

TOWN OF UPTON, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2014

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended June 30, 2014

TOWN OF UPTON, MASSACHUSETTS

TABLE OF CONTENTS YEAR ENDED JUNE 30, 2014

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS	3-9
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements:	
Statement of Net Position	10
Statement of Activities	11
Fund Financial Statements:	
Balance Sheet – Governmental Funds	12
Reconciliation – Governmental Funds Balance Sheet Total Fund Balances to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	14
Reconciliation – Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Statement of Net Position – Proprietary Funds	16
Statement of Revenues, Expenses, and Changes in Net Position – Proprietary Funds	17
Statement of Cash Flows – Proprietary Funds	18
Statement of Fiduciary Net Position	19
Statement of Changes in Fiduciary Net Position	20
NOTES TO THE FINANCIAL STATEMENTS	21-40
REQUIRED SUPPLEMENTARY INFORMATION:	
Schedules of Funding Progress (Pension System and Other Postemployment Benefits)	41
Schedules of Contribution Funding (Pension System and Other Postemployment Benefits)	41
Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund	42
Notes to Required Supplementary Information	43
OTHER REPORTS:	
Report on Internal Control Over Financial and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	44-45



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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, 2014, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2014, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, 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 January 30, 2015, 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
January 30, 2015

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, 2014. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information.

Financial Highlights

- The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by nearly \$59.7 million (*total net position*). This represented an increase of over \$0.5 million from the prior year. Of this amount, approximately \$2.9 million (*total unrestricted net position*) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of nearly \$9.6, which is approximately \$0.6 million higher than the prior year. This increase is primarily due to the effect of net borrowings made by the Town in connection with its town hall renovation project and the timing of payment to third parties of these borrowed funds. Of the ending fund balance, approximately \$1.3 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was approximately 8.8% percent of the total general fund expenditures and the total general fund balance was approximately 16.5% of the total general fund expenditures.
- The Town's total long-term debt increased by approximately \$3.1 million during the current fiscal year. The Town borrowed \$4.5 million in the form of a general obligation bond in its governmental activities in October 2013. Scheduled principal payments of nearly \$1.4 million were made in 2014. In addition, in May 2014 the Town executed a one-year short-term borrowing in the form of a BAN to finance the purchase of a fire truck in 2014.

Overview of the Financial Statements

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

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

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

The *statement of activities* presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are

reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education through a regional 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. In 2014, the Town

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. In 2014, the Town separately presented as a major fund the activities relating to its town hall renovation, which is expected to be completed in 2015. Data from the other governmental funds are combined into a single, aggregated presentation.

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

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

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

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

Government-Wide Financial Analysis

The assets of the Town exceeded its liabilities at the close of the most recent fiscal year by nearly \$59.7 million (*total net position*). Of this amount, approximately \$2.9 million (*total unrestricted net position*) may be used to meet the government’s ongoing obligations to citizens and creditors.

The condensed statement of net position is as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2014	2013	2014	2013	2014	2013
<u>Assets</u>						
Current and other assets	\$ 12,691,631	\$ 10,726,441	\$ 1,854,888	\$ 2,522,742	\$ 14,546,519	\$ 13,249,183
Capital assets, net	49,491,298	46,019,653	13,040,888	13,300,130	62,532,186	59,319,783
Total Assets	62,182,929	56,746,094	14,895,776	15,822,872	77,078,705	72,568,966
<u>Liabilities</u>						
Long term liabilities	9,102,600	4,999,000	6,624,101	7,142,600	15,726,701	12,141,600
Other liabilities	1,593,668	438,398	80,309	845,740	1,673,977	1,284,138
Total Liabilities	10,696,268	5,437,398	6,704,410	7,988,340	17,400,678	13,425,738
<u>Net Position</u>						
Invested in capital assets	42,274,198	42,505,653	6,651,287	6,342,530	48,925,485	48,848,183
Restricted	7,858,614	7,496,679	-	-	7,858,614	7,496,679
Unrestricted	1,353,849	1,306,364	1,540,079	1,492,002	2,893,928	2,798,366
Total Net Position	\$ 51,486,661	\$ 51,308,696	\$ 8,191,366	\$ 7,834,532	\$ 59,678,027	\$ 59,143,228

The Town reported positive fund balances in all net position categories at June 30, 2014.

The largest portion (approximately 82%) 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 13%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position*, (approximately 5%), may be used to meet the government's ongoing obligations to citizens and creditors.

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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
<u>Revenues</u>						
Program revenues:						
Charges for services	\$ 1,047,662	\$ 936,222	\$ 1,368,769	\$ 1,275,111	\$ 2,416,431	\$ 2,211,333
Operating grants and contributions	292,390	290,626	-	-	292,390	290,626
Capital grants and contributions	528,706	599,364	-	137,189	528,706	736,553
General revenues:						
Property taxes	16,549,687	15,972,708	-	-	16,549,687	15,972,708
Intergovernmental	472,956	491,601	68,431	-	541,387	491,601
Other	1,638,550	1,324,999	6,240	2,407	1,644,790	1,327,406
Total revenues	<u>20,529,951</u>	<u>19,615,520</u>	<u>1,443,440</u>	<u>1,414,707</u>	<u>21,973,391</u>	<u>21,030,227</u>
<u>Expenses</u>						
General government	1,356,845	1,366,301	-	-	1,356,845	1,366,301
Public safety	3,834,775	3,777,984	-	-	3,834,775	3,777,984
Education	10,432,057	10,170,035	-	-	10,432,057	10,170,035
Public works	3,075,127	3,031,444	-	-	3,075,127	3,031,444
Health and human services	432,625	433,262	-	-	432,625	433,262
Culture and recreation	564,664	522,600	-	-	564,664	522,600
Debt service	253,078	156,232	221,798	203,358	474,876	359,590
Water	-	-	502,165	639,761	502,165	639,761
Sewer	-	-	765,458	684,474	765,458	684,474
Total expenses	<u>19,949,171</u>	<u>19,457,858</u>	<u>1,489,421</u>	<u>1,527,593</u>	<u>21,438,592</u>	<u>20,985,451</u>
(Deficiency) excess in net position before transfers	580,780	157,662	(45,981)	(112,886)	534,799	44,776
Transfers	<u>(402,815)</u>	<u>248,308</u>	<u>402,815</u>	<u>(248,308)</u>	<u>-</u>	<u>-</u>
Change in net position	177,965	405,970	356,834	(361,194)	534,799	44,776
Net position - beginning 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>
Net position - end of year	<u>\$ 51,486,661</u>	<u>\$ 51,308,696</u>	<u>\$ 8,191,366</u>	<u>\$ 7,834,532</u>	<u>\$ 59,678,027</u>	<u>\$ 59,143,228</u>

