or 2.8%, year-over-year.

The largest portion of the Town's net position (approximately \$21.1 million) 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 of the Town's net position (approximately \$3.4 million) represents resources that are subject to external restrictions on how they may be used.

The remaining net position is unrestricted and is presented as a deficit balance. The Town reports a deficit unrestricted net position of nearly \$12.3 million. This deficit is primarily the result of an approximate \$6.0 million net other postemployment benefit liability and \$9.3 million net pension liability at June 30, 2019. The Town expects that its deficit in unrestricted net position will remain for the foreseeable future.

The following table represents the condensed comparative statement of changes in net position:

	2019	2018
Revenues:		
Program revenues:		
Charges for services	\$ 1,406,214	\$ 1,519,504
Operating grants and contributions	559,619	439,232
Capital grants and contributions	166,485	899,571
General revenues:		
Property taxes	16,459,578	15,598,654
Excise taxes	1,265,860	1,294,456
Intergovernmental	458,382	408,247
Other	151,262	45,609
Total Revenues	<u>20,467,400</u>	<u>20,205,273</u>
Expenses:		
General government	1,752,801	1,827,018
Public safety	4,058,404	4,929,718
Education	10,737,552	10,374,072
Public works	1,883,144	2,138,194
Health and human services	737,398	673,612
Culture and recreation	705,107	760,369
Interest expense	261,977	228,222
Total Expenses	<u>20,136,383</u>	<u>20,931,205</u>
Change in Net Position	<u>331,017</u>	<u>(725,932)</u>
Net Position:		
Beginning of year	<u>11,838,385</u>	<u>12,564,317</u>
End of year	<u>\$ 12,169,402</u>	<u>\$ 11,838,385</u>

Governmental Activities – Total revenues in fiscal year 2019 increased over \$262,000, or 1.3%, from the prior year. This increase was due to strong growth in property taxes, which were offset by decreases in capital grants. The Town's largest revenue source is property taxes, which represented approximately 80% and 77% of fiscal year 2019 and 2018 total revenues, respectively. No other revenue source exceeded 10% in fiscal year 2019 or 2018.

The Town's largest expense category is education. Education expenses totaled approximately 53% and 50% of total annual expenditures in fiscal years 2019 and 2018, respectively. In terms of gross dollars, education expenses increased over \$363,000 in fiscal year 2019, which reflected the increase in the Town's assessment for its regional school district. Public safety expenses represented approximately 20% and 24% annual expenditures in fiscal year 2019 and 2018, respectively. No other expense categories were greater than 10% in fiscal years 2019 or 2018.

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 nearly \$8.3 million, which is an approximate \$1.2 million decrease from the prior year. This decrease is due primarily to capital spending for the Town's new police station (approximately \$1.2 million) and for various street improvements under a grant program with the Massachusetts Department of Transportation (\$0.4 million), offset by a significant increase in the Town's community preservation fund (\$0.5 million), which did not make any meaningful expenditures in fiscal year 2019. The Town expects to be reimbursed over \$0.4 million for the street improvements in fiscal year 2020.

The Town reported a positive change in fund balance in its community preservation fund in fiscal year 2019. All other major funds reported decreases in fund balances in fiscal year 2019. The governmental funds financial statements reported over \$1.0 million as *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 \$1.5 million, while total fund balance was nearly \$2.2 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 7.5% of total fiscal year 2019 general fund expenditures, while total fund balance represents approximately 11.0% of that same amount.

Proprietary Fund. The Town voted to establish an enterprise fund for its water department effective July 1, 2019. The fiscal year 2020 financial statements will report the water department's operations and financial position as proprietary funds.

Fiduciary Funds. The Town's fiduciary funds are comprised of the Town's OPEB trust fund, private purpose funds and agency funds. These funds remained consistent with prior year balances.

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, 2019, the Town's investment in capital assets for its governmental activities approximated \$25.7 million. Net capital assets increased by approximately \$1.2 million in fiscal year 2019 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 \$8,140,000. The Town's total long-term bonded debt decreased by \$705,000 in the current fiscal year as the Town did not execute any new long-term borrowings.

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 \$48.4 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 2019 are approximately 88% of the entire property tax 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 anticipates state aid for 2019 to increase to approximate \$562,000.
- The Town expects additional new growth from both residential as well as commercial property taxes for the next several fiscal years.

Each of these factors were considered in preparing the Town's budget for the 2020 fiscal year, which was adopted at Town Meeting in May 2019.

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 Administrator, 20 Main Street, Mendon, MA 01756

TOWN OF MENDON, MASSACHUSETTS

STATEMENT OF NET POSITION JUNE 30, 2019

	Governmental Activities
Assets:	
Cash and cash equivalents	\$ 7,119,455
Investments	1,989,692
Receivables, net of allowances:	
Property taxes	617,970
Excise taxes	80,114
Departmental, user charges and other	124,269
Intergovernmental	88,897
Land	10,811,628
Construction in-progress	1,348,739
Depreciable capital assets, net	<u>13,497,716</u>
Total Assets	<u>35,678,480</u>
Deferred Outflows of Resources:	
Pensions	<u>1,409,878</u>
Total Deferred Outflows of Resources	<u>1,409,878</u>
Liabilities:	
Warrants and accounts payable	611,702
Accrued payroll and withholdings	62,379
Retainage payable	45,595
Accrued interest	93,580
Short-term note payable	109,218
Noncurrent liabilities:	
Due within one year	650,212
Due in more than one year	<u>23,070,508</u>
Total Liabilities	<u>24,643,194</u>
Deferred Inflows of Resources:	
Unearned revenues	176,345
Pensions	<u>99,417</u>
Total Deferred Inflows of Resources	<u>275,762</u>
Net Position:	
Net investment in capital assets	21,085,667
Restricted for:	
Nonexpendable permanent funds	26,299
Expendable permanent funds	11,406
Community preservation	2,254,702
Other purposes	1,086,606
Unrestricted	<u>(12,295,278)</u>
Total Net Position	<u>\$ 12,169,402</u>

See accompanying notes to basic financial statements.

