

**TOWN OF UPTON, MASSACHUSETTS**

Report on Examination of  
Basic Financial Statements  
and Additional Information  
Year Ended June 30, 2012

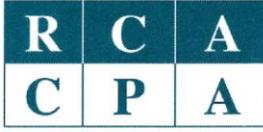
Report on Internal Control  
Over Financial Reporting and  
On Compliance and Other Matters  
Year Ended June 30, 2012

# TOWN OF UPTON, MASSACHUSETTS

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**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, 2012, 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.

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, 2012, 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 January 23, 2013, 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, the funding and contribution progress for pension benefits and other post-employment benefits and budgetary comparison information as listed in the table of contents, 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  
Certified Public Accountants  
January 23, 2013

## 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, 2012. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information.

### Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by nearly \$41.3 million (*total net assets*). Of this amount, approximately \$2.7 million (*total unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The Town's total net assets decreased by nearly \$2.2 million in fiscal year 2012. This decrease was primarily due to (i) the absence of one-time, \$0.5 million intergovernmental revenue source in fiscal year 2011, (ii) lower Chapter 90 reimbursements year-over year from the Commonwealth of Massachusetts, (iii) lower yields on investments and (iv) increased spending, particularly in the area of education.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of nearly \$8.4, which is over \$0.9 million higher than the prior year. This increase is primarily due to an increase of over \$0.3 million in both the Town's general fund and its Community Preservation fund. In fiscal year 2012, the Town received over \$1.1 million in general obligation bond proceeds in its general fund, for which the vast majority was expended for its anticipated purposes. The increase in the Community Preservation fund balance was attributable to revenues exceeding expenditures in the normal course of its operations. Of the ending fund balance, approximately \$1.1 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was approximately 5.9% percent of the total general fund expenditures and the total general fund balance was approximately 16.4% of the total general fund expenditures.
- The Town's total long-term debt increased by approximately \$1.1 million during the current fiscal year. The Town borrowed \$1.7 million in the form of a general obligation bond - \$1.1 million in its governmental activities and \$0.6 million in its business-type activities. Scheduled principal payments of nearly \$0.6 million were made in 2012. The Town did not have any short-term borrowings outstanding at any time during fiscal year 2012.

### Overview of the Financial Statements

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

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

The *statement of net 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 Town'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 through a regional district, 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.

**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.

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

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

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

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

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

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

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

**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.

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

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

### **Government-Wide Financial Analysis**

The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by nearly \$41.3 million (*total net assets*). Of this amount, approximately \$2.7 million (*total unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.

The largest portion (approximately 75.8%) 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 17.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, (approximately 6.6%), may be used to meet the government's ongoing obligations to citizens and creditors.

The condensed statement of net assets is as follows:

NET ASSETS						
<u>Assets</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	June 30,		<i>in thousands (000's)</i> June 30,		June 30,	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 9,904	\$ 9,075	\$ 1,714	\$ 1,105	\$ 11,618	\$ 10,180
Capital assets, net	28,628	30,798	10,505	10,382	39,133	41,180
Total Assets	<u>38,532</u>	<u>39,873</u>	<u>12,220</u>	<u>11,488</u>	<u>50,751</u>	<u>51,361</u>
<u>Liabilities</u>						
Long term liabilities	5,163	3,964	3,946	3,642	9,109	7,606
Other liabilities	313	249	78	62	391	311
Total Liabilities	<u>5,476</u>	<u>4,213</u>	<u>4,024</u>	<u>3,704</u>	<u>9,500</u>	<u>7,917</u>
<u>Net Assets</u>						
Invested in capital assets, net						
of related debt	24,593	27,578	6,660	6,869	31,253	34,447
Restricted	7,290	6,379	-	-	7,290	6,379
Unrestricted	1,173	1,703	1,535	915	2,708	2,618
Total Net Assets	<u>\$ 33,056</u>	<u>\$ 35,660</u>	<u>\$ 8,196</u>	<u>\$ 7,784</u>	<u>\$ 41,252</u>	<u>\$ 43,444</u>

The Town reported positive fund balances in all net asset categories at June 30, 2012.

**Governmental Activities.** During fiscal year 2012, Town property taxes made up approximately 83% of total revenues, which is nearly 6% greater than the prior year's ratio. The increase in the property tax revenues ratio is primarily attributable to a change in revenue mix year-over year; in fiscal year 2011, the Town's intergovernmental revenues were significantly higher than in the current year due primarily to one-time capital grants. In actual dollars, the Town's property taxes were up about 3% which is consistent with Prop 2 ½ and new growth increases.

No other revenues were greater than 10% of total revenues in fiscal years 2012 or 2011.

The Town's largest expense category is education, which the Town continues to devote substantial resources. Education expenses totaled approximately 46.1% and 45.4% of total fiscal year 2012 and 2011 expenses, respectively. Public works expenses represented 25.6% and 25.5% of total fiscal year 2012 and 2011 expenses, respectively. Public safety expenses represented 15.9% and 16.7% of total fiscal year 2012 and 2011 expenses, respectively. All these major categories were consistent with the prior year.

No other expense categories were greater than 10% in fiscal years 2012 or 2011.

**Business-Type Activities.** User charges represent the majority of the reported revenues in both fiscal years 2012 and 2011. 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.

The condensed statement of changes in net assets is as follows:

