

**ROSELLI, CLARK & ASSOCIATES**  
Certified Public Accountants

**TOWN OF UPTON, MASSACHUSETTS**

Report on Examination of  
Basic Financial Statements  
and Additional Information  
Year Ended June 30, 2020



# TOWN OF UPTON, MASSACHUSETTS

## TABLE OF CONTENTS YEAR ENDED JUNE 30, 2020

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	Page(s)
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
Governmental Funds Financial Statements:	
Balance Sheet	12
Reconciliation of the Balance Sheet Total Fund Balances to the Statement of Net Position	13
Statement of Revenues, Expenditures and Changes in Fund Balances	14
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	15
Proprietary Funds Financial Statements:	
Statement of Net Position	16
Statement of Revenues, Expenses and Changes in Net Position	17
Statement of Cash Flows	18
Fiduciary Funds Financial Statements:	
Statement of Fiduciary Net Position	19
Statement of Changes in Fiduciary Net Position	20
Notes to the Financial Statements	21 – 46
 REQUIRED SUPPLEMENTARY INFORMATION – UNAUDITED	
Schedule of the Town's Proportionate Share of the Net Pension Liability	47
Schedule of the Town's Contributions to the Pension Plan	47
Schedule of Changes in Net OPEB Liability and Related Ratios	48
Schedule of Contributions to the OPEB Plan	49
Schedule of Investment Returns –OPEB Plan	49
Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	50
Notes to Required Supplementary Information	51
 OTHER REPORTS:	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	52 – 53



## **INDEPENDENT AUDITORS' REPORT**

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Upton, Massachusetts, (the "Town") as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town as of June 30, 2020, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and the schedules listed under the required supplementary information section in the accompanying table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued a report dated January 12, 2021 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contract, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.



Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
January 12, 2021

## 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, 2020. 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 Town’s assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by nearly \$57.5 million (total net position). This represents an increase of approximately \$1.9 million, which is consistent with the \$2.1 million increase recognized in the prior year. The Town reported an increase of approximately \$2.3 million in its governmental activities and an approximate \$0.4 million decrease in its business-type activities in fiscal year 2020.
- The Town, like so many other Massachusetts communities, reports a deficit in its unrestricted net position in its governmental activities. This deficit decreased nearly \$0.7 million in fiscal year 2020. Included in this deficit is approximately \$14.2 million in net other postemployment benefits and net pension liabilities.
- As of the close of the current fiscal year, the Town’s governmental funds balance sheet reported a combined ending fund balance surplus of nearly \$13.0 million, which is an approximate \$0.8 million increase from the prior year. This increase was due primarily to an over \$1.2 million increase in the fund balance of the general fund, which was offset by an approximate \$0.5 million decrease in fund balance of the nonmajor governmental funds.
- Of the ending fund balance in the Town’s governmental funds, approximately \$4.6 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 nearly 23% of the total general fund expenditures and the total general fund balance was over 31% of total general fund expenditures.
- The Town’s total long-term debt decreased by approximately \$1.1 million during the current fiscal year. This decrease was due to the normal, scheduled repayment of long-term obligations. The Town did not complete any long-term borrowings in fiscal year 2020. The Town’s short-term borrowings in the form of bond anticipation notes, or BANs, increased nearly \$0.6 million in fiscal year 2020 to approximately \$2.3 million at June 30, 2020.
- The COVID-19 pandemic and its associated public/private enterprise shutdowns affected the Town in a variety of ways. The Town recognized that its revenues from sources such as recreation programs, excise taxes, permits and other usage fees would not trend as anticipated. Some budgeted expenses were either deferred, reduced or eliminated entirely in fiscal year 2020.
- The Town received notice from the Commonwealth that it is entitled to approximately \$706,000 through the federal Coronavirus Aid, Relief and Economic Security Act (the “CARES Act”). The CARES Act funds are restricted in their use; these funds can only be used for direct expenses related to COVID-19 and cannot be used as “revenue replacement” or other similar, unrestricted purposes.

## **Overview of the Financial Statements**

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education through a regional school district, community development, health and human services, culture and recreation, fringe benefits and debt service. The 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 Town's funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

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

- Nonspendable—amounts that cannot be spent because they are either (a) not in spendable form (i.e., inventory or prepaid items) 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.

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

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

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

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

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

## **Government-Wide Financial Analysis**

The condensed comparative statements of net position for the two most recent fiscal years are as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
<b>Assets:</b>						
Current and other assets	\$ 15,906,204	\$ 14,639,037	\$ 3,298,944	\$ 2,768,127	\$ 19,205,148	\$ 17,407,164
Capital assets, net	<u>50,803,897</u>	<u>49,674,263</u>	<u>12,884,466</u>	<u>13,157,755</u>	<u>63,688,363</u>	<u>62,832,018</u>
<b>Total Assets</b>	<b><u>66,710,101</u></b>	<b><u>64,313,300</u></b>	<b><u>16,183,410</u></b>	<b><u>15,925,882</u></b>	<b><u>82,893,511</u></b>	<b><u>80,239,182</u></b>
Deferred Outflows of Resources	<u>2,758,771</u>	<u>1,560,370</u>	<u>237,293</u>	<u>168,980</u>	<u>2,996,064</u>	<u>1,729,350</u>
<b>Liabilities:</b>						
Long-term liabilities	17,452,140	17,836,507	5,115,794	4,696,047	22,567,934	22,532,554
Other liabilities	<u>2,023,325</u>	<u>1,848,650</u>	<u>1,556,142</u>	<u>1,320,324</u>	<u>3,579,467</u>	<u>3,168,974</u>
<b>Total Liabilities</b>	<b><u>19,475,465</u></b>	<b><u>19,685,157</u></b>	<b><u>6,671,936</u></b>	<b><u>6,016,371</u></b>	<b><u>26,147,401</u></b>	<b><u>25,701,528</u></b>
Deferred Inflows of Resources	<u>2,104,279</u>	<u>601,554</u>	<u>171,844</u>	<u>63,459</u>	<u>2,276,123</u>	<u>665,013</u>
<b>Net Position:</b>						
Net investment in capital assets	47,560,917	45,736,182	8,518,466	8,698,756	56,079,383	54,434,938
Restricted	<u>7,345,960</u>	<u>7,528,813</u>	-	-	<u>7,345,960</u>	<u>7,528,813</u>
Unrestricted	<u>(7,017,749)</u>	<u>(7,678,036)</u>	<u>1,058,457</u>	<u>1,316,276</u>	<u>(5,959,292)</u>	<u>(6,361,760)</u>
<b>Total Net Position</b>	<b><u>\$ 47,889,128</u></b>	<b><u>\$ 45,586,959</u></b>	<b><u>\$ 9,576,923</u></b>	<b><u>\$ 10,015,032</u></b>	<b><u>\$ 57,466,051</u></b>	<b><u>\$ 55,601,991</u></b>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's net position increased approximately \$1.9 million year-over-year. This increase was driven by the over \$2.3 million increase in net position in the Town's governmental activities, which was primarily due to positive budget to actual results in both general fund revenues and expenses.

The largest portion of the Town's net position (approximately \$56.1 million) reflects its investment in capital assets less any related outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (approximately \$7.4 million) represents resources that are subject to external restrictions on how they may be used.

The remaining net position is unrestricted and is presented as a deficit balance. The Town reports a deficit unrestricted net position of nearly \$6.0 million. This deficit is primarily the result of an approximate \$7.2 million net other postemployment benefit liability and \$9.2 million net pension liability at June 30, 2020. The Town expects that its deficit in unrestricted net position will remain for the foreseeable future.