TOWN OF MENDON, MASSACHUSETTS

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	\$ 1,752,801	\$ 156,914	\$ 163,436	\$ -	\$ (1,432,451)
Public safety	4,058,404	432,288	237,612	-	(3,388,504)
Education	10,737,552	35,000	-	-	(10,702,552)
Public works	1,883,144	572,356	2,460	166,485	(1,141,843)
Health and human services	737,398	51,205	145,464	-	(540,729)
Culture and recreation	705,107	158,451	10,647	-	(536,009)
Interest expense	261,977	-	-	-	(261,977)
Total Governmental Activities	<u>20,136,383</u>	<u>1,406,214</u>	<u>559,619</u>	<u>166,485</u>	<u>(18,004,065)</u>
General Revenues:					
					16,459,578
					1,265,860
					458,382
					65,837
					85,425
Total General Revenues and Transfers					<u>18,335,082</u>
Change in Net Position					<u>331,017</u>
Net Position:					
Beginning of year					<u>11,838,385</u>
End of year					<u>\$ 12,169,402</u>

See accompanying notes to basic financial statements.

TOWN OF MENDON, MASSACHUSETTS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2019**

	General Fund	Community Preservation Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Assets:					
Cash and cash equivalents	\$ 1,634,189	\$ 1,246,732	\$ 4,107,685	\$ 130,849	\$ 7,119,455
Investments	908,811	1,007,970	-	72,911	1,989,692
Receivables, net of allowances:					
Property taxes	610,429	7,541	-	-	617,970
Excise taxes	80,114	-	-	-	80,114
Departmental, user charges and other	124,269	-	-	-	124,269
Intergovernmental	38,897	-	-	50,000	88,897
Total Assets	3,396,709	2,262,243	4,107,685	253,760	10,020,397
 Total Deferred Outflows of Resources	 -	 -	 -	 -	 -
Total Assets and Deferred Outflows of Resources	\$ 3,396,709	\$ 2,262,243	\$ 4,107,685	\$ 253,760	\$ 10,020,397
 Liabilities:					
Warrants and accounts payable	\$ 302,868	\$ -	\$ 219,327	\$ 89,507	\$ 611,702
Accrued payroll and withholdings	62,379	-	-	-	62,379
Retainage payable	-	-	45,595	-	45,595
Short-term note payable	-	-	-	109,218	109,218
Total Liabilities	365,247	-	264,922	198,725	828,894
 Deferred Inflows of Resources:					
Unearned revenues - prepaid fees	176,345	-	-	-	176,345
Unavailable revenues - property taxes	531,855	7,541	-	-	539,396
Unavailable revenues - excise taxes	80,114	-	-	-	80,114
Unavailable revenues - departmental and other	124,269	-	-	-	124,269
Total Deferred Inflows of Resources	912,583	7,541	-	-	920,124
 Fund Balances:					
Nonspendable	-	-	-	26,299	26,299
Restricted	360,209	2,254,702	3,842,763	455,472	6,913,146
Committed	218,232	-	-	-	218,232
Assigned	99,882	-	-	-	99,882
Unassigned	1,440,556	-	-	(426,736)	1,013,820
Total Fund Balances	2,118,879	2,254,702	3,842,763	55,035	8,271,379
 Total Liabilities, Deferred Inflows of Resources and Fund Balances	 \$ 3,396,709	 \$ 2,262,243	 \$ 4,107,685	 \$ 253,760	 \$ 10,020,397

See accompanying notes to basic financial statements.

TOWN OF MENDON, MASSACHUSETTS

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES
TO THE STATEMENT OF NET POSITION AS OF
JUNE 30, 2019**

Total Governmental Fund Balances		\$ 8,271,379
Capital assets used in governmental activities in the statement of net position are not financial resources and, therefore, are not reported in the funds.		25,658,083
Certain receivables and revenues are deferred in the governmental funds as they are not current financial resources. These revenues are accrued under the economic resources basis of accounting.		920,124
Deferred outflows and inflows of resources to be recognized in future expense are not available resources and, therefore, are not reported in the funds:		
Deferred outflows of resources - pensions	1,409,878	
Deferred inflows of resources - prepaid fees	(176,345)	
Deferred inflows of resources - pensions	(99,417)	
Net effect of reporting deferred outflows and inflows of resources		1,134,116
Interest is accrued on outstanding long-term debt in the statement of net position but not in the funds until due.		(93,580)
Long-term liabilities not currently due and payable are reported in the statement of net position and not in the funds:		
Net other postemployment benefits liability	(6,041,522)	
Net pension liability	(9,263,226)	
Compensated absences	(156,135)	
Capital lease obligations	(119,837)	
Bonds and notes payable	(8,140,000)	
Net effect of reporting long-term liabilities		(23,720,720)
Net Position — Governmental Activities		<u>\$ 12,169,402</u>

See accompanying notes to basic financial statements.