**CHANGES IN NET ASSETS**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2012	2011	<i>in thousands (000's)</i>		2012	2011
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 969	\$ 739	\$ 1,017	\$ 622	\$ 1,986	\$ 1,361
Operating grants and contributions	228	218	-	-	228	218
Capital grants and contributions	437	1,142	80	90	518	1,232
General revenues:						
Property taxes	15,335	14,917	-	-	15,335	14,917
Intergovernmental	495	520	-	-	495	520
Other	1,114	1,909	-	-	1,114	1,909
Total revenues	<u>18,578</u>	<u>19,444</u>	<u>1,097</u>	<u>712</u>	<u>19,675</u>	<u>20,156</u>
<b>Expenses</b>						
General government	1,437	1,177	-	-	1,437	1,177
Public safety	3,331	3,203	-	-	3,331	3,203
Education	9,680	8,697	-	-	9,680	8,697
Public works	5,363	4,881	-	-	5,363	4,881
Health and human services	440	501	-	-	440	501
Culture and recreation	599	477	-	-	599	477
Debt service	135	207	160	100	295	307
Water	-	-	469	469	469	469
Sewer	-	-	254	434	254	434
Total expenses	<u>20,985</u>	<u>19,142</u>	<u>882</u>	<u>1,004</u>	<u>21,867</u>	<u>20,146</u>
(Deficiency) excess in net assets before transfers	(2,407)	301	215	(292)	(2,192)	10
Transfers	<u>(197)</u>	<u>(368)</u>	<u>197</u>	<u>368</u>	<u>-</u>	<u>-</u>
Change in net assets	(2,604)	(67)	411	76	(2,192)	10
Net assets - beginning of year	<u>35,659</u>	<u>35,726</u>	<u>7,784</u>	<u>7,708</u>	<u>43,444</u>	<u>43,434</u>
Net assets - end of year	<u>\$ 33,056</u>	<u>\$ 35,659</u>	<u>\$ 8,196</u>	<u>\$ 7,784</u>	<u>\$ 41,251</u>	<u>\$ 43,444</u>

**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 nearly \$8.4 million, which is over \$0.9 million higher than the prior year. This increase is primarily due to an increase of over \$0.3 million in both the Town's general fund and its Community Preservation fund. In fiscal year 2012, the Town received over \$1.1 million in

general obligation bond proceeds in its general fund, for which the vast majority was expended for its anticipated purposes. The increase in the Community Preservation fund balance was attributable to revenues exceeding expenditures in the normal course of its operations. Of the ending fund balance, approximately \$1.1 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 \$1.1 million, while total fund balance was over \$2.9 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 5.9% of total general fund expenditures, while total fund balance represents approximately 16.4% of that same amount.

The Town's Community Preservation Fund is restricted for historical preservation and conservation of open space. At June 30, 2012, the Community Preservation Fund balance had over \$2.7 million that is restricted in its use.

The remainder of the governmental funds are either (1) nonspendable due to being the corpus of an endowment in the amount of approximately \$122,000; or (2) restricted due to constraints placed externally by third-parties in the amount of approximately \$2.6 million.

**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 \$8.2 million in the aggregate.

### **General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget were not significant. A budget to actual schedule for the general fund has been provided as required supplementary information.

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

**Capital Assets.** As of June 30, 2012, the Town's investment in capital assets for its governmental and business-type activities approximated \$28.6 million and \$10.5 million, respectively. Governmental net fixed assets decreased nearly \$2.2 million as 2012 depreciation expense of over \$3.1 million exceeded capital additions of approximately \$0.9 million. Business-type net fixed assets increased by approximately \$0.1 million as 2012 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 \$7.9 million, which represents an increase of approximately \$1.1 million from the prior year. At June 30, 2012, the Town had over \$4.0 million in general obligation bonds of governmental activities and almost \$3.9 million in general obligation bonds of business-type activities. The Town borrowed \$1.7 million in the form of a general obligation bond, of which approximately \$1.1 million pertained to governmental activities and \$0.6 million to business-type activities. Scheduled principal payments of nearly \$0.6 million were made in 2012. The Town did not have any short-term borrowings outstanding at any time during fiscal year 2012.

The Town's bond rating of "AA" was set by Standard and Poor 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 \$50.3 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.

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

- The Bureau of Labor Statistics of the U.S. Department of Labor reported a 7.2% unemployment rate for Worcester County as of September 30, 2012, which represents a significant improvement from a recent high of 10.2% in December 2009. While there are signs of economic improvement in the labor markets, there continues to be great volatility. When the economy rebounds, the Town expects to participate in the rebound and ultimately experience an improvement in unemployment. However, the extent, timing or certainty of any economic rebound cannot be reasonably estimated at this time.
- Town's real estate tax base is made up predominantly of residential taxes, which in 2012 are approximately 94% of the entire levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2 ½% of the previous year's tax levy. The Town typically taxes at or near to its levy limit annually.
- The Town's housing market has stabilized from the recent downward trend. However, housing prices are still well below their 2005 peaks. The Town anticipates that its housing market will appreciate if the economy rebounds. However, the extent, timing or certainty of any material housing rebound cannot be reasonably estimated at this time.
- Inflationary trends in the region are consistent with state and national indices.

All of these factors were considered in preparing the Town's budget for the 2013 fiscal year, which was adopted at Town Meeting in May 2012. The tax rate, which reflects the adopted budget, was set November 27, 2012.

### **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.

**TOWN OF UPTON, MASSACHUSETTS**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2012**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 5,397,308	\$ 843,575	\$ 6,240,883
Investments	3,169,289	-	3,169,289
Receivables, net of allowance for uncollectibles:			
Real estate and personal property taxes	1,223,776	-	1,223,776
User charges and fees	-	424,963	424,963
Motor vehicle excise taxes	113,531	-	113,531
Intergovernmental	-	445,522	445,522
Land	4,590,304	-	4,590,304
Depreciable capital assets, net of accumulated depreciation	24,037,597	10,505,449	34,543,046
Total Assets	<u>38,531,805</u>	<u>12,219,509</u>	<u>50,751,314</u>
<b>Liabilities</b>			
Warrants and accounts payable	296,895	47,823	344,718
Other liabilities	16,079	-	16,079
Accrued interest expense	-	30,119	30,119
Noncurrent liabilities:			
Due in one year or less	521,000	374,500	895,500
Due in more than one year	4,641,802	3,571,341	8,213,143
Total Liabilities	<u>5,475,776</u>	<u>4,023,783</u>	<u>9,499,559</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	24,592,901	6,660,349	31,253,250
Restricted	7,290,238	-	7,290,238
Unrestricted	1,172,890	1,535,377	2,708,267
Total Net Assets	<u>\$ 33,056,029</u>	<u>\$ 8,195,726</u>	<u>\$ 41,251,755</u>