The condensed comparative statements of activities for the two most recent fiscal years are as follows:

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 1,473,893	\$ 1,503,026	\$ 1,877,793	\$ 1,757,640	\$ 3,351,686	\$ 3,260,666
Operating grants and contributions	650,035	483,418	-	-	650,035	483,418
Capital grants and contributions	1,504,969	1,792,200	-	8,170	1,504,969	1,800,370
General revenues:						
Property taxes	21,583,063	20,705,785	-	-	21,583,063	20,705,785
Excise taxes	1,318,873	1,353,695	-	-	1,318,873	1,353,695
Intergovernmental	565,358	550,495	-	-	565,358	550,495
Other	261,955	455,764	11,447	6,447	273,402	462,211
<b>Total Revenues</b>	<b>27,358,146</b>	<b>26,844,383</b>	<b>1,889,240</b>	<b>1,772,257</b>	<b>29,247,386</b>	<b>28,616,640</b>
<b>Expenses:</b>						
General government	1,943,033	2,023,707	-	-	1,943,033	2,023,707
Public safety	4,589,979	4,915,809	-	-	4,589,979	4,915,809
Education	13,509,032	12,916,549	-	-	13,509,032	12,916,549
Public works	3,585,464	3,491,148	-	-	3,585,464	3,491,148
Health and human services	450,624	542,608	-	-	450,624	542,608
Culture and recreation	678,644	769,517	-	-	678,644	769,517
Interest expense	155,687	230,311	116,626	110,486	272,313	340,797
Utility services	-	-	2,354,237	1,502,325	2,354,237	1,502,325
<b>Total Expenses</b>	<b>24,912,463</b>	<b>24,889,649</b>	<b>2,470,863</b>	<b>1,612,811</b>	<b>27,383,326</b>	<b>26,502,460</b>
Change in Net Position Before Transfers	2,445,683	1,954,734	(581,623)	159,446	1,864,060	2,114,180
Transfers	(143,514)	(320,764)	143,514	320,764	-	-
<b>Change in Net Position</b>	<b>2,302,169</b>	<b>1,633,970</b>	<b>(438,109)</b>	<b>480,210</b>	<b>1,864,060</b>	<b>2,114,180</b>
<b>Net Position:</b>						
Beginning of year	45,586,959	43,952,989	10,015,032	9,534,822	55,601,991	53,487,811
End of year	<b>\$ 47,889,128</b>	<b>\$ 45,586,959</b>	<b>\$ 9,576,923</b>	<b>\$ 10,015,032</b>	<b>\$ 57,466,051</b>	<b>\$ 55,601,991</b>

**Governmental Activities** – Total revenues in fiscal year 2020 increased over \$0.5 million, or 1.9%, from the prior year. This increase was due to a nearly \$0.9 million, or 4.2%, in property tax revenues offset by declines in several revenue categories that were negatively affected by the COVID-19 shutdowns and restrictions that affected the second half of fiscal year 2020. The Town's largest revenue source is property taxes, which represented approximately 77% and 77% of fiscal year 2020 and 2019 total revenues, respectively. No other revenue source exceeded 10% in fiscal year 2020 or 2019.

Total expenses were consistent year-over-year. The Town's largest expense category is education. Education expenses totaled approximately 54% and 52% of total annual expenditures in fiscal years 2020 and 2019, respectively. In terms of gross dollars, education expenses increased nearly \$0.6 million in fiscal year 2020, which reflected the increase in the Town's assessment for its regional school district. Public safety expenses represented approximately 18% and 20% annual expenditures in fiscal year 2020 and 2019, respectively. Public works expenses represented 14% of both fiscal year 2020 and 2019 total expenses. No other expense categories were greater than 10% in fiscal years 2020 or 2019.

**Business-Type Activities** – Total revenues increased approximately \$0.1 million year-over-year. User charges represent the majority of the reported revenues in both fiscal years 2020 and 2019. In 2020, user charges increased modestly due to increases in consumption/usage.

Total expenses increased nearly \$0.9 million year-over-year. Approximately \$0.7 million of this increase was due to increased noncash personnel expenses related to the Town’s pension and OPEB expenses.

### **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 \$13.0 million, which is an approximate \$0.8 million increase from the prior year. This increase was due primarily to an over \$1.2 million increase in the fund balance of the general fund, which was offset by an approximate \$0.5 million decrease in fund balance of the nonmajor governmental funds. Of the ending fund balance, approximately \$4.6 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 \$5.2 million, while total fund balance exceeded \$7.2 million. As a measure of the general fund’s liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents nearly 23% of total general fund expenditures, while total fund balance represents over 31% of that same amount.

The Town’s Community Preservation Fund is restricted for historical preservation and conservation of open space. At June 30, 2020, the Community Preservation Fund balance had nearly \$2.3 million that is restricted in its use.

The remainder of the governmental funds are either (1) nonspendable as the corpus of an endowment in the amount of approximately \$140,000; (2) restricted due to constraints placed externally by third-parties in the amount of approximately \$3.9 million; or (3) reported as a deficit in the unassigned fund balance in the amount of approximately \$(591,000), 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 totaled nearly \$9.6 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, 2020, the Town’s investment in capital assets for its governmental and business-type activities approximated \$50.8 million and \$12.9 million, respectively. Net capital assets increased nearly \$0.9 million in fiscal year 2020 as current year capital additions exceeded depreciation expense. Additional information on the Town capital assets can be found in the notes to the financial statements.

**Long-Term Debt** – The Town’s total general obligation bonds payable debt decreased by nearly \$1.2 million in fiscal year 2020 to approximately \$7.7 million at June 30, 2020. This decrease was due normal, scheduled repayments on long-term debt. The Town did not complete any long-term borrowings in fiscal year 2020.

The Town also holds a proportionate share of debt of other governmental units that provide services within the Town’s boundaries. Debt service from such arrangements is assessed annually to the Town.

The Town’s bond rating of “AA+” was set by Standard and Poor’s Financial Services LLC in August 2013 and the Town continues to maintain this rating.

Additional information on the Town’s debt can be found in the notes to the financial statements.

## **Economic Factors and Next Year’s Budget**

- Net state aid for fiscal year 2021 is expected to decrease to approximately \$792,000 from \$793,000 in fiscal year 2020.
- Unemployment rates across the Commonwealth continue to be among the highest in the nation due to the effects of the COVID-19 pandemic.
- The Town’s real estate tax base is made up predominantly of residential taxes, which in 2020 are approximately 95% of the entire property tax levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town’s ability to increase taxes in any one year by more than 2 ½% of the previous year’s tax levy. The Town typically taxes at or near its levy limit annually.
- The Town maintains “rainy-day funds” in the form of stabilization funds, which totaled nearly \$2.5 million at June 30, 2020.
- The Massachusetts Department of Revenue certified approximately \$2.1 million in free cash on November 3, 2020, which may be used at the discretion of Town Meeting.

Each of these factors were considered in preparing the Town’s budget for the 2021 fiscal year, which was adopted at Town Meeting in June 2020. The fiscal year 2021 tax rate, which reflects the adopted budget, was set on November 23, 2020.

## **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, 2020**

	Governmental Activities	Business-Type Activities	Total
<b>Assets:</b>			
Cash and cash equivalents	\$ 6,921,548	\$ 2,790,978	\$ 9,712,526
Investments	7,241,558	-	7,241,558
Receivables, net of allowances:			
Property taxes	1,123,603	-	1,123,603
Excise taxes	164,626	-	164,626
Departmental, user charges and other	70,083	507,966	578,049
Intergovernmental	384,786	-	384,786
Land	5,979,331	-	5,979,331
Construction in-progress	155,310	-	155,310
Depreciable capital assets, net	<u>44,669,256</u>	<u>12,884,466</u>	<u>57,553,722</u>
Total Assets	<u>66,710,101</u>	<u>16,183,410</u>	<u>82,893,511</u>
<b>Deferred Outflows of Resources:</b>			
Other postemployment benefits	1,877,065	138,236	2,015,301
Pensions	<u>881,706</u>	<u>99,057</u>	<u>980,763</u>
Total Deferred Outflows of Resources	<u>2,758,771</u>	<u>237,293</u>	<u>2,996,064</u>
<b>Liabilities:</b>			
Warrants and accounts payable	607,689	95,612	703,301
Accrued interest	28,516	17,530	46,046
Other liabilities	5,120	-	5,120
Bond anticipation note payable	1,145,000	1,160,000	2,305,000
Noncurrent liabilities:			
Due within one year	237,000	283,000	520,000
Due in more than one year	<u>17,452,140</u>	<u>5,115,794</u>	<u>22,567,934</u>
Total Liabilities	<u>19,475,465</u>	<u>6,671,936</u>	<u>26,147,401</u>
<b>Deferred Inflows of Resources:</b>			
Other postemployment benefits	1,668,268	122,859	1,791,127
Pensions	<u>436,011</u>	<u>48,985</u>	<u>484,996</u>
Total Deferred Inflows of Resources	<u>2,104,279</u>	<u>171,844</u>	<u>2,276,123</u>
<b>Net Position:</b>			
Net investment in capital assets	47,560,917	8,518,466	56,079,383
Restricted for:			
Nonexpendable permanent funds	139,331	-	139,331
Expendable permanent funds	3,119,617	-	3,119,617
Community preservation	2,265,682	-	2,265,682
Other purposes	1,821,330	-	1,821,330
Unrestricted	<u>(7,017,749)</u>	<u>1,058,457</u>	<u>(5,959,292)</u>
Total Net Position	<u>\$ 47,889,128</u>	<u>\$ 9,576,923</u>	<u>\$ 57,466,051</u>

