

TOWN OF UPTON, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2011

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended June 30, 2011

TOWN OF UPTON, MASSACHUSETTS

TABLE OF CONTENTS YEAR ENDED JUNE 30, 2011

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-10
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet – Governmental Funds	13
Reconciliation – Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Assets	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation – Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Net Assets – Proprietary Funds	17
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds	18
Statement of Cash Flows – Proprietary Funds	19
Statement of Fiduciary Net Assets	20
Statement of Changes in Fiduciary Net Assets	21
NOTES TO THE FINANCIAL STATEMENTS	22-41
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedules of Funding Progress (Pension System and Other Post Employment Benefits)	42
Schedules of Contribution Funding (Pension System and Other Post Employment Benefits)	42
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	43
Notes to Required Supplementary Information	44
OTHER REPORTS:	
Report on Internal Control Over Financial and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	45-46

ROSELLI, CLARK & ASSOCIATES

CERTIFIED PUBLIC ACCOUNTANTS
MANAGEMENT CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Upton, Massachusetts (the "Town"), as of and for the year ended June 30, 2011 which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Town. Our responsibility is to express an opinion on these basic financial statements based on our audit.

The Basic Financial Statements of the Town as of June 30, 2010 were audited by other auditors whose opinion, dated December 15, 2010, on those statements was unqualified. As discussed in Note V, the Town has restated its fiscal year 2010 basic financial statements during the current year. The other auditors reported on the basic financial statements before this restatement.

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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 2011, on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 10, the funding and contribution progress for pension and other post employment benefits on page 42, and budgetary comparison on pages 43 and 44 be presented to supplement the basic financial statements.

Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires 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.

Roselli Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
December 21, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

As the management of the Town of Upton, 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, 2011. 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 found on pages 11 to 44.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by over \$43.4 million (*total net assets*). Of this amount, approximately \$2.6 million (*total unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors. The government's total net assets remained consistent year-over-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 approximately \$7.6 million, which is over \$0.5 million higher than the prior year. The general fund and nonmajor governmental funds reported increases in fund balances of approximately \$0.4 million and \$0.3 million, respectively. The community preservation fund reported a decrease in fund balance of nearly \$0.2 million. Included in the general fund was a one-time debt reoffering premium of \$0.2 million. The increase in the nonmajor governmental fund balances was primarily a result of investment returns exceeding expectations. The decrease in the community preservation fund is attributable to the approximately \$1.2 million land purchase in 2011. With the exception of a small deficit fund balance in its capital project fund, each reported major governmental fund as well as the cumulative total fund balance reported as nonmajor governmental funds reported positive increases in fund balances in 2011. Of the ending fund balance, approximately \$1.3 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.
- The accounting treatment for certain items vary greatly between the statement of net assets and the governmental fund balance sheet. Therefore, there are significant differences in equity and fund balance amounts between the two statements noted above. A reconciliation has been provided on page 14 of the accompanying basic financial statements to assist the reader in understanding these differences.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was approximately 8.1% percent of the total general fund expenditures and the total general fund balance was approximately 16.6% of the total general fund expenditures.
- The Town's total long-term debt increased by over \$0.5 million during the current fiscal year. The Town refinanced \$1.3 million in short term borrowing in the form of a BAN to long-term general obligations in its business-type activities. In connection with this refinancing, the Town refinanced other existing long-term debt using an advanced refunding general obligation bond. As a result, the Town recognized a nearly \$0.2 million, one-time debt reoffering premium. Scheduled principal payments of nearly \$0.6 million were made in 2011.

Overview of the Financial Statements

This discussion and analysis are 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, similar to private-sector business.

The *statement of net assets* presents information on all of the Town’s assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 government’s net assets changed during the most recent fiscal year. All changes in net assets 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, community development, health and human services, culture and recreation, fringe benefits, and debt service. The business-type activities of the Town include its water and sewer operations.

The government-wide financial statements can be found on pages 11 and 12 of this report.

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

During the current fiscal year, the Town implemented Governmental Accounting Standards Board (“GASB”) Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This accounting pronouncement was intended to improve the usefulness of information provided to financial report users about fund balance by providing clearer, more structured fund balance classifications, and by clarifying the definitions of existing governmental fund types.

GASB 54 distinguishes fund balance between amounts that are considered nonspendable, such as fund balances 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 will be 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 on pages 14 and 16 to facilitate this comparison.

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. Data from the other governmental funds are combined into a single, aggregated presentation.

The basic governmental fund financial statements can be found on pages 13 and 15 of this report.

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 on pages 43 and 44 of this report.

Proprietary Funds Proprietary funds are used to account for a government's ongoing organizations and activities which are similar to those often found in the private sector. The Town utilizes the proprietary funds to report activities of its enterprise funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer activities.

The basic proprietary fund financial statements can be found on pages 17-19 of this report.

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.

The basic fiduciary fund financial statements can be found on pages 20-21 of this report.

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. The notes to the financial statements can be found on pages 22 to 41 of this report.

Government-Wide Financial Analysis
(see Exhibit I and Exhibit II on pages 9 and 10)

The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by over \$43.4 million (*total net assets*). Of this amount, approximately \$2.6 million (*total unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.

The largest portion (approximately 79.3%) of the Town's net assets 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, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets (approximately 14.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, (approximately 6.0%), may be used to meet the government's ongoing obligations to citizens and creditors.

The Town reported positive fund balances in all net asset categories at June 30, 2011.

Governmental Activities During 2011, Town property taxes made up approximately 76.73% of total revenues, which is consistent with the prior year. No other revenues were greater than 10% of total revenues in fiscal years 2011 or 2010. The Town's largest expense category is education, which the Town continues to devote substantial resources. Education expenses totaled approximately 45.4% and 45.1% of total fiscal year 2011 and 2010 expenses, respectively. Public works expenses represented 25.5% and 25.3% of total fiscal year 2011 and 2010 expenses, respectively. Public safety expenses represented 16.7% and 18.6% of total fiscal year 2011 and 2010 expenses, respectively. No other expense categories were greater than 10% of total 2011 expenses.

Business-Type Activities User charges represent the majority of the reported revenues in both fiscal year 2011 and 2010. Operating expenses in the Town's water and sewer enterprise funds consist primarily of payroll and related personnel costs, normal operating costs, depreciation and interest expense.

Financial Analysis of the Government's Funds

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 approximately \$7.6 million, which is over \$0.5 million higher than the prior year. The general fund and nonmajor governmental funds reported increases in fund

balances of approximately \$0.4 million and \$0.3 million, respectively. The community preservation fund reported a decreased in fund balance of nearly \$0.2 million. Included in the general fund was a one-time debt reoffering premium of \$0.2 million. The increase in the nonmajor governmental fund balances was primarily a result of investment returns exceeding expectations. The decrease in the community preservation fund is attributable to the approximately \$1.2 million land purchase in 2011. With the exception of small deficit fund balance in its capital project fund, each reported major governmental fund as well as the cumulative total fund balance reported as nonmajor governmental funds reported positive increased in fund balances in 2011. Of the ending fund balance, approximately \$1.3 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, the unassigned fund balance of the general fund was approximately \$1.3 million, while total fund balance was over \$2.6 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 8.1% of total general fund expenditures, while total fund balance represents approximately 16.6% of that same amount.

Proprietary Funds The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net assets of the water and sewer were approximately \$7.7 million in the aggregate.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were less than 1%. The schedule of budgetary information is provided on pages 43 and 44 of this report.

Capital Asset and Debt Administration

Capital Assets As of June 30, 2011, the Town's investment in capital assets for its governmental and business-type activities approximated \$30.8 million and \$10.4 million, respectively. Governmental net fixed assets decreased nearly \$1.2 million as 2011 depreciation expense of nearly \$3.1 million exceeded capital additions of approximately \$1.9 million. Business-type net fixed assets increased by approximately \$0.1 million as 2011 capital additions of nearly \$0.3 million exceeded depreciation expense of nearly \$0.2 million.

Additional information on the Town capital assets can be found in Note III.C to the financial statements.

Long-term Debt At the end of the current fiscal year, the Town had total debt outstanding of nearly \$6.8 million, which represents a decrease of approximately \$0.5 million from the prior year. At June 30, 2011, the Town had over \$3.2 million in general obligation bonds of governmental activities and nearly \$3.6 million in general obligation bonds of business-type activities. The Town refinanced existing long-term debt using an advanced refunding general obligation bond. As a result, the Town recognized a nearly \$0.2 million, one-time debt reoffering premium.

