

TOWN OF UPTON, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2013

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended June 30, 2013

TOWN OF UPTON, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

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, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2013, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Restatement

As described in Notes II. C and V, the beginning accumulated depreciation balances in the Town's governmental activities within the government-wide financial statements were restated.

Change in Accounting Principle

As described in Note II B, the Town implemented Governmental Accounting Standards Board Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflow of Resources and Net Position*. Our opinion was not modified with respect to this matter.

Other Matters

Required Supplementary Information

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 postemployment benefits, and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 10, 2013, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Roselli, Clark & Associates
Certified Public Accountants
December 10, 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, 2013. 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 over \$59.1 million (*total net position*). Of this amount, approximately \$2.8 million (*total unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- Excluding the effects of a prior period restatement to the Town's net position invested in capital assets, net of related debt, the Town's total net position remained consistent year-over-year.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of over \$8.9, which is over \$0.5 million higher than the prior year. This increase is primarily due to the transfer of certain debt balances from the Town's general fund to its water enterprise fund in 2013 as well as strong investment performance within the Town's trust funds. Of the ending fund balance, approximately \$1.4 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was approximately 7.9% percent of the total general fund expenditures and the total general fund balance was approximately 17.8% of the total general fund expenditures.
- The Town's total long-term debt increased by approximately \$2.6 million during the current fiscal year. The Town borrowed \$3.4 million in the form of a general obligation bond in its water enterprise fund in October 2012. Scheduled principal payments of over \$0.8 million were made in 2013. The Town did not have any short-term borrowings outstanding at any time during fiscal year 2013.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education through a regional 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 over \$59.1 million (*total net position*). Of this amount, approximately \$2.8 million (*total unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.

The largest portion (approximately 82.6%) of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, 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 position (approximately 12.7%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position*, (approximately 4.7%), may be used to meet the government's ongoing obligations to citizens and creditors.

The condensed statement of net position is as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	June 30,		June 30,		June 30,	
	2013	2012	2013	2012	2013	2012
<u>Assets</u>						
Current and other assets	\$ 10,726,441	\$ 9,903,884	\$ 2,522,742	\$ 1,714,060	\$ 13,249,183	\$ 11,617,944
Capital assets, net	46,019,653	46,474,598	13,300,130	10,505,449	59,319,783	56,980,047
Total Assets	<u>56,746,094</u>	<u>56,378,482</u>	<u>15,822,872</u>	<u>12,219,509</u>	<u>72,568,966</u>	<u>68,597,991</u>
<u>Liabilities</u>						
Long term liabilities	4,999,000	5,162,802	7,142,600	3,945,841	12,141,600	9,108,643
Other liabilities	438,398	312,974	845,740	77,942	1,284,138	390,916
Total Liabilities	<u>5,437,398</u>	<u>5,475,776</u>	<u>7,988,340</u>	<u>4,023,783</u>	<u>13,425,738</u>	<u>9,499,559</u>
<u>Net Position</u>						
Invested in capital assets, net						
of related debt	42,505,653	42,439,578	6,342,530	6,660,349	48,848,183	49,099,927
Restricted	7,496,679	7,290,238	-	-	7,496,679	7,290,238
Unrestricted	1,306,364	1,172,890	1,492,002	1,535,377	2,798,366	2,708,267
Total Net Position	<u>\$ 51,308,696</u>	<u>\$ 50,902,706</u>	<u>\$ 7,834,532</u>	<u>\$ 8,195,726</u>	<u>\$ 59,143,228</u>	<u>\$ 59,098,432</u>

(1) As restated - refer to Note V.

The Town reported positive fund balances in all net asset categories at June 30, 2013.

Governmental Activities. During fiscal year 2013, Town property taxes made up approximately 81.4% of total revenues, which is approximately 1% lower than the prior year's ratio. The change in the property tax revenues ratio is primarily attributable to a change in revenue mix year-over year; in fiscal year 2013, the Town's intergovernmental revenues were significantly higher than in the prior year. In actual dollars, the Town's property taxes were up approximately 4% which is consistent with Prop 2 ½ and new growth increases.

No other revenues were greater than 10% of total revenues in fiscal years 2013 or 2012.

The Town's largest expense category is education, which the Town continues to devote substantial resources towards. Education expenses totaled approximately 52% and 46% of total fiscal year 2013 and 2012 expenses, respectively. While the percentage move was substantial, the dollars increased approximately \$500,000 mostly due to the Town's commitment to stay above legal net spending requirements for education. Public safety expenses represented 19% and 16% of total fiscal year 2013 and 2012 expenses, respectively and thus were consistent from year to year. Public works expenses represented 16% and 26% of total fiscal year 2013 and 2012 expenses, respectively. The decrease was primarily due to the prior year public works articles approximating \$1.4 million.

No other expense categories were greater than 10% in fiscal years 2013 or 2012.

Business-Type Activities. User charges represent the majority of the reported revenues in both fiscal years 2013 and 2012. 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 position is as follows:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues						
Program revenues:						
Charges for services	\$ 936,222	\$ 969,186	\$ 1,275,111	\$ 1,016,590	\$ 2,211,333	\$ 1,985,776
Operating grants and contributions	290,626	227,578	-	-	290,626	227,578
Capital grants and contributions	599,364	437,258	137,189	80,262	736,553	517,520
General revenues:						
Property taxes	15,972,708	15,335,290	-	-	15,972,708	15,335,290
Intergovernmental	491,601	494,733	-	-	491,601	494,733
Other	1,324,999	1,114,022	2,407	-	1,327,406	1,114,022
Total revenues	<u>19,615,520</u>	<u>18,578,067</u>	<u>1,414,707</u>	<u>1,096,852</u>	<u>21,030,227</u>	<u>19,674,919</u>
Expenses						
General government	1,366,301	1,437,120	-	-	1,366,301	1,437,120
Public safety	3,777,984	3,331,478	-	-	3,777,984	3,331,478
Education	10,170,035	9,679,863	-	-	10,170,035	9,679,863
Public works	3,031,444	5,362,701	-	-	3,031,444	5,362,701
Health and human services	433,262	439,584	-	-	433,262	439,584
Culture and recreation	522,600	598,919	-	-	522,600	598,919
Debt service	156,232	135,390	203,358	159,796	359,590	295,186
Other	-	-	-	-	-	-
Water	-	-	639,761	468,713	639,761	468,713
Sewer	-	-	684,474	253,735	684,474	253,735
Total expenses	<u>19,457,858</u>	<u>20,985,055</u>	<u>1,527,593</u>	<u>882,244</u>	<u>20,985,451</u>	<u>21,867,299</u>
(Deficiency) excess in net assets before transfers	157,662	(2,406,988)	(112,886)	214,608	44,776	(2,192,380)
Transfers	<u>248,308</u>	<u>(196,724)</u>	<u>(248,308)</u>	<u>196,724</u>	<u>-</u>	<u>-</u>
Change in net position	405,970	(2,603,712)	(361,194)	411,332	44,776	(2,192,380)
Net position - beginning of year (1)	<u>50,902,726</u>	<u>53,506,438</u>	<u>8,195,726</u>	<u>7,784,394</u>	<u>59,098,452</u>	<u>61,290,832</u>
Net position - end of year	<u>\$ 51,308,696</u>	<u>\$ 50,902,726</u>	<u>\$ 7,834,532</u>	<u>\$ 8,195,726</u>	<u>\$ 59,143,228</u>	<u>\$ 59,098,452</u>

(1) As restated - refer to Note V.