Governmental Activities. During fiscal year 2014, Town property taxes made up approximately 81% of total revenues, which is consistent with the prior year's ratio. In actual dollars, the Town's property taxes increased approximately 4% which is consistent with Proposition 2 ½ and new growth increases. No other revenues were greater than 10% of total revenues in fiscal years 2014 or 2013.

The Town's largest expense category is education, which the Town continues to devote substantial resources towards. Education expenses totaled approximately 52% of total annual expenditures for both fiscal year 2014 and 2013, respectively. Public safety expenses represented 19% of total annual expenditures for both fiscal year 2014 and 2013, respectively. Public works expenses represented 15% and 16% of total fiscal year 2014 and 2013 expenses, respectively. No other expense categories were greater than 10% in fiscal years 2014 or 2013.

Business-Type Activities. User charges represent the majority of the reported revenues in both fiscal years 2014 and 2013. Operating expenses in the Town's water and sewer enterprise funds consist primarily of payroll and related personnel costs, normal operating costs, depreciation and interest expense.

Financial Analysis of the Government's Funds

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

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of nearly \$9.6 million, which is approximately \$0.6 million higher than the prior year. This increase is primarily due to the effect of net borrowings made by the Town in connection with its town hall renovation project and the timing of payment to third parties of these borrowed funds. Of the ending fund balance, approximately \$1.3 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, the unassigned fund balance of the general fund was approximately \$1.7 million, while total fund balance was nearly \$3.1 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 8.8% of total general fund expenditures, while total fund balance represents approximately 16.5% of that same amount.

The Town's Community Preservation Fund is restricted for historical preservation and conservation of open space. At June 30, 2014, the Community Preservation Fund balance had over \$1.3 million that is restricted in its use. In 2014, the Town began to separately report as a major fund the activities related to its town hall renovation project. For financial reporting purposes, the Community Preservation Fund transferred approximately \$1.9 million in to this new fund. In addition, borrowings of nearly \$4.2 million were received in 2014 while payments related to this project totaled nearly \$4.0 million in 2014.

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; (2) restricted due to constraints placed externally by third-parties in the amount of approximately \$3.3 million; or (3) reported as a deficit in the unrestricted fund balance in the amount of approximately \$374,000, which are expected to be satisfied through future grant receipts or from long-term borrowings.

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 enterprise funds were approximately \$8.2 million in the aggregate.

General Fund Budgetary Highlights

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

Capital Asset and Debt Administration

Capital Assets. As of June 30, 2014, the Town’s investment in capital assets for its governmental and business-type activities approximated \$49.4 million and \$13.0 million, respectively. Governmental net capital assets increased nearly \$3.5 million as 2014 capital additions of \$5.1 million exceeded 2014 depreciation expense of approximately \$1.6 million. Business-type net fixed assets decreased by nearly \$0.3 million as 2014 depreciation expense of \$0.3 million exceeded modest 2014 capital additions.

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 approximately \$13.6 million, which represents an increase of approximately \$3.1 million from the prior year. The Town borrowed over \$4.5 million in 2014 in the form of general obligation bonds related to its town hall renovation project. Scheduled principal payments of nearly \$1.4 million were made in 2014.

In May 2014 the Town executed a one-year short-term borrowing in the form of a BAN to finance the purchase of a fire truck in 2014.

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 \$47.9 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 Town’s real estate tax base is made up predominantly of residential taxes, which in 2014 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 three fiscal years. As a result, the Town expects its housing market to continue to maintain or slightly outpace National indices. The median home price within the Town is significantly higher than the state-wide and national averages.
- Inflationary trends in the region are consistent with state and national indices.
- The U.S. Bureau of Labor Statistics reported a 6.2% unemployment rate for Worcester County for June 2014, which is greater than the state-wide unemployment rate of 5.5%. Town-specific

unemployment data indicates that the Town's unemployment rate for June 2014 was 4.5%. Labor markets continue to stabilize within the Town's region and nationwide.

- The Town's median household income is significantly higher than the state-wide and national averages.

All of these factors were considered in preparing the Town's budget for the 2015 fiscal year, which was adopted at Town Meeting in May 2014. The tax rate, which reflects the adopted budget, was set in December 2014.

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, 2014

	Governmental Activities	Business-Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 7,834,842	\$ 991,350	\$ 8,826,192
Investments	3,151,667	-	3,151,667
Receivables, net of allowance for uncollectible accounts:			
Real estate and personal property taxes	1,587,731	-	1,587,731
User charges and fees	-	481,865	481,865
Motor vehicle excise	105,358	-	105,358
Intergovernmental	12,033	381,673	393,706
Land and construction in process	9,190,944	-	9,190,944
Depreciable capital assets, net of accumulated depreciation	40,300,354	13,040,888	53,341,242
	<u>62,182,929</u>	<u>14,895,776</u>	<u>77,078,705</u>
DEFERRED OUTFLOWS OF RESOURCES			
	-	-	-
LIABILITIES			
Current liabilities:			
Warrants and accounts payable	1,024,168	44,863	1,069,031
Retainage payable	199,380	-	199,380
Other liabilities	5,120	-	5,120
Accrued interest expense	-	35,446	35,446
Bond anticipation note payable	365,000	-	365,000
Noncurrent liabilities:			
Due in one year or less	650,100	584,500	1,234,600
Due in more than one year	8,452,500	6,039,601	14,492,101
	<u>10,696,268</u>	<u>6,704,410</u>	<u>17,400,678</u>
DEFERRED INFLOWS OF RESOURCES			
	-	-	-
NET POSITION			
Invested in capital assets	42,274,198	6,651,287	48,925,485
Restricted for:			
Nonexpendable funds	122,384	-	122,384
Expendable funds	2,864,364	-	2,864,364
Community preservation	1,343,422	-	1,343,422
MURSD stabilization	548,166	-	548,166
Other	2,980,278	-	2,980,278
Unrestricted	1,353,849	1,540,079	2,893,928
	<u>\$ 51,486,661</u>	<u>\$ 8,191,366</u>	<u>\$ 59,678,027</u>