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2012**

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
<b>Governmental Activities:</b>							
General government	\$ 1,437,120	\$ 223,978	\$ 124,630	\$ 140,278	\$ (948,234)	\$ -	\$ (948,234)
Public safety	3,331,478	343,038	43,850	-	(2,944,590)	-	(2,944,590)
Education	9,679,863	-	12,582	-	(9,667,281)	-	(9,667,281)
Public works	5,362,701	15,015	-	296,980	(5,050,706)	-	(5,050,706)
Health and human services	439,584	188,415	23,100	-	(228,069)	-	(228,069)
Culture and recreation	598,919	198,740	23,416	-	(376,763)	-	(376,763)
Debt service	135,390	-	-	-	(135,390)	-	(135,390)
Total Governmental Activities	20,985,055	969,186	227,578	437,258	(19,351,033)	-	(19,351,033)
<b>Business-Type Activities:</b>							
Water	301,970	581,361	-	-	-	279,391	279,391
Sewer	580,274	435,229	-	80,262	-	(64,783)	(64,783)
Total Business-Type Activities	882,244	1,016,590	-	80,262	-	214,608	214,608
Total Primary Government	\$ 21,867,299	\$ 1,985,776	\$ 227,578	\$ 517,520	(19,351,033)	214,608	(19,136,425)
<b>General Revenues:</b>							
Real estate and personal property taxes					15,335,290	-	15,335,290
Motor vehicle and other excise					956,632	-	956,632
Penalties and interest on taxes					121,957	-	121,957
Intergovernmental					494,733	-	494,733
Investment income					35,433	186	35,619
Transfers (net)					(196,724)	196,724	-
Total general revenues and transfers					16,747,321	196,910	16,944,231
Change in Net Assets					(2,603,712)	411,518	(2,192,194)
<b>Net Assets:</b>							
Beginning of year					35,659,741	7,784,208	43,443,949
End of year					\$ 33,056,029	\$ 8,195,726	\$ 41,251,755

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2012**

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets:</b>				
Cash and cash equivalents	\$ 3,102,220	\$ 1,813,232	\$ 481,856	\$ 5,397,308
Investments	-	907,277	2,262,012	3,169,289
Receivables, net of allowance for uncollectibles:				
Real estate and personal property taxes	1,204,355	19,421	-	1,223,776
Motor vehicle excise taxes	113,531	-	-	113,531
<b>Total Assets</b>	<b>\$ 4,420,106</b>	<b>\$ 2,739,930</b>	<b>\$ 2,743,868</b>	<b>\$ 9,903,904</b>
<b>Liabilities and Fund Balances:</b>				
<b>Liabilities:</b>				
Warrants and accounts payable	\$ 264,510	\$ -	\$ 32,385	\$ 296,895
Other liabilities	16,079	-	-	16,079
Deferred revenues	1,199,893	19,421	-	1,219,314
<b>Total Liabilities</b>	<b>1,480,482</b>	<b>19,421</b>	<b>32,385</b>	<b>1,532,288</b>
<b>Fund Balances:</b>				
Nonspendable	-	-	122,384	122,384
Restricted	348,045	2,720,509	2,589,099	5,657,653
Committed	1,510,511	-	-	1,510,511
Assigned	20,486	-	-	20,486
Unassigned	1,060,582	-	-	1,060,582
<b>Total Fund Balances</b>	<b>2,939,624</b>	<b>2,720,509</b>	<b>2,711,483</b>	<b>8,371,616</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,420,106</b>	<b>\$ 2,739,930</b>	<b>\$ 2,743,868</b>	<b>\$ 9,903,904</b>

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, 2012**

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<b>Total Governmental Fund Balances</b>	<b>\$ 8,371,616</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	28,627,901
Other long-term assets are not available to pay for current-period expenditures and are therefore deferred on funds.	1,219,314
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	(1,127,802)
Bonds and notes payable	<u>(4,035,000)</u>
<b>Net Assets of Governmental Activities</b>	<b><u><u>\$ 33,056,029</u></u></b>

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2012**

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>				
Real estate and personal property taxes, net	\$ 14,965,438	\$ 312,748	\$ -	\$ 15,278,186
Intergovernmental	645,487	140,278	368,484	1,154,249
Motor vehicle and other excises	975,902	-	-	975,902
Licenses and permits	131,746	-	-	131,746
Departmental and other revenue	443,561	-	355,443	799,004
Penalties and interest on taxes	120,342	1,615	-	121,957
Fines and fees	38,436	-	-	38,436
Investment income	12,729	27,981	(5,277)	35,433
Contributions and donations	-	-	5,320	5,320
<b>Total Revenues</b>	<b>17,333,641</b>	<b>482,622</b>	<b>723,970</b>	<b>18,540,233</b>
<b>Expenditures:</b>				
Current:				
General government	985,343	134,461	45,666	1,165,470
Public safety	2,669,361	-	39,249	2,708,610
Education	9,679,863	-	-	9,679,863
Public works	2,456,567	-	257,344	2,713,911
Health and human services	328,679	225	26,049	354,953
Culture and recreation	248,736	39,931	245,198	533,865
Fringe benefits	1,091,505	-	-	1,091,505
Debt service:				
Principal maturities	300,000	-	-	300,000
Interest	135,389	-	-	135,389
State and county tax assessments	47,694	-	-	47,694
<b>Total Expenditures</b>	<b>17,943,137</b>	<b>174,617</b>	<b>613,506</b>	<b>18,731,260</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(609,496)</b>	<b>308,005</b>	<b>110,464</b>	<b>(191,027)</b>
<b>Other Financing Sources (Uses):</b>				
Proceeds from bond issuances	1,115,000	-	-	1,115,000
Transfers in	-	-	7,000	7,000
Transfers out	(203,724)	-	-	(203,724)
<b>Total Other Financing Sources (Uses)</b>	<b>911,276</b>	<b>-</b>	<b>7,000</b>	<b>918,276</b>
<b>Net Change in Fund Balances</b>	<b>301,780</b>	<b>308,005</b>	<b>117,464</b>	<b>727,249</b>
Fund Balances - Beginning of year	2,637,844	2,412,504	2,594,019	7,644,367
Fund Balances - End of year	<u>\$ 2,939,624</u>	<u>\$ 2,720,509</u>	<u>\$ 2,711,483</u>	<u>\$ 8,371,616</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  
YEAR ENDED JUNE 30, 2012**

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**Net Change in Fund Balances - Total Governmental Fund Balances** **\$ 727,249**