TOWN OF MENDON, MASSACHUSETTS

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019**

	General Fund	Community Preservation Fund	Capital Projects Fund	Nonmajor Governmental Funds	Total
Revenues :					
Property taxes, net of tax refunds	\$ 16,088,059	\$ 387,827	\$ -	\$ -	\$ 16,475,886
Intergovernmental	518,300	138,407	-	486,243	1,142,950
Motor vehicle and other excise taxes	1,267,537	-	-	-	1,267,537
Licenses and permits	207,153	-	-	-	207,153
Penalties and interest on taxes	65,837	-	-	-	65,837
Fines and forfeitures	52,179	-	-	-	52,179
Departmental and other revenues	934,388	-	-	197,544	1,131,932
Contributions and donations	-	-	-	41,536	41,536
Investment income	66,116	15,188	-	4,121	85,425
Total Revenues	19,199,569	541,422	-	729,444	20,470,435
Expenditures:					
Current:					
General government	1,359,370	1,750	-	39,853	1,400,973
Public safety	2,671,241	-	1,236,340	288,103	4,195,684
Education	10,737,552	-	-	-	10,737,552
Public works	1,022,417	-	74,474	589,214	1,686,105
Health and human services	592,925	-	-	95,229	688,154
Culture and recreation	355,250	-	-	150,149	505,399
Pension and fringe benefits	1,512,264	-	-	-	1,512,264
State and county charges	6,035	-	-	-	6,035
Debt service:					
Principal	705,000	-	-	-	705,000
Interest	269,633	-	-	-	269,633
Total Expenditures	19,231,687	1,750	1,310,814	1,162,548	21,706,799
Excess (Deficiency) of Revenues Over (Under) Expenditures	(32,118)	539,672	(1,310,814)	(433,104)	(1,236,364)
Other Financing Sources (Uses):					
Transfers in	229,455	400,000	80,000	38,846	748,301
Transfers out	(489,106)	(229,455)	(29,740)	-	(748,301)
Total Other Financing Sources (Uses)	(259,651)	170,545	50,260	38,846	-
Change in Fund Balances	(291,769)	710,217	(1,260,554)	(394,258)	(1,236,364)
Fund Balances:					
Beginning of the year	2,410,648	1,544,485	5,103,317	449,293	9,507,743
End of the year	\$ 2,118,879	\$ 2,254,702	\$ 3,842,763	\$ 55,035	\$ 8,271,379

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, 2019**

Net Change in Fund Balances — Total Governmental Funds \$ (1,236,364)

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. Capital asset activity in the current fiscal year included:

Capital asset additions	2,029,512	
Depreciation expense	<u>(864,535)</u>	
Net effect of reporting capital activity		1,164,977

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. (3,035)

The issuance of long-term debt provides current financial resources to the 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, the governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued; whereas these amounts are deferred and amortized in the statement of activities. Differences in the treatment of long-term debt transactions in the current fiscal year included:

Issuance of capital lease obligations	(155,617)	
Repayments of long-term debt	705,000	
Repayments of capital lease obligations	<u>57,662</u>	
Net effect of reporting long-term debt activity		607,045

Some revenues/expenses reported in the statement of activities do not provide/require the use of current financial resources and therefore are not reported as revenues/expenditures in the governmental funds:

Net other postemployment benefits liability	494,745	
Net pension liability	(765,284)	
Compensated absences	61,277	
Accrued interest	<u>7,656</u>	
Net effect of reporting long-term liabilities		<u>(201,606)</u>

Change in Net Position — Governmental Activities \$ 331,017

See accompanying notes to basic financial statements.

TOWN OF MENDON, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2019**

	<u>OPEB Trust</u>	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets:			
Cash and cash equivalents	\$ 28,468	\$ 12,715	\$ 285,103
Investments at fair value:			
Fixed income securities	-	-	-
Equity securities	40,297	-	-
Mutual funds	20,255	39,087	-
Receivables	-	-	73,114
Total Assets	<u>89,020</u>	<u>51,802</u>	<u>358,217</u>
Liabilities:			
Deposits	-	-	109,063
Agency liabilities	-	-	17,124
Total Liabilities	<u>-</u>	<u>-</u>	<u>\$ 126,187</u>
Net Position:			
Restricted for other postemployment benefits	89,020	-	
Held in trust for private purposes	-	51,802	
Total Net Position	<u>\$ 89,020</u>	<u>\$ 51,802</u>	

See accompanying notes to basic financial statements.

TOWN OF MENDON, MASSACHUSETTS

**FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
JUNE 30, 2019**

	OPEB Trust	Private Purpose Trust Funds
	<u> </u>	<u> </u>
Additions:		
Employer contributions	\$ 215,766	\$ -
Other contributions	<u>-</u>	<u>4,500</u>
Total contributions	<u>215,766</u>	<u>4,500</u>
Investment income:		
Interest and dividends	4,199	2,375
Net appreciation in fair value of investments	343	-
Less investment management fees	<u>(321)</u>	<u>-</u>
Total net investment income	<u>4,221</u>	<u>2,375</u>
Total Additions	<u>219,987</u>	<u>6,875</u>
Deductions:		
Benefits to retirees and survivors	210,766	-
Scholarships	<u>-</u>	<u>4,000</u>
Total Deductions	<u>210,766</u>	<u>4,000</u>
Change in Net Position	9,221	2,875
Net Position:		
Beginning of the year	<u>79,799</u>	<u>48,927</u>
End of the year	<u>\$ 89,020</u>	<u>\$ 51,802</u>

See accompanying notes to basic financial statements.

TOWN OF MENDON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2019

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 manages 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 twelve 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 2019, the Town’s assessment was \$9,602,787. 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 2019, the Town’s assessment was \$1,134,765. Complete audited financial statements can be obtained directly from BVRTHS’ 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. However, in its May 2019 Annual Town Meeting, the Town approved the establishment of a water enterprise fund effective July 1, 2019. The Town will report its water operations as a business-type activity beginning in fiscal year 2020.

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 unmatured interest on general long-term debt, which is recognized when 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, monies 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, monies 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 in accordance with GAAP.