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014**

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	\$ 1,356,845	\$ 208,483	\$ 133,865	\$ 312,711	\$ (701,786)		\$ (701,786)
Public safety	3,834,775	395,102	93,322	-	(3,346,351)		(3,346,351)
Education	10,432,057	-	19,248	-	(10,412,809)		(10,412,809)
Public works	3,075,127	19,900	-	215,995	(2,839,232)		(2,839,232)
Health and human services	432,625	222,635	28,843	-	(181,147)		(181,147)
Culture and recreation	564,664	201,542	17,112	-	(346,010)		(346,010)
Debt service	253,078	-	-	-	(253,078)		(253,078)
Total Governmental Activities	19,949,171	1,047,662	292,390	528,706	(18,080,413)		(18,080,413)
Business-Type Activities:							
Water	894,192	807,885	-	-	-	\$ (86,307)	(86,307)
Sewer	595,229	560,884	-	-	-	(34,345)	(34,345)
Total Business-Type Activities	1,489,421	1,368,769	-	-	-	(120,652)	(120,652)
Total Primary Government	\$ 21,438,592	\$ 2,416,431	\$ 292,390	\$ 528,706	(18,080,413)	(120,652)	(18,201,065)
General Revenues:							
					16,549,687	-	16,549,687
					1,108,566	-	1,108,566
					118,208	-	118,208
					472,956	68,431	541,387
					411,776	6,240	418,016
Transfers (net)					(402,815)	402,815	-
Total general revenues and transfers					18,258,378	477,486	18,735,864
Change in Net Position					177,965	356,834	534,799
Net Position:							
Beginning of year					51,308,696	7,834,532	59,143,228
End of year					\$ 51,486,661	\$ 8,191,366	\$ 59,678,027

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2014**

	General	Community Preservation	Town Hall Renovation	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	\$ 3,363,005	\$ 975,600	\$ 2,852,300	\$ 643,937	\$ 7,834,842
Investments	-	369,484	-	2,782,183	3,151,667
Receivables, net of allowance for uncollectibles:					
Real estate and personal property taxes	1,565,210	22,521	-	-	1,587,731
Motor vehicle excise	105,358	-	-	-	105,358
Due from other governments	10,625	-	-	1,408	12,033
Total Assets	<u>5,044,198</u>	<u>1,367,605</u>	<u>2,852,300</u>	<u>3,427,528</u>	<u>12,691,631</u>
Deferred Outflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 5,044,198</u>	<u>\$ 1,367,605</u>	<u>\$ 2,852,300</u>	<u>\$ 3,427,528</u>	<u>\$ 12,691,631</u>
Liabilities					
Warrants and accounts payable	\$ 425,779	\$ 1,662	\$ 570,238	\$ 26,489	\$ 1,024,168
Retainage payable	9,000	-	190,380	-	199,380
Other liabilities	5,120	-	-	-	5,120
Bond anticipation note payable	-	-	-	365,000	365,000
Total Liabilities	<u>439,899</u>	<u>1,662</u>	<u>760,618</u>	<u>391,489</u>	<u>1,593,668</u>
Deferred Inflows of Resources					-
Unavailable revenue - property taxes	1,408,228	22,521	-	-	1,430,749
Unavailable revenue - other	105,358	-	-	-	105,358
Total Deferred Inflows of Resources	<u>1,513,586</u>	<u>22,521</u>	<u>-</u>	<u>-</u>	<u>1,536,107</u>
Fund Balances					
Nonspendable	-	-	-	122,384	122,384
Restricted	3,820	1,343,422	2,091,682	3,287,297	6,726,221
Committed	1,419,855	-	-	-	1,419,855
Assigned	13,087	-	-	-	13,087
Unassigned	1,653,951	-	-	(373,642)	1,280,309
Total Fund Balances	<u>3,090,713</u>	<u>1,343,422</u>	<u>2,091,682</u>	<u>3,036,039</u>	<u>9,561,856</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 5,044,198</u>	<u>\$ 1,367,605</u>	<u>\$ 2,852,300</u>	<u>\$ 3,427,528</u>	<u>\$ 12,691,631</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, 2014**

Total Governmental Fund Balances	\$ 9,561,856
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	49,491,298
Other long-term assets are not available to pay for current-period expenditures and are therefore unavailable within the funds.	1,536,107
Long-term liabilities are not due and payable in the current period and are therefore, not reported in the government funds:	
Other postemployment benefits	(1,885,500)
Bonds and notes payable	<u>(7,217,100)</u>
Net Position of Governmental Activities	<u><u>\$ 51,486,661</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, 2014**