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Position		
	Expenses	Charges for Services	Operating	Capital	Governmental Activities	Business-Type Activities	Total
			Grants and Contributions	Grants and Contributions			
Governmental Activities:							
General government	\$ 1,943,033	\$ 269,629	\$ 253,416	\$ 887,224	\$ (532,764)		\$ (532,764)
Public safety	4,589,979	617,300	285,768	123,838	(3,563,073)		(3,563,073)
Education	13,509,032	-	39,799	-	(13,469,233)		(13,469,233)
Public works	3,585,464	43,695	-	481,409	(3,060,360)		(3,060,360)
Health and human services	450,624	320,687	64,878	12,498	(52,561)		(52,561)
Culture and recreation	678,644	222,582	6,174	-	(449,888)		(449,888)
Interest expense	155,687	-	-	-	(155,687)		(155,687)
Total Governmental Activities	<u>24,912,463</u>	<u>1,473,893</u>	<u>650,035</u>	<u>1,504,969</u>	<u>(21,283,566)</u>		<u>(21,283,566)</u>
Business-Type Activities:							
Water	1,415,046	1,051,001	-	-	\$ (364,045)		(364,045)
Sewer	1,055,817	826,792	-	-	(229,025)		(229,025)
Total Business-Type Activities	<u>2,470,863</u>	<u>1,877,793</u>	<u>-</u>	<u>-</u>	<u>(593,070)</u>		<u>(593,070)</u>
Total Primary Government	<u>\$ 27,383,326</u>	<u>\$ 3,351,686</u>	<u>\$ 650,035</u>	<u>\$ 1,504,969</u>		<u>(593,070)</u>	<u>(21,876,636)</u>
General Revenues:							
Property taxes				21,583,063	-		21,583,063
Motor vehicle excise taxes				1,318,873	-		1,318,873
Grants and contributions not restricted to specific programs				565,358	-		565,358
Penalties and interest on taxes				92,915	-		92,915
Unrestricted investment income				169,040	11,447		180,487
Transfers, net				(143,514)	143,514		-
Total General Revenues and Transfers				<u>23,585,735</u>	<u>154,961</u>		<u>23,740,696</u>
Change in Net Position				<u>2,302,169</u>	<u>(438,109)</u>		<u>1,864,060</u>
Net Position:							
Beginning of year				<u>45,586,959</u>	<u>10,015,032</u>		<u>55,601,991</u>
End of year				<u>\$ 47,889,128</u>	<u>\$ 9,576,923</u>		<u>\$ 57,466,051</u>

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**JUNE 30, 2020**

	General Fund	Community Preservation Fund	Nonmajor Governmental Funds	Total
<b>Assets:</b>				
Cash and cash equivalents	\$ 4,988,375	\$ 809,424	\$ 1,123,749	\$ 6,921,548
Investments	2,497,676	1,458,157	3,285,725	7,241,558
Receivables, net of allowances:				
Property taxes	1,103,406	20,197	-	1,123,603
Excise taxes	164,626	-	-	164,626
Departmental, user charges and other	-	-	70,083	70,083
Intergovernmental	-	-	384,786	384,786
<b>Total Assets</b>	<b>8,754,083</b>	<b>2,287,778</b>	<b>4,864,343</b>	<b>15,906,204</b>
<b>Total Deferred Outflows of Resources</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 8,754,083</b>	<b>\$ 2,287,778</b>	<b>\$ 4,864,343</b>	<b>\$ 15,906,204</b>
<b>Liabilities:</b>				
Warrants and accounts payable	\$ 410,289	\$ 1,899	\$ 195,501	\$ 607,689
Other liabilities	5,120	-	-	5,120
Bond anticipation note payable	-	-	1,145,000	1,145,000
<b>Total Liabilities</b>	<b>415,409</b>	<b>1,899</b>	<b>1,340,501</b>	<b>1,757,809</b>
<b>Deferred Inflows of Resources:</b>				
Unavailable revenues - property taxes	932,518	20,197	-	952,715
Unavailable revenues - other	164,626	-	70,083	234,709
<b>Total Deferred Inflows of Resources</b>	<b>1,097,144</b>	<b>20,197</b>	<b>70,083</b>	<b>1,187,424</b>
<b>Fund Balances:</b>				
Nonspendable	-	-	139,331	139,331
Restricted	2,468	2,265,682	3,905,141	6,173,291
Committed	2,018,745	-	-	2,018,745
Assigned	4,865	-	-	4,865
Unassigned	5,215,452	-	(590,713)	4,624,739
<b>Total Fund Balances</b>	<b>7,241,530</b>	<b>2,265,682</b>	<b>3,453,759</b>	<b>12,960,971</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 8,754,083</b>	<b>\$ 2,287,778</b>	<b>\$ 4,864,343</b>	<b>\$ 15,906,204</b>

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**RECONCILIATION OF TOTAL GOVERNMENTAL FUND BALANCES  
TO THE STATEMENT OF NET POSITION AS OF  
JUNE 30, 2020**

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Total Governmental Fund Balances	\$ 12,960,971
Capital assets used in governmental activities in the statement of net position are not financial resources and, therefore, are not reported in the funds.	50,803,897
Certain receivables and revenues are deferred in the governmental funds as they are not current financial resources. These revenues are accrued under the economic resources basis of accounting.	1,187,424
Deferred outflows and inflows of resources to be recognized in future expense are not available resources and, therefore, are not reported in the funds:	
Deferred outflows of resources - other postemployment benefits	1,877,065
Deferred outflows of resources - pensions	881,706
Deferred inflows of resources - other postemployment benefits	(1,668,268)
Deferred inflows of resources - pensions	<u>(436,011)</u>
Net effect of reporting deferred outflows and inflows of resources	654,492
Interest is accrued on outstanding long-term debt in the statement of net position but not in the funds until due.	(28,516)
Long-term liabilities not currently due and payable are reported in the statement of net position and not in the funds:	
Net other postemployment benefits liability	(5,898,183)
Net pension liability	(8,261,957)
General obligation bonds payable	<u>(3,529,000)</u>
Net effect of reporting long-term liabilities	<u>(17,689,140)</u>
Net Position — Governmental Activities	<u>\$ 47,889,128</u>