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 within the next five 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 reports items related to unearned revenues and its net pension liability as deferred inflows of resources in its government-wide activities, which it expects to amortize into pension expense within the next five years, which will result in reductions in reported pension expense. The Town reports unavailable revenues and unearned 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:					
Community preservation	-	2,254,702	-	-	2,254,702
General government	-	-	-	148,270	148,270
Public safety	-	-	3,651,261	105,998	3,757,259
Public works	-	-	5,526	-	5,526
Culture and recreation	-	-	185,976	128,790	314,766
Debt service	106,080	-	-	-	106,080
Capital stabilization	254,129	-	-	-	254,129
Other purposes	-	-	-	72,414	72,414
Committed:					
General government	141,134	-	-	-	141,134
Public works	54,000	-	-	-	54,000
Other purposes	23,098	-	-	-	23,098
Assigned:					
Encumbrances	99,882	-	-	-	99,882
Unassigned:					
General stabilization	848,557	-	-	-	848,557
Unrestricted	591,999	-	-	(426,736)	165,263
	<u>\$ 2,118,879</u>	<u>\$ 2,254,702</u>	<u>\$ 3,842,763</u>	<u>\$ 55,035</u>	<u>\$ 8,271,379</u>

Stabilization Funds – 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 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 is reported as restricted 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

The Town did not have any instances in which its actual expenditures materially exceeded appropriation in fiscal year 2019.

The Town incurred several deficits in special revenue funds in fiscal year 2019. The most significant deficit pertained to infrastructure spending in the Massachusetts Department of Revenue Complete Streets grant, for which the Town reports a deficit of \$410,003 at June 30, 2019. The Town expects to receive reimbursements from the Commonwealth in fiscal year 2019 to eliminate this deficit.

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 State Treasurer’s investment pool meets the criteria of an external investment pool. This investment pool is administered by the Massachusetts Municipal Depository Trust, or MMDT, which was established by the Treasurer of the Commonwealth who serves as Trustee.

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 remaining investments not categorized under the fair value hierarchy as shown as being valued at either amortized cost or at net asset value (“NAV”). These are investments in non-governmental entities for which readily determinable fair value is not available, such as member units or an ownership interest in partners’ capital to which a proportionate share of net assets is attributed. Investments at NAV are commonly calculated by subtracting the fair value of liabilities from the fair value of assets.

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, 2019:

Investments by Fair Value Level	June 30, 2019	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
Debt securities:				
U.S. Treasury notes	\$ 200,756	\$ 200,756	\$ -	\$ -
U.S. government agency obligations	389,742	-	389,742	-
Corporate bonds	245,959	-	245,959	-
Total debt securities	836,457	200,756	635,701	-
Equity securities	275,091	275,091	-	-
Mutual funds	68,972	-	68,972	-
Total investments by fair value level	1,180,520	\$ 475,847	\$ 704,673	\$ -
Investments measured at amortized cost:				
MMDT	908,811			
Total investments at fair value	\$ 2,089,331			

The Town had the following investments with maturities at June 30, 2019:

Investment Type	Fair Value	Maturity in Years		
		Less than Year	1 to 5 Years	6 to 10 Years
Debt securities:				
U.S. government and agency obligations	\$ 590,498	\$ 140,429	\$ 450,069	\$ -
Corporate bonds	245,959	52,008	193,951	-
Total investments with maturities	836,457	<u>\$ 192,437</u>	<u>\$ 644,020</u>	<u>\$ -</u>
Investments without maturities:				
MMDT	908,811			
Equity securities	275,091			
Mutual funds	68,972			
Total Investments	\$ 2,089,331			

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, 2019, \$2,173,506 in Town bank deposits were not insured by the Federal Deposit Insurance Corporation, the depositors' insurance fund or collateralization agreements and was therefore exposed to custodial credit risk.

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 or Retirement System may not be able to recover the full amount of its principal investment and/or investment earnings. The Town periodically reviews the available financial data for the financial institutions in custody of its funds. All securities not held directly by the Town will be held in the Town's name and tax identification number by a third-party custodian and evidenced by safekeeping receipts showing individual CUSIP numbers for each security. The investments in the MMDT are not exposed to custodial credit risk as their existence is not evidenced by securities that exist in physical or book form.

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.

Concentration of Credit Risk – The Town places no limit on the amount that may be invested in any one issuer.

Credit Risk – The Town has not adopted a formal policy related to credit risk. The Town’s investments had the following ratings by Moody’s Investors Service (“Moody’s”) at year end:

Moody's Rating	U.S. Government Obligations	Corporate Fixed Income	Total
Aaa	\$ 590,498	\$ -	\$ 590,498
A2	-	105,439	105,439
A3	-	-	-
Baa1	-	87,099	87,099
Baa2	-	53,421	53,421
	<u>\$ 590,498</u>	<u>\$ 245,959</u>	<u>\$ 836,457</u>

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, 2019:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Real estate and personal property taxes	\$ 301,746	\$ (1,477)	\$ 300,269
Tax liens	317,701	-	317,701
Motor vehicle and other excise taxes	130,511	(50,397)	80,114
Ambulance	249,742	(169,000)	80,742
Other departmental receivables	43,527	-	43,527
Intergovernmental	88,897	-	88,897
	<u>\$ 1,132,124</u>	<u>\$ (220,874)</u>	<u>\$ 911,250</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	Community Preservation Fund	Total
Real estate and personal property taxes	\$ 214,154	\$ 7,541	\$ 221,695
Tax liens	317,701	-	317,701
Motor vehicle and other taxes	80,114	-	80,114
Ambulance	80,742	-	80,742
Other departmental receivables	43,527	-	43,527
	<u>\$ 736,238</u>	<u>\$ 7,541</u>	<u>\$ 743,779</u>