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 over \$8.9 million, which is over \$0.5 million higher than the prior year. This increase is primarily due to the transfer of certain debt balances from the Town's general fund to its water enterprise fund in 2013 as well as strong investment performance within the Town's trust funds. Of the ending fund balance, approximately \$1.4 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 \$1.4 million, while total fund balance was nearly \$3.2 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 7.9% of total general fund expenditures, while total fund balance represents approximately 17.8% of that same amount.

The Town's Community Preservation Fund is restricted for historical preservation and conservation of open space. At June 30, 2013, the Community Preservation Fund balance had nearly \$2.8 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 \$2.8 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 position of the water and sewer were approximately \$7.8 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, 2013, the Town's investment in capital assets for its governmental and business-type activities approximated \$46.0 million and \$13.3 million, respectively. Excluding the effects of a \$17.9 million prior period restatement to the Town's accumulated depreciation in its governmental activities, governmental net fixed assets decreased nearly \$0.4 million as 2013 depreciation expense of over \$1.6 million exceeded capital additions of approximately \$1.2 million. Business-type net fixed assets increased by approximately \$2.8 million as 2013 capital additions of approximately \$3.0 million exceeded depreciation expense of nearly \$0.2 million.

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

Long-term Debt. At the end of the current fiscal year, the Town had total debt outstanding of nearly \$10.5 million, which represents an increase of approximately \$2.6 million from the prior year. At June 30, 2013, the Town had over \$3.5 million in general obligation bonds in its water enterprise fund in October 2012. Scheduled principal payments of nearly \$0.8 million were made in 2013. The Town did not have any short-term borrowings outstanding at any time during fiscal year 2013.

The Town's bond rating of "AA" was set by Standard and Poor in August 2013.

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 \$46.9 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 Notes III. E and F to this report.

Economic Factors and Next Year's Budgets and Rates

- The U.S. Bureau of Labor Statistics reported an 8.3% unemployment rate for Worcester County for June 2013, which is greater than the state-wide unemployment rate of 7.2%. Town-specific unemployment data indicates that the Town's unemployment rate for June 2013 was 6.3%. While there are signs of economic improvement in the labor markets, there continues to be great volatility.
- The Town's real estate tax base is made up predominantly of residential taxes, which in 2013 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 its levy limit annually.
- Consistent with both State and National indices, the Town's housing market experienced a downward trend from 2005 to 2010. Housing prices began to stabilize during fiscal year 2011 and have seen an upward trend for the past two fiscal years. As a result, the Town expects its housing market to continue to maintain or slightly outpace National indices. However, the extent, timing or certainty of any full economic 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 2014 fiscal year, which was adopted at Town Meeting in May 2013. The tax rate, which reflects the adopted budget, was set on December 17, 2013.

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 POSITION

JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 5,445,586	\$ 1,528,642	\$ 6,974,228
Investments	3,640,700	-	3,640,700
Receivables, net of allowance for uncollectible accounts:			
Real estate and personal property taxes	1,452,737	-	1,452,737
User charges and fees	-	548,578	548,578
Motor vehicle excise taxes	96,256	-	96,256
Intergovernmental	91,162	445,522	536,684
Land and construction in process	5,121,641	2,995,470	8,117,111
Depreciable capital assets, net of accumulated depreciation	40,898,012	10,304,660	51,202,672
	<u>56,746,094</u>	<u>15,822,872</u>	<u>72,568,966</u>
Total Assets			
	<u>56,746,094</u>	<u>15,822,872</u>	<u>72,568,966</u>
DEFERRED OUTFLOWS OF RESOURCES			
	-	-	-
LIABILITIES			
Current liabilities:			
Warrants and accounts payable	433,278	715,526	1,148,804
Other liabilities	5,120	93,777	98,897
Accrued interest expense	-	36,437	36,437
Noncurrent liabilities:			
Due in one year or less	521,000	568,001	1,089,001
Due in more than one year	4,478,000	6,574,599	11,052,599
	<u>5,437,398</u>	<u>7,988,340</u>	<u>13,425,738</u>
Total Liabilities			
	<u>5,437,398</u>	<u>7,988,340</u>	<u>13,425,738</u>
DEFERRED INFLOWS OF RESOURCES			
	-	-	-
NET POSITION			
Invested in capital assets, net of related debt	42,505,653	6,342,530	48,848,183
Restricted for:			
Nonexpendable funds	122,384	-	122,384
Expendable funds	2,522,373	-	2,522,373
Community preservation	2,763,899	-	2,763,899
MURSD stabilization	520,734	-	520,734
Debt service	357,277	-	357,277
Other	1,210,012	-	1,210,012
Unrestricted	1,306,364	1,492,002	2,798,366
	<u>1,306,364</u>	<u>1,492,002</u>	<u>2,798,366</u>
Total Net Position	<u>\$ 51,308,696</u>	<u>\$ 7,834,532</u>	<u>\$ 59,143,228</u>