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**GOVERNMENTAL FUNDS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	General Fund	Community Preservation Fund	Nonmajor Governmental Funds	Total
Revenues :				
Property taxes, net of tax refunds	\$ 21,141,840	\$ 468,777	\$ -	\$ 21,610,617
Intergovernmental	847,367	196,836	967,774	2,011,977
Motor vehicle excise taxes	1,316,001	-	-	1,316,001
Licenses and permits	287,644	-	-	287,644
Penalties and interest on taxes	91,445	1,470	-	92,915
Fines and forfeitures	28,380	-	-	28,380
Departmental and other revenues	790,733	-	375,270	1,166,003
Contributions and donations	-	-	708,385	708,385
Investment income	70,943	34,053	64,044	169,040
Total Revenues	<u>24,574,353</u>	<u>701,136</u>	<u>2,115,473</u>	<u>27,390,962</u>
Expenditures:				
Current:				
General government	1,508,294	374,249	786,793	2,669,336
Public safety	3,368,203	-	1,006,856	4,375,059
Education	13,389,532	-	119,500	13,509,032
Public works	2,248,111	-	506,641	2,754,752
Health and human services	338,248	-	31,031	369,279
Culture and recreation	312,323	-	267,235	579,558
Pension and fringe benefits	1,412,267	-	-	1,412,267
State and county charges	60,171	-	-	60,171
Debt service:				
Principal	407,000	175,000	-	582,000
Interest	46,634	116,975	-	163,609
Total Expenditures	<u>23,090,783</u>	<u>666,224</u>	<u>2,718,056</u>	<u>26,475,063</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,483,570</u>	<u>34,912</u>	<u>(602,583)</u>	<u>915,899</u>
Other Financing Sources (Uses):				
Transfers in	64,300	-	155,940	220,240
Transfers out	(299,454)	-	(64,300)	(363,754)
Total Other Financing Sources (Uses)	<u>(235,154)</u>	<u>-</u>	<u>91,640</u>	<u>(143,514)</u>
Change in Fund Balances	1,248,416	34,912	(510,943)	772,385
Fund Balances:				
Beginning of the year	5,993,114	2,230,770	3,964,702	12,188,586
End of the year	<u>\$ 7,241,530</u>	<u>\$ 2,265,682</u>	<u>\$ 3,453,759</u>	<u>\$ 12,960,971</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, 2020**

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Net Change in Fund Balances — Total Governmental Funds	\$ 772,385
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Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized and depreciated over their estimated useful lives. Capital asset activity in the current fiscal year included:

Capital asset additions	3,304,899
Depreciation expense	<u>(2,175,265)</u>
Net effect of reporting capital activity	1,129,634

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. (32,815)

The issuance of long-term debt provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also, the governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued; whereas these amounts are deferred and amortized in the statement of activities. Differences in the treatment of long-term debt transactions in the current fiscal year included:

Repayments of long-term debt	582,000
Net effect of reporting long-term debt activity	582,000

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

Net other postemployment benefits liability	249,244
Net pension liability	<u>(406,201)</u>
Accrued interest	<u>7,922</u>
Net effect of reporting long-term liabilities	<u>(149,035)</u>

Change in Net Position — Governmental Activities	<u>\$ 2,302,169</u>
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See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

	Water	Sewer	Total
<b>Assets:</b>			
<b>Current Assets:</b>			
Cash and cash equivalents	\$ 1,758,146	\$ 1,032,832	\$ 2,790,978
Receivables, net of allowances	284,422	223,544	507,966
<b>Total Current Assets</b>	<u>2,042,568</u>	<u>1,256,376</u>	<u>3,298,944</u>
<b>Noncurrent Assets:</b>			
Depreciable capital assets, net	8,914,367	3,970,099	12,884,466
<b>Total Noncurrent Assets</b>	<u>8,914,367</u>	<u>3,970,099</u>	<u>12,884,466</u>
<b>Total Assets</b>	<u>10,956,935</u>	<u>5,226,475</u>	<u>16,183,410</u>
<b>Deferred Outflows of Resources:</b>			
Other postemployment benefits	70,613	67,623	138,236
Pensions	51,000	48,057	99,057
<b>Total Deferred Outflows of Resources</b>	<u>121,613</u>	<u>115,680</u>	<u>237,293</u>
<b>Liabilities:</b>			
<b>Current Liabilities:</b>			
Warrants and accounts payable	45,052	50,560	95,612
Accrued interest	15,398	2,132	17,530
Bond anticipation note payable	1,160,000	-	1,160,000
Current portion of long-term debt	265,770	17,230	283,000
<b>Total Current Liabilities</b>	<u>1,486,220</u>	<u>69,922</u>	<u>1,556,142</u>
<b>Noncurrent liabilities:</b>			
Net other postemployment benefits liability	634,390	630,198	1,264,588
Net pension liability	477,889	450,318	928,207
Long-term debt	2,802,410	120,589	2,922,999
<b>Total Noncurrent Liabilities</b>	<u>3,914,689</u>	<u>1,201,105</u>	<u>5,115,794</u>
<b>Total Liabilities</b>	<u>5,400,909</u>	<u>1,271,027</u>	<u>6,671,936</u>
<b>Deferred Inflows of Resources:</b>			
Other postemployment benefits	62,758	60,101	122,859
Pensions	25,220	23,765	48,985
<b>Total Deferred Inflows of Resources</b>	<u>87,978</u>	<u>83,866</u>	<u>171,844</u>
<b>Net Position:</b>			
Net investment in capital assets	4,686,186	3,832,280	8,518,466
Unrestricted	903,475	154,982	1,058,457
<b>Total Net Position</b>	<u>\$ 5,589,661</u>	<u>\$ 3,987,262</u>	<u>\$ 9,576,923</u>

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**PROPRIETARY FUNDS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION**  
**FOR THE YEAR ENDED JUNE 30, 2020**

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	Water	Sewer	Total
Operating Revenues:			
Charges for services	\$ 1,051,001	\$ 826,792	\$ 1,877,793
Operating Expenses:			
Payroll and personnel costs	679,264	564,142	1,243,406
Operating costs	385,686	404,076	789,762
Depreciation	<u>238,368</u>	<u>82,701</u>	<u>321,069</u>
Total Operating Expenses	<u>1,303,318</u>	<u>1,050,919</u>	<u>2,354,237</u>
Operating Loss	<u>(252,317)</u>	<u>(224,127)</u>	<u>(476,444)</u>
Nonoperating Revenues (Expenses):			
Investment income	6,027	5,420	11,447
Interest expenses	<u>(111,728)</u>	<u>(4,898)</u>	<u>(116,626)</u>
Total Nonoperating Revenues (Expenses)	<u>(105,701)</u>	<u>522</u>	<u>(105,179)</u>
Income Before Transfers	<u>(358,018)</u>	<u>(223,605)</u>	<u>(581,623)</u>
Transfers in	<u>139,332</u>	<u>4,182</u>	<u>143,514</u>
Change in Net Position	<u>(218,686)</u>	<u>(219,423)</u>	<u>(438,109)</u>
Net Position:			
Beginning of the year	<u>5,808,347</u>	<u>4,206,685</u>	<u>10,015,032</u>
End of the year	<u>\$ 5,589,661</u>	<u>\$ 3,987,262</u>	<u>\$ 9,576,923</u>

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Business-Type Activities		
	Water	Sewer	Total
Cash Flows from Operating Activities:			
Receipts from user charges	\$ 1,012,286	\$ 820,310	\$ 1,832,596
Payments to employees	(256,854)	(243,733)	(500,587)
Payments to vendors	(369,286)	(372,734)	(742,020)
Net Cash Provided By Operating Activities	<u>386,146</u>	<u>203,843</u>	<u>589,989</u>
Cash Flows from Noncapital Financial Activities:			
Transfers in	<u>139,332</u>	<u>4,182</u>	<u>143,514</u>
Net Cash Provided By Noncapital Financing Activities	<u>139,332</u>	<u>4,182</u>	<u>143,514</u>
Cash Flows from Capital and Related Financing Activities:			
Proceeds from the issuance of short-term debt	200,000	-	200,000
Acquisition and construction of capital assets	(32,990)	(14,790)	(47,780)
Principal repayments on long-term debt	(240,940)	(12,061)	(253,001)
Repayments on short-term debt	(40,000)	-	(40,000)
Interest payments	(113,374)	(5,175)	(118,549)
Net Cash Used In Capital and Related Financing Activities	<u>(227,304)</u>	<u>(32,026)</u>	<u>(259,330)</u>
Cash Flow from Investing Activities:			
Investment income	<u>6,027</u>	<u>5,420</u>	<u>11,447</u>
Net Cash Provided By Investing Activities	<u>6,027</u>	<u>5,420</u>	<u>11,447</u>
Change in Cash and Cash Equivalents	<u>304,201</u>	<u>181,419</u>	<u>485,620</u>
Cash and Cash Equivalents:			
Beginning of the year	<u>1,453,945</u>	<u>851,413</u>	<u>2,305,358</u>
End of the year	<u>\$ 1,758,146</u>	<u>\$ 1,032,832</u>	<u>\$ 2,790,978</u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:			
Operating Loss	\$ (252,317)	\$ (224,127)	\$ (476,444)
Adjustments to Reconcile Operating Loss to Net Cash Provided By Operating Activities:			
Depreciation expense	238,368	82,701	321,069
Changes in assets, deferred outflows (inflows) of resources and liabilities:			
Receivables and other current assets	(38,715)	(6,482)	(45,197)
Warrants payable and other current liabilities	16,400	31,342	47,742
Accrued and deferred benefits payable	422,410	320,409	742,819
Net Cash Provided By Operating Activities	<u>\$ 386,146</u>	<u>\$ 203,843</u>	<u>\$ 589,989</u>