The Town's bond rating of "AA" was set by Standard and Poor set in October 2011.

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 \$50.0 million, which is significantly in excess of the Town's outstanding general obligation debt.

Additional information on the Town's debt can be found in Note III. E and F of this report.

General Fund Budgetary Highlights

Differences between the original budget and the final amended budget were not significant and can be found in the schedule of budgetary information on page 43 of this report.

Economic Factors and Next Year's Budgets and Rates

- Consistent with both State and National work force trends, the Town's unemployment rates have been increasing steadily over the past 18 to 36 months, and while this trend is expected to improve in calendar 2012, this recovery may be slow. Furthermore, the extent, timing or certainty of any economic rebound cannot be reasonably estimated at this time.
- The Town's real estate tax base is made up predominantly of residential taxes, which in 2012 were set to approximate 94% of the entire levy. The Town relies to a moderate but less extent on its commercial, industrial and personnel property real estate tax base which comprise the remainder of the 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 2.5% of the previous year tax levy.
- Consistent with both State and National indices, the Town's housing market is in a downward trend. Housing prices are approximately 25% lower than their 2005 peaks. As the economy rebounds, the Town expects its housing market to participate ratably in the rebound. However, the extent, timing or certainty of any housing rebound can not be reasonably estimated at this time.
- During the past several fiscal years, the Town like many other communities, has faced many consequences of the adverse economy as local receipts and investment income were lower than expected. The Town began to see some signs of recovery in its property tax assessments and motor vehicle excise taxes. The Town has been proactive in reducing costs in many areas.

All of these factors were considered in preparing the Town's budget for the 2012 fiscal year, which was adopted at Town Meeting in May 2011. The tax rate, which reflects the adopted budget, was set November 22, 2011.

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 Manager, 1 Main Street, Upton, MA 01568.

**EXHIBIT I
GOVERNMENT-WIDE FINANCIAL ANALYSIS**

NET ASSETS

<u>Assets</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	(a)		<i>in thousands (000's)</i>		(a)	
	2011	2010	2011	2010	2011	2010
Current and other assets	\$ 9,075	\$ 8,746	\$ 1,105	\$ 2,182	\$ 10,180	\$ 10,928
Capital assets, net	30,798	31,948	10,382	10,279	41,180	42,227
Total Assets	<u>39,873</u>	<u>40,694</u>	<u>11,488</u>	<u>12,461</u>	<u>51,361</u>	<u>53,155</u>
<u>Liabilities</u>						
Long term liabilities	3,964	4,213	3,642	2,845	7,606	7,058
Other liabilities	249	755	62	1,908	311	2,663
Total Liabilities	<u>4,213</u>	<u>4,968</u>	<u>3,704</u>	<u>4,753</u>	<u>7,917</u>	<u>9,721</u>
<u>Net Assets</u>						
Invested in capital assets, net of related debt	27,578	28,198	6,869	7,315	34,447	35,513
Restricted	6,379	3,170	-	-	6,379	3,170
Unrestricted	1,703	4,358	915	393	2,618	4,751
Total Net Assets	<u>\$ 35,660</u>	<u>\$ 35,726</u>	<u>\$ 7,784</u>	<u>\$ 7,708</u>	<u>\$ 43,444</u>	<u>\$ 43,434</u>

(a) Prior year balances were restated. See Note V for detail)

EXHIBIT II
GOVERNMENT-WIDE FINANCIAL ANALYSIS

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
		(a)		(a)		(a)
Revenues:						
Program revenues:						
Charges for services	\$ 739	\$ 934	\$ 622	\$ 801	\$ 1,361	\$ 1,735
Operating grants and contributions	218	102	-	-	218	102
Capital grants and contributions	1,142	-	90	90	1,232	90
General revenues:						
Property taxes	14,917	14,558	-	-	14,917	14,558
Intergovernmental	520	518	-	-	520	518
Other	1,909	1,030	-	-	1,909	1,030
Total revenues	<u>19,444</u>	<u>17,142</u>	<u>712</u>	<u>891</u>	<u>20,156</u>	<u>18,033</u>
Expenses:						
General government	1,177	1,073	-	-	1,177	1,073
Public safety	3,203	3,325	-	-	3,203	3,325
Education	8,697	8,068	-	-	8,697	8,068
Public works	4,881	4,524	-	-	4,881	4,524
Health and human services	501	358	-	-	501	358
Culture and recreation	477	413	-	-	477	413
Debt service	207	129	100	197	307	326
Water	-	-	469	379	469	379
Sewer	-	-	434	387	434	387
Total expenses	<u>19,142</u>	<u>17,890</u>	<u>1,004</u>	<u>963</u>	<u>20,146</u>	<u>18,853</u>
Excess (deficiency) in net assets before transfers	301	(748)	(292)	(72)	10	(820)
Transfers	<u>(368)</u>	<u>(533)</u>	<u>368</u>	<u>533</u>	<u>-</u>	<u>-</u>
Change in net assets	(66)	(1,281)	76	461	10	(820)
Net assets, beginning of year	<u>35,726</u>	<u>37,007</u>	<u>7,708</u>	<u>7,247</u>	<u>43,434</u>	<u>44,254</u>
Net assets, end of year	<u>\$ 35,660</u>	<u>\$ 35,726</u>	<u>\$ 7,784</u>	<u>\$ 7,708</u>	<u>\$ 43,444</u>	<u>\$ 43,434</u>

(a) Certain reclassifications have been made to the fiscal year 2010 expenses to conform with the fiscal year 2011 presentation. In addition, the prior period beginning net asset balances were restated. Detail is included in Note V to the financial statements)

TOWN OF UPTON, MASSACHUSETTS

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Governmental Activities	Business-Type Activities	Total
Assets			
Cash and cash equivalents	\$ 2,978,636	\$ 230,733	\$ 3,209,369
Investments	4,271,461	-	4,271,461
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes	797,205	-	797,205
User charges and fees	-	367,312	367,312
Other	527,777	-	527,777
Intergovernmental	500,000	507,236	1,007,236
Land	4,590,304	-	4,590,304
Depreciable capital assets, net of accumulated depreciation	26,207,552	10,382,428	36,589,980
Total Assets	39,872,935	11,487,709	51,360,644
Liabilities			
Warrants and accounts payable	236,002	29,557	265,559
Other liabilities	13,230	-	13,230
Accrued interest expense	-	32,090	32,090
Noncurrent liabilities:			
Due in one year or less	300,000	316,301	616,301
Due in more than one year	3,663,962	3,325,553	6,989,515
Total Liabilities	4,213,194	3,703,501	7,916,695
Net Assets			
Invested in capital assets, net of related debt	27,577,856	6,868,711	34,446,567
Restricted	6,378,908	-	6,378,908
Unrestricted	1,702,977	915,497	2,618,474
Total Net Assets	\$ 35,659,741	\$ 7,784,208	\$ 43,443,949

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 1,176,665	\$ 138,223	\$ 117,545	\$ 640,278	\$ (280,619)	\$ -	\$ (280,619)
Public safety	3,202,943	241,808	36,121	-	(2,925,014)	-	(2,925,014)
Education	8,696,429	-	25,708	-	(8,670,721)	-	(8,670,721)
Public works	4,880,730	-	-	501,393	(4,379,337)	-	(4,379,337)
Health and human services	500,911	208,215	16,438	-	(276,258)	-	(276,258)
Culture and recreation	476,606	150,592	21,331	-	(304,683)	-	(304,683)
Debt service	207,060	-	-	-	(207,060)	-	(207,060)
Total Governmental Activities	19,141,344	738,838	217,143	1,141,671	(17,043,692)	-	(17,043,692)
Business-Type Activities:							
Water	468,495	355,440	-	-	-	(113,055)	(113,055)
Sewer	535,370	266,786	-	90,112	-	(178,472)	(178,472)
Total Business-Type Activities	1,003,865	622,226	-	90,112	-	(291,527)	(291,527)
Total Primary Government	\$ 20,145,209	\$ 1,361,064	\$ 217,143	\$ 1,231,783	(17,043,692)	(291,527)	(17,335,219)
General Revenues:							
Real estate and personal property taxes					14,916,548	-	14,916,548
Motor vehicle and other excise					987,083	-	987,083
Penalties and interest on taxes					109,123	-	109,123
Intergovernmental					519,841	-	519,841
Investment income					597,436	460	597,896
Debt reoffering premium					215,000	-	215,000
Transfers (net)					(367,683)	367,683	-
Total general revenues and transfers					16,977,348	368,143	17,345,491
Change in Net Assets					(66,344)	76,616	10,272
Net Assets:							
Beginning of year (as restated; see Note V)					35,726,085	7,707,592	43,433,677
End of year					\$ 35,659,741	\$ 7,784,208	\$ 43,443,949