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General government	\$ 1,366,301	\$ 136,075	\$ 178,872	\$ 155,437	\$ (895,917)		\$ (895,917)
Public safety	3,777,984	404,020	36,472	-	(3,337,492)		(3,337,492)
Education	10,170,035	-	12,956	-	(10,157,079)		(10,157,079)
Public works	3,031,444	14,815	-	443,927	(2,572,702)		(2,572,702)
Health and human services	433,262	203,371	42,065	-	(187,826)		(187,826)
Culture and recreation	522,600	177,941	20,261	-	(324,398)		(324,398)
Debt service	156,232	-	-	-	(156,232)		(156,232)
Total Governmental Activities	19,457,858	936,222	290,626	599,364	(17,631,646)		(17,631,646)
Business-Type Activities:							
Water	796,559	753,673	-	-	-	\$ (42,886)	(42,886)
Sewer	731,034	521,438	-	137,189	-	(72,407)	(72,407)
Total Business-Type Activities	1,527,593	1,275,111	-	137,189	-	(115,293)	(115,293)
Total Primary Government	\$ 20,985,451	\$ 2,211,333	\$ 290,626	\$ 736,553	(17,631,646)	(115,293)	(17,746,939)
General Revenues:							
					15,972,708	-	15,972,708
					934,873	-	934,873
					111,940	-	111,940
					491,601	-	491,601
					278,186	2,407	280,593
Transfers (net)					248,308	(248,308)	-
Total general revenues and transfers					18,037,616	(245,901)	17,791,715
Change in Net Position					405,970	(361,194)	44,776
Net Position:							
Beginning of year (as restated - see Note V)					50,902,726	8,195,726	59,098,452
End of year					\$ 51,308,696	\$ 7,834,532	\$ 59,143,228

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2013**

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
Assets				
Cash and cash equivalents	\$ 3,360,750	\$ 1,724,422	\$ 360,414	\$ 5,445,586
Investments	-	1,098,136	2,542,564	3,640,700
Receivables, net of allowance for uncollectibles:				
Real estate and personal property taxes	1,431,434	21,303	-	1,452,737
Motor vehicle excise taxes	96,256	-	-	96,256
Due from other governments	-	-	91,162	91,162
Total Assets	<u>4,888,440</u>	<u>2,843,861</u>	<u>2,994,140</u>	<u>10,726,441</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 4,888,440</u>	<u>\$ 2,843,861</u>	<u>\$ 2,994,140</u>	<u>\$ 10,726,441</u>
Liabilities				
Warrants and accounts payable	\$ 342,793	\$ 58,659	\$ 31,826	\$ 433,278
Other liabilities	5,120	-	-	5,120
Deferred revenues	1,352,441	21,303	-	1,373,744
Total Liabilities	<u>1,700,354</u>	<u>79,962</u>	<u>31,826</u>	<u>1,812,142</u>
Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Nonspendable	-	-	122,384	122,384
Restricted	357,277	2,763,899	2,857,280	5,978,456
Committed	1,413,499	-	-	1,413,499
Assigned	10,600	-	-	10,600
Unassigned	1,406,710	-	(17,350)	1,389,360
Total Fund Balances	<u>3,188,086</u>	<u>2,763,899</u>	<u>2,962,314</u>	<u>8,914,299</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 4,888,440</u>	<u>\$ 2,843,861</u>	<u>\$ 2,994,140</u>	<u>\$ 10,726,441</u>

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 POSITION
JUNE 30, 2013**

Total Governmental Fund Balances	\$ 8,914,299
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	46,019,653
Other long-term assets are not available to pay for current-period expenditures and are therefore deferred on funds.	1,373,744
Long-term liabilities are not due and payable in the current period and are therefore, not reported in the government funds:	
Other postemployment benefits	(1,485,000)
Bonds and notes payable	<u>(3,514,000)</u>
Net Position of Governmental Activities	<u><u>\$ 51,308,696</u></u>

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, 2013**

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
Revenues				
Real estate and personal property taxes, net	\$ 15,485,479	\$ 315,524	\$ -	\$ 15,801,003
Intergovernmental	654,606	155,437	556,540	1,366,583
Motor vehicle and other excises	952,148	-	-	952,148
Licenses and permits	130,056	-	-	130,056
Departmental and other revenue	529,184	-	255,282	784,466
Penalties and interest on taxes	110,927	1,013	-	111,940
Fines and fees	21,700	-	-	21,700
Investment income	12,861	439	264,886	278,186
Contributions and donations	-	-	15,008	15,008
Total Revenues	<u>17,896,961</u>	<u>472,413</u>	<u>1,091,716</u>	<u>19,461,090</u>
Expenditures				
Current:				
General government	946,877	429,023	140,532	1,516,432
Public safety	2,658,496	-	59,177	2,717,673
Education	10,170,035	-	-	10,170,035
Public works	1,642,612	-	443,927	2,086,539
Health and human services	283,950	-	29,311	313,261
Culture and recreation	273,808	-	171,080	444,888
Fringe benefits	1,183,777	-	-	1,183,777
Debt service:				
Principal maturities	521,000	-	-	521,000
Interest	156,232	-	-	156,232
State and county tax assessments	56,878	-	-	56,878
Total Expenditures	<u>17,893,665</u>	<u>429,023</u>	<u>844,027</u>	<u>19,166,715</u>
Excess of Revenues Over Expenditures	<u>3,296</u>	<u>43,390</u>	<u>247,689</u>	<u>294,375</u>
Other Financing Sources (Uses)				
Transfers in	594,858	-	12,000	606,858
Transfers out	(349,692)	-	(8,858)	(358,550)
Total Other Financing Sources, Net	<u>245,166</u>	<u>-</u>	<u>3,142</u>	<u>248,308</u>
Net Change in Fund Balances	<u>248,462</u>	<u>43,390</u>	<u>250,831</u>	<u>542,683</u>
Fund Balances - Beginning of year	<u>2,939,624</u>	<u>2,720,509</u>	<u>2,711,483</u>	<u>8,371,616</u>
Fund Balances - End of year	<u>\$ 3,188,086</u>	<u>\$ 2,763,899</u>	<u>\$ 2,962,314</u>	<u>\$ 8,914,299</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, 2013**

Net Change in Fund Balances - Total Governmental Fund Balances \$ 542,683

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 2013, capital outlays amounted to \$1,182,417 and depreciation expense totaled \$1,637,362. The net amount is reflected here as a reconciling item. (454,945)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. In 2013, debt repayments totaled \$521,000. The Town did not issue any general obligation notes payable in 2013. 521,000

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 postemployment benefits (357,198)

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. 154,430

Change in Net Position of Governmental Activities \$ 405,970

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 1,437,159	\$ 91,483	\$ 1,528,642
User charges receivable	311,521	237,057	548,578
Due from the Commonwealth	-	63,879	63,879
Total current assets	1,748,680	392,419	2,141,099
Noncurrent assets:			
Due from the Commonwealth	-	381,643	381,643
Construction in process	2,995,470	-	2,995,470
Capital assets, net of accumulated depreciation	5,898,962	4,405,698	10,304,660
Total Assets	10,643,112	5,179,760	15,822,872
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	686,648	35,721	722,369
Accrued interest expense	32,901	3,536	36,437
Retainage payable	86,934	-	86,934
Current portion of long-term debt	276,524	291,477	568,001
Total current liabilities	1,083,007	330,734	1,413,741
Noncurrent liabilities:			
Long-term debt	4,642,845	1,746,754	6,389,599
Other post-employment benefits	95,000	90,000	185,000
Total Liabilities	5,820,852	2,167,488	7,988,340
Net Position			
Invested in capital assets, net of related debt	3,975,063	2,367,467	6,342,530
Unrestricted	847,197	644,805	1,492,002
Total Net Position	\$ 4,822,260	\$ 3,012,272	\$ 7,834,532