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**FIDUCIARY FUNDS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2020**

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	OPEB Trust	Private Purpose Trust Funds	Agency Funds
<b>Assets:</b>			
Cash and cash equivalents	\$ 107,949	\$ 22,321	\$ 317,446
Investments at fair value:			
Equity securities	-	18,543	-
Mutual funds	577,323	1,418,856	-
Receivables	-	-	17,675
<b>Total Assets</b>	<b>685,272</b>	<b>1,459,720</b>	<b>335,121</b>
<b>Liabilities:</b>			
Warrants and accounts payable	-	-	7,593
Agency liabilities	-	-	327,528
<b>Total Liabilities</b>	<b>-</b>	<b>-</b>	<b>\$ 335,121</b>
<b>Net Position:</b>			
Restricted for other postemployment benefits	685,272	-	-
Held in trust for private purposes	-	1,459,720	-
<b>Total Net Position</b>	<b>\$ 685,272</b>	<b>\$ 1,459,720</b>	

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**FIDUCIARY FUNDS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**JUNE 30, 2020**

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	OPEB Trust	Private Purpose Trust Funds
<b>Additions:</b>		
Employer contributions	\$ 187,407	\$ -
<b>Investment income:</b>		
Interest and dividends	15,503	12,335
Net appreciation in fair value of investments	7,642	10,079
Less investment management fees	<u>(3,016)</u>	<u>-</u>
Total net investment income	<u>20,129</u>	<u>22,414</u>
<b>Total Additions</b>	<b><u>207,536</u></b>	<b><u>22,414</u></b>
<b>Deductions:</b>		
Benefits to retirees and survivors	87,407	-
Scholarships and public welfare	<u>-</u>	<u>33,932</u>
<b>Total Deductions</b>	<b><u>87,407</u></b>	<b><u>33,932</u></b>
<b>Change in Net Position</b>	<b>120,129</b>	<b>(11,518)</b>
<b>Net Position:</b>		
Beginning of the year	<u>565,143</u>	<u>1,471,238</u>
<b>End of the year</b>	<b><u>\$ 685,272</u></b>	<b><u>\$ 1,459,720</u></b>

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, 2020**

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#### **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 was incorporated in 1785 and is located in Worcester County, is approximately thirty-five miles southwest of Boston and fifteen miles southeast of Worcester. The Town utilizes an open town meeting format for its governance with an elected three-member Board of Selectmen, each of whom serve staggered three-year terms. An appointed Town Manager oversees the Town’s daily executive and administrative duties. The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education from kindergarten to grade twelve through a regional 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 in these basic financial statements.

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 nonfiduciary activities of the primary government. The effect of all material 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, proprietary funds and fiduciary funds, even though the fiduciary funds are excluded from the government-wide financial statements. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor governmental 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 10% 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 5% 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 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 (i) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (ii) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The effect of material interfund activity have 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 applies the susceptible to accrual criteria to intergovernmental revenues. In applying the susceptible to accrual concept, there are two types of revenues. In the first, monies must be expended for a specific purpose or project before any amounts will be paid; therefore, revenues are recognized as expenditures are incurred. In the second, monies are virtually unrestricted and are usually revocable only for failure to comply with prescribed requirements. These resources are reflected as revenues when cash is received, or earlier if the susceptible to accrual criteria are met. State aid is accrued as revenue in the year that the funds are appropriated by the Commonwealth of Massachusetts (the “Commonwealth”).

The Town considers property tax revenues to be available if they are both material and collected within sixty days after the end of the fiscal year. Investment income associated with the current fiscal period is susceptible to accrual and has been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when the cash is received and are recognized as revenue at that time.

The Town reports the following major governmental funds:

*General Fund* – is the government's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.

*Community Preservation Fund* – is 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.

*Nonmajor Governmental Funds* – consist of other special revenue and permanent funds that are aggregated and presented in the nonmajor governmental funds column on the governmental funds financial statements. The following describes the general use of these fund types:

The 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.

The Capital Projects funds are used to account for financial resources that are restricted to expenditures for general capital outlays.

The 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 nonoperating 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 nonoperating revenues and expenses.

The Town reports its water and sewer enterprises as major proprietary funds.

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.

*Other Postemployment Benefits Trust Fund* – is used to account for funds accumulated by the Town to assist it in its future other postemployment benefits, or OPEB, obligations.

*Agency Funds* – are used to account for assets held in a purely custodial capacity.

## **D. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Net Position or Fund Equity**

*Deposits and Investments* – The Town’s cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the Town are reported at fair value. When actively quoted observable prices are not available, the Town generally uses either implied pricing from similar investments or valuation models based on net present values of estimated future cash flows (adjusted as appropriate for liquidity, credit, market and/or other risk factors).

The Town categorizes its fair value measurements within the fair value hierarchy established by GAAP. This hierarchy is based on valuation inputs used to measure the fair value of the asset or liability. The three levels of the hierarchy are as follows:

- *Level 1* – Inputs are quoted prices in active markets for identical investments at the measurement date.
- *Level 2* – Inputs (other than quoted prices included in Level 1) are either directly or indirectly observable for the investment through correlation with market data at the measurement date and for the duration of the instrument’s anticipated life.
- *Level 3* – Inputs reflect the Town’s best estimate of what market participants would use in pricing the investment at the measurement date.

*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.

Real estate taxes as well as water and sewer usage fees are secured through a lien process generally in the second quarter of the following fiscal year and are generally considered 100% collectible. Accordingly, an allowance for uncollectible accounts for these receivables may not be reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible accounts.

*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 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.

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.

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 20 years

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

Residual balances outstanding, if any, 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 but may be voluntarily assigned to the general fund.

*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.

*Unearned Revenues* – Amounts collected in advance from federal and state grants are reported as unearned revenues if material.

*Long-Term Debt* – 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 if material. Bond anticipation notes payable are reported net of the applicable bond premium or discount.

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

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

(expense/expenditure) until then. The Town reports items related to its net other postemployment benefits and pension liabilities as deferred outflows of resources in both its government-wide and business-type activities, which it expects to amortize into pension expense within the next six years.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Town reports items related to its net other postemployment benefits and pension liabilities as deferred inflows of resources in both its government-wide and business-type activities, which it expects to amortize as a benefit into pension expense within the next six years. In its governmental fund financial statements, the Town reports unavailable revenues as deferred inflows of resources within the governmental funds balance sheet. Unavailable revenues are derived from three sources – property taxes, motor vehicle excise taxes and departmental revenues. The Town expects to recognize these items into revenue in the period(s) that these amounts become available.

**Fund Equity** – In the governmental funds financial statements, fund balance is reported in classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

Fund balance is reported in five components – nonspendable, restricted, committed, assigned, and unassigned as described below:

*Nonspendable* represents amounts that cannot be spent because they are either (a) not in spendable form (i.e., inventory or prepaid items) 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.