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2019 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 10,811,628	\$ -	\$ -	\$ 10,811,628
Construction in-progress	112,399	1,236,340	-	1,348,739
Total capital assets not being depreciated	10,924,027	1,236,340	-	12,160,367
Capital assets being depreciated:				
Buildings and improvements	4,761,698	-	-	4,761,698
Infrastructure	13,361,320	565,603	-	13,926,923
Machinery and equipment	2,822,674	-	-	2,822,674
Vehicles	632,259	227,569	(123,787)	736,041
Total capital assets being depreciated	21,577,951	793,172	(123,787)	22,247,336
Less accumulated depreciation for:				
Buildings and improvements	(1,012,365)	(140,535)	-	(1,152,900)
Infrastructure	(4,623,591)	(553,948)	-	(5,177,539)
Machinery and equipment	(1,892,408)	(109,331)	-	(2,001,739)
Vehicles	(480,508)	(60,721)	123,787	(417,442)
Total accumulated depreciation	(8,008,872)	(864,535)	123,787	(8,749,620)
Total capital assets being depreciated, net	13,569,079	(71,363)	-	13,497,716
Capital assets, net	\$ 24,493,106	\$ 1,164,977	\$ -	\$ 25,658,083

Depreciation expense was charged to functions/programs as follows:

General government	\$ 44,815
Public safety	122,734
Public works	616,134
Health and human services	3,395
Culture and recreation	77,457
	<u>\$ 864,535</u>

D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2019 are summarized as follows:

Transfers Out	Transfers In				Total	
	General Fund	Community Preservation Fund	Capital Projects Fund	Nonmajor Governmental Funds		
General Fund	\$ -	\$ 400,000	\$ 80,000	\$ 9,106	\$ 489,106	(1)
Community Preservation Fund	229,455	-	-	-	229,455	(2)
Capital Projects Fund	-	-	-	29,740	29,740	(3)
	<u>\$ 229,455</u>	<u>\$ 400,000</u>	<u>\$ 80,000</u>	<u>\$ 38,846</u>	<u>\$ 748,301</u>	

- (1) The general fund transferred \$407,500 to the community preservation fund and land bank trust fund as part of the Town's original budget. The capital stabilization fund transferred \$80,000 to the capital projects fund.
- (2) Transfers to general fund to fund as part of the Town's budgeting process.
- (3) Bond premiums were transferred from capital projects fund to a receipts reserved fund.

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 2019 included:

Type	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance
MCWT note	0%	<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 a future period.

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.

The following reflects the activity in the long-term liability accounts during the fiscal year ended June 30, 2019:

Description of Issue	Beginning Balances	Additions	Deletions	Ending Balances	Due Within One Year
General obligation bonds	\$ 8,845,000	\$ -	\$ (705,000)	\$ 8,140,000	\$ 600,000
Capital lease obligations	21,882	155,617	(57,662)	119,837	26,792
Compensated absences	217,412	-	(61,277)	156,135	23,420
Net other postemployment benefits liability	6,536,267	-	(494,745)	6,041,522	-
Net pension liability	8,370,108	3,004,900	(2,111,782)	9,263,226	-
	<u>\$ 23,990,669</u>	<u>\$ 3,160,517</u>	<u>\$ (3,430,466)</u>	<u>\$ 23,720,720</u>	<u>\$ 650,212</u>

These liabilities will be liquidated by the general fund.

General obligation bonds and notes outstanding at June 30, 2019 were as follows:

Description of Issue	Interest Rate	Beginning Balance	Additions	Retirements	Ending Balance
General obligation bonds	3.00 - 4.00%	\$ 6,665,000	\$ -	\$ (310,000)	\$ 6,355,000
Refunding bonds	3.00 - 3.50%	2,095,000	-	(310,000)	1,785,000
State House notes	1.75%	85,000	-	(85,000)	-
		<u>\$ 8,845,000</u>	<u>\$ -</u>	<u>\$ (705,000)</u>	<u>\$ 8,140,000</u>

Debt Service – Payments on long-term debt obligations due in future years consist of the following:

Year Ending June 30,	General Obligation Bonds		
	Principal	Interest	Total
2020	\$ 600,000	\$ 249,546	\$ 849,546
2021	615,000	231,546	846,546
2022	635,000	213,095	848,095
2023	555,000	194,045	749,045
2024	570,000	177,396	747,396
2025 - 2029	3,175,000	618,306	3,793,306
2030 - 2034	1,215,000	215,925	1,430,925
2035 - 2038	<u>775,000</u>	<u>68,599</u>	<u>843,599</u>
Total	<u>\$ 8,140,000</u>	<u>\$ 1,968,458</u>	<u>\$ 10,108,458</u>

Authorized and Unissued Debt – At June 30, 2019, the Town had \$1,400,000 in authorized but unissued debt.

G. Capital Leases

The Town is party to two non-cancellable leases for the purchase of four police cruisers. For financial reporting purposes, these leases are accounted for as capital leases. The following table summarized the future payments under the leases:

<u>Fiscal Year Ended June 30,</u>	<u>Amount</u>
2020	\$ 35,780
2021	35,780
2022	35,780
2023	<u>35,780</u>
Total minimum lease payments	143,120
Less amount representing interest	<u>(23,283)</u>
Present value of minimum lease payments	<u>\$ 119,837</u>

The police cruisers have a gross asset value of \$155,617 and accumulated depreciation of \$15,562 at June 30, 2019. The net carrying value of the leased assets totaled \$140,055 at June 30, 2019.

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 2019.