	General	Community Preservation	Town Hall Renovation	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Real estate and personal property taxes, net	\$ 16,067,893	\$ 328,533	\$ -	\$ -	\$ 16,396,426
Intergovernmental	630,272	312,711	-	335,784	1,278,767
Motor vehicle and other excises	1,099,464	-	-	-	1,099,464
Licenses and permits	122,843	-	-	-	122,843
Departmental and other revenue	605,469	-	-	306,190	911,659
Penalties and interest on taxes	116,494	1,714	-	-	118,208
Fines and fees	13,160	-	-	-	13,160
Investment income	17,689	50,835	-	343,252	411,776
Contributions and donations	-	-	-	15,285	15,285
Total Revenues	<u>18,673,284</u>	<u>693,793</u>	<u>-</u>	<u>1,000,511</u>	<u>20,367,588</u>
Expenditures					
Current:					
General government	908,939	112,788	3,997,478	52,414	5,071,619
Public safety	2,793,940	-	-	442,808	3,236,748
Education	10,432,057	-	-	-	10,432,057
Public works	1,680,180	-	-	215,995	1,896,175
Health and human services	260,942	7,284	-	42,477	310,703
Culture and recreation	342,087	75,868	-	177,407	595,362
Fringe benefits	1,167,912	-	-	-	1,167,912
Debt service:					
Principal maturities	821,000	-	-	-	821,000
Interest	253,078	-	-	-	253,078
State and county tax assessments	56,662	-	-	-	56,662
Total Expenditures	<u>18,716,797</u>	<u>195,940</u>	<u>3,997,478</u>	<u>931,101</u>	<u>23,841,316</u>
(Deficiency) Excess of Revenues Over Expenditures	<u>(43,513)</u>	<u>497,853</u>	<u>(3,997,478)</u>	<u>69,410</u>	<u>(3,473,728)</u>
Other Financing Sources (Uses)					
Proceeds from bond issuances	353,270	-	4,170,830	-	4,524,100
Transfers in	10,685	-	1,918,330	15,000	1,944,015
Transfers out	(417,815)	(1,918,330)	-	(10,685)	(2,346,830)
Total Other Financing Sources, Net	<u>(53,860)</u>	<u>(1,918,330)</u>	<u>6,089,160</u>	<u>4,315</u>	<u>4,121,285</u>
Net Change in Fund Balances	<u>(97,373)</u>	<u>(1,420,477)</u>	<u>2,091,682</u>	<u>73,725</u>	<u>647,557</u>
Fund Balances - Beginning of year	<u>3,188,086</u>	<u>2,763,899</u>	<u>-</u>	<u>2,962,314</u>	<u>8,914,299</u>
Fund Balances - End of year	<u>\$ 3,090,713</u>	<u>\$ 1,343,422</u>	<u>\$ 2,091,682</u>	<u>\$ 3,036,039</u>	<u>\$ 9,561,856</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, 2014**

Net Change in Fund Balances - Total Governmental Fund Balances \$ 647,557

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. The following represents activity related to capital assets:

Capital outlays	5,116,071	
Depreciation	<u>(1,644,426)</u>	3,471,645

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.

The following represents activity related to long-term debt:

Issuances of long-term debt	(4,524,100)	
Maturities of long-term debt	<u>821,000</u>	(3,703,100)

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		(400,500)
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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.

162,363

Change in Net Position of Governmental Activities \$ 177,965

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2014**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
Assets			
Current assets:			
Cash and cash equivalents	\$ 786,900	\$ 204,450	\$ 991,350
User charges receivable	274,094	207,771	481,865
Due from the Commonwealth	-	67,879	67,879
Total current assets	1,060,994	480,100	1,541,094
Noncurrent assets:			
Due from the Commonwealth	-	313,794	313,794
Capital assets, net of accumulated depreciation	8,706,755	4,334,133	13,040,888
Total Assets	9,767,749	5,128,027	14,895,776
Liabilities			
Current liabilities:			
Accounts payable and accrued expenses	29,969	14,894	44,863
Accrued interest expense	32,039	3,407	35,446
Current portion of long-term debt	283,662	300,838	584,500
Total current liabilities	345,670	319,139	664,809
Noncurrent liabilities:			
Long-term debt	4,359,184	1,445,917	5,805,101
Other postemployment benefits	120,200	114,300	234,500
Total Liabilities	4,825,054	1,879,356	6,704,410
Net Position			
Invested in capital assets	4,063,909	2,587,378	6,651,287
Unrestricted	878,786	661,293	1,540,079
Total Net Position	\$ 4,942,695	\$ 3,248,671	\$ 8,191,366

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, 2014**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
Operating Revenues			
Charges for services	\$ 807,885	\$ 560,884	\$ 1,368,769
Total Operating Revenues	807,885	560,884	1,368,769
Operating Expenses			
Operating costs	582,131	430,600	1,012,731
Depreciation expense	183,327	71,565	254,892
Total Operating Expenses	765,458	502,165	1,267,623
Operating Income (Loss)	42,427	58,719	101,146
Nonoperating Revenues (Expenses)			
Intergovernmental	-	68,431	68,431
Interest income	3,482	2,758	6,240
Interest expense	(128,734)	(93,064)	(221,798)
Transfers, net	203,260	199,555	402,815
Total Nonoperating Revenues, Net	78,008	177,680	255,688
Change in Net Assets	120,435	236,399	356,834
Net Position - Beginning of year	4,822,260	3,012,272	7,834,532
Net Position - End of year	\$ 4,942,695	\$ 3,248,671	\$ 8,191,366

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2014**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
Cash Flows from Operating Activities			
Receipts from users	\$ 845,312	\$ 590,170	\$ 1,435,482
Payments to vendors and employees	(1,213,610)	(427,127)	(1,640,737)
Net Cash (Used for) Provided by Operating Activities	(368,298)	163,043	(205,255)
Cash Flows from Noncapital Financing Activities			
Transfers, net	203,260	199,555	402,815
Net Cash Provided by Noncapital Related Financing Activities	203,260	199,555	402,815
Cash Flows from Capital and Related Financing Activities			
Acquisition and property and equipment	(82,584)	-	(82,584)
Intergovernmental receipts for debt service	-	132,280	132,280
Principal payments on bonds payable	(276,523)	(291,476)	(567,999)
Interest income	3,482	2,758	6,240
Interest expense	(129,596)	(93,193)	(222,789)
Net Cash Used for Capital and Related Financing Activities	(485,221)	(249,631)	(734,852)
Net change in cash and cash equivalents	(650,259)	112,967	(537,292)
Cash and cash equivalents - Beginning of year	1,437,159	91,483	1,528,642
Cash and cash equivalents - End of year	<u>\$ 786,900</u>	<u>\$ 204,450</u>	<u>\$ 991,350</u>
Reconciliation of Operating Income to Net Cash (Used for) Provided By Operating Activities:			
Operating income (loss)	\$ 42,427	\$ 58,719	\$ 101,146
Depreciation expense	183,327	71,565	254,892
Changes in assets and liabilities:			
Receivables, net	37,427	29,286	66,713
Accounts payable and other liabilities	(631,479)	3,473	(628,006)
Net Cash (Used for) Provided by Operating Activities	<u>\$ (368,298)</u>	<u>\$ 163,043</u>	<u>\$ (205,255)</u>