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

*Net Position* – In the government-wide financial statements, net position reported as net investment in capital assets includes capital assets, net of accumulated depreciation, less the principal balance of outstanding debt used to acquire capital assets. Unspent proceeds of capital related debt are not considered to be capital related debt.

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

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

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

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

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

#### **E. Excess of Expenditures Over Appropriations**

During the fiscal year ended June 30, 2020, there were no instances where expenditures materially exceeded appropriations.

#### **F. Use of Estimates**

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

### **II. Detailed Notes to All Funds**

#### **A. Deposits and Investments**

A cash and investment pool is maintained that is available for use by all funds. Each fund type's portion of this pool is displayed on the balance sheet as cash and cash equivalents. The deposits and investments of trust funds are held separately from those of other funds.

State laws and regulations require the Town to invest funds only in preapproved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements and the Massachusetts Municipal Depository Trust (the "MMDT"), which is administered by the Treasurer of the Commonwealth. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

*Custodial Credit Risk: Deposits* – In the case of deposits, this is the risk that in the event of a bank failure, the Town’s deposits may not be returned to it. The Town relies on private and federal depository insurance to mitigate this risk. At June 30, 2020, bank balances totaling \$553,369 were not covered by federal depository insurance or by other depositors’ insurance programs and were therefore exposed to custodial credit risk.

*Fair Value Measurement: Investments* – The following table presents the Town’s investments carried at fair value on a recurring basis in the statement of net position at June 30, 2020:

Investments by Fair Value Level	June 30, 2020	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Debt securities:</b>				
U.S. Treasury notes	\$ 308,206	\$ 308,206	\$ -	\$ -
U.S. Government agency obligations	301,458	-	301,458	-
Corporate bonds	655,598	-	655,598	-
Total debt securities	1,265,262	308,206	957,056	-
Equity securities	211,438	211,438	-	-
Mutual funds	5,281,904	-	5,281,904	-
Total investments by fair value level	6,758,604	\$ 519,644	\$ 6,238,960	\$ -
<b>Investments measured at amortized cost:</b>				
MMDT	2,497,676			
Total investments at fair value	\$ 9,256,280			

The MMDT is valued at amortized cost, which approximates fair value.

*Concentration of Credit Risk: Investments* – The Town does not place a limit on the amount that may be invested in any one issuer. At June 30, 2020, the Town’s investment in the MMDT represented approximately 26% of the Town’s total investment balance. No other individual investment exceeded 5% of the Town’s investment balance.

*Interest Rate Risk: Investments* – This is the risk that changes in interest rates will adversely affect the market value of an investment. The Town does not have formal investment policies that limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. In practice, the Town mitigates interest rate risk by managing the duration of its investments.

The Town had the following investments and maturities at June 30, 2020:

Investments	Fair Value	Time Until Maturity (in years)		
		Less than 1	1 to 5	6 to 10
<b>Debt securities:</b>				
U.S. Government obligations	\$ 609,664	\$ 228,610	\$ 340,760	\$ 40,294
Corporate bonds	655,598	153,219	502,379	-
Total investments with maturities	<u>1,265,262</u>	<u>381,829</u>	<u>843,139</u>	<u>40,294</u>
<b>Other investments:</b>				
Equity securities		211,438		
Mutual funds		5,281,904		
MMDT		<u>2,497,676</u>		
Total Investments	<u>9,256,280</u>			

**Credit Risk: Investments** – This is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The City has not adopted a formal policy related to credit risk. The following table summarizes the credit ratings assigned by Moody's Investors Service for City investments in fixed income securities at June 30, 2020:

Moody's Rating	U.S.		
	Government Obligations	Corporate Bonds	Total
Aaa	\$ 609,664	\$ 105,800	\$ 715,464
A1	-	94,270	94,270
A2	-	148,032	148,032
Baa1	-	241,693	241,693
Baa2	<u>-</u>	<u>65,803</u>	<u>65,803</u>
	<u>\$ 609,664</u>	<u>\$ 655,598</u>	<u>\$ 1,265,262</u>

## B. Receivables

Receivables as of June 30, 2020 for the Town's major governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Property taxes	\$ 689,372	\$ -	\$ 689,372
Tax liens	484,231	(50,000)	434,231
Excise taxes	164,626	-	164,626
Ambulance	173,783	(103,700)	70,083
Intergovernmental	<u>384,786</u>	<u>-</u>	<u>384,786</u>
	<u>\$ 1,896,798</u>	<u>\$ (153,700)</u>	<u>\$ 1,743,098</u>

Receivables in the Town's proprietary funds consisted almost entirely of user charges receivable. No allowances for uncollectible accounts were reported in the Town's proprietary funds at June 30, 2020.

Governmental funds report unavailable revenues as a deferred inflow of resources. The following table identifies the components of unavailable revenues at June 30, 2020 in the governmental funds:

	General Fund	Community Preservation Fund	Nonmajor Governmental Funds	Total
Property taxes	\$ 498,287	\$ 13,190	\$ -	\$ 511,477
Tax liens	434,231	7,007	-	441,238
Excise taxes	164,626	-	-	164,626
Ambulance	-	-	70,083	70,083
	<u>\$ 1,097,144</u>	<u>\$ 20,197</u>	<u>\$ 70,083</u>	<u>\$ 1,187,424</u>

### C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2020 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Governmental Activities:</i>				
Capital assets not being depreciated:				
Land	\$ 4,760,539	\$ 1,218,792	\$ -	\$ 5,979,331
Construction in-progress	183,086	9,243	(37,019)	155,310
Total capital assets not being depreciated	<u>4,943,625</u>	<u>1,228,035</u>	<u>(37,019)</u>	<u>6,134,641</u>
Capital assets being depreciated:				
Buildings and improvements	12,291,828	343,326	-	12,635,154
Infrastructure	57,634,051	929,939	-	58,563,990
Machinery and equipment	1,977,363	800,839	(193,957)	2,584,245
Vehicles	3,366,913	39,779	(357,170)	3,049,522
Total capital assets being depreciated	<u>75,270,155</u>	<u>2,113,883</u>	<u>(551,127)</u>	<u>76,832,911</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,912,519)	(300,703)	-	(3,213,222)
Infrastructure	(23,792,538)	(1,477,894)	-	(25,270,432)
Machinery and equipment	(1,228,398)	(193,850)	193,957	(1,228,291)
Vehicles	(2,606,062)	(202,818)	357,170	(2,451,710)
Total accumulated depreciation	<u>(30,539,517)</u>	<u>(2,175,265)</u>	<u>551,127</u>	<u>(32,163,655)</u>
Total capital assets being depreciated, net	<u>44,730,638</u>	<u>(61,382)</u>	<u>-</u>	<u>44,669,256</u>
Governmental activities capital assets, net	<u>\$ 49,674,263</u>	<u>\$ 1,166,653</u>	<u>\$ (37,019)</u>	<u>\$ 50,803,897</u>

Depreciation expense was charged to functions/programs in the Town's governmental activities as follows in fiscal year 2020:

General government	\$ 233,097
Public safety	341,288
Public works	1,572,805
Health and human services	400
Culture and recreation	<u>27,675</u>
	<u><u>\$ 2,175,265</u></u>