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011**

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
Assets:				
Cash and cash equivalents	\$ 2,715,011	\$ 73,310	\$ 190,315	\$ 2,978,636
Investments	-	1,864,355	2,407,106	4,271,461
Receivables, net of allowance for uncollectibles:				
Real estate and personal property taxes	779,272	17,933	-	797,205
Other	527,777	-	-	527,777
Due from other governments	-	500,000	-	500,000
Total Assets	\$ 4,022,060	\$ 2,455,598	\$ 2,597,421	\$ 9,075,079
Liabilities and Fund Balances:				
Liabilities:				
Warrants and accounts payable	\$ 207,439	\$ 25,161	\$ 3,402	\$ 236,002
Other liabilities	13,230	-	-	13,230
Deferred revenues	1,163,547	17,933	-	1,181,480
Total Liabilities	1,384,216	43,094	3,402	1,430,712
Fund Balances:				
Nonspendable	-	-	122,384	122,384
Restricted	349,286	2,412,504	2,510,961	5,272,751
Committed	983,773	-	-	983,773
Assigned	7,937	-	-	7,937
Unassigned	1,296,848	-	(39,326)	1,257,522
Total Fund Balances	2,637,844	2,412,504	2,594,019	7,644,367
Total Liabilities and Fund Balances	\$ 4,022,060	\$ 2,455,598	\$ 2,597,421	\$ 9,075,079

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Total Governmental Fund Balances	\$ 7,644,367
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	30,797,856
Other long-term assets are not available to pay for current-period expenditures and are therefore deferred on funds.	1,181,480
Long-term liabilities are not due and payable in the current period and are therefore, not reported in the government funds:	
Other post-employment benefits	(743,962)
Bonds and notes payable	<u>(3,220,000)</u>
Net Assets of Governmental Activities	<u><u>\$ 35,659,741</u></u>

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FISCAL YEAR ENDED JUNE 30, 2011**

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:				
Real estate and personal property taxes, net	\$ 14,268,926	\$ 302,995	\$ -	\$ 14,571,921
Intergovernmental	673,085	640,278	552,063	1,865,426
Motor vehicle and other excises	941,820	-	-	941,820
Licenses and permits	101,384	-	-	101,384
Departmental and other revenue	414,766	-	188,061	602,827
Penalties and interest on taxes	76,501	32,622	-	109,123
Fines and fees	34,627	-	-	34,627
Investment income	149,971	-	447,465	597,436
Debt reoffering premium	215,000	-	-	215,000
Contributions and donations	-	-	13,229	13,229
Total Revenues	16,876,080	975,895	1,200,818	19,052,793
Expenditures:				
Current:				
General government	916,729	1,160,779	16,486	2,093,994
Public safety	2,358,943	-	34,895	2,393,838
Education	8,696,429	-	-	8,696,429
Public works	1,767,768	-	517,404	2,285,172
Health and human services	295,071	-	116,921	411,992
Culture and recreation	234,286	-	171,162	405,448
Fringe benefits	1,081,459	-	-	1,081,459
Debt service:				
Principal maturities	315,000	-	-	315,000
Interest	214,195	-	-	214,195
State and county tax assessments	47,242	-	-	47,242
Total Expenditures	15,927,122	1,160,779	856,868	17,944,769
Excess (Deficiency) of Revenues Over Expenditures	948,958	(184,884)	343,950	1,108,024
Other Financing Sources (Uses):				
Proceeds from bond issuances	2,770,000	-	-	2,770,000
Payments to escrow agent	(2,985,000)	-	-	(2,985,000)
Transfers out	(367,683)	-	-	(367,683)
Total Other Financing Sources	(582,683)	-	-	(582,683)
Net Change in Fund Balances	366,275	(184,884)	343,950	525,341
Fund Balances - Beginning of year (as restated - see Note V to the financial statements)	2,271,569	2,597,388	2,250,069	7,119,026
Fund Balances - End of year	<u>\$ 2,637,844</u>	<u>\$ 2,412,504</u>	<u>\$ 2,594,019</u>	<u>\$ 7,644,367</u>

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FISCAL YEAR ENDED JUNE 30, 2011**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 525,341**

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. In 2011, capital outlays amounted to \$1,914,094 and depreciation expense totaled \$3,064,054. The net amount is reflected here as a reconciling item. (1,149,960)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. In 2011, debt repayments totaled \$530,000, a portion of which was funded from a debt reoffering premium. 530,000

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Accrued interest 7,135
Other post-employment benefits (368,750)

Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable differ between the two statements. The amount presented represents the difference based on the two methodologies. 389,890

Change in Net Assets of Governmental Activities \$ (66,344)

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
FISCAL YEAR ENDED JUNE 30, 2011**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
Operating Revenues:			
Charges for services	\$ 355,440	\$ 266,786	\$ 622,226
 Total Operating Revenues	 355,440	 266,786	 622,226
Operating Expenses:			
Operating costs	338,289	399,172	737,461
Depreciation expense	95,735	70,230	165,965
 Total Operating Expenses	 434,024	 469,402	 903,426
Operating Loss	 (78,584)	 (202,616)	 (281,200)
Nonoperating Revenues (Expenses):			
Intergovernmental	-	90,112	90,112
Interest income	3	460	463
Interest expense	(34,469)	(65,967)	(100,436)
Transfers out, net	119,442	248,241	367,683
 Total Nonoperating Revenues (Expenses), net	 84,976	 272,846	 357,822
Change in Net Assets	 6,392	 70,230	 76,622
Net Assets - Beginning of year (as restated - see Note V to the financial statements)	 4,980,718	 2,726,874	 7,707,592
Net Assets - End of year	 \$ 4,987,110	 \$ 2,797,104	 \$ 7,784,214

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 105,732	\$ 125,001	\$ 230,733
User charges receivable	223,979	143,333	367,312
Due from the Commonwealth	-	61,683	61,683
Total Current Assets	329,711	330,017	659,728
Noncurrent assets:			
Due from the Commonwealth	-	445,553	445,553
Capital assets, net of accumulated depreciation	5,834,932	4,547,496	10,382,428
Total Assets	6,164,643	5,323,066	11,487,709
Liabilities:			
Current liabilities:			
Accounts payable and accrued expenses	16,801	12,756	29,557
Accrued interest expense	26,561	5,529	32,090
Current portion of long-term debt	37,247	279,054	316,301
Total Current Liabilities	80,609	297,339	377,948
Noncurrent liabilities:			
Long-term debt	1,067,753	2,191,346	3,259,099
Other post-employment benefits	29,175	37,279	66,454
Total Liabilities	1,177,537	2,525,964	3,703,501
Net Assets:			
Invested in capital assets, net of related debt	4,729,932	2,138,779	6,868,711
Unrestricted	257,174	658,323	915,497
Total Net Assets	\$ 4,987,106	\$ 2,797,102	\$ 7,784,208

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FISCAL YEAR ENDED JUNE 30, 2011**