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2014

	<u>Private Purpose Trust Funds</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents	\$ -	\$ 55,951
Investments	<u>1,410,255</u>	<u>-</u>
Total Assets	<u>1,410,255</u>	<u>55,951</u>
Liabilities		
Warrants and accounts payable	-	11,061
Deposits	-	23,483
Other liabilities	<u>-</u>	<u>21,407</u>
Total Liabilities	<u>-</u>	<u>55,951</u>
Net Position Held in Trust For		
Other purposes	<u>1,410,255</u>	<u>-</u>
Total Net Position	<u>\$ 1,410,255</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, 2014**

	<u>Private Purpose Trust Funds</u>
Additions	
Investment income	\$ 114,383
Total Additions	<u>114,383</u>
Deductions	
Education	<u>3,900</u>
Total Deductions	<u>3,900</u>
Change in Net Position	110,483
Net Position - Beginning of year	<u>1,299,772</u>
Net Position - End of year	<u><u>\$ 1,410,255</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, 2014

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

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.

Town Hall Renovation Fund – is used to account for the construction and renovation activities undertaken in fiscal year 2013 and expected to be completed in fiscal year 2015 relative to the renovation of the Upton town hall.

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	Town Hall Renovation	Nonmajor Governmental Funds	Total
Nonspendable:					
Perpetual permanent funds	\$ -	\$ -	\$ -	\$ 122,384	\$ 122,384
Restricted:					
General government	-	1,343,422	2,091,682	236,176	3,671,280
Public safety	-	-	-	7,616	7,616
Health and human services	-	-	-	25,723	25,723
Culture and recreation	-	-	-	153,418	153,418
Debt service	3,820	-	-	-	3,820
Expendable trust funds	-	-	-	2,864,364	2,864,364
Committed:					
General government	267,450	-	-	-	267,450
Public safety	112,119	-	-	-	112,119
Education	548,166	-	-	-	548,166
Public works	472,078	-	-	-	472,078
Culture and recreation	20,042	-	-	-	20,042
Assigned:					
General government	4,900	-	-	-	4,900
Public safety	6,202	-	-	-	6,202
Public works	1,985	-	-	-	1,985
Unassigned:					
Unrestricted	829,705	-	-	(373,642)	456,063
Capital stabilization	189,325	-	-	-	189,325
General stabilization	634,921	-	-	-	634,921
Totals	<u>\$ 3,090,713</u>	<u>\$ 1,343,422</u>	<u>\$ 2,091,682</u>	<u>\$ 3,036,039</u>	<u>\$ 9,561,856</u>

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 \$634,921 at June 30, 2014 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 \$189,325 at June 30, 2014 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 \$548,166 at June 30, 2014. 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, 2014, there were no instances where expenditures exceeded appropriations. Deficits of \$365,642 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, 2014, bank balances totaling \$1,177,099 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, \$140,168 in United States governmental obligations, \$132,543 of corporate fixed income obligations and \$4,289,210 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, 2014, 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 \$76,217 were rated A1, \$25,066 were rated as A3 and \$31,260 were rated as Baa1 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, 2014:

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	\$ 140,168	\$ -	\$ 140,168	\$ -
Corporate fixed income	132,543	50,396	82,147	-
Certificates of deposit	346,828	55,147	291,681	-
Total investments with maturities	619,539	\$ 105,543	\$ 513,996	\$ -
<u>Other investments:</u>				
Money markets	3,735,212			
State Treasurer's Investment Pool	1,849,171			
Equities	1,814,253			
Mutual funds	2,474,958			
Total Investments	\$ 10,493,133			
Cash deposits held	\$ 2,950,932			

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

Interest Rate Risk – The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, the Town mitigates this risk by generally limiting the average maturity of its deposits to twelve months or less.

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

B. Receivables

Receivables as of June 30, 2014 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	\$ 903,256
Tax liens and foreclosures	684,475
Excise taxes	105,358
Intergovernmental	<u>12,033</u>
Total	<u>\$ 1,705,122</u>

Receivables in the Town’s proprietary funds consisted of the following at June 30, 2014:

Water user charges	\$ 274,094
Sewer user charges	207,771
Intergovernmental	<u>381,673</u>
Total	<u>\$ 863,538</u>

The Town did not record any allowances for uncollectible accounts as of June 30, 2014 in either its governmental or its proprietary funds.

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 \$381,673 and interest in the amount of \$173,160 until the maturity of this agreement in 2019. GAAP requires the recognition of gross debt relative to these agreements. Therefore, the principal amount of \$381,673 is reported as a receivable in the sewer enterprise fund.