Capital asset activity for the fiscal year ended June 30, 2020 within the business-type activities was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-Type Activities - Combined:</i>				
Capital assets being depreciated:				
Buildings and improvements	\$ 5,069,582	\$ -	\$ -	\$ 5,069,582
Infrastructure	12,585,766	18,200	-	12,603,966
Vehicles and equipment	<u>107,955</u>	<u>29,580</u>	-	<u>137,535</u>
Total capital assets being depreciated	<u>17,763,303</u>	<u>47,780</u>	-	<u>17,811,083</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,625,485)	(64,547)	-	(1,690,032)
Infrastructure	(2,921,818)	(242,486)	-	(3,164,304)
Vehicles and equipment	<u>(58,245)</u>	<u>(14,036)</u>	-	<u>(72,281)</u>
Total accumulated depreciation	<u>(4,605,548)</u>	<u>(321,069)</u>	-	<u>(4,926,617)</u>
Total capital assets being depreciated, net	<u>13,157,755</u>	<u>(273,289)</u>	-	<u>12,884,466</u>
Business-type activities capital assets, net	<u>\$ 13,157,755</u>	<u>\$ (273,289)</u>	<u>\$ -</u>	<u>\$ 12,884,466</u>
<i>Business-Type Activities – Water:</i>				
Capital assets being depreciated:				
Buildings and improvements	\$ 702,021	\$ -	\$ -	\$ 702,021
Infrastructure	11,565,338	18,200	-	11,583,538
Vehicles and equipment	<u>41,807</u>	<u>14,790</u>	-	<u>56,597</u>
Total capital assets being depreciated	<u>12,309,166</u>	<u>32,990</u>	-	<u>12,342,156</u>
Less accumulated depreciation for:				
Buildings and improvements	(559,005)	(4,788)	-	(563,793)
Infrastructure	(2,594,550)	(228,879)	-	(2,823,429)
Vehicles and equipment	<u>(35,866)</u>	<u>(4,701)</u>	-	<u>(40,567)</u>
Total accumulated depreciation	<u>(3,189,421)</u>	<u>(238,368)</u>	-	<u>(3,427,789)</u>
Water capital assets, net	<u>\$ 9,119,745</u>	<u>\$ (205,378)</u>	<u>\$ -</u>	<u>\$ 8,914,367</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<i>Business-Type Activities – Sewer:</i>				
Capital assets being depreciated:				
Buildings and improvements	\$ 4,367,561	\$ -	\$ -	\$ 4,367,561
Infrastructure	1,020,428	-	-	1,020,428
Vehicles and equipment	66,148	14,790	-	80,938
Total capital assets being depreciated	<u>5,454,137</u>	<u>14,790</u>	<u>-</u>	<u>5,468,927</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,066,480)	(59,759)	-	(1,126,239)
Infrastructure	(327,268)	(13,607)	-	(340,875)
Vehicles and equipment	(22,379)	(9,335)	-	(31,714)
Total accumulated depreciation	<u>(1,416,127)</u>	<u>(82,701)</u>	<u>-</u>	<u>(1,498,828)</u>
Sewer capital assets, net	<u>\$ 4,038,010</u>	<u>\$ (67,911)</u>	<u>\$ -</u>	<u>\$ 3,970,099</u>

## D. Interfund Transfers

Interfund transfers for the fiscal year ended June 30, 2020 are summarized as follows:

Transfers Out	Transfers In					Total
	General Fund	Nonmajor Governmental Funds	Water Enterprise Fund	Sewer Enterprise Fund		
General fund	\$ -	\$ 155,940	\$ 139,332	\$ 4,182	\$ 299,454	(1)
Nonmajor governmental funds	<u>64,300</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>64,300</u>	(2)
	<u>\$ 64,300</u>	<u>\$ 155,940</u>	<u>\$ 139,332</u>	<u>\$ 4,182</u>	<u>\$ 363,754</u>	

(1) Transfers to capital projects of \$142,007 to service temporary debt; \$3,933 was transferred to special revenues to fund deficits; \$10,000 was transferred to the conservation trust; and \$143,514 was transferred to the water and sewer enterprises to subsidize operations.

(2) Budgeted transfer into general fund from receipts reserved revolving fund.

## E. Temporary Debt

The Town is authorized to borrow on a temporary basis to fund the following:

Current Operating Costs – Prior to the collection of revenues, expenditures may be financed through the issuance of tax anticipation notes.

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes or state aid anticipation notes. In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount. Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law.

Temporary notes activity for fiscal year 2020 was as follows:

Type	Interest Rate	Maturity Date	Beginning Balance	Additions	Deductions	Ending Balance
BAN	1.95%	matured	\$ 1,712,007	\$ -	\$ (1,712,007)	\$ -
BAN	1.50%	5/21/20	\$ -	\$ 2,305,000	\$ -	\$ 2,305,000
			\$ 1,712,007	\$ 2,305,000	\$ (1,712,007)	\$ 2,305,000

The proceeds of the BAN were used to finance the following:

Fire pumper truck	\$ 575,000
Fowler Street bridge	570,000
Water mains	<u>1,160,000</u>
	<u>\$ 2,305,000</u>

## F. Long-Term Obligations

The Town issues general obligation bonds and notes to provide funds for the acquisition and construction of major capital assets. 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.

The following reflects the activity in the long-term liability accounts during the fiscal year ended June 30, 2020:

Description of Issue	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
<b>Governmental Activities:</b>					
General obligation bonds	\$ 4,111,000	\$ -	\$ (582,000)	\$ 3,529,000	\$ 237,000
Net other postemployment benefits liability	6,047,410	1,926,094	(2,075,321)	5,898,183	-
Net pension liability	<u>8,260,097</u>	<u>2,246,638</u>	<u>(2,244,778)</u>	<u>8,261,957</u>	<u>-</u>
Total Governmental Activities	<u>\$18,418,507</u>	<u>\$ 4,172,732</u>	<u>\$ (4,902,099)</u>	<u>\$17,689,140</u>	<u>\$ 237,000</u>
<b>Business-Type Activities:</b>					
Water:					
General obligation bonds	\$ 3,309,120	\$ -	\$ (240,940)	\$ 3,068,180	\$ 265,770
Net other postemployment benefits liability	231,584	476,193	(73,387)	634,390	-
Net pension liability	<u>477,781</u>	<u>129,572</u>	<u>(129,464)</u>	<u>477,889</u>	<u>-</u>
Total Water	<u>4,018,485</u>	<u>605,765</u>	<u>(443,791)</u>	<u>4,180,459</u>	<u>265,770</u>
Sewer:					
General obligation bonds	149,880	-	(12,061)	137,819	17,230
Net other postemployment benefits liability	330,466	482,844	(183,112)	630,198	-
Net pension liability	<u>450,217</u>	<u>122,096</u>	<u>(121,995)</u>	<u>450,318</u>	<u>-</u>
Total Sewer	<u>930,563</u>	<u>604,940</u>	<u>(317,168)</u>	<u>1,218,335</u>	<u>17,230</u>
Total Business-Type Activities	<u>\$ 4,949,048</u>	<u>\$ 1,210,705</u>	<u>\$ (760,959)</u>	<u>\$ 5,398,794</u>	<u>\$ 283,000</u>

Debt service requirements on general obligation bonds at June 30, 2020 are as follows:

Year Ending June 30,	Governmental Activities		Business-Type Activities	
	General Obligation Bonds		General Obligation Bonds	
	Balance	Interest	Balance	Interest
2021	\$ 237,000	\$ 123,107	\$ 283,000	\$ 88,840
2022	242,000	116,061	288,000	80,980
2023	210,000	109,350	265,000	73,362
2024	215,000	102,975	270,000	65,987
2025	220,000	96,175	275,000	58,487
2026 - 2030	1,235,000	354,763	1,224,999	176,562
2031 - 2034	<u>1,170,000</u>	<u>96,000</u>	<u>600,000</u>	<u>33,000</u>
	<u><u>\$ 3,529,000</u></u>	<u><u>\$ 998,431</u></u>	<u><u>\$ 3,205,999</u></u>	<u><u>\$ 577,218</u></u>

  

Year Ending June 30,	Water		Sewer	
	General Obligation Bonds		General Obligation Bonds	
	Balance	Interest	Balance	Interest
2021	\$ 265,770	\$ 84,188	\$ 17,230	\$ 4,652
2022	270,770	76,888	17,230	4,092
2023	247,770	69,830	17,230	3,532
2024	252,770	63,015	17,230	2,972
2025	257,770	56,075	17,230	2,412
2026 - 2030	1,173,330	172,944	51,669	3,618
2031 - 2033	<u>600,000</u>	<u>33,000</u>	<u>-</u>	<u>-</u>
	<u><u>\$ 3,068,180</u></u>	<u><u>\$ 555,940</u></u>	<u><u>\$ 137,819</u></u>	<u><u>\$ 21,278</u></u>

*Authorized and Unissued Debt* – At June 30, 2020, the Town had authorized and unissued debt totaling \$878,702 for road projects and \$100,000 for water main replacements.