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities:			
Receipts from users	\$ 407,448	\$ 431,812	\$ 839,260
Payments to vendors and employees	(394,195)	(401,769)	(795,964)
Net Cash Provided by Operating Activities	<u>13,253</u>	<u>30,043</u>	<u>43,296</u>
Cash Flows from Noncapital Financing Activities:			
Transfers, net	<u>119,442</u>	<u>248,241</u>	<u>367,683</u>
Net Cash Provided By Noncapital Related Financing Activities	<u>119,442</u>	<u>248,241</u>	<u>367,683</u>
Cash Flows from Capital and Related Financing Activities:			
Acquisition and property and equipment	(269,751)	-	(269,751)
Intergovernmental receipts for debt service	-	57,948	57,948
Repayments on short term notes payable	(1,211,769)	(241,461)	(1,453,230)
Proceeds from bond offering	1,105,000	230,000	1,335,000
Principal payments on bonds payable	-	(263,300)	(263,300)
Interest income	3	460	463
Interest expense	(25,153)	(113,453)	(138,606)
Net Cash Used for Capital and Related Financing Activities	<u>(401,670)</u>	<u>(329,806)</u>	<u>(731,476)</u>
Net change in cash and cash equivalents	(268,975)	(51,522)	(320,497)
Cash and cash equivalents - Beginning of year	<u>374,707</u>	<u>176,523</u>	<u>551,230</u>
Cash and cash equivalents - End of year	<u>\$ 105,732</u>	<u>\$ 125,001</u>	<u>\$ 230,733</u>
Reconciliation of Operating Income to Net Cash Provided			
By (Used for) Operating Activities:			
Operating income	\$ (78,584)	\$ (202,616)	\$ (281,200)
Depreciation expense	95,735	70,230	165,965
Changes in assets and liabilities:			
Receivables, net	52,008	165,027	217,035
Accounts payable and accrued expenses	(55,906)	(2,598)	(58,504)
Net Cash Provided From Operating Activities	<u>\$ 13,253</u>	<u>\$ 30,043</u>	<u>\$ 43,296</u>

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2011

	Private Purpose Trust Funds	<u>Agency Funds</u>
Assets:		
Cash and cash equivalents	\$ -	\$ 27,108
Investments	1,233,598	-
Police details	-	<u>21,530</u>
Total Assets	<u>1,233,598</u>	<u>48,638</u>
 Liabilities:		
Warrants and accounts payable	-	6,679
Performance deposits	-	34,570
Other liabilities	-	<u>7,389</u>
Total Liabilities	<u>-</u>	<u>48,638</u>
 Net Assets:		
Held in trust and other purposes	<u>1,233,598</u>	<u>-</u>
Net Assets	<u>\$ 1,233,598</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
YEAR ENDED JUNE 30, 2011

	Private Purpose Trust Funds
Additions:	
Investment income	\$ 145,275
Total Additions	<u>145,275</u>
Deductions:	
Human services	<u>26,740</u>
Total Deductions	<u>26,740</u>
Change in Net Assets	118,535
Total Net Assets - Beginning - as restated (See Note V for detail)	<u>1,115,063</u>
Total Net Assets - Ending	<u><u>\$ 1,233,598</u></u>

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2011

I. Summary of Significant Accounting Policies

The basic financial statements of the Town of Upton (the “Town” or “Upton”) 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 approximately thirty-five miles southwest of Boston and fifteen miles southeast of Worcester, is located in Worcester County. Upton was incorporated as a town in 1785. The governing structure utilizes an open town meeting format with an elected three-member Board of Selectmen and an appointed Town Manager, who performs and oversees the Town’s daily executive and administrative duties. Selectmen serve three-year terms. The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades K to 12, library, water and sewer services, street maintenance, parks and recreational facilities. The water and sewer services are self-funded and treated as business enterprises.

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.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *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. Separate financial statements are provided for governmental funds and proprietary funds. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column.

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

- 1) The total assets, liabilities, revenues, or expenditures/expenses of an individual governmental or enterprise fund are at least ten percent of the corresponding element (assets, liabilities, etc.) for all funds of that category or type (total governmental or total enterprise funds), and

- 2) The total assets, liabilities, 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*, as are proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

The governmental fund financial statements are reported using *the current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when susceptible to accrual (i.e. measurable and available). Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures are recorded when the related fund liability is incurred, except for interest on general long-term debt which is recognized when payment is due, certain compensated absences, claims and judgments which are recognized when the obligations are expected to be liquidated with current expendable available resources.

The Town 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 used to account for specific activities related to the purchase of land parcels within the Town for community preservation purposes as well as historical preservation.

The *nonmajor governmental funds* consist of special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds column on the governmental 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.

Capital Projects Funds – are used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

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.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when the liabilities are incurred.

Proprietary funds distinguish *operating* revenues and expenses from *non-operating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are user charges and fees, while operating expenses consist of salaries, ordinary maintenance, assessments, indirect costs and depreciation. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The Town reports the following major proprietary funds:

Water– accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the water activities are processed.

Sewer – accounts for user charges collected to finance costs associated with maintaining the related infrastructure within the Town boundaries by which the sewer activities are processed.

In addition, the Town reports a *private-purpose trust fund* that is used to account for resources legally held in trust for scholarship and welfare programs as well as deposits with the Town's planning board. There is a requirement that a portion of these resources be preserved as capital. Furthermore, *agency funds* are used to account for resources and deposits held by the Town for the benefit of others.

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

D. Assets, Liabilities, and Net Assets or 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 for the Town are reported at fair value.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. 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, water and user fees are secured through a lien process in the second quarter of the following fiscal year and are considered 100% collectible. Accordingly, an allowance for uncollectible accounts for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible accounts, which are comprised of those outstanding amounts greater than five years old, if material.

The Town has entered into loan agreements since 1998 with the Massachusetts Water Pollution Abatement Trust (“MWPAT”). The Town expects to be subsidized by MWPAT in future years on a periodic basis for interest costs relative to its sewer business-type activities until maturity of these agreements. The Town is legally obligated for the total amount of the debt so such amounts have been recorded in the accompanying basic financial statements under the sewer enterprise business-type activities.

Inventories and Prepaid Items – Inventories, which are not material to the 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.

Restricted Assets – Certain cash and investment balances are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by the provisions of certain trust documents.

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 applicable governmental or business-type activities columns 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. Net interest incurred during the construction phase of capital assets of business-type activities, if material, is included as part of the capitalized value of the assets constructed.

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, respectively, with expected lives of greater than two years. 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:

Infrastructure	25 - 75 years
Buildings and improvements	20 - 50 years
Equipment, furniture, fixtures and vehicles	3 - 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.

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as *internal balances*.

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. Investment income of the proprietary funds is retained by the respective funds.

Compensated Absences – The Town permits employees to accumulate earned but unused vacation benefits. Amounts related to these benefits are accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only if they have matured. The Town has calculated the compensated absence obligation and determined that it is not material to the financial statements.

Long-term Obligations – Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets. Bond premiums and discounts, in addition to issuance costs, if material, 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.

Risk Financing – The Town does not insure for short-term employee disability benefits. The Town does insure workers' compensation, health, unemployment benefits, casualty, theft and other losses. Uninsured losses are recorded as expenditures when incurred. Amounts determined to be incurred but not reported are reflected as liabilities of the government activities in the government-wide statement of net assets.

Fund Equity – The Town implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in fiscal year 2011. This statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. Under this Statement, in the governmental fund financial statements, fund balance for governmental funds is reported in 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 – non-spendable, restricted, committed, assigned, and unassigned as described below:

Non-spendable 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. The Town’s non-spendable fund balance reported in the nonmajor governmental funds consists of the corpus of endowments for various Town purposes in the amount of \$122,384.

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. The Town reported \$349,286 as restricted in its general fund for future debt service. The Town reported \$2,412,504 as restricted in its community preservation fund for future preservation projects. In its nonmajor governmental funds, the Town reported the following restricted fund balances:

- Revolving funds restricted under Massachusetts General Law (“MGL”) Chapter 44, Section 53E ½ and other state statutes of \$226,239;
- Numerous significant and minor contributions, including accumulated investment earnings, held in expendable, permanent funds totaling \$2,284,722 restricted for various Town functions;

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 consists of the Town Meeting members through Town Meeting Votes. Those committed amounts cannot be used for any other purpose unless the Town Meeting removes or changes the specified use by taking the same type of action (through Town Meeting Votes) it employed previously to commit those amounts. The Town reported \$983,773 as committed in its general fund at June 30, 2011. Of this total, \$656,526 was reserved by Town Meeting for school stabilization purposes and \$327,247 for warrant articles.

Assigned represents amounts that are constrained by the Town’s intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the Town Meeting, Board of Selectmen or their designee. The Town had \$7,937 assigned at June 30, 2011 for encumbrances.

Unassigned represents amounts that have not been restricted, committed or assigned to specific purposes within the general fund. At June 30, 2011, the combination of the Town’s undesignated fund balance in its general fund of \$745,464 and its stabilization funds for general and capital purposes of \$551,384 equaled the reported unassigned fund balance in the general fund of \$1,296,848. The deficit fund balance of \$39,326 in the Town’s capital projects fund is reported as unassigned in the nonmajor funds.