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, 2018 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-nine employers as of December 31, 2018 was as follows:

Active members	7,815
Inactive members entitled to, but not receiving benefits	1,839
Inactive members (or beneficiaries) currently receiving benefits	<u>3,837</u>
	<u>13,491</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 fiscal year 2019.

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 \$568,755 to the Retirement System in fiscal year 2019, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 20% in fiscal year 2019.

Net Pension Liability – At June 30, 2019, the Town reported a liability of \$9,263,226 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2018 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, 2018. There were no material changes to the Retirement System's benefit terms since the actuarial valuation.

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 1.03% at December 31, 2018 and 2017.

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, 2018, 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 \$1,334,040 in pension expense in the statement of activities in fiscal year 2019.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2019, 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
Net difference between projected and actual earnings on pension plan investments	\$ 348,510	\$ -
Changes of assumptions	575,580	-
Difference between expected and actual experience	41,059	68,669
Changes in proportion and differences between Town contributions and proportionate share of contributions	444,729	30,748
	<u>\$ 1,409,878</u>	<u>\$ 99,417</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:

Year ended June 30,

2020	\$ 507,268
2021	374,257
2022	251,410
2023	194,947
2024	<u>(17,421)</u>
	<u>\$ 1,310,461</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, 2018. The significant actuarial assumptions used in the actuarial valuation included:

Inflation	3.0% per year
Amortization method	Payment increases 4.0% per year
Remaining amortization period	17 years, except for ERI for 2002 and 2003 (10 years) and 2010 (4 years)
Asset valuation method	Market value
Salary increases	Group 1: 4.25% - 6.00%, based on service Group 4: 4.75% - 7.00%, based on service
Investment rate of return	7.75%, net of pension plan investment expenses, including inflation
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, 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Rate of Return
Global equity	39%	4.75%
Fixed income	23%	2.28%
Private equity	13%	81.50%
Real estate	10%	3.43%
Timber/natural resources	4%	4.00%
Hedge funds	11%	3.76%

Discount Rate – The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions 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	\$ 11,158,134	\$ 9,263,226	\$ 7,662,417

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

The Town administers a single-employer defined benefit healthcare plan (the “OPEB Plan”). The OPEB Plan provides health and life insurance benefits (other postemployment benefits) to current and future retirees, their dependents and beneficiaries in accordance with Section 20 of Massachusetts General Law (“MGL”) Chapter 32B. 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 premium-based insurance program. The OPEB Plan does not issue a stand-alone financial report and is presented as a fiduciary fund in the Town’s financial statements. OPEB Plan disclosures can be found in this footnote disclosure.

Employees Covered by Benefit Terms – The following employees were covered by the benefit terms as of June 30, 2019:

Inactive employees or beneficiaries receiving benefits	22
Active employees	<u>35</u>
	<u>57</u>

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Retirees contribute between 20% and 25% of the monthly insurance premiums depending on the insurance plan selected; the remainder of the monthly premium and all administrative costs are paid by the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. Additional contributions may be made to the OPEB Plan in varying amounts annually upon approval of the Town’s governing body. For the year ended June 30, 2019, the Town’s average contribution rate was approximately 10% of covered-employee payroll.

Net OPEB Liability – The components of the net OPEB liability of the Town at June 30, 2019 were as follows:

Total OPEB liability	\$ 6,125,542
Plan fiduciary net position	<u>(89,020)</u>
Net OPEB liability	<u>\$ 6,036,522</u>
Plan fiduciary net position as a percentage of the total OPEB liability	1.45%

The Town’s net OPEB liability was measured as of June 30, 2019 and the total OPEB liability used to calculate the net OPEB liability was determined using an alternative measurement method, which is an approach that includes the same broad measurement steps as an actuarial valuation (i.e., projecting benefit payments, discounting projected benefit payments to a present value and attributing the present value of projected benefit payments to periods using an actuarial cost method). The Town is permitted to use an alternative measurement method as there are fewer than one hundred employees (active and inactive) eligible to receive OPEB benefits.

The following key assumptions were applied to all periods included in the alternative measurement method unless otherwise specified:

Reporting date	June 30, 2019
Actuarial method	Alternative measurement approach
Asset valuation method	Market value of the assets as of the reporting date
Investment rate of return	3.8% per annum, which approximates the 20-year municipal bond rate
Healthcare cost trend rates	2.88% in year 1, 7.35% in year 2, 6.0% in years 3 to 6, and 5.0% thereafter
Life expectancy	The <i>Life Expectancy Table</i> by gender from the National Center for Health Statistics (updated 2015)

Discount Rate – The discount rate used to measure the total OPEB liability was 3.8%, which represented a yield or index rate for twenty-year, tax-exempt general obligation municipal bonds with an average rating of AA/Aa or higher.

Changes in the Net OPEB Liability – The following table summarizes the changes in the net OPEB liability for the year ended June 30, 2019:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balances at June 30, 2018	\$ 6,616,066	\$ 79,799	\$ 6,536,267
Changes for the year:			
Service cost	236,837	-	236,837
Interest	251,411	-	251,411
Differences between expected and actual experience	(768,006)	-	(768,006)
Employer contributions	-	215,766	(215,766)
Net investment income	-	4,221	(4,221)
Benefit payments	(210,766)	(210,766)	-
Net changes	(490,524)	9,221	(499,745)
Balances at June 30, 2019	<u>\$ 6,125,542</u>	<u>\$ 89,020</u>	<u>\$ 6,036,522</u>

Sensitivity Analyses – The following presents the Town's net OPEB liability as well as what the Town's net OPEB liability would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current discount rate:

	1% Decrease (2.8%)	Current Discount (3.8%)	1% Increase (4.8%)
Net OPEB liability	\$ 6,775,428	\$ 6,036,522	\$ 5,385,430