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2013**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
Operating Revenues			
Charges for services	\$ 753,673	\$ 521,438	\$ 1,275,111
Total Operating Revenues	<u>753,673</u>	<u>521,438</u>	<u>1,275,111</u>
Operating Expenses			
Operating costs	533,253	568,193	1,101,446
Depreciation expense	151,221	71,568	222,789
Total Operating Expenses	<u>684,474</u>	<u>639,761</u>	<u>1,324,235</u>
Operating Income (Loss)	<u>69,199</u>	<u>(118,323)</u>	<u>(49,124)</u>
Nonoperating Revenues (Expenses)			
Intergovernmental	-	137,189	137,189
Interest income	2	2,405	2,407
Interest expense	(112,085)	(91,273)	(203,358)
Transfers, net	(412,878)	164,570	(248,308)
Total Nonoperating (Expenses) Revenues, Net	<u>(524,961)</u>	<u>212,891</u>	<u>(312,070)</u>
Change in Net Assets	(455,762)	94,568	(361,194)
Net Position - Beginning of year	<u>5,278,022</u>	<u>2,917,704</u>	<u>8,195,726</u>
Net Position - End of year	<u>\$ 4,822,260</u>	<u>\$ 3,012,272</u>	<u>\$ 7,834,532</u>

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2013**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Receipts from users	\$ 700,544	\$ 450,983	\$ 1,151,527
Payments to vendors and employees	(480,661)	(514,608)	(995,269)
Net Cash Provided by (Used for) Operating Activities	<u>219,883</u>	<u>(63,625)</u>	<u>156,258</u>
Cash Flows from Noncapital Financing Activities			
Transfers, net	(412,878)	164,570	(248,308)
Net Cash (Used for) Provided by Noncapital Related Financing Activities	<u>(412,878)</u>	<u>164,570</u>	<u>(248,308)</u>
Cash Flows from Capital and Related Financing Activities			
Acquisition and property and equipment	(2,277,939)	-	(2,277,939)
Intergovernmental receipts for debt service	-	137,189	137,189
Proceeds from bond offering	3,397,000	-	3,397,000
Principal payments on bonds payable	(131,385)	(153,115)	(284,500)
Interest income	2	2,405	2,407
Interest expense	(105,688)	(91,352)	(197,040)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>881,990</u>	<u>(104,873)</u>	<u>777,117</u>
Net change in cash and cash equivalents	688,995	(3,928)	685,067
Cash and cash equivalents - Beginning of year	<u>748,164</u>	<u>95,411</u>	<u>843,575</u>
Cash and cash equivalents - End of year	<u>\$ 1,437,159</u>	<u>\$ 91,483</u>	<u>\$ 1,528,642</u>
Reconciliation of Operating Income to Net Cash Provided By (Used for) Operating Activities:			
Operating income (loss)	\$ 69,199	\$ (118,323)	\$ (49,124)
Depreciation expense	151,221	71,568	222,789
Changes in assets and liabilities:			
Receivables, net	(53,129)	(70,486)	(123,615)
Accounts payable and other liabilities	52,592	53,616	106,208
Net Cash Provided by (Used for) Operating Activities	<u>\$ 219,883</u>	<u>\$ (63,625)</u>	<u>\$ 156,258</u>

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ -	\$ 32,688
Investments	<u>1,299,772</u>	<u>-</u>
Total Assets	<u>1,299,772</u>	<u>32,688</u>
Liabilities		
Warrants and accounts payable	-	5,163
Deposits	-	24,446
Other liabilities	<u>-</u>	<u>3,079</u>
Total Liabilities	<u>-</u>	<u>32,688</u>
Net Position Held in Trust For		
Other purposes	<u>1,299,772</u>	<u>-</u>
Total Net Position	<u><u>\$ 1,299,772</u></u>	<u><u>\$ -</u></u>

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2013**

	Private Purpose Trust Funds
Additions	
Investment income	\$ 88,258
Donations	<u>2,687</u>
Total Additions	<u>90,945</u>
Deductions	
Human services	<u>28,964</u>
Total Deductions	<u>28,964</u>
Change in Net Position	61,981
Net Position - Beginning of year	<u>1,237,791</u>
Net Position - End of year	<u><u>\$ 1,299,772</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, 2013

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town, which is located in Worcester County is approximately thirty-five miles southwest of Boston and fifteen miles southeast of Worcester and, 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

In 2013, the Town implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. As a result of the implementation, the basic financial statements were renamed to the *statement of net position* and *statement of revenues, expenses and changes in net position*. These statements were formerly referred to as the *statement of net assets* and *statement of revenues, expenses and changes in net assets*. All previous references to *net assets* have been replaced with the concept of *net position* in accordance with GASB 63. The Town did not have any assets or liabilities that were required to be reported as deferred outflows of resources and deferred inflows of resources in these financial statements.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. 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. Fiduciary funds are reported by fund type.

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

- 1) The total assets, 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*. For the most part, the effect of interfund activity has been removed from the government-wide financial statements.

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 Enterprise Fund – 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 Enterprise Fund – 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.

D. Assets, Liabilities, and Net Position 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.

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

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, if their expected lives are 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.

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 position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond anticipation notes payable are reported net of the applicable bond premium or discount.

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town does not have any items that qualify for reporting as a deferred outflow.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town does not have any items that qualify for reporting as a deferred inflow.

Net Position – In the government-wide financial statements, net position 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 are not considered to be capital related debt.

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

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

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

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

MURSD stabilization represents stabilization funds accumulated for the Mendon-Upton Regional School District.

Debt service funds represent funds allocated for future debt service costs.

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

Fund Equity – GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, requires the Town to present its fund balances in its governmental funds using classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

Fund balance is reported in five components – 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.

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

Committed represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority, which 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.

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.

Unassigned represents amounts that have not been restricted, committed or assigned to specific purposes within the Town's governmental funds, primarily its general fund.