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 Town has not established financial policies with respect to maintaining minimum fund balance amounts.

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.

GASB 54 Implementation – The Town was required to implement GASB 54 during the year ended June 30, 2011. Major differences from the prior year include: (1) stabilization balances that were reported as a special revenue fund are now reported as part of unassigned fund balance in the general fund; (2) encumbrances that were previously reported as reserve fund balance are currently reported as either committed or assigned fund balances; (3) undesignated fund balance in the general fund is currently reported as assigned fund balance in the general fund; and, (4) reserved fund balance in the nonmajor funds are presently reported as either nonspendable or restricted fund balance in the nonmajor funds.

E. Excess of Expenditures Over Appropriations and Deficits

During the fiscal year ended June 30, 2011, there were no instances where expenditures exceeded appropriations.

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 and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

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.

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. At June 30, 2011, bank balances totaling \$169,044 were not covered by federal depository insurance or by other depositors’ insurance programs.

Credit Risk – Statutes require the Town Treasurer to invest Town funds in bonds or notes which are legal investments for savings banks, including U.S. obligations, certificates of deposit, money market accounts, bank deposits, repurchase agreements and the 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 U.S. obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

At June 30, 2011, all of the Town’s investments in U.S. government obligation were rated Aaa by Moody’s Investors Service, Inc. (“Moody’s”). Of the Town’s investments in corporate fixed income, securities with a fair value of \$107,843 were rated Aa2 by Moody’s and securities with a fair value of \$97,170 were rated A2 by Moody’s. No other investment types were rated by Moody’s or any other recognizable credit rating agency.

Investment Maturities – The Town had the following investments at June 30, 2011:

Investments	Fair Value	Maturity in Years		
		Less than Year	1 to 5 Years	6 to 10 Years
<u>Debt securities:</u>				
U.S. Government obligations	\$ 871,558	\$ -	\$ 519,847	\$ 351,711
Corporate fixed income	205,013	-	205,013	-
Certificates of deposit	729,329	351,198	378,131	-
Total investments with maturities	1,805,900	\$ 351,198	\$ 1,102,991	\$ 351,711
<u>Other investments:</u>				
Money markets	2,230,262			
State Treasurer's Investment Pool	780,324			
Equities	1,514,856			
Mutual funds	2,133,308			
Total Investments	\$ 8,464,650			
Cash deposits held	\$ 276,886			

Certificates of deposit and money market accounts have been classified as cash equivalents in these financial statements due to the liquid nature of these types of short-term investments.

Custodial credit risk: Investments – This is the risk that in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, the Town will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not maintain investments subject to this type of credit risk at June 30, 2011.

Interest Rate Risk – 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. However, the Town mitigates this risk by generally limiting the average maturity of its deposits to twelve months or less.

Concentration of Credit Risk – The Town does not maintain balances in any single investment that would represent more than 5% of the Town’s total cash, cash equivalents and investments.

B. Receivables

Receivables reported in the government-wide financial statements for governmental activities as of June 30, 2011, net of applicable allowances for uncollectible accounts, include:

Property taxes	\$ 797,205
Tax liens and foreclosures	394,976
Excise taxes	132,801
Intergovernmental – land acquisition	<u>500,000</u>
Total	<u>\$ 1,824,982</u>

Receivables reported in the government-wide financial statements for business-type activities as of June 30, 2011, net of applicable allowances for uncollectible accounts, include:

Water user charges	\$ 223,979
Sewer user charges	143,333
Intergovernmental – due from MWPAT	<u>507,236</u>
Total	<u>\$ 874,548</u>

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

	General Fund	Community Preservation Fund	Total
Property taxes	\$ 1,030,746	\$ 17,933	\$ 1,048,679
Excise taxes	<u>132,801</u>	<u>—</u>	<u>132,801</u>
Total	<u>\$ 1,163,547</u>	<u>\$ 17,933</u>	<u>\$ 1,181,480</u>

MWPAT Loan Subsidies – The Town has entered into a loan agreement with the MWPAT. It is expected that the Town will be subsidized by MWPAT on a periodic basis for principal in the amount of \$507,236 and interest in the amount of \$459,042 until the maturity of this agreement

in 2019. GAAP requires the recognition of gross debt relative to these agreements. Therefore, the principal amount of \$507,236 is reported as a receivable in the sewer enterprise fund.

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 3,401,804	\$ 1,188,500	\$ -	\$ 4,590,304
Capital assets being depreciated:				
Buildings and improvements	6,122,848	-	-	6,122,848
Infrastructure	49,729,516	517,406	-	50,246,922
Vehicles and equipment	3,591,855	208,188	(428,108)	3,371,935
Total capital assets being depreciated	59,444,219	725,594	(428,108)	59,741,705
Less accumulated depreciation for:				
Buildings and improvements	(1,657,641)	(130,705)	-	(1,788,346)
Infrastructure	(26,367,037)	(2,724,913)	-	(29,091,950)
Vehicles and equipment	(2,873,529)	(208,436)	428,108	(2,653,857)
Total accumulated depreciation	(30,898,207)	(3,064,054)	428,108	(33,534,153)
Total capital assets being depreciated, net	28,546,012	(2,338,460)	-	26,207,552
Governmental activities capital assets, net	<u>\$ 31,947,816</u>	<u>\$ (1,149,960)</u>	<u>\$ -</u>	<u>\$ 30,797,856</u>

For the fiscal year ended June 30, 2011, depreciation expense was charged to functions/programs as follows:

<u>Governmental Activities:</u>	
General government	\$ 6,514
Public safety	223,262
Education	2,811,955
Public works	12,133
Culture, recreation and human services	10,190
Total	<u>\$ 3,064,054</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-type Activities: Water</u>				
Capital assets not being depreciated:				
Construction in process	\$ 1,254,419	\$ -	\$ (1,254,419)	\$ -
Capital assets being depreciated:				
Buildings and improvements	4,346,929	-	-	4,346,929
Infrastructure	1,667,465	1,524,170	-	3,191,635
Total capital assets being depreciated	6,014,394	1,524,170	-	7,538,564
Less accumulated depreciation for:				
Buildings and improvements	(666,530)	(2,686)	-	(669,216)
Infrastructure	(941,367)	(93,049)	-	(1,034,416)
Total accumulated depreciation	(1,607,897)	(95,735)	-	(1,703,632)
Total Net Business-type Activities: Water	5,660,916	1,428,435	(1,254,419)	5,834,932
<u>Business-type Activities: Sewer</u>				
Capital assets being depreciated:				
Buildings and improvements	659,983	-	-	659,983
Infrastructure	4,707,374	-	-	4,707,374
Total capital assets being depreciated	5,367,357	-	-	5,367,357
Less accumulated depreciation for:				
Buildings and improvements	(583,610)	(57,959)	-	(641,569)
Infrastructure	(166,021)	(12,271)	-	(178,292)
Total accumulated depreciation	(749,631)	(70,230)	-	(819,861)
Total Net Business-type Activities: Sewer	4,617,726	(70,230)	-	4,547,496
Total Net Business-type Activities	<u>\$ 10,278,642</u>	<u>\$ 1,358,205</u>	<u>\$ (1,254,419)</u>	<u>\$ 10,382,428</u>

For the fiscal year ended June 30, 2011, depreciation expense was charged to functions/programs as follows:

Business-Type Activities:

Water enterprise	\$ 95,735
Sewer enterprise	<u>70,230</u>
	<u>\$ 165,965</u>

D. Interfund Receivables, Payables and Transfers

In fiscal year 2011, the general fund transferred out \$367,683 to the Town’s enterprise funds. Of this total, \$119,442 was transferred to the water enterprise fund and \$248,241 was transferred to the sewer enterprise fund. These transfers were made for the purpose of funding debt service in the enterprise funds.

E. Temporary Debt

The Town (excluding component units) 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 tax anticipation notes (“TANS”).

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (“BANS”) or state aid anticipation notes (“SAANS”). 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.