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2014 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<u>Governmental Activities:</u>				
Capital assets not being depreciated:				
Land	\$ 4,590,304	\$ -	\$ -	\$ 4,590,304
Construction in process	531,337	4,177,478	(108,175)	4,600,640
Total capital assets not being depreciated	<u>5,121,641</u>	<u>4,177,478</u>	<u>(108,175)</u>	<u>9,190,944</u>
Capital assets being depreciated:				
Buildings and improvements	4,884,288	52,489	-	4,936,777
Infrastructure	52,372,784	468,831	-	52,841,615
Vehicles and equipment	4,499,497	525,448	-	5,024,945
Total capital assets being depreciated	<u>61,756,569</u>	<u>1,046,768</u>	<u>-</u>	<u>62,803,337</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,488,936)	(100,571)	-	(1,589,507)
Infrastructure	(15,788,848)	(1,291,986)	-	(17,080,834)
Vehicles and equipment	(3,580,773)	(251,869)	-	(3,832,642)
Total accumulated depreciation	<u>(20,858,557)</u>	<u>(1,644,426)</u>	<u>-</u>	<u>(22,502,983)</u>
Total capital assets being depreciated, net	<u>40,898,012</u>	<u>(597,658)</u>	<u>-</u>	<u>40,300,354</u>
Governmental activities capital assets, net	<u>\$ 46,019,653</u>	<u>\$ 3,579,820</u>	<u>\$ (108,175)</u>	<u>\$ 49,491,298</u>

Depreciation expense was charged to functions/programs as follows:

<u>Governmental Activities:</u>	
General government	\$ 6,465
Public safety	244,244
Public works	1,371,075
Health and human services	12,132
Culture and recreation	10,510
	<u>\$ 1,644,426</u>

	Beginning Balance	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	2,991,120	-	10,162,646
Vehicles and equipment	22,000	-	-	22,000
Total capital assets being depreciated	7,853,509	2,991,120	-	10,844,629
Less accumulated depreciation for:				
Buildings and improvements	(520,543)	(15,481)	-	(536,024)
Infrastructure	(1,431,804)	(163,446)	-	(1,595,250)
Vehicles and equipment	(2,200)	(4,400)	-	(6,600)
Total accumulated depreciation	(1,954,547)	(183,327)	-	(2,137,874)
Total Net Business-type Activities: Water	8,894,432	2,807,793	(2,995,470)	8,706,755
<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	(716,026)	(57,959)	-	(773,985)
Infrastructure	(245,633)	(13,606)	-	(259,239)
Total accumulated depreciation	(961,659)	(71,565)	-	(1,033,224)
Total Net Business-type Activities: Sewer	4,405,698	(71,565)	-	4,334,133
Total Net Business-type Activities	\$ 13,300,130	\$ 2,736,228	\$ (2,995,470)	\$ 13,040,888

Depreciation expense was charged to functions/programs as follows:

<u>Business-type Activities:</u>	
Water	\$ 183,327
Sewer	71,565
	<u>\$ 254,892</u>

D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2014 are summarized as follows:

Transfers Out	Transfers In						Total
	General Fund	Community Preservation	Town Hall Renovation	Nonmajor Funds	Water Enterprise Fund	Sewer Enterprise Fund	
General fund	\$ -	\$ -	\$ -	\$ 15,000	\$ 203,260	\$ 199,555	\$ 417,815 (1)
Nonmajor governmental funds	10,685	-	-	-	-	-	10,685 (2)
Community preservation funds	-	(1,918,330)	1,918,330	-	-	-	- (3)
	<u>\$ 10,685</u>	<u>\$ (1,918,330)</u>	<u>\$ 1,918,330</u>	<u>\$ 15,000</u>	<u>\$ 203,260</u>	<u>\$ 199,555</u>	<u>\$ 428,500</u>

- (1) \$15,000 was transferred to trust funds in the Nonmajor funds for other postemployment benefits; \$203,260 and \$199,555 was transferred to the water and sewer enterprise funds for articles and debt service, respectively.
- (2) \$10,685 was transferred from several special revenue funds to the general fund to close out these special revenue funds.
- (3) This was the transfer of the prior year's fund balance earmarked for the town hall renovation project, which is reported as a separate major fund in 2014.

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.

On May 24, 2014, the Town executed a one-year \$365,000 BAN with a financial institution with an interest rate of 0.55% per annum. The proceeds of this BAN were used to finance the purchase of a fire truck.

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, 2014:

Description of Issue	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
General obligation bonds and notes payable	\$ 3,514,000	\$ 4,524,100	\$ (821,000)	\$ 7,217,100	\$ 650,100
Other postemployment benefits, net	1,485,000	489,500	(89,000)	1,885,500	-
Total Governmental Activities	\$ 4,999,000	\$ 5,013,600	\$ (910,000)	\$ 9,102,600	\$ 650,100
<i>Business-type Activities:</i>					
<u>Water</u>					
General obligation bonds and notes payable	\$ 4,919,369	\$ -	\$ (276,523)	\$ 4,642,846	\$ 283,662
Other postemployment benefits, net	95,000	30,800	(5,600)	120,200	-
Water enterprise	5,014,369	30,800	(282,123)	4,763,046	283,662
<u>Sewer</u>					
General obligation bonds and notes payable	2,038,231	-	(291,476)	1,746,755	300,838
Other postemployment benefits, net	90,000	29,700	(5,400)	114,300	-
Sewer enterprise	2,128,231	29,700	(296,876)	1,861,055	300,838
Total Business-type Activities	\$ 7,142,600	\$ 60,500	\$ (578,999)	\$ 6,624,101	\$ 584,500
Total Long-term Obligations	\$ 12,141,600	\$ 5,074,100	\$ (1,488,999)	\$ 15,726,701	\$ 1,234,600

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, 2014 was approximately \$47.9 million based on an equalized valuation of nearly \$957.5 million.