The following table reflects the Town's fund equity categorizations in accordance with GASB 54:

	General	Community Preservation	Nonmajor Governmental Funds	Total
Nonspendable:				
Perpetual permanent funds	\$ -	\$ -	\$ 122,384	\$ 122,384
Restricted:				
General government	-	2,763,899	187,462	2,951,361
Health and human services	-	-	23,888	23,888
Culture and recreation	-	-	123,557	123,557
Debt service	357,277	-	-	357,277
Expendable trust funds	-	-	2,522,373	2,522,373
Committed:				
General government	79,498	-	-	79,498
Public safety	292,978	-	-	292,978
Education	520,734	-	-	520,734
Public works	511,036	-	-	511,036
Culture and recreation	9,253	-	-	9,253
Assigned:				
General government	70	-	-	70
Public safety	6,730	-	-	6,730
Public works	3,800	-	-	3,800
Unassigned:				
Unrestricted	683,833	-	(17,350)	666,483
Capital stabilization	188,967	-	-	188,967
General stabilization	533,910	-	-	533,910
Totals	\$ 3,188,086	\$ 2,763,899	\$ 2,962,314	\$ 8,914,299

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.

Stabilization Funds – The Town maintains a general stabilization fund which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$533,910 at June 30, 2013 and is reported as unassigned fund balance in the General Fund. The Town also maintains a capital stabilization fund which may be used for capital purposes upon a

two-thirds vote of the Town Meeting. The balance of the fund totals \$188,967 at June 30, 2013 and is reported as unassigned fund balance in the General Fund. In addition, the Town maintains a stabilization fund for the Mendon-Upton Regional School District, which totaled \$520,734 at June 30, 2013. This balance is reported as committed within the General Fund.

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

E. Excess of Expenditures Over Appropriations and Deficits

During the fiscal year ended June 30, 2013, there were no instances where expenditures exceeded appropriations. Deficits of \$17,350 in the nonmajor funds will be funded in future years through grants or other available sources.

F. Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets 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, 2013, bank balances totaling \$173,671 were not covered by federal depository insurance or by other depositors’ insurance programs and therefore were exposed to custodial credit risk.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or

filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. Of the Town's investments, \$219,284 in United States governmental obligations, \$386,588 of corporate fixed income obligations and \$4,334,630 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, 2013, 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 \$179,849 were rated A1, \$69,472 were rated as A3 and \$137,237 were rated as Baa 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, 2013:

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	\$ 219,284	\$ -	\$ 219,284	\$ -
Corporate fixed income	386,558	49,755	336,803	-
Certificates of deposit	1,335,512	320,727	1,014,785	-
Total investments with maturities	<u>1,941,354</u>	<u>\$ 370,482</u>	<u>\$ 1,570,872</u>	<u>\$ -</u>
<u>Other investments:</u>				
Money markets	1,116,714			
State Treasurer's Investment Pool	2,822,708			
Equities	1,540,039			
Mutual funds	<u>2,794,591</u>			
Total Investments	<u>\$ 10,215,406</u>			
Cash deposits held	<u>\$ 1,731,982</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 of 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 as of June 30, 2013 for the Town's individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Property taxes	\$ 875,275
Tax liens and foreclosures	577,462
Excise taxes	96,256
Intergovernmental	<u>91,162</u>
Total	<u>\$ 1,640,155</u>

Receivables in the Town's proprietary funds consisted of the following at June 30, 2013:

Water user charges	\$ 311,521
Sewer user charges	237,057
Intergovernmental	<u>445,522</u>
Total	<u>\$ 994,100</u>

The Town did not record any allowances for uncollectible accounts as of June 30, 2013 in either its governmental or its proprietary funds.

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	\$ 1,256,185	\$ 21,303	\$ 1,277,488
Excise taxes	<u>96,256</u>	<u>-</u>	<u>96,256</u>
Total	<u>\$ 1,352,441</u>	<u>\$ 21,303</u>	<u>\$ 1,373,744</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 \$241,591 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, 2013 was as follows:

	Beginning Balance (1)	Increases	Decreases	Ending Balance
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 4,590,304	\$ -	\$ -	\$ 4,590,304
Construction in process	-	531,337	-	531,337
Total capital assets not being depreciated	4,590,304	531,337	-	5,121,641
Capital assets being depreciated:				
Buildings and improvements	4,854,362	29,926	-	4,884,288
Infrastructure	51,904,600	468,184	-	52,372,784
Vehicles and equipment	4,346,527	152,970	-	4,499,497
Total capital assets being depreciated	61,105,489	651,080	-	61,756,569
Less accumulated depreciation for:				
Buildings and improvements	(1,389,395)	(99,541)	-	(1,488,936)
Infrastructure	(14,508,575)	(1,280,273)	-	(15,788,848)
Vehicles and equipment	(3,323,225)	(257,548)	-	(3,580,773)
Total accumulated depreciation	(19,221,195)	(1,637,362)	-	(20,858,557)
Total capital assets being depreciated, net	41,884,294	(986,282)	-	40,898,012
Governmental activities capital assets, net	<u>\$ 46,474,598</u>	<u>\$ (454,945)</u>	<u>\$ -</u>	<u>\$ 46,019,653</u>

(1) As restated - see below and Note V.

Depreciation expense was charged to functions/programs as follows:

<u>Governmental Activities:</u>	
General government	\$ 6,177
Public safety	248,415
Public works	1,360,327
Health and human services	12,133
Culture and recreation	10,310
	<u>\$ 1,637,362</u>

The beginning accumulated depreciation balances in the Town's building and improvements and its infrastructure capital assets were restated in the current fiscal year. It was determined that these assets were ascribed useful lives within the Town's capital asset registers that were materially less than the estimated useful lives generally acceptable for governmental operations. As a result, the previously reported beginning accumulated depreciation balance of \$36,639,783 was reduced to \$19,221,195. This resulted in an increase in net position within the Town's government-wide financial statements of \$17,418,588. In addition, costs that had previously been classified as maintenance were determined to have productive useful lives in excess of 2 years and were therefore capitalized. This resulted in an increase in net position within the Town's government-wide financial statements of \$428,419.