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 2012 capital outlays amounted to \$935,675 and depreciation expense totaled \$3,105,630. The net amount is reflected here as a reconciling item. (2,169,955)

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 2012, debt repayments totaled \$300,000 and the Town issued general obligation notes payable totaling \$1,115,000. (815,000)

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:

Other post-employment benefits (383,840)

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. 37,834

**Change in Net Assets of Governmental Activities** **\$ (2,603,712)**

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
JUNE 30, 2012**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
<b>Assets:</b>			
Current assets:			
Cash and cash equivalents	\$ 748,164	\$ 95,411	\$ 843,575
User charges receivable	258,392	166,571	424,963
Due from the Commonwealth	-	-	-
<b>Total Current Assets</b>	<b>1,006,556</b>	<b>261,982</b>	<b>1,268,538</b>
Noncurrent assets:			
Due from the Commonwealth	-	445,522	445,522
Capital assets, net of accumulated depreciation	6,028,183	4,477,266	10,505,449
<b>Total Assets</b>	<b>7,034,739</b>	<b>5,184,770</b>	<b>12,219,509</b>
<b>Liabilities:</b>			
Current liabilities:			
Accounts payable and accrued expenses	32,231	15,592	47,823
Accrued interest expense	26,504	3,615	30,119
Current portion of long-term debt	131,385	243,115	374,500
<b>Total Current Liabilities</b>	<b>190,120</b>	<b>262,322</b>	<b>452,442</b>
Noncurrent liabilities:			
Long-term debt	1,522,369	1,948,231	3,470,600
Other post-employment benefits	44,228	56,513	100,741
<b>Total Liabilities</b>	<b>1,756,717</b>	<b>2,267,066</b>	<b>4,023,783</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	4,374,429	2,285,920	6,660,349
Unrestricted	903,593	631,784	1,535,377
<b>Total Net Assets</b>	<b>\$ 5,278,022</b>	<b>\$ 2,917,704</b>	<b>\$ 8,195,726</b>

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET ASSETS  
YEAR ENDED JUNE 30, 2012**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
<b>Operating Revenues:</b>			
Charges for services	\$ 581,361	\$ 435,229	\$ 1,016,590
<b>Total Operating Revenues</b>	<b>581,361</b>	<b>435,229</b>	<b>1,016,590</b>
<b>Operating Expenses:</b>			
Operating costs	154,041	398,483	552,524
Depreciation expense	99,694	70,230	169,924
<b>Total Operating Expenses</b>	<b>253,735</b>	<b>468,713</b>	<b>722,448</b>
<b>Operating Loss</b>	<b>327,626</b>	<b>(33,484)</b>	<b>294,142</b>
<b>Nonoperating Revenues (Expenses):</b>			
Intergovernmental	-	80,262	80,262
Interest income	2	184	186
Interest expense	(48,235)	(111,561)	(159,796)
Transfers in, net	11,523	185,201	196,724
<b>Total Nonoperating (Expenses) Revenues, net</b>	<b>(36,710)</b>	<b>154,086</b>	<b>117,376</b>
<b>Change in Net Assets</b>	<b>290,916</b>	<b>120,602</b>	<b>411,518</b>
Net Assets - Beginning of year	4,987,106	2,797,102	7,784,208
Net Assets - End of year	<u>\$ 5,278,022</u>	<u>\$ 2,917,704</u>	<u>\$ 8,195,726</u>

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2012**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
<b>Cash Flows from Operating Activities:</b>			
Receipts from users	\$ 546,948	\$ 412,022	\$ 958,970
Payments to vendors and employees	(123,558)	(376,413)	(499,971)
Net Cash Provided by (Used for) Operating Activities	<u>423,390</u>	<u>35,609</u>	<u>458,999</u>
<b>Cash Flows from Noncapital Financing Activities:</b>			
Transfers, net	11,523	185,201	196,724
Net Cash Provided by (Used for) Noncapital Related Financing Activities	<u>11,523</u>	<u>185,201</u>	<u>196,724</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>			
Acquisition and property and equipment	(292,945)	-	(292,945)
Intergovernmental receipts for debt service	-	141,945	141,945
Repayments on short term notes payable	(37,246)	-	(37,246)
Proceeds from bond offering	586,000	-	586,000
Principal payments on bonds payable	-	(279,054)	(279,054)
Interest income	2	184	186
Interest expense	(48,292)	(113,475)	(161,767)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>207,519</u>	<u>(250,400)</u>	<u>(42,881)</u>
Net change in cash and cash equivalents	642,432	(29,590)	612,842
Cash and cash equivalents - Beginning of year	<u>105,732</u>	<u>125,001</u>	<u>230,733</u>
Cash and cash equivalents - End of year	<u>\$ 748,164</u>	<u>\$ 95,411</u>	<u>\$ 843,575</u>
<b>Reconciliation of Operating Income to Net Cash Provided By (Used for) Operating Activities:</b>			
Operating income	\$ 327,626	\$ (33,484)	\$ 294,142
Depreciation expense	99,694	70,230	169,924
Changes in assets and liabilities:			
Receivables, net	(34,413)	(23,238)	(57,651)
Accounts payable and other liabilities	30,483	22,101	52,584
Net Cash Provided by (Used for) Operating Activities	<u>\$ 423,390</u>	<u>\$ 35,609</u>	<u>\$ 458,999</u>

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**STATEMENT OF FIDUCIARY NET ASSETS**

**JUNE 30, 2012**

	Private Purpose Trust Funds	<u>Agency Funds</u>
<b>Assets:</b>		
Cash and cash equivalents	\$ -	\$ 43,383
Investments	1,237,791	-
Accounts receivable	-	<u>1,023</u>
<b>Total Assets</b>	<u>1,237,791</u>	<u>44,406</u>
 <b>Liabilities:</b>		
Warrants and accounts payable	-	6,994
Performance deposits	-	36,947
Other liabilities	-	<u>465</u>
<b>Total Liabilities</b>	<u>-</u>	<u>44,406</u>
 <b>Net Assets:</b>		
Held in trust and other purposes	<u>1,237,791</u>	<u>-</u>
<b>Net Assets</b>	<u><b>\$ 1,237,791</b></u>	<u><b>\$ -</b></u>

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
YEAR ENDED JUNE 30, 2012

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	Private Purpose Trust Funds
<b>Additions:</b>	
Investment income	\$ 14,813
<b>Total Additions</b>	<u>14,813</u>
<b>Deductions:</b>	
Human services	<u>10,620</u>
<b>Total Deductions</b>	<u>10,620</u>
<b>Change in Net Assets</b>	4,193
Net Assets - Beginning of year	<u>1,233,598</u>
Net Assets - End of year	<u><u>\$ 1,237,791</u></u>

See accompanying notes to basic financial statements.