Type	Interest Rate	Maturity Date	Balance July 1, 2010	Additions	Retirements	Rollovers	Balance June 30, 2011
BAN	1.25%	8/6/10	\$ 62,370	\$ -	\$ -	\$ (62,370)	\$ -
BAN	1.65%	8/6/10	1,390,859	-	-	(1,390,859)	-
BAN	1.20%	11/1/10	-	-	(1,453,229)	1,453,229	-
			<u>\$ 1,453,229</u>	<u>\$ -</u>	<u>\$ (1,453,229)</u>	<u>\$ -</u>	<u>\$ -</u>

Temporary notes are general obligations of the Town and carry maturity dates not in excess of one year and are interest bearing and will be paid through future issuance of general obligation bonds.

F. Long-Term Obligations

The following reflects the activity in the long-term liability accounts during the fiscal year ended June 30, 2011:

Description of Issue	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
General obligation bonds and notes payable	\$ 3,750,000	\$ 2,770,000	\$ (3,300,000)	\$ 3,220,000	\$ 300,000
Other post employment benefits, net	375,212	447,180	(78,430)	743,962	-
Total Governmental Activities	<u>\$ 4,125,212</u>	<u>\$ 3,217,180</u>	<u>\$ (3,378,430)</u>	<u>\$ 3,963,962</u>	<u>\$ 300,000</u>
<i>Business-type Activities:</i>					
<u>Water</u>					
General obligation bonds and notes payable	\$ -	\$ 1,105,000	\$ -	\$ 1,105,000	\$ 37,247
Other post employment benefits, net	14,714	17,537	(3,076)	29,175	-
Water enterprise	<u>14,714</u>	<u>1,122,537</u>	<u>(3,076)</u>	<u>1,134,175</u>	<u>37,247</u>
<u>Sewer</u>					
General obligation bonds and notes payable	\$ 2,503,700	\$ 230,000	\$ (263,300)	\$ 2,470,400	\$ 279,054
Other post employment benefits, net	18,801	22,408	(3,930)	37,279	-
Sewer enterprise	<u>2,522,501</u>	<u>252,408</u>	<u>(267,230)</u>	<u>2,507,679</u>	<u>279,054</u>
Total Business-type Activities	<u>\$ 2,537,215</u>	<u>\$ 1,374,945</u>	<u>\$ (270,306)</u>	<u>\$ 3,641,854</u>	<u>\$ 316,301</u>
Total Long-term Obligations	<u>\$ 6,662,427</u>	<u>\$ 4,592,125</u>	<u>\$ (3,648,736)</u>	<u>\$ 7,605,816</u>	<u>\$ 616,301</u>

Bond and Note Indebtedness – The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital facilities. General obligation bonds and notes have been issued for both governmental and business-type activities. In addition, the Town incurs various other long-term obligations relative to associated personnel costs and landfill closure.

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

Legal Debt Margin – State law permits a Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit.” The Town’s legal debt margin as of June 30, 2011 was approximately \$50.0 million based on an equalized valuation of approximately \$1.0 billion.

General obligation bonds outstanding at June 30, 2011 are as follows:

Description	Interest Rate	Beginning Balance	Additions	Maturities and Retirements	Ending Balance
<i>Governmental Activities:</i>					
General obligation bonds	3.00 - 5.00%	\$ 3,750,000	\$ 2,770,000	\$ (3,300,000)	3,220,000
Total Governmental Activities		<u>\$ 3,750,000</u>	<u>\$ 2,770,000</u>	<u>\$ (3,300,000)</u>	<u>3,220,000</u>
<i>Business-type Activities - Water</i>					
General obligation bonds	3.25 - 5.0%	\$ -	\$ 1,105,000	\$ -	1,105,000
<i>Business-type Activities - Sewer</i>					
General obligation bond	3.50 - 5.00%	-	230,000	-	230,000
MA Water Pollution Abatement Trust Note	1.25%	2,503,700	-	(263,300)	2,240,400
Sewer enterprise		2,503,700	230,000	(263,300)	2,470,400
Total Business-type Activities		<u>\$ 2,503,700</u>	<u>\$ 1,335,000</u>	<u>\$ (263,300)</u>	<u>3,575,400</u>
Total Bond and Note Debt					<u>\$ 6,795,400</u>

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

Bonded Debt - Governmental Activities:

Year Ending June 30,	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
<i>Governmental Activities</i>							
2012	\$ 300,000	\$ -	\$ 300,000	\$ 144,563	\$ -	\$ 144,563	\$ 444,563
2013	335,000	-	335,000	112,450	-	112,450	447,450
2014	335,000	-	335,000	104,500	-	104,500	439,500
2015	345,000	-	345,000	93,450	-	93,450	438,450
2016	360,000	-	360,000	79,150	-	79,150	439,150
2017 - 2021	1,545,000	-	1,545,000	172,100	-	172,100	1,717,100
Total	<u>\$ 3,220,000</u>	<u>\$ -</u>	<u>\$ 3,220,000</u>	<u>\$ 706,213</u>	<u>\$ -</u>	<u>\$ 706,213</u>	<u>\$ 3,926,213</u>

Bonded Debt - Business-Type Activities:

Year	<i>Business-type Activities: Water</i>						
	Principal Balance	Principal Subsidy	Principal Net	Interest Balance	Interest Subsidy	Interest Net	Total
2012	\$ 37,247	\$ -	\$ 37,247	\$ 48,291	\$ -	\$ 48,291	\$ 85,538
2013	41,385	-	41,385	37,888	-	37,888	79,273
2014	45,524	-	45,524	37,060	-	37,060	82,584
2015	49,662	-	49,662	35,695	-	35,695	85,357
2016	49,662	-	49,662	33,708	-	33,708	83,370
2017 - 2021	302,110	-	302,110	137,046	-	137,046	439,156
2022 - 2026	413,850	-	413,850	71,182	-	71,182	485,032
2027 - 2028	165,560	-	165,560	8,691	-	8,691	174,251
Total	<u>\$ 1,105,000</u>	<u>\$ -</u>	<u>\$ 1,105,000</u>	<u>\$ 409,561</u>	<u>\$ -</u>	<u>\$ 409,561</u>	<u>\$ 1,514,561</u>

<i>Business-type Activities: Sewer</i>							
2012	\$ 279,054	\$ (61,683)	\$ 217,371	\$ 109,710	\$ (80,262)	\$ 29,448	\$ 246,819
2013	153,115	-	153,115	228,461	(137,189)	91,272	244,387
2014	291,476	(63,879)	227,597	93,194	(68,431)	24,763	252,360
2015	300,838	(67,879)	232,959	78,239	(57,881)	20,358	253,317
2016	309,637	(72,000)	237,637	62,712	(47,013)	15,699	253,336
2017 - 2021	1,015,690	(241,795)	773,895	101,101	(68,266)	32,835	806,730
2022 - 2026	86,150	-	86,150	14,818	-	14,818	100,968
2027 - 2028	34,440	-	34,440	1,809	-	1,809	36,249
Total	<u>\$ 2,470,400</u>	<u>\$ (507,236)</u>	<u>\$ 1,963,164</u>	<u>\$ 690,044</u>	<u>\$ (459,042)</u>	<u>\$ 231,002</u>	<u>\$ 2,194,166</u>
<i>Business-type Activities: Total All</i>							
2012	\$ 316,301	\$ (61,683)	\$ 254,618	\$ 158,001	\$ (80,262)	\$ 77,739	\$ 332,357
2013	194,500	-	194,500	266,349	(137,189)	129,160	323,660
2014	337,000	(63,879)	273,121	130,254	(68,431)	61,823	334,944
2015	350,500	(67,879)	282,621	113,934	(57,881)	56,053	338,674
2016	359,299	(72,000)	287,299	96,420	(47,013)	49,407	336,706
2017 - 2021	1,317,800	(241,795)	1,076,005	238,147	(68,266)	169,881	1,245,886
2022 - 2026	500,000	-	500,000	86,000	-	86,000	586,000
2027 - 2028	200,000	-	200,000	10,500	-	10,500	210,500
Total	<u>\$ 3,575,400</u>	<u>\$ (507,236)</u>	<u>\$ 3,068,164</u>	<u>\$ 1,099,605</u>	<u>\$ (459,042)</u>	<u>\$ 640,563</u>	<u>\$ 3,708,727</u>

MWPAT Loan Subsidies – As previously noted in Note I. B., the Town has entered into a loan agreement with the MWPAT. It is expected that the Town will be subsidized by MWPAT on a periodic basis for principal in the amount of \$507,236 and interest in the amount of \$459,042 until the maturity of this agreement in 2019.