	Beginning Balance (2)	Increases	Decreases	Ending Balance
<u>Business-type Activities: Water</u>				
Capital assets not being depreciated:				
Construction in process	\$ -	\$ 2,995,470	\$ -	\$ 2,995,470
Capital assets being depreciated:				
Buildings and improvements	659,983	-	-	659,983
Infrastructure	7,171,526	-	-	7,171,526
Vehicles and equipment	-	22,000	-	22,000
Total capital assets being depreciated	7,831,509	22,000	-	7,853,509
Less accumulated depreciation for:				
Buildings and improvements	(505,062)	(15,481)	-	(520,543)
Infrastructure	(1,298,264)	(133,540)	-	(1,431,804)
Vehicles and equipment	-	(2,200)	-	(2,200)
Total accumulated depreciation	(1,803,326)	(151,221)	-	(1,954,547)
Total Net Business-type Activities: Water	6,028,183	2,866,249	-	8,894,432
<u>Business-type Activities: Sewer</u>				
Capital assets being depreciated:				
Buildings and improvements	4,346,929	-	-	4,346,929
Infrastructure	1,020,428	-	-	1,020,428
Total capital assets being depreciated	5,367,357	-	-	5,367,357
Less accumulated depreciation for:				
Buildings and improvements	(658,067)	(57,959)	-	(716,026)
Infrastructure	(232,024)	(13,609)	-	(245,633)
Total accumulated depreciation	(890,091)	(71,568)	-	(961,659)
Total Net Business-type Activities: Sewer	4,477,266	(71,568)	-	4,405,698
Total Net Business-type Activities	\$ 10,505,449	\$ 2,794,681	\$ -	\$ 13,300,130

(2) Certain reclassifications were made to the beginning balances above. Such reclassifications did not have any impact on the beginning net capital assets balances.

Depreciation expense was charged to functions/programs as follows:

<u>Business-type Activities:</u>	
Water	\$ 151,221
Sewer	71,568
	<u>\$ 222,789</u>

D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2013 are summarized as follows:

Transfers Out	Transfers In				Total	
	General Fund	Nonmajor Funds	Water Enterprise Fund	Sewer Enterprise Fund		
General fund	\$ -	\$ 12,000	\$ 173,122	\$ 164,570	\$ 349,692	(1)
Nonmajor governmental funds	8,858		-	-	8,858	(2)
Water enterprise	<u>586,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>586,000</u>	(3)
	<u>\$ 594,858</u>	<u>\$ 12,000</u>	<u>\$ 173,122</u>	<u>\$ 164,570</u>	<u>\$ 944,550</u>	

- (1) \$12,000 was transferred to trust funds in the Nonmajor funds - \$10,000 to other postemployment benefits trust and \$2,000 to the conservation fund; \$173,122 was transferred to the water enterprise fund for articles and debt service; and \$164,570 was transferred to the sewer enterprise fund for debt service.
- (2) \$8,858 was transferred from several special revenue funds to the general fund to close out these special revenue funds.
- (3) This was the completion of a transfer of accounts from the general fund to the water enterprise fund.

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 at any point in fiscal year 2013.

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 post-retirement personnel costs.

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, 2013:

Description of Issue	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
General obligation bonds and notes payable	\$ 4,035,000	\$ -	\$ (521,000)	\$ 3,514,000	\$ 521,000
Other postemployment benefits, net	1,127,802	507,300	(150,102)	1,485,000	-
Total Governmental Activities	\$ 5,162,802	\$ 507,300	\$ (671,102)	\$ 4,999,000	\$ 521,000
<i>Business-type Activities:</i>					
<u>Water</u>					
General obligation bonds and notes payable	\$ 1,653,754	\$ 3,397,000	\$ (131,385)	\$ 4,919,369	\$ 276,524
Other postemployment benefits, net	44,228	54,132	(3,360)	95,000	-
Water enterprise	1,697,982	3,451,132	(134,745)	5,014,369	276,524
<u>Sewer</u>					
General obligation bonds and notes payable	\$ 2,191,346	\$ -	\$ (153,115)	\$ 2,038,231	\$ 291,477
Other postemployment benefits, net	56,513	36,727	(3,240)	90,000	-
Sewer enterprise	2,247,859	36,727	(156,355)	2,128,231	291,477
Total Business-type Activities	\$ 3,945,841	\$ 3,487,859	\$ (291,100)	\$ 7,142,600	\$ 568,001
Total Long-term Obligations	\$ 9,108,643	\$ 3,995,159	\$ (962,202)	\$ 12,141,600	\$ 1,089,001

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, 2013 was approximately \$46.9 million based on an equalized valuation of approximately \$938.5 million.

General obligation bonds outstanding at June 30, 2013 are as follows:

Description	Interest Rate	Beginning Balance	Additions	Maturities and Retirements	Ending Balance
<i>Governmental Activities:</i>					
General obligation bonds	2.00 - 5.00%	\$ 4,035,000	\$ -	\$ (521,000)	3,514,000
Total Governmental Activities		\$ 4,035,000	\$ -	\$ (521,000)	3,514,000
<i>Business-type Activities - Water</i>					
General obligation bonds	1.75 - 5.00%	\$ 1,653,754	\$ 3,397,000	\$ (131,385)	4,919,369
<i>Business-type Activities - Sewer</i>					
General obligation bond	3.50 - 5.00%	222,246	-	(8,615)	213,631
MA Water Pollution Abatement Trust Note	1.25%	1,969,100	-	(144,500)	1,824,600
Sewer enterprise		2,191,346	-	(153,115)	2,038,231
Total Business-type Activities		\$ 3,845,100	\$ 3,397,000	\$ (284,500)	6,957,600
Total Bond and Note Debt					\$ 10,471,600

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

Bonded Debt - Governmental Activities:

Year Ending June 30,	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
<i>Governmental Activities</i>							
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	417,000	-	417,000	55,621	-	55,621	472,621
2019 - 2022	943,000	-	943,000	62,570	-	62,570	1,005,570
Total	<u>\$ 3,514,000</u>	<u>\$ -</u>	<u>\$ 3,514,000</u>	<u>\$ 515,874</u>	<u>\$ -</u>	<u>\$ 515,874</u>	<u>\$ 4,029,874</u>

Bonded Debt - Business-Type Activities:

<i>Business-type Activities: Water</i>							
2014	\$ 276,524	\$ -	\$ 276,524	\$ 129,269	\$ -	\$ 129,269	\$ 405,793
2015	283,663	-	283,663	123,061	-	123,061	406,724
2016	288,662	-	288,662	116,172	-	116,172	404,834
2017	292,800	-	292,800	109,320	-	109,320	402,120
2018	231,800	-	231,800	103,063	-	103,063	334,863
2019 - 2023	1,262,050	-	1,262,050	419,004	-	419,004	1,681,054
2024 - 2028	1,298,870	-	1,298,870	243,560	-	243,560	1,542,430
2029 - 2033	985,000	-	985,000	81,475	-	81,475	1,066,475
Total	<u>\$ 4,919,369</u>	<u>\$ -</u>	<u>\$ 4,919,369</u>	<u>\$ 1,324,924</u>	<u>\$ -</u>	<u>\$ 1,324,924</u>	<u>\$ 6,244,293</u>