# TOWN OF UPTON, MASSACHUSETTS

## NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

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### 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 through a regional district, 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 funds financial statements. The following describes the general use of these fund types:

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

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.

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

Private Purpose Trust Funds – are used to account for all trust arrangements under which the principal income generated from donated investments benefits private individuals and/or organizations and not the Town. The Town's private purpose trust funds are primarily used for scholarship and welfare programs.

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

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.

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

#### **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.

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 to 75 years
Buildings and improvements	20 to 50 years
Equipment, furniture, fixtures and vehicles	3 to 10 years

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

*advances to/from other funds.* All other outstanding balances between funds are reported as due to/from other funds.

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

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

*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, 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.

*Net Assets* – In the government-wide financial statements, net assets reported as *invested in capital assets, net of related debt* includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt and outstanding debt related to future state reimbursements for capital construction costs are not considered to be capital related debt.

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

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

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

*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 such as the corpus of an endowment. 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 \$348,045 as restricted in its general fund for future debt service. The Town reported \$2,720,509 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 \$312,791;
- Numerous significant and minor contributions, including accumulated investment earnings, held in expendable, permanent funds totaling \$2,275,998 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 \$1,510,511 as committed in its general fund at June 30, 2012. Of this total, \$519,613 was reserved by Town Meeting for school stabilization purposes and \$990,898 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 \$20,486 assigned at June 30, 2012 for encumbrances.

*Unassigned* represents amounts that have not been restricted, committed or assigned to specific purposes within the Town's governmental funds, primarily its general fund. At June 30, 2012, the combination of the Town's undesignated fund balance in its general fund of \$421,761 and its stabilization funds for general and capital purposes of \$637,821 equaled the reported unassigned fund balance in the general fund of \$1,060,582.

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.

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

During the fiscal year ended June 30, 2012, 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.

The State Treasurer's investment pool meets the criteria of an external investment pool. These investments are administered by the Massachusetts Municipal Depository Trust, which was established by the Treasurer of the Commonwealth who serves as its Trustee.

*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, 2012, bank balances totaling \$170,979 were not covered by federal depository insurance or by other depositors' insurance programs.

*Custodial Credit Risk: Investments* – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. Of the Town's investments, \$603,434 in United States governmental obligations, \$251,061 of corporate fixed income obligations and \$3,552,585 in equity securities and mutual funds are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty. The Town does not have a formal investment policy related to custodial credit risk.

*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, 2012, 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 \$106,277 were rated A1 by Moody's and securities with a fair value of \$144,784 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, 2012:

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	\$ 603,434	\$ -	\$ 603,434	\$ -
Corporate fixed income	251,061	121,067	129,994	-
Certificates of deposit	818,922	301,255	517,667	-
Total investments with maturities	<u>1,673,417</u>	<u>\$ 422,322</u>	<u>\$ 1,251,095</u>	<u>\$ -</u>
<u>Other investments:</u>				
Money markets	1,970,117			
State Treasurer's Investment Pool	2,855,928			
Equities	1,423,198			
Mutual funds	<u>2,129,387</u>			
Total Investments	<u>\$ 10,052,047</u>			
Cash deposits held	<u>\$ 639,299</u>			

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

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, 2012, net of applicable allowances for uncollectible accounts, include:

Property taxes	\$ 842,154
Tax liens and foreclosures	381,622
Excise taxes	<u>113,531</u>
Total	<u>\$ 1,337,307</u>

Receivables reported in the government-wide financial statements for business-type activities as of June 30, 2012, net of applicable allowances for uncollectible accounts, include:

Water user charges	\$ 258,392
Sewer user charges	166,571
Intergovernmental – due from MWPAT	<u>445,522</u>
Total	<u>\$ 870,485</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	\$ 1,086,362	\$ 19,421	\$ 1,105,783
Excise taxes	<u>113,531</u>	<u>—</u>	<u>113,531</u>
Total	<u>\$ 1,199,893</u>	<u>\$ 19,421</u>	<u>\$ 1,219,314</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 \$445,552 and interest in the amount of \$378,780 until the maturity of this agreement in 2019. GAAP requires the recognition of gross debt relative to these agreements. Therefore, the principal amount of \$445,552 is reported as a receivable in the sewer enterprise fund.

### C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b><i>Governmental Activities:</i></b>				
Capital assets not being depreciated:				
Land	\$ 4,590,304	\$ -	\$ -	\$ 4,590,304
Capital assets being depreciated:				
Buildings and improvements	6,122,848	-	-	6,122,848
Infrastructure	50,246,922	389,192	-	50,636,114
Vehicles and equipment	3,371,935	546,483	-	3,918,418
Total capital assets being depreciated	<u>59,741,705</u>	<u>935,675</u>	<u>-</u>	<u>60,677,380</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,788,346)	(127,912)	-	(1,916,258)
Infrastructure	(29,091,950)	(2,710,307)	-	(31,802,257)
Vehicles and equipment	(2,653,857)	(267,411)	-	(2,921,268)
Total accumulated depreciation	<u>(33,534,153)</u>	<u>(3,105,630)</u>	<u>-</u>	<u>(36,639,783)</u>
Total capital assets being depreciated, net	<u>26,207,552</u>	<u>(2,169,955)</u>	<u>-</u>	<u>24,037,597</u>
Governmental activities capital assets, net	<u>\$ 30,797,856</u>	<u>\$ (2,169,955)</u>	<u>\$ -</u>	<u>\$ 28,627,901</u>

For the fiscal year ended June 30, 2012, depreciation expense was charged to functions/programs as follows:

Governmental Activities:

General government	\$ 6,616
Public safety	240,246
Public works	2,836,445
Health and human services	12,133
Culture and recreation	<u>10,190</u>
Total	<u>\$ 3,105,630</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<u><b>Business-type Activities: Water</b></u>				
Capital assets being depreciated:				
Buildings and improvements	\$ 4,346,929	\$ -	\$ -	\$ 4,346,929
Infrastructure	3,191,635	292,945	-	3,484,580
Total capital assets being depreciated	<u>7,538,564</u>	<u>292,945</u>	<u>-</u>	<u>7,831,509</u>
Less accumulated depreciation for:				
Buildings and improvements	(669,216)	(2,686)	-	(671,902)
Infrastructure	(1,034,416)	(97,008)	-	(1,131,424)
Total accumulated depreciation	<u>(1,703,632)</u>	<u>(99,694)</u>	<u>-</u>	<u>(1,803,326)</u>
Total Net Business-type Activities: Water	<u>5,834,932</u>	<u>193,251</u>	<u>-</u>	<u>6,028,183</u>
<u><b>Business-type Activities: Sewer</b></u>				
Capital assets being depreciated:				
Buildings and improvements	659,983	-	-	659,983
Infrastructure	4,707,374	-	-	4,707,374
Total capital assets being depreciated	<u>5,367,357</u>	<u>-</u>	<u>-</u>	<u>5,367,357</u>
Less accumulated depreciation for:				
Buildings and improvements	(641,569)	(57,959)	-	(699,528)
Infrastructure	(178,292)	(12,271)	-	(190,563)
Total accumulated depreciation	<u>(819,861)</u>	<u>(70,230)</u>	<u>-</u>	<u>(890,091)</u>
Total Net Business-type Activities: Sewer	<u>4,547,496</u>	<u>(70,230)</u>	<u>-</u>	<u>4,477,266</u>
Total Net Business-type Activities	<u>\$ 10,382,428</u>	<u>\$ 123,021</u>	<u>\$ -</u>	<u>\$ 10,505,449</u>

For the fiscal year ended June 30, 2012, depreciation expense was charged to functions/programs as follows:

Business-Type Activities:

Water enterprise	\$ 99,694
Sewer enterprise	<u>70,230</u>
	<u>\$ 169,924</u>

**D. Interfund Receivables, Payables and Transfers**

Interfund transfers for the fiscal year ended June 30, 2012 are summarized as follows:

<u>Transfers Out</u>	<u>Nonmajor Funds</u>	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
General fund	\$ 7,000	\$ 11,523	\$ 185,201	\$ 203,724 (1)
	<u>\$ 7,000</u>	<u>\$ 11,523</u>	<u>\$ 185,201</u>	<u>\$ 203,724</u>

(1) \$7,000 was transferred to trust funds in the Nonmajor funds - \$5,000 to establish an other post employment benefit fund and \$2,000 to the conservation fund; \$196,724 was transferred to the Water and Sewer enterprise funds for debt service.

**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.

The Town did not have any temporary debt financing in place at any point in fiscal year 2012.

**F. Long-Term Obligations**

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.”

The following reflects the activity in the long-term liability accounts during the fiscal year ended June 30, 2012:

Description of Issue	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
General obligation bonds and notes payable	\$ 3,220,000	\$ 1,115,000	\$ (300,000)	\$ 4,035,000	\$ 521,000
Other post employment benefits, net	743,962	466,201	(82,361)	1,127,802	-
<b>Total Governmental Activities</b>	<b>\$ 3,963,962</b>	<b>\$ 1,581,201</b>	<b>\$ (382,361)</b>	<b>\$ 5,162,802</b>	<b>\$ 521,000</b>
<i>Business-type Activities:</i>					
<u>Water</u>					
General obligation bonds and notes payable	\$ 1,105,000	\$ 586,000	\$ (37,246)	\$ 1,653,754	\$ 131,385
Other post employment benefits, net	29,175	18,283	(3,230)	44,228	-
<b>Water enterprise</b>	<b>1,134,175</b>	<b>604,283</b>	<b>(40,476)</b>	<b>1,697,982</b>	<b>131,385</b>
<u>Sewer</u>					
General obligation bonds and notes payable	\$ 2,470,400	\$ -	\$ (279,054)	\$ 2,191,346	\$ 243,115
Other post employment benefits, net	37,279	23,361	(4,127)	56,513	-
<b>Sewer enterprise</b>	<b>2,507,679</b>	<b>23,361</b>	<b>(283,181)</b>	<b>2,247,859</b>	<b>243,115</b>
<b>Total Business-type Activities</b>	<b>\$ 3,641,854</b>	<b>\$ 627,644</b>	<b>\$ (323,657)</b>	<b>\$ 3,945,841</b>	<b>\$ 374,500</b>
<b>Total Long-term Obligations</b>	<b>\$ 7,605,816</b>	<b>\$ 2,208,845</b>	<b>\$ (706,018)</b>	<b>\$ 9,108,643</b>	<b>\$ 895,500</b>

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, 2012 was approximately \$50.3 million based on an equalized valuation of approximately \$1.0 billion.

General obligation bonds outstanding at June 30, 2012 are as follows:

Description	Interest Rate	Beginning Balance	Additions	Maturities and Retirements	Ending Balance
<u>Governmental Activities:</u>					
General obligation bonds	2.00 - 5.00%	\$ 3,220,000	\$ 1,115,000	\$ (300,000)	4,035,000
<b>Total Governmental Activities</b>		<b>\$ 3,220,000</b>	<b>\$ 1,115,000</b>	<b>\$ (300,000)</b>	<b>4,035,000</b>
<u>Business-type Activities - Water</u>					
General obligation bonds	2.00 - 5.00%	\$ 1,105,000	\$ 586,000	\$ (37,246)	1,653,754
<u>Business-type Activities - Sewer</u>					
General obligation bond	3.50 - 5.00%	230,000	-	(7,754)	222,246
MA Water Pollution Abatement Trust Note	1.25%	2,240,400	-	(271,300)	1,969,100
<b>Sewer enterprise</b>		<b>2,470,400</b>	<b>-</b>	<b>(279,054)</b>	<b>2,191,346</b>
<b>Total Business-type Activities</b>		<b>\$ 3,575,400</b>	<b>\$ 586,000</b>	<b>\$ (316,300)</b>	<b>3,845,100</b>
<b>Total Bond and Note Debt</b>					<b>\$ 7,880,100</b>