Debt Refunding: Escrow Holdings – In fiscal year 2011, the Town defeased various bond issues by creating a separate irrevocable trust fund. New debt was issued and the proceeds were used to purchase U.S. government securities that were placed in the trust fund. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from the Town’s government-wide financial statements. As of June 30, 2011, the amount of defeased debt outstanding was \$2,985,000.

Authorized and Unissued Debt – At June 30, 2011, the Town had authorized and unissued debt for the following:

Road projects subject to reimbursement from the Commonwealth	\$ 1,445,473
---	--------------

III. Other Information

A. Retirement System

Plan Description – The Town contributes to the Worcester County Retirement System (the “System”), a multiple-employer defined benefit pension plan for the Town and other governmental agencies within Worcester County. The System was established under Chapter 32 of MGL and is administered by the Worcester Regional Retirement Board (the “Retirement Board”).

Substantially all employees of the Town participate in the System. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the MGL assigns authority to establish and amend benefit provisions of the plan. Cost-of-living adjustments granted between 1981 and 1997 and any increase in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund directly. Cost-of-living adjustments granted after 1997 must be approved by the Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts' Public Employee Retirement Administration Commission that includes financial statements and required supplementary information. The report may be obtained by writing to the Worcester Regional Retirement System, 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

Funding Policy – Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System for its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. The contributions of plan members and the Town are governed by Chapter 32 of the MGL. The Town's contributions to the System for the fiscal years ended June 30, 2011, 2010, and 2009 were \$369,026, \$352,906 and \$322,923, respectively. These contributions were equal to the required contribution for each year as set by the Retirement Board. Schedules of funding progress and contribution funding are included as required supplementary information.

B. Risk Financing

The Town is exposed to various risks of loss related to torts; theft, damage, and destruction of assets; errors and omissions; natural disasters; and various employee benefits including health, worker's compensation, and unemployment compensation. The Town essentially transfers its risk through payment of its annual assessment, which is adjusted according to the Town's experience history. All insurance except is carried through conventional, commercial carriers.

C. OPEB – Other Post-Employment Benefits

Plan Description – In addition to the pension benefits previously described, the Town provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries (hereinafter referred to as the "Plan") in accordance with 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 insurance program. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

As of July 1, 2009, the date of the latest actuarial valuation report, the number of participants in the Plan consisted of 54 active employees and 9 retired employees, which include spouses, for a total of 63 participants.

Funding Policy - The contribution requirements of Plan members and the Town are established and may be amended by the Town. Retirees contribute 50% of the cost of the calculated health insurance contributions. The remainder of the health insurance premiums is funded by the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis. The costs of administering the Plan are paid by the Town.

Annual OPEB Cost and Net OPEB Obligation - The Town's annual OPEB cost is calculated based on the annual required contribution ("ARC") of the employer, an actuarially determined amount that is calculated in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefit Plans Other Than Pension Plans*. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded liabilities over a period not to exceed thirty years.

The following table reflects the activity regarding the Town's OPEB obligation:

OPEB obligation at beginning of year	\$ 408,728
Annual required contribution	494,415
Adjustments to ARC	(7,291)
Contributions made	<u>(85,436)</u>
OPEB obligation at end of year	<u>\$ 810,416</u>

Trend information regarding annual pension cost, the percentage of the annual pension cost contributed and the net pension obligation is as follows:

Fiscal Year Ending	Annual OPEB Cost (AOPEBC)*	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2011	\$ 494,415	17.3%	\$ 810,416
June 30, 2010	467,198	12.5%	408,728

* Reflected in the statement of activities as follows:

The AOPEBC was charged to the following functional programs: General Government \$81,331; Public Safety \$209,284; Public Works \$156,835; Health and Human Services \$26,179; Culture and Recreation \$20,786.

Funding Status and Funding Progress - The funded status of the Plan at June 30, 2011 for the most recent actuarial valuation performed as of July 1, 2009, was as follows:

Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age Normal Cost (B)	Unfunded AAL (UAAL) (B - A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
\$ -	\$ 4,298,116	\$ 4,298,116	0.00%	\$ 2,746,676	157 %

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

Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive Plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to

that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The significant methods and assumptions as of the latest valuation are as follows:

Valuation date	July 1, 2009
Investment rate of return	4.0%; pay-as-you-go scenario
Inflation rate	4.0%
Healthcare/Medical cost trend rate	10% grading down to 5% over six years
Actuarial cost method	Projected unit credit
Remaining amortization period	30 years as of July 1, 2009
Amortization method	Level dollar amount over 30 years

D. Commitments and Contingencies

The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2011, 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, 2011.

IV. Implementation of New GASB Pronouncements

A. Current Year Implementation

In March 2009, the GASB issued GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this statement is to alter the focus and to bring greater clarity and consistency to fund balance reporting and terminology used to report fund balance in governmental funds. GASB 54 became effective for the Town in fiscal year 2011. The adoption of GASB 54 had a material impact on the Town's fund balance reporting. The Town's stabilization fund is now reported in its general fund and terminology for all other funds was amended to conform to GASB 54 requirements.

In June 2010, the GASB issued GASB Statement No. 59, *Financial Instruments Omnibus*. The objective of GASB 59 is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The provisions of GASB 59 are effective for financial statements for periods beginning after June 15, 2010. The implementation of GASB 59 did not have a material effect on the Town's financial statements.

B. Future Year Implementation

In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. The provisions of GASB 57 are effective for financial statements for periods beginning after June 15, 2011 (i.e., fiscal year 2013). Statement 57 addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The Town does not expect that the adoption of GASB 57 will have a material effect on its financial statements.

In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to service concession arrangements. The provisions of GASB 60 are effective for financial statements for periods beginning after December 15, 2011 (i.e., fiscal year 2013). The Town does not expect that the adoption of GASB 60 will have a material effect on its financial statements.

In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus—an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of GASB 61 are effective for financial statements for periods beginning after June 15, 2012 (i.e., fiscal year 2013). The Town does not expect that the adoption of GASB 61 will have a material effect on its financial statements.

In December 2010, the GASB issued GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement is intended to enhance the usefulness of its codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board and American Institute of Certified Public Accountants pronouncements. The provisions of GASB 62 are effective for financial statements for periods beginning after December 15, 2011 (i.e., fiscal year 2013). The Town is currently evaluating whether its adoption will have a material impact on the financial statements.

In June 2011, the GASB issued GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to provide financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. The provisions of GASB 63 are effective for financial statements for periods beginning after December 15, 2011 (i.e., fiscal year 2013). The Town is currently evaluating whether its adoption will have a material impact on the financial statements.

In June 2011, the GASB issued GASB Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions—an amendment of GASB Statement No. 53*. The objective of this statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. The provisions of GASB 64 are effective for financial statements for periods beginning after June 15, 2011 (i.e., fiscal year 2013). The Town is currently evaluating whether its adoption will have a material impact on the financial statements.

V. Prior Period Restatement

The following table illustrates adjustments recorded to the June 30, 2010 ending fund balances to properly report the fund balances in accordance with GAAP.