General obligation bonds outstanding at June 30, 2014 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%	\$ 3,514,000	\$ 4,524,100	\$ (821,000)	\$ 7,217,100
Total Governmental Activities		\$ 3,514,000	\$ 4,524,100	\$ (821,000)	\$ 7,217,100
<i>Business-type Activities - Water</i>					
General obligation bonds	1.75 - 5.00%	\$ 4,919,369	\$ -	\$ (276,523)	\$ 4,642,846
<i>Business-type Activities - Sewer</i>					
General obligation bond	3.50 - 5.00%	213,631	-	(9,476)	204,155
MA Water Pollution Abatement Trust Note	1.25%	1,824,600	-	(282,000)	1,542,600
Sewer enterprise		2,038,231	-	(291,476)	1,746,755
Total Business-type Activities		\$ 6,957,600	\$ -	\$ (567,999)	\$ 6,389,601
Total Bond and Note Debt		\$ 10,471,600	\$ 4,524,100	\$ (1,388,999)	\$ 13,606,701

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>							
2015	\$ 650,100	\$ -	\$ 650,100	\$ 251,671	\$ -	\$ 251,671	\$ 901,771
2016	666,000	-	666,000	230,599	-	230,599	896,599
2017	681,000	-	681,000	210,156	-	210,156	891,156
2018	547,000	-	547,000	189,221	-	189,221	736,221
2019	562,000	-	562,000	169,574	-	169,574	731,574
2020 - 2024	1,486,000	-	1,486,000	599,171	-	599,171	2,085,171
2025 - 2029	1,190,000	-	1,190,000	398,838	-	398,838	1,588,838
2030 - 2034	1,435,000	-	1,435,000	148,100	-	148,100	1,583,100
Total	<u>\$ 7,217,100</u>	<u>\$ -</u>	<u>\$ 7,217,100</u>	<u>\$ 2,197,330</u>	<u>\$ -</u>	<u>\$ 2,197,330</u>	<u>\$ 9,414,430</u>

Bonded Debt - Business-Type Activities:

<i>Business-type Activities: Water</i>							
2015	\$ 283,662	\$ -	\$ 283,662	\$ 123,061	\$ -	\$ 123,061	\$ 406,723
2016	288,662	-	288,662	116,172	-	116,172	404,834
2017	292,800	-	292,800	109,320	-	109,320	402,120
2018	231,801	-	231,801	103,063	-	103,063	334,864
2019	236,801	-	236,801	97,176	-	97,176	333,977
2020 - 2024	1,278,020	-	1,278,020	384,843	-	384,843	1,662,863
2025 - 2029	1,236,100	-	1,236,100	207,157	-	207,157	1,443,257
2030 - 2033	795,000	-	795,000	54,863	-	54,863	849,863
Total	<u>\$ 4,642,846</u>	<u>\$ -</u>	<u>\$ 4,642,846</u>	<u>\$ 1,195,655</u>	<u>\$ -</u>	<u>\$ 1,195,655</u>	<u>\$ 5,838,501</u>
<i>Business-type Activities: Sewer</i>							
2015	\$ 300,838	\$ (67,879)	\$ 232,959	\$ 78,239	\$ (57,881)	\$ 20,358	\$ 253,317
2016	309,637	(72,000)	237,637	62,712	(47,013)	15,699	253,336
2017	319,600	(76,246)	243,354	46,778	(35,816)	10,962	254,316
2018	328,800	(80,621)	248,179	30,487	(24,280)	6,207	254,386
2019	338,000	(84,927)	253,073	13,929	(8,170)	5,759	258,832
2020 - 2024	80,980	-	80,980	20,504	-	20,504	101,484
2025 - 2028	68,900	-	68,900	6,031	-	6,031	74,931
Total	<u>\$ 1,746,755</u>	<u>\$ (381,673)</u>	<u>\$ 1,365,082</u>	<u>\$ 258,680</u>	<u>\$ (173,160)</u>	<u>\$ 85,520</u>	<u>\$ 1,450,602</u>
<i>Business-type Activities: Total</i>							
2014	\$ 584,500	\$ (67,879)	\$ 516,621	\$ 201,300	\$ (57,881)	\$ 143,419	\$ 660,040
2015	598,299	(72,000)	526,299	178,884	(47,013)	131,871	658,170
2016	612,400	(76,246)	536,154	156,098	(35,816)	120,282	656,436
2017	560,601	(80,621)	479,980	133,550	(24,280)	109,270	589,250
2018	574,801	(84,927)	489,874	111,105	(8,170)	102,935	592,809
2019 - 2023	1,359,000	-	1,359,000	405,347	-	405,347	1,764,347
2024 - 2028	1,305,000	-	1,305,000	213,188	-	213,188	1,518,188
2029 - 2033	795,000	-	795,000	54,863	-	54,863	849,863
Total	<u>\$ 6,389,601</u>	<u>\$ (381,673)</u>	<u>\$ 6,007,928</u>	<u>\$ 1,454,335</u>	<u>\$ (173,160)</u>	<u>\$ 1,281,175</u>	<u>\$ 7,289,103</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 \$381,673 and interest in the amount of \$173,160 until the maturity of this agreement in 2019.

Authorized and Unissued Debt – At June 30, 2014, the Town had authorized and unissued debt for the following:

Road projects subject to reimbursement from the Commonwealth	<u>\$ 878,702</u>
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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, 2014, 2013, and 2012 were \$435,088, \$411,054 and \$400,355, 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	\$ 1,485,000	\$ 95,000	\$ 90,000	\$ 1,670,000
Annual required contribution	489,500	30,800	29,700	550,000
Adjustments to ARC	(26,700)	(1,680)	(1,620)	(30,000)
Contributions made	(62,300)	(3,920)	(3,780)	(70,000)
OPEB obligation - end of year	<u>\$ 1,885,500</u>	<u>\$ 120,200</u>	<u>\$ 114,300</u>	<u>\$ 2,120,000</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, 2014	\$ 550,000	12.7%	\$ 2,120,000
June 30, 2013	520,000	11.5%	1,670,000
June 30, 2012	522,300	17.2%	1,228,543

* Reflected in the statement of activities as follows:

The AOPEBC was charged to the following functional programs: General Government \$68,530; Public Safety \$298,595; Public Works \$63,635; Health and Human Services \$34,265; Culture and Recreation \$24,475, Water \$30,800 and Sewer \$29,700.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2014 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, 2014, 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, 2014.

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 \$13.4 million at June 30, 2014.

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 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 became effective in fiscal year 2014 and did not have a material effect on the Town.

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 was 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 became effective in fiscal year 2014 and did not have a material effect on the Town.

B. Future Year Implementations

In June 2012, the GASB issued GASB Statement No. 67, *Financial Reporting for Pension Plans*. This Statement replaced 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 built 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 become effective for the Retirement System as of December 31, 2014 and will have a material impact on the Town for the fiscal year 2015.