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>							
2013	\$ 521,000	\$ -	\$ 521,000	\$ 149,262	\$ -	\$ 149,262	\$ 670,262
2014	521,000	-	521,000	124,469	-	124,469	645,469
2015	531,000	-	531,000	109,234	-	109,234	640,234
2016	546,000	-	546,000	90,749	-	90,749	636,749
2017	556,000	-	556,000	73,231	-	73,231	629,231
2018 - 2022	1,360,000	-	1,360,000	118,191	-	118,191	1,478,191
Total	<u>\$ 4,035,000</u>	<u>\$ -</u>	<u>\$ 4,035,000</u>	<u>\$ 665,136</u>	<u>\$ -</u>	<u>\$ 665,136</u>	<u>\$ 4,700,136</u>

Bonded Debt - Business-Type Activities:

<i>Business-type Activities: Water</i>							
2013	\$ 131,385	\$ -	\$ 131,385	\$ 57,549	\$ -	\$ 57,549	\$ 188,934
2014	134,524	-	134,524	47,966	-	47,966	182,490
2015	138,662	-	138,662	44,599	-	44,599	183,261
2016	138,662	-	138,662	40,609	-	40,609	179,271
2017	142,801	-	142,801	36,758	-	36,758	179,559
2018 - 2022	471,080	-	471,080	133,924	-	133,924	605,004
2023 - 2027	413,850	-	413,850	57,318	-	57,318	471,168
2028	82,790	-	82,790	2,897	-	2,897	85,687
Total	<u>\$ 1,653,754</u>	<u>\$ -</u>	<u>\$ 1,653,754</u>	<u>\$ 421,620</u>	<u>\$ -</u>	<u>\$ 421,620</u>	<u>\$ 2,075,374</u>
<i>Business-type Activities: Sewer</i>							
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	319,600	(76,246)	243,354	46,778	(35,816)	10,962	254,316
2018 - 2022	713,320	(165,548)	547,772	58,416	(32,450)	25,966	573,738
2023 - 2027	86,150	-	86,150	11,932	-	11,932	98,082
2028	17,210	-	17,210	603	-	603	17,813
Total	<u>\$ 2,191,346</u>	<u>\$ (445,552)</u>	<u>\$ 1,745,794</u>	<u>\$ 580,335</u>	<u>\$ (378,780)</u>	<u>\$ 201,555</u>	<u>\$ 1,947,349</u>
<i>Business-type Activities: Total</i>							
2012	\$ 284,500	\$ -	\$ 284,500	\$ 286,010	\$ (137,189)	\$ 148,821	\$ 433,321
2013	426,000	(63,879)	362,121	141,160	(68,431)	72,729	434,850
2014	439,500	(67,879)	371,621	122,838	(57,881)	64,957	436,578
2015	448,299	(72,000)	376,299	103,321	(47,013)	56,308	432,607
2016	462,401	(76,246)	386,155	83,536	(35,816)	47,720	433,875
2017 - 2021	1,184,400	(165,548)	1,018,852	192,340	(32,450)	159,890	1,178,742
2022 - 2026	500,000	-	500,000	69,250	-	69,250	569,250
2027 - 2028	100,000	-	100,000	3,500	-	3,500	103,500
Total	<u>\$ 3,845,100</u>	<u>\$ (445,552)</u>	<u>\$ 3,399,548</u>	<u>\$ 1,001,955</u>	<u>\$ (378,780)</u>	<u>\$ 623,175</u>	<u>\$ 4,022,723</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 \$445,552 and interest in the amount of \$378,780 until the maturity of this agreement in 2019.

Authorized and Unissued Debt – At June 30, 2012, the Town had authorized and unissued debt for the following:

Road projects subject to reimbursement from the Commonwealth	\$ 878,702
Water projects	<u>3,397,000</u>
	<u>\$ 4,275,702</u>

### **III. Other Information**

#### **A. Retirement System**

*Plan Description* – The Town contributes to the Worcester County Retirement System (the “Retirement System”), a multiple-employer defined benefit pension plan for the Town and other governmental agencies within Worcester County. The Retirement 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 Retirement System. The Retirement 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 Retirement System. The Retirement 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 Retirement 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 Retirement System for the fiscal years ended June 30, 2012, 2011, and 2010 were \$400,355, \$369,026 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	\$ 810,416
Annual required contribution	522,300
Adjustments to ARC	(14,455)
Contributions made	<u>(89,719)</u>
OPEB obligation at end of year	<u>\$ 1,228,542</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, 2012	\$ 522,300	17.2%	\$ 1,228,542
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 \$85,404; Public Safety \$184,992; Public Works \$170,245; Health and Human Services \$22,778; Culture and Recreation \$17,238, Water \$18,283 and Sewer \$23,361.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2012 for the most recent actuarial valuation performed as of July 1, 2009, was as follows:

Actuarial Value of Assets (A)	Actuarial 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, 2012, 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, 2012.

### IV. Implementation of New GASB Pronouncements

#### A. Current 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 became effective in fiscal year 2012. Statement 57 addresses issues related to measurement of OPEB obligations by certain employers participating in agent multiple-employer OPEB plans. The adoption of GASB 57 did not have a material effect on the Town's financial statements.

## **B. Future Year Implementation**

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 its 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 its 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 its financial statements.

In March 2012, the GASB issued GASB Statement No. 65; *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This Statement also provides other financial reporting guidance related to the impact of the financial

statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (i.e., fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2012, the GASB issued GASB Statement No. 66; *an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB 54 and GASB 62. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (i.e., fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on its financial statements.

In June 2012, the GASB issued GASB Statement No. 67; *Financial Reporting for Pension Plans*. This Statement replaces the requirements of Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans* and GASB Statement No. 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. The Statement builds upon the existing framework for financial reports of defined benefit pension plans, which includes a statement of fiduciary net position (the amount held in a trust for paying retirement benefits) and a statement of changes in fiduciary net position. GASB 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. GASB 67 also requires the presentation of new information about annual money-weighted rates of return in the notes to the financial statements and in 10-year RSI schedules. The provisions of GASB 67 are effective for financial statements for periods beginning after June 15, 2013 (i.e., fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on its financial statements.