	General Fund	Major Trust Fund	Nonmajor Funds	Community Preservation	Water	Sewer	Private Purpose Funds
Per Prior Year Report	\$ 1,598,444	\$ 3,142,469	\$ 2,780,503	\$ -	\$ 4,787,953	\$ 3,525,456	\$ 620,316
Stabilization - GASB 54	591,744	(591,744)	-	-	-	-	-
Pension liability, paid late, not recorded	(176,453)	-	-	-	-	-	-
To properly categorize sewer equity	257,834	99,675	10,975	-	-	(368,484)	-
To properly categorize private purpose funds	-	(494,747)	-	-	-	-	494,747
Set up Community Preservation as Major Fund	-	-	(2,597,388)	2,597,388	-	-	-
Agency fund recorded as equity	-	-	(28,020)	-	-	-	-
To record unbilled receivables	-	-	-	-	207,479	137,856	-
To record other post employment benefits	-	-	-	-	(14,714)	(18,801)	-
To adjust MWPAT subsidy receivable to proper amount	-	-	-	-	-	(549,153)	-
Reclassify Trust Funds to Nonmajor Funds	-	(2,155,653)	2,155,653	-	-	-	-
Other miscellaneous adjustments	-	-	(71,654)	-	-	-	-
Beginning balances as restated	<u>\$ 2,271,569</u>	<u>\$ -</u>	<u>\$ 2,250,069</u>	<u>\$ 2,597,388</u>	<u>\$ 4,980,718</u>	<u>\$ 2,726,874</u>	<u>\$ 1,115,063</u>

	Governmental Activities	Business-type Activities
Per Prior Year Report	\$ 36,094,962	\$ 8,313,409
To properly record other post employment benefits	33,515	(33,515)
To adjust MWPAT subsidy receivable to proper amount	-	(549,153)
To record unbilled receivables	-	345,335
To properly categorize sewer equity	268,807	(368,484)
Pension liability, paid late, not recorded	(176,453)	-
To properly categorize private purpose funds	(494,747)	-
Beginning balances as restated	<u>\$ 35,726,084</u>	<u>\$ 7,707,592</u>

TOWN OF UPTON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2011**

SCHEDULES OF FUNDING PROGRESS

Pension System - Worcester Regional Retirement System (All Participants)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	<i>(a)</i>	<i>(b)</i>	<i>(b-a)</i>	<i>(a/b)</i>	<i>(c)</i>	<i>(b-a/c)</i>
1/1/2010	\$ 413,976,785	\$ 863,002,067	\$ 449,025,282	48.0%	\$ 241,992,607	185.60%
1/1/2007	389,758,785	692,768,325	303,009,540	56.3%	211,518,755	143.30%
1/1/2004	350,879,900	552,773,549	201,893,649	63.5%	170,669,442	118.30%

Other Post Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	<i>(a)</i>	<i>(b)</i>	<i>(b-a)</i>	<i>(a/b)</i>	<i>(c)</i>	<i>(b-a/c)</i>
7/1/2009	\$ -	\$ 4,298,116	\$ 4,298,116	0.0%	\$ 2,746,676	156.5%

SCHEDULES OF CONTRIBUTION FUNDING

Pension System

Year Ended June 30,	Worcester Regional Retirement System			Town	
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Actual Contribution	Town's Percentage of System Wide Actual Contributions
		<i>(a)</i>		<i>(b)</i>	<i>(b/a)</i>
2011	\$ 31,200,000	\$ 31,200,000	100%	\$ 369,026	1.2%
2010	28,800,000	28,800,000	100%	352,906	1.2%
2009	26,400,000	26,400,000	100%	322,923	1.2%

Other Post Employment Benefits

Year Ended June 30,	Annual Required Contributions	Actual Contributions	Percentage Contributed
2011	\$ 494,415	\$ 85,436	17.3%
2010	467,198	58,470	12.5%

See accompanying independent accountants' report.

TOWN OF UPTON, MASSACHUSETTS

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL – GENERAL FUND
YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Favorable (Unfavorable)
	Original Budget	Final Budget				
REVENUES						
Real and Personal Property	14,476,912	14,476,912	\$ 14,316,543	\$ -	\$ 14,316,543	\$ (160,369)
Intergovernmental	603,569	603,569	673,085	-	673,085	69,516
Motor Vehicle excise	902,468	902,468	941,820	-	941,820	39,352
Licenses and Permits	304,394	304,394	101,384	-	101,384	(203,010)
Departmental and other	481,407	481,407	566,091	-	566,091	84,684
Penalties and interest on taxes	78,545	78,545	76,500	-	76,500	(2,045)
Fines and forfeits	30,355	30,355	34,627	-	34,627	4,272
Investment income	11,990	11,990	113,158	-	113,158	101,168
Total Revenues	<u>16,889,640</u>	<u>16,889,640</u>	<u>16,823,208</u>	<u>-</u>	<u>16,823,208</u>	<u>(66,432)</u>
EXPENDITURES						
General Government	1,052,939	1,052,939	916,324	67,314	983,638	69,301
Public Safety	2,414,254	2,414,254	2,358,943	-	2,358,943	55,311
Education	8,697,422	8,697,422	8,696,429	-	8,696,429	993
Public Works	2,071,646	2,071,646	1,798,699	212,509	2,011,208	60,438
Health and Human Services	327,271	327,271	295,071	-	295,071	32,200
Culture and Recreation	272,621	272,621	234,286	29,637	263,923	8,698
State and County	47,622	47,622	47,242	-	47,242	380
Pension Benefits	1,282,169	1,282,169	1,257,912	-	1,257,912	24,257
Debt Service	869,528	869,528	866,271	-	866,271	3,257
Total Expenditures	<u>17,035,472</u>	<u>17,035,472</u>	<u>16,471,177</u>	<u>\$ 309,460</u>	<u>16,780,637</u>	<u>254,835</u>
OTHER FINANCING SOURCES (USES)						
Transfers out	-	(482,084)	(482,084)	-	(482,084)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(482,084)</u>	<u>(482,084)</u>	<u>-</u>	<u>(482,084)</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures/Use of Prior Year Budgetary Fund Balance						
	<u>(145,832)</u>	<u>(627,916)</u>	<u>\$ (130,053)</u>	<u>-</u>	<u>\$ (439,513)</u>	<u>\$ 188,403</u>
<u>Other budgetary items</u>						
Undesignated surplus (free cash)	-	488,445				
Prior year encumbrances and articles	385,711	385,711				
Other budgetary items	<u>(239,879)</u>	<u>(246,240)</u>				
	<u>\$ -</u>	<u>\$ -</u>				

The notes to the required supplementary information are an integral part of this schedule.

See accompanying independent accountants' report.

TOWN OF UPTON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2011**

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the General Fund and the Enterprise Fund. Financial orders are initiated by the Town Manager, recommended by the Town Finance Committee and approved by the Town Meeting at the Town’s annual meeting in the spring. Expenditures may not legally exceed appropriations at the department level or in the categories of personnel and non-personnel expenses. Department heads may transfer, without Town Meeting approval, appropriation balances from one account to another within their department or budget, and within the categories of personnel and non-personnel. The Town Meeting must approve any transfer of unencumbered appropriation balances between departments. At the close of each fiscal year, unencumbered appropriation balances lapse and revert to unassigned fund balance. The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2011, Town Meeting approved approximately \$0.5 million in supplemental budgetary appropriations, primarily transfers to stabilization. The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted by Town Meeting. Budgetary control is exercised through the Town’s 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, 2011, is as follows:

	Accounting Differences	Fund Perspective Differences	Total
Revenue on a budgetary basis			\$ 16,823,208
Premiums received	\$ 35,000	\$ -	35,000
Sixty day receivable	(47,617)	-	(47,617)
Interest earned by Stabilization Fund	1,813	-	1,813
Water and sewer revenues	-	(151,325)	(151,325)
Revenue on a GAAP basis	<u>\$ (10,804)</u>	<u>\$ (151,325)</u>	<u>\$ 16,661,079</u>
Expenditures on a budgetary basis			\$ 16,471,177
Expenditure accrual recognition	\$ (176,049)	\$ -	(176,049)
Premium adjustment	35,000	-	35,000
Reclassify expenditures as transfers	-	(251,683)	(251,683)
Water and sewer expenditures	-	(151,325)	(151,325)
Expenditures on a GAAP basis	<u>\$ (141,049)</u>	<u>\$ (403,008)</u>	<u>\$ 15,927,120</u>
Transfers on a budgetary basis (net)			\$ (482,084)
Water and sewer transfers	\$ -	\$ (251,683)	(251,683)
Transfer recognition	(116,000)	-	(116,000)
Stabilization transfers	-	482,084	482,084
Transfers on a GAAP basis (net)	<u>\$ (116,000)</u>	<u>\$ 230,401</u>	<u>\$ (367,683)</u>

Appropriation Deficits – During the fiscal year ended, there were no instances where expenditures exceeded appropriations in the General Fund.

**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 Upton, Massachusetts

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of Upton, Massachusetts, (the “Town”) as of and for the year ended June 30, 2011, which collectively comprise the Town’s basic financial statements and have issued our report thereon dated December 21, 2011. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town’s internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town’s internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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.

Town of Upton, Massachusetts
Page Two

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 December 21, 2011.

This report is intended solely for the information and use of management, the Board of Selectmen, others within the entity, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Roselli, Clark & Associates
Certified Public Accountants
December 21, 2011