<i>Business-type Activities: Sewer</i>							
2014	\$ 291,476	\$ (63,879)	\$ 227,597	\$ 93,194	\$ (68,431)	\$ 24,763	\$ 252,360
2015	300,837	(67,879)	232,958	78,239	(57,881)	20,358	253,316
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	328,800	(80,621)	248,179	30,487	(24,280)	6,207	254,386
2019 - 2023	401,751	(84,927)	316,824	31,461	(8,170)	23,291	340,115
2024 - 2028	86,130	-	86,130	9,003	-	9,003	95,133
Total	<u>\$ 2,038,231</u>	<u>\$ (445,552)</u>	<u>\$ 1,592,679</u>	<u>\$ 351,874</u>	<u>\$ (241,591)</u>	<u>\$ 110,283</u>	<u>\$ 1,702,962</u>

<i>Business-type Activities: Total</i>							
2014	\$ 568,000	\$ (63,879)	\$ 504,121	\$ 222,463	\$ (68,431)	\$ 154,032	\$ 658,153
2015	584,500	(67,879)	516,621	201,300	(57,881)	143,419	660,040
2016	598,299	(72,000)	526,299	178,884	(47,013)	131,871	658,170
2017	612,400	(76,246)	536,154	156,098	(35,816)	120,282	656,436
2018	560,600	(80,621)	479,979	133,550	(24,280)	109,270	589,249
2019 - 2023	1,663,801	(84,927)	1,578,874	450,465	(8,170)	442,295	2,021,169
2024 - 2028	1,385,000	-	1,385,000	252,563	-	252,563	1,637,563
2029 - 2033	985,000	-	985,000	81,475	-	81,475	1,066,475
Total	<u>\$ 6,957,600</u>	<u>\$ (445,552)</u>	<u>\$ 6,512,048</u>	<u>\$ 1,676,798</u>	<u>\$ (241,591)</u>	<u>\$ 1,435,207</u>	<u>\$ 7,947,255</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 \$241,591 until the maturity of this agreement in 2019.

Authorized and Unissued Debt – At June 30, 2013, the Town had authorized and unissued debt for the following:

Road projects subject to reimbursement from the Commonwealth	\$ 878,702
Town Hall renovation	<u>4,524,111</u>
	<u>\$ 5,402,813</u>

III. Other Information

A. Retirement System

Retirement System 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, 2013, 2012, and 2011 were \$411,054, \$400,355 and \$369,026, 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 Postemployment 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, 2012, the date of the latest actuarial valuation report, the number of participants in the Plan consisted of 58 active employees and 11 retired employees, which include spouses, for a total of 69 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:

	Governmental Activities	Business-type Activities		Total
		Water	Sewer	
OPEB obligation - beginning of year	\$ 1,127,802	\$ 44,228	\$ 56,513	\$ 1,228,543
Annual required contribution	462,800	29,120	28,080	520,000
Interest on net OPEB obligation	44,500	2,800	2,700	50,000
Adjustments to ARC	(96,702)	22,212	5,947	(68,543)
Contributions made	(53,400)	(3,360)	(3,240)	(60,000)
OPEB obligation - end of year	<u>\$ 1,485,000</u>	<u>\$ 95,000</u>	<u>\$ 90,000</u>	<u>\$ 1,670,000</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 Ended	Annual OPEB Cost (AOPEBC)*	Percentage of AOPEBC Contributed	Net OPEB Obligation
June 30, 2013	\$ 520,000	11.5%	\$ 1,670,000
June 30, 2012	522,300	17.2%	1,228,543
June 30, 2011	494,415	17.3%	810,416

* Reflected in the statement of activities as follows:

The AOPEBC was charged to the following functional programs: General Government \$64,792; Public Safety \$282,308; Public Works \$60,164; Health and Human Services \$32,396; Culture and Recreation \$23,140, Water \$29,120 and Sewer \$28,080.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2013 for the most recent actuarial valuation performed as of July 1, 2012, was as follows:

Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age Normal Cost (B)	Unfunded AAL (UAAL) (B – A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
\$ -	\$ 4,180,000	\$ 4,180,000	0.00%	\$ 3,540,000	118 %

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, 2012
Investment rate of return	4.0%; pay-as-you-go scenario
Discount 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, 2012
Amortization method	Level dollar amount over 30 years

D. Commitments and Contingencies

General – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2013, 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, 2013.

Appellate Tax Board – The Town has pending cases filed with the Massachusetts Appellate Tax Board of the Commonwealth of Massachusetts (“ATB”). All of these cases pertain to the telephone and telegraph companies, who have challenged their assessed valuations of personal property. In total, the assessed values for ATB cases exceeded \$10.5 million at June 30, 2013.

The Town cannot estimate at this time the amount of previously assessed property taxes (and interest) that may be refunded to these tax payers, if any. Furthermore, the Town cannot determine the likelihood of the taxpayers' success at the ATB. Therefore, no loss provision has been made in the Town's basic financial statements.

IV. Implementation of New GASB Pronouncements

A. Current Year Implementations

In November 2010, the GASB issued GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The objective of this Statement was to improve financial reporting by addressing issues related to service concession arrangements. The provisions of GASB 60 became effective for the Town in fiscal year 2013 and did not 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 was 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 became effective for the Town in fiscal year 2013 and did not 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 Pronouncement*. The Statement was intended to enhance the usefulness of its Codification by incorporating guidance that previously could only be found in certain Financial Accounting Standards Board ("FASB") and American Institute of Certified Public Accountants ("AICPA") pronouncements. The provisions of GASB 62 became effective for the Town in fiscal year 2013 and did not have a material effect 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 was 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 became effective for the Town in fiscal year 2013 and did not have a material effect 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 was 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 became effective for the Town in fiscal year 2013 and did not have a material effect on its financial statements.

B. Future Year Implementations

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 (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, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on the 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 Statement 50 as they relate to pension plans that are administered through trusts or similar arrangements meeting certain criteria. This 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. Statement 67 enhances note disclosures and RSI for both defined benefit and defined contribution pension plans. Statement 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 this Statement are effective for financial statements for periods beginning after June 15, 2013 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2012, the GASB issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions — an amendment of GASB Statement No. 27*. 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 (fiscal year 2014). The Town believes the adoption of this statement will have a material impact on the financial statements.