In June 2012, the GASB issued GASB Statement No. 68; Statement 68 replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they relate to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 requires governments providing defined benefit pensions to recognize their long-term obligation for pension benefits as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The Statement also enhances accountability and transparency through revised and new note disclosures and required supplementary information. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2013 (i.e., fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on its financial statements.

\* \* \* \* \*

**TOWN OF UPTON, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2012**

**SCHEDULES OF FUNDING PROGRESS**

**Pension System - Worcester Regional Retirement System (All Participants)**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
	<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**

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets</b>	<b>Actuarial Accrued Liability (AAL)</b>	<b>Unfunded AAL (UAAL)</b>	<b>Funded Ratio</b>	<b>Covered Payroll</b>	<b>UAAL as a Percentage of Covered Payroll</b>
	<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**

<b>Year Ended June 30,</b>	<b>Worcester Regional Retirement System</b>			<b>Town</b>	
	<b>Annual Required Contributions</b>	<b>Actual Contributions</b>	<b>Percentage Contributed</b>	<b>Actual Contribution</b>	<b>Town's Percentage of System Wide Actual Contributions</b>
	<i>(a)</i>	<i>(b)</i>		<i>(b)</i>	<i>(b/a)</i>
2012	\$ 33,072,000	\$ 33,072,000	100%	\$ 400,355	1.2%
2011	31,200,000	31,200,000	100%	369,026	1.2%
2010	28,800,000	28,800,000	100%	352,906	1.2%

**Other Post Employment Benefits**

<b>Year Ended June 30,</b>	<b>Annual Required Contributions</b>	<b>Actual Contributions</b>	<b>Percentage Contributed</b>
2012	\$ 522,300	\$ 89,719	17.2%
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, 2012**

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Favorable (Unfavorable)
	Original Budget	Final Budget				
<b>REVENUES</b>						
Real and Personal Property	\$ 14,954,227	\$ 14,954,227	\$ 14,990,946	\$ -	\$ 14,990,946	\$ 36,719
Intergovernmental	561,767	561,767	645,487	-	645,487	83,720
Motor Vehicle excise	941,820	941,820	975,902	-	975,902	34,082
Licenses and Permits	284,139	284,139	131,746	-	131,746	(152,392)
Departmental and other	447,539	447,539	638,358	-	638,358	190,819
Penalties and interest on taxes	76,501	76,501	120,342	-	120,342	43,842
Fines and forfeits	33,417	33,417	38,436	-	38,436	5,019
Investment income	9,094	9,094	10,004	-	10,004	910
Total Revenues	<u>17,308,503</u>	<u>17,308,503</u>	<u>17,551,221</u>	<u>-</u>	<u>17,551,221</u>	<u>242,718</u>
<b>EXPENDITURES</b>						
General Government	1,136,512	1,136,512	985,343	111,358	1,096,701	39,811
Public Safety	2,781,297	2,781,297	2,669,361	59,278	2,728,639	52,658
Education	9,679,863	9,679,863	9,679,863	-	9,679,863	(0)
Public Works	3,505,382	3,505,382	2,456,567	829,127	3,285,694	219,688
Health and Human Services	353,943	353,943	328,679	2,715	331,394	22,549
Culture and Recreation	261,410	261,410	248,736	-	248,736	12,674
State and County	47,485	47,485	47,694	-	47,694	(209)
Pension Benefits	1,119,356	1,119,356	1,091,505	-	1,091,505	27,851
Debt Service	771,793	771,793	771,480	-	771,480	313
Total Expenditures	<u>19,657,041</u>	<u>19,657,041</u>	<u>18,279,229</u>	<u>\$ 1,002,478</u>	<u>19,281,707</u>	<u>375,334</u>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	245,423	245,423	245,423	-	245,423	-
Transfers out	(147,429)	(147,429)	(147,429)	-	(147,429)	-
Total Other Financing Sources (Uses)	<u>97,994</u>	<u>97,994</u>	<u>97,994</u>	<u>-</u>	<u>97,994</u>	<u>-</u>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures/Use of Prior Year Budgetary Fund Balance</b>						
	<u>(2,250,544)</u>	<u>(2,250,544)</u>	<u>\$ (630,014)</u>	<u>-</u>	<u>\$ (1,632,492)</u>	<u>\$ 618,053</u>
<u>Other budgetary items</u>						
Uses of free cash	172,000	172,000				
Prior year encumbrances	309,460	309,460				
Overlay surplus	5,000	5,000				
Debt proceeds	1,701,000	1,701,000				
Other	63,084	63,084				
	<u>\$ 2,250,544</u>	<u>\$ 2,250,544</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, 2012

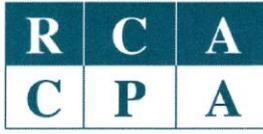
### I. Budgetary Basis of Accounting

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 2012, supplemental budgetary appropriations, were not significant. 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, 2012, is as follows:

	Accounting Differences	Fund Perspective Differences	Total
Revenue on a budgetary basis			\$ 17,551,221
Sixty day receivable difference	\$ (25,509)	\$ -	(25,509)
Interest earned by Stabilization Fund	-	2,724	2,724
Water and sewer revenues	-	(164,797)	(164,797)
Transfer recognition	-	(30,000)	(30,000)
Revenue on a GAAP basis	<u>\$ (25,509)</u>	<u>\$ (192,073)</u>	<u>\$ 17,333,640</u>
Expenditures on a budgetary basis			\$ 18,279,229
Transfer recognition	\$ -	\$ (336,091)	(336,091)
Expenditures on a GAAP basis	<u>\$ -</u>	<u>\$ (336,091)</u>	<u>\$ 17,943,138</u>
Transfers on a budgetary basis (net)			\$ 97,994
Stabilization transfers	\$ -	\$ 84,999	84,999
Other transfer recognition	-	(50,626)	(50,626)
Transfers related to debt	-	(336,091)	(336,091)
Transfers on a GAAP basis (net)	<u>\$ -</u>	<u>\$ (301,718)</u>	<u>\$ (203,724)</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, 2012, which collectively comprise the Town’s basic financial statements and have issued our report thereon dated January 23, 2013. 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.

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 January 23, 2013

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  
January 23, 2013