The following presents the Town's net OPEB liability as well as what the Town's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1.0% lower or 1.0% higher than the current healthcare cost trend rates:

	Healthcare Cost		
	1% Decrease (1.88% increasing to 4%)	Trend Rates (2.88% increasing to 5%)	1% Increase (3.88% increasing to 6%)
Net OPEB liability	\$ 5,270,297	\$ 6,036,522	\$ 6,976,636

Investment Custody – In accordance with Massachusetts General Laws, the Town Treasurer is the custodian of the OPEB Plan. Since the Town has not designated a Board of Trustees, the Town Treasurer is also the OPEB Plan trustee and as such is responsible for the general supervision of the management, investment and reinvestment of the OPEB Plan assets. OPEB Plan assets may be invested and reinvested by the custodian consistent with the prudent investor rule established in Chapter 203C of MGL and may, with the approval of the State Retiree Benefits Trust Fund Board of Trustees, be invested in the State Retiree Benefits Trust Fund established in Section 24 of Chapter 32 of MGL. OPEB Plan assets are segregated from other funds and cannot be subject to the claims of any general creditor of the Town.

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

Investment Rate of Return – For the year ended June 30, 2019, the annual money-weighted rate of return on investments, net of investment expense, was 5.29%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

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 at June 30, 2019 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, 2019.

Appellate Tax Board – Generally the Town has pending cases filed with the Massachusetts Appellate Tax Board of the Commonwealth of Massachusetts (“ATB”). The Town had several pending cases in ATB at June 30, 2019, for which the Town subsequently abated \$18,326 to these taxpayers in fiscal year 2020.

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 November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of the Statement was 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 became effective in fiscal year 2019 and did not have a material impact on the Town's financial statements.

In April 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement was to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarified which liabilities governments should include when disclosing information related to debt. The provisions of this Statement became effective in fiscal year 2019 and did not have a material impact on the Town's financial statements.

B. Future Year Implementations

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 June 2017, the GASB issued GASB Statement No. 87, *Leases*. This Statement redefines the way 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.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest costs incurred before the end of a construction period. 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.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. 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 2019, the GASB issued GASB Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to standardize the reporting of conduit debt obligations by issuers by clarifying the existing definition of conduit debt obligation, among other matters. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2020 (fiscal year 2022). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

* * * * *

TOWN OF MENDON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION
TOWN PENSION PLAN**

SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

(dollar amounts are in thousands)

	Year Ended June 30,				
	2019	2018	2017	2016	2015
Town's proportion of the net pension liability	1.022%	1.026%	0.963%	0.948%	0.895%
Town's proportionate share of the net pension liability	\$ 9,264	\$ 8,370	\$ 8,068	\$ 6,728	\$ 5,326
Town's covered payroll	\$ 2,788	\$ 2,674	\$ 2,643	\$ 2,491	\$ 2,395
Town's proportionate share of the net pension liability as a percentage of its covered payroll	332.3%	313.0%	305.3%	270.1%	222.4%
Plan fiduciary net position as a percentage of the total net pension liability	43.1%	46.4%	42.0%	44.5%	48.0%

SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO THE PENSION PLAN

(dollar amounts are in thousands)

	Year Ended June 30,				
	2019	2018	2017	2016	2015
Actuarially determined contribution	\$ 569	\$ 519	\$ 468	\$ 426	\$ 354
Contributions in relation to the actuarially determined contribution	569	519	468	426	354
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Town's covered payroll	\$ 2,788	\$ 2,674	\$ 2,643	\$ 2,491	\$ 2,395
Contributions as a percentage of covered payroll	20.4%	19.4%	17.7%	17.1%	14.8%

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

See accompanying independent auditors' report.

TOWN OF MENDON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION
OTHER POSTEMPLOYMENT BENEFITS PLAN**

SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS

(dollar amounts are in thousands)

	Year Ended June 30,		
	2019	2018	2017
Total OPEB Liability:			
Service cost	\$ 237	\$ 241	\$ 196
Interest	252	207	156
Changes in benefit terms	-	-	-
Differences between actual and expected experience	(768)	1,013	-
Changes in assumptions	-	-	-
Benefit payments	<u>(211)</u>	<u>(224)</u>	<u>(169)</u>
Net Change in Total OPEB Liability	<u>(490)</u>	<u>1,237</u>	<u>183</u>
Total OPEB Liability:			
Beginning of year	<u>6,616</u>	<u>5,379</u>	<u>5,196</u>
End of year (a)	<u>\$ 6,126</u>	<u>\$ 6,616</u>	<u>\$ 5,379</u>
Plan Fiduciary Net Position:			
Contributions	\$ 216	\$ 224	\$ 194
Net investment income	4	1	3
Benefit payments	<u>(211)</u>	<u>(224)</u>	<u>(169)</u>
Change in Plan Fiduciary Net Position	<u>9</u>	<u>1</u>	<u>28</u>
Plan Fiduciary Net Position:			
Beginning of year	<u>80</u>	<u>79</u>	<u>51</u>
End of year (b)	<u>\$ 89</u>	<u>\$ 80</u>	<u>\$ 79</u>
Net OPEB Liability — End of Year (a) - (b)	<u>\$ 6,037</u>	<u>\$ 6,536</u>	<u>\$ 5,300</u>
Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability	1.45%	1.21%	1.47%
Covered payroll	\$ 2,218	\$ 2,218	\$ 2,218
Net OPEB Liability as a Percentage of Covered Payroll	272.18%	294.68%	238.95%

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

See accompanying independent auditors' report.