In January 2013, the GASB issued GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. GASB 69 established accounting and financial reporting standards to government combinations and disposals of government operations. The provisions

of this Statement are effective for financial reporting periods beginning after December 15, 2013 (fiscal year 2015). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In April 2013, the GASB issued GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The objective of GASB 70 is to improve accounting and financial reporting by governments that extend and receive nonexchange financial guarantees. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2013 (fiscal year 2014). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

V. Prior Period Restatement

As described in Note II. C to these financial statements, the beginning accumulated depreciation balances in the Town's building and improvements and its infrastructure capital assets within its governmental activities were restated in the current fiscal year. It was determined that these assets were ascribed useful lives within the Town's capital asset registers that were materially less than the estimated useful lives generally acceptable for governmental operations. As a result, the previously reported beginning accumulated depreciation balance of \$36,639,783 was reduced to \$19,221,195. This resulted in an increase in net position within the Town's government-wide financial statements of \$17,418,588. In addition, costs that had previously been classified as maintenance were determined to have productive useful lives in excess of 2 years and were therefore capitalized. This resulted in an increase in net position within the Town's government-wide financial statements of \$428,419.

* * * * *

TOWN OF UPTON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2013**

SCHEDULES OF FUNDING PROGRESS

Pension System - Worcester Regional Retirement System (All Participants)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a/c)
1/1/2012	\$ 436,671,982	\$ 982,796,782	\$ 546,124,800	44.4%	\$ 238,952,079	228.5%
1/1/2010	413,976,785	863,002,067	449,025,282	48.0%	241,992,607	185.6%
1/1/2007	389,758,785	692,768,325	303,009,540	56.3%	211,518,755	143.3%

Other Post Employment Benefits

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	(a)	(b)	(b-a)	(a/b)	(c)	(b-a/c)
7/1/2012	\$ -	\$ 4,180,000	\$ 4,180,000	0.0%	\$ 3,540,000	118.1%
7/1/2009	-	4,298,116	4,298,116	0.0%	2,746,676	156.5%

SCHEDULES OF CONTRIBUTION FUNDING

Pension System

Year Ended June 30,	Worcester Regional Retirement System			Town	
	Annual Required Contributions	Actual Contributions	Percentage Contributed	Actual Contribution	Town's Percentage of System Wide Actual Contributions
	(a)	(b)		(b/a)	
2013	\$ 35,056,230	\$ 35,056,230	100%	\$ 411,054	1.2%
2012	33,072,000	33,072,000	100%	400,355	1.2%
2011	31,200,000	31,200,000	100%	369,026	1.2%

Other Post Employment Benefits

Year Ended June 30,	Annual Required Contributions	Actual Contributions	Percentage Contributed
2013	\$ 520,000	\$ 60,000	11.5%
2012	522,300	89,719	17.2%
2011	494,415	85,436	17.3%

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, 2013**

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Favorable (Unfavorable)
	Original Budget	Final Budget				
REVENUES						
Real and personal property taxes	\$ 15,545,339	\$ 15,545,339	\$ 15,433,300	\$ -	\$ 15,433,300	\$ (112,039)
Intergovernmental	614,470	614,470	654,606	-	654,606	40,136
Motor vehicle excise taxes	975,902	975,902	952,148	-	952,148	(23,754)
Licenses and permits	128,900	128,900	130,056	-	130,056	1,156
Departmental and other	521,176	521,176	538,051	-	538,051	16,875
Penalties and interest on taxes	76,500	76,500	110,927	-	110,927	34,427
Fines and forfeits	33,417	33,417	21,700	-	21,700	(11,717)
Investment income	9,094	9,094	10,364	-	10,364	1,270
Total Revenues	<u>17,904,798</u>	<u>17,904,798</u>	<u>17,851,152</u>	<u>-</u>	<u>17,851,152</u>	<u>(53,646)</u>
EXPENDITURES						
General government	1,095,525	1,095,525	946,877	79,568	1,026,445	69,080
Public safety	3,013,287	3,013,287	2,658,496	299,707	2,958,203	55,084
Education	10,170,035	10,170,035	10,170,035	-	10,170,035	-
Public works	2,437,972	2,437,972	1,642,612	514,836	2,157,448	280,524
Health and human services	347,248	347,248	283,950	-	283,950	63,298
Culture and recreation	285,445	285,445	273,808	9,253	283,061	2,384
State and county tax assessments	56,438	56,438	56,878	-	56,878	(440)
Pension and fringe benefits	1,217,054	1,217,054	1,183,777	-	1,183,777	33,277
Debt service	888,493	888,493	756,454	-	756,454	132,039
Total Expenditures	<u>19,511,497</u>	<u>19,511,497</u>	<u>17,972,887</u>	<u>\$ 903,364</u>	<u>18,876,251</u>	<u>635,246</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	108,000	108,000	594,858	-	594,858	486,858
Transfers out	(125,000)	(125,000)	(349,692)	-	(349,692)	(224,692)
Total Other Financing Sources (Uses)	<u>(17,000)</u>	<u>(17,000)</u>	<u>245,166</u>	<u>-</u>	<u>245,166</u>	<u>262,166</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures/Use of Prior Year Budgetary Fund Balance						
	<u>(1,623,699)</u>	<u>(1,623,699)</u>	<u>\$ 123,431</u>	<u>-</u>	<u>\$ (779,933)</u>	<u>\$ 843,766</u>
Other budgetary items						
Uses of free cash	809,288	809,288	-	-	-	-
Prior year encumbrances and articles	1,002,478	1,002,478	-	-	-	-
Other	(188,067)	(188,067)	-	-	-	-
	<u>\$ 1,623,699</u>	<u>\$ 1,623,699</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

TOWN OF UPTON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2013

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 each 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 2013, 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, 2013, is as follows:

	Accounting Differences	Fund Perspective Differences	Total
Revenue on a budgetary basis			\$ 17,851,142
Sixty day receivable difference	\$ 52,179	\$ -	52,179
Interest earned by Stabilization Fund	-	2,497	2,497
Transfer recognition	-	(8,858)	(8,858)
Revenue on a GAAP basis	<u>\$ 52,179</u>	<u>\$ (6,361)</u>	<u>\$ 17,896,960</u>
Expenditures on a budgetary basis			\$ 17,972,887
Transfer recognition	\$ -	\$ (79,222)	(79,222)
Expenditures on a GAAP basis	<u>\$ -</u>	<u>\$ (79,222)</u>	<u>\$ 17,893,665</u>
Transfers on a budgetary basis (net)			\$ (17,000)
Stabilization transfers	\$ -	\$ 83,681	83,681
Other transfer recognition	-	240,707	240,707
Transfers related to debt	-	(79,222)	(79,222)
Transfers on a GAAP basis (net)	<u>\$ -</u>	<u>\$ 245,166</u>	<u>\$ 245,166</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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Upton, Massachusetts (the "Town"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated December 10, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



Roselli, Clark & Associates
Certified Public Accountants
December 10, 2013