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 replaced the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers* and Statement No. 50, *Pension Disclosures*, as they related to governments that provide pensions through pension plans administered as trusts or similar arrangements that meet certain criteria. Statement 68 required 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 enhanced accountability and transparency through revised and new note disclosures and required supplementary information. The GASB issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, in November 2013 to amend certain provisions regarding the application of transition provisions of Statement No. 68. The provisions of these Statements become effective in fiscal year 2015 and will have a have a material effect on the Town.

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 2015). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

* * * * *

TOWN OF UPTON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014**

SCHEDULES OF FUNDING PROGRESS

Pension System - Worcester Regional Retirement System (All Participants)

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	<i>(a)</i>	<i>(b)</i>	<i>(b-a)</i>	<i>(a/b)</i>	<i>(c)</i>	<i>(b-a/c)</i>
1/1/2012	\$ 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 Postemployment Benefits

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
	<i>(a)</i>	<i>(b)</i>	<i>(b-a)</i>	<i>(a/b)</i>	<i>(c)</i>	<i>(b-a/c)</i>
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
		<i>(a)</i>		<i>(b)</i>	<i>(b/a)</i>
2014	\$ 37,510,266	\$ 37,510,266	100%	\$ 435,088	1.2%
2013	35,056,230	35,056,230	100%	411,054	1.2%
2012	33,072,000	33,072,000	100%	400,355	1.2%

Other Postemployment Benefits

Year Ended June 30,	Annual Required Contributions	Actual Contributions	Percentage Contributed
2014	\$ 550,000	\$ 70,000	12.7%
2013	520,000	60,000	11.5%
2012	522,300	89,719	17.2%

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, 2014**

	Budgeted Amounts		Actual Budgetary Amounts	Encumbrances	Actual Budgetary Adjusted	Variance Favorable (Unfavorable)
	Original Budget	Final Budget				
REVENUES						
Real and personal property taxes	\$ 16,073,666	\$ 16,073,666	\$ 16,084,400	\$ -	\$ 16,084,400	\$ 10,734
Intergovernmental	627,856	627,856	630,272	-	630,272	2,416
Motor vehicle excise taxes	950,000	950,000	1,099,464	-	1,099,464	149,464
Licenses and permits	129,700	129,700	122,843	-	122,843	(6,857)
Departmental and other	574,590	574,590	605,469	-	605,469	30,879
Penalties and interest on taxes	120,342	120,342	116,494	-	116,494	(3,848)
Fines and forfeits	20,000	20,000	13,160	-	13,160	(6,840)
Investment income	10,000	10,000	15,334	-	15,334	5,334
Total Revenues	<u>18,506,154</u>	<u>18,506,154</u>	<u>18,687,436</u>	<u>-</u>	<u>18,687,436</u>	<u>181,282</u>
EXPENDITURES						
General government	1,022,070	1,022,070	908,937	62,578	971,515	50,555
Public safety	2,980,241	2,980,241	2,784,940	118,321	2,903,261	76,980
Education	10,432,054	10,432,054	10,432,057	-	10,432,057	(3)
Public works	2,198,343	2,198,343	1,680,180	474,062	2,154,242	44,101
Health and human services	319,163	319,163	260,942	-	260,942	58,221
Culture and recreation	374,445	374,445	342,087	20,042	362,129	12,316
State and county tax assessments	57,322	57,322	56,662	-	56,662	660
Pension and fringe benefits	1,185,088	1,185,088	1,167,912	-	1,167,912	17,176
Debt service	1,276,463	1,276,463	1,074,078	-	1,074,078	202,384
Total Expenditures	<u>19,845,189</u>	<u>19,845,189</u>	<u>18,707,796</u>	<u>\$ 675,003</u>	<u>19,382,799</u>	<u>462,390</u>
OTHER FINANCING SOURCES (USES)						
Transfers in	-	-	-	-	-	-
Transfers out	(567,903)	(567,903)	(567,903)	-	(567,903)	-
Total Other Financing Sources (Uses)	<u>(567,903)</u>	<u>(567,903)</u>	<u>(567,903)</u>	-	<u>(567,903)</u>	<u>-</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures/Use of Prior Year Budgetary Fund Balance						
	<u>(1,906,938)</u>	<u>(1,906,938)</u>	<u>\$ (588,263)</u>	-	<u>\$ (1,263,266)</u>	<u>\$ 643,672</u>
Other budgetary items						
Uses of free cash	460,538	460,538				
Prior year encumbrances and articles	903,364	903,364				
Overlay surplus	175,000	175,000				
Reserve for debt service	353,457	353,457				
Other miscellaneous budgetary items	14,579	14,579				
	<u>\$ 1,906,938</u>	<u>\$ 1,906,938</u>				

TOWN OF UPTON, MASSACHUSETTS

**REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2014**

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 2014, 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, 2014, is as follows:

	<u>Accounting Differences</u>	<u>Fund Perspective Differences</u>	<u>Total</u>
Revenue on a budgetary basis			\$ 18,687,436
Sixty day receivable difference	\$ (16,507)	\$ -	(16,507)
Interest earned by Stabilization Fund	-	2,355	2,355
Revenue on a GAAP basis	<u>\$ (16,507)</u>	<u>\$ 2,355</u>	<u>\$ 18,673,284</u>
Expenditures on a budgetary basis			\$ 18,707,796
Expenditure recognition	\$ 9,001	\$ -	9,001
Expenditures on a GAAP basis	<u>\$ 9,001</u>	<u>\$ -</u>	<u>\$ 18,716,797</u>
Transfers on a budgetary basis (net)			\$ (567,903)
Other transfer recognition	\$ -	\$ 160,773	160,773
Transfers on a GAAP basis (net)	<u>\$ -</u>	<u>\$ 160,773</u>	<u>\$ (407,130)</u>

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



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**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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 30, 2015.

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
January 30, 2015