TOWN OF MENDON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION OTHER POSTEMPLOYMENT BENEFITS PLAN

SCHEDULE OF CONTRIBUTIONS

(dollar amounts are in thousands)

	Year Ended June 30,		
	2019	2018	2017
Actuarially determined contribution	\$ (283)	\$ 1,458	\$ 352
Contributions in relation to the actuarially determined contribution	(211)	(224)	(194)
Contribution deficiency (excess)	\$ (494)	\$ 1,234	\$ 158
Covered payroll	\$ 2,218	\$ 2,218	\$ 2,218
Contribution as a percentage of covered payroll	9.51%	10.10%	8.75%

Notes to Schedule:

Reporting date	June 30, 2019
Valuation method	Alternative measurement approach
Asset valuation method	Market value of the assets as of the reporting date
Single equivalent discount rate	3.8% per annum, which approximates the 20-year municipal bond rate
Healthcare cost trend rates	2.88% in year 1, 7.35% in year 2, 6.0% in years 3 to 6, and 5.0% thereafter
Life expectancy	The <i>Life Expectancy Table</i> by gender from the National Center for Health Statistics (updated 2015)

SCHEDULE OF INVESTMENT RETURNS

	Year Ended June 30,		
	2019	2018	2017
Annual money-weighted rate of return, net of investment expenses	5.29%	1.69%	3.28%

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

See accompanying independent auditors' report.

TOWN OF MENDON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual		Actual	Positive
	Original	Final	Budgetary		Budgetary	(Negative)
	Budget	Budget	Amounts	Encumbrances	Adjusted	Variance
Revenues :						
Property taxes, net of tax refunds	\$ 16,065,660	\$ 16,065,660	\$ 16,097,023		\$ 16,097,023	\$ 31,363
Intergovernmental	516,459	516,459	518,300		518,300	1,841
Motor vehicle and other excise taxes	1,254,382	1,254,382	1,267,537		1,267,537	13,155
Licenses and permits	272,000	272,000	207,153		207,153	(64,847)
Penalties and interest on taxes	50,000	50,000	65,837		65,837	15,837
Fines and forfeitures	46,000	46,000	52,179		52,179	6,179
Departmental and other revenues	857,355	857,355	1,024,474		1,024,474	167,119
Investment income	3,600	3,600	43,958		43,958	40,358
Total Revenues	<u>19,065,456</u>	<u>19,065,456</u>	<u>19,276,461</u>		<u>19,276,461</u>	<u>211,005</u>
Expenditures:						
General government	1,644,305	1,642,699	1,359,370	\$ 175,881	1,535,251	107,448
Public safety	2,743,467	2,743,467	2,671,241	9	2,671,250	72,217
Education	10,737,553	10,737,553	10,737,552	-	10,737,552	1
Public works	1,270,763	1,270,763	1,022,417	109,126	1,131,543	139,220
Health and human services	669,196	669,196	592,925	21,920	614,845	54,351
Culture and recreation	379,530	379,530	355,250	11,178	366,428	13,102
Pension and fringe benefits	1,507,720	1,507,720	1,507,264	-	1,507,264	456
State and county charges	6,035	6,035	6,035	-	6,035	-
Debt service	1,068,278	1,078,335	974,633	100,000	1,074,633	3,702
Total Expenditures	<u>20,026,847</u>	<u>20,035,298</u>	<u>19,226,687</u>	<u>418,114</u>	<u>19,644,801</u>	<u>390,497</u>
Other Financing Sources (Uses):						
Transfers in	230,898	240,955	240,955		240,955	-
Transfers out	(452,500)	(454,106)	(454,106)		(454,106)	-
Total Other Financing Sources (Uses)	<u>(221,602)</u>	<u>(213,151)</u>	<u>(213,151)</u>		<u>(213,151)</u>	<u>-</u>
(Deficiency) Excess of Revenues and Other Financing Sources Over Expenditures/Use of Prior Year Budgetary Fund Balance	<u>(1,182,993)</u>	<u>(1,182,993)</u>	<u>\$ (163,377)</u>		<u>\$ (581,491)</u>	<u>\$ 601,502</u>
Other Budgetary Items:						
Prior year encumbrances	638,358	638,358				
Free cash	544,635	544,635				
Total Other Budgetary Items	<u>1,182,993</u>	<u>1,182,993</u>				
Net Budget	<u>\$ -</u>	<u>\$ -</u>				

See notes to required supplementary information.

See accompanying independent auditors' report.

TOWN OF MENDON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2019

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. Most appropriations are non-continuing and therefore 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, 2019, is as follows:

	Basis of Accounting Differences	Fund Perspective Differences	Total
Revenues — budgetary basis			\$ 19,276,461
Stabilization revenue	\$ -	\$ 22,158	22,158
Revenue recognition	(100,550)	-	(100,550)
Transfer treatment	-	1,500	1,500
Revenues — GAAP basis	<u>\$ (100,550)</u>	<u>\$ 23,658</u>	<u>\$ 19,199,569</u>
Expenditures — budgetary basis			\$ 19,226,687
OPEB transfer recognition	\$ -	\$ 5,000	5,000
Expenditures — GAAP basis	<u>\$ -</u>	<u>\$ 5,000</u>	<u>\$ 19,231,687</u>
Other financing sources (uses) — budgetary basis			\$ (213,151)
Stabilization transfers	\$ -	\$ (50,000)	(50,000)
OPEB transfer recognition	-	5,000	5,000
Expense recognition	-	(1,500)	(1,500)
Other financing sources (uses) — GAAP basis	<u>\$ -</u>	<u>\$ (46,500)</u>	<u>\$ (259,651)</u>



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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, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated October 21, 2019.

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 October 21, 2019.

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.

A handwritten signature in cursive script that reads "Roselli, Clark & Associates".

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
October 21, 2019