## G. Fund Deficits

The Town reported deficits in its nonmajor governmental funds at June 30, 2020 for the following:

Fire pumper truck	\$ 497,777
Public safety grants	<u>92,936</u>
	<u><u>\$ 590,713</u></u>

These deficits are expected to be raised in future years through intergovernmental grant awards or long-term debt issuances.

## H. Fund Balances

The constraints on fund balances as listed in aggregate in the governmental funds balance sheet at June 30, 2020 are as follows:

	General Fund	Community Preservation Fund	Nonmajor Governmental Funds	Total
<b>Nonspendable:</b>				
Nonexpendable trust funds	\$ -	\$ -	\$ 139,331	\$ 139,331
<b>Restricted:</b>				
General government	-	2,265,682	289,689	2,555,371
Health and human services	-	-	196,229	196,229
Culture and recreation	-	-	250,693	250,693
Debt service	2,468	-	-	2,468
Expendable trust funds	-	-	3,119,617	3,119,617
Other purposes	-	-	48,913	48,913
<b>Committed:</b>				
General government articles	842,114	-	-	842,114
Public safety articles	361,746	-	-	361,746
Public works articles	610,137	-	-	610,137
Capital stabilization funds	204,748	-	-	204,748
<b>Assigned:</b>				
Encumbrances	4,865	-	-	4,865
<b>Unassigned:</b>				
General stabilization funds	2,288,882	-	-	2,288,882
Unrestricted	<u>2,926,570</u>	<u>-</u>	<u>(590,713)</u>	<u>2,335,857</u>
	<u><b>\$ 7,241,530</b></u>	<u><b>\$ 2,265,682</b></u>	<u><b>\$ 3,453,759</b></u>	<u><b>\$ 12,960,971</b></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 general stabilization fund's balance is presented as unassigned 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 capital stabilization fund's balance is presented as restricted in the general fund.

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

### **III. Other Information**

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

Pension Plan Description – The Town is a member and contributes to the Worcester Regional Retirement System (the “Retirement System”), a cost-sharing multiple-employer defined benefit pension plan. The Retirement System was established under Chapter 32 of Massachusetts General Laws (“MGL”). The Retirement System is administered by the Worcester Regional Retirement Board (the “Retirement Board”). Stand-alone financial statements for the year ended December 31, 2019 were issued and are available by submitting a request to the Retirement System at 23 Midstate Drive, Suite 106, Auburn, Massachusetts 01501.

Current membership in the Retirement System for all ninety-nine employers as of December 31, 2019 was as follows:

Active members	7,024
Inactive members entitled to, but not receiving benefits	2,247
Inactive members (or beneficiaries) currently receiving benefits	<u>3,802</u>
	<u>13,073</u>

Benefit Terms – Membership in the Retirement System is mandatory for all full-time employees and non-seasonal, part-time employees who, in general, regularly work more than twenty hours per week. Members of the Retirement System do not participate in the federal Social Security retirement system.

Massachusetts contributory retirement system benefits are uniform throughout the Commonwealth. The Retirement System provides for retirement allowance benefits up to a maximum of 80% of a participant’s highest three-year or five-year average annual rate of regular compensation, depending on the participant’s date of hire. Benefit payments are based upon a participant’s age, length of creditable service, level of compensation and job classification.

The most common benefits paid by the Retirement System include normal retirement, disability retirement and survivor benefits.

Normal retirement generally occurs at age 65. However, participants may retire after twenty years of service or at any time after attaining age 55, if hired prior to April 2, 2012 or at any time after attaining age 60 if hired on or after April 2, 2012. Participants with hire dates subsequent to January 1, 1978 must have a minimum of ten years’ creditable service in order to retire at age 55. Participants become vested after ten years of service. Benefits commencing before age 65 are provided at a reduced rate. Members working in certain occupations may retire with full benefits earlier than age 65.

Ordinary disability retirement is where a participant is permanently incapacitated from a cause unrelated to employment. Accidental disability retirement is where the disability is the result of an injury or illness received or aggravated in the performance of duty. The amount of benefits to be received in such cases is dependent upon several factors, including the age at which the disability retirement occurs, the years of service, average compensation and veteran status.

Survivor benefits are extended to eligible beneficiaries of participants whose death occurs prior to or following retirement.

Cost-of-living adjustments granted to members of Massachusetts retirement systems granted between 1981 and 1997 and any increases in other benefits imposed by the Commonwealth during those years have been the financial responsibility of the Commonwealth. Beginning in 1998, the funding of cost-of-living amounts became the responsibility of the participating units like the Retirement System.

The Retirement System may be amended or terminated in whole or in part at any time by the Massachusetts Legislature, provided that no such modification, amendment or termination shall be made that would deprive a current member of superannuation pension rights or benefits provided under applicable laws of Massachusetts, if such member has paid the stipulated contributions specified in sections or provisions of such laws. There were no significant changes to the Retirement System's benefit terms in fiscal year 2020.

*Contributions Requirements* – Under current MGL, the Retirement System is required to be fully funded by June 30, 2040. Participating employers to the Retirement System are assessed their proportionate share of the total annual pension appropriation. The Town contributed \$628,639 to the Retirement System in fiscal year 2020, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll were approximately 17% in fiscal year 2020.

*Net Pension Liability* – At June 30, 2020, the Town reported a liability of \$9,190,164 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2018 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. These figures were updated by the independent actuary to December 31, 2019. There were no material changes to the Retirement System's benefit terms since the actuarial valuation. The Retirement System changes several actuarial assumptions used in the latest actuarial valuation update; the most notable assumption change was a reduction in the discount rate to 7.65% from 7.75%.

The Town's proportion of the net pension liability is based on a projection of the Town's long-term share of contributions to the Retirement System relative to the projected contributions of all employers. The Town's proportion was approximately 1.03% and 1.01% at December 31, 2019 and 2018, respectively.

*Fiduciary Net Position* – The elements of the Retirement System's basic financial statements (that is, all information about the Retirement System's assets, deferred outflows of resources, liabilities, deferred inflows of resources and fiduciary net position) can be found in the Retirement System's full financial statements as of and for the year ended December 31, 2019, which can be obtained by contacting the Retirement Board.

The Retirement System's fiduciary net position was determined using the accrual basis of accounting. The Retirement System's accounting records are maintained on a calendar-year basis in accordance with the standards and procedures established by the Massachusetts Public Employee Retirement Administration Commission, or PERAC. Contributions from employers and employees are recognized in the period in which they become due pursuant to formal commitments, statutory or contractual requirements. Benefit payments (including refunds of employee contributions) are recorded when incurred, regardless of the timing of payment. Investments are reported at fair value; fair value is determined as the price one would receive in an orderly transaction between market participants at a measurement date.

*Pension Expense* – The Town recognized \$1,080,461 in pension expense in the statement of activities in fiscal year 2020.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 26,974	\$ 55,063
Changes of assumptions	513,658	-
Net difference between projected and actual earnings on pension plan investments	-	252,423
Changes in proportion and differences between Town contributions and proportionate share of contributions	440,131	177,510
	<u>\$ 980,763</u>	<u>\$ 484,996</u>

The deferred outflows of resources and deferred inflows of resources are expected to be recognized in the Town's pension expense as follows:

Year ended June 30,

2021	\$ 129,668
2022	221,653
2023	164,836
2024	(69,428)
2025	<u>49,038</u>
	<u>\$ 495,767</u>

Actuarial Valuation – The measurement of the Retirement System’s total pension liability is developed by an independent actuary. The significant actuarial assumptions used in the latest actuarial valuation included:

Inflation	2.4% per year
Amortization method	Payment increases 4.0% per year
Remaining amortization period	17 years, except for ERI for 2002 and 2003 (10 years) and 2010 (4 years)
Asset valuation method	Market value
Salary increases	Group 1: 4.25% - 6.00%, based on service Group 4: 4.75% - 7.00%, based on service
Investment rate of return	7.65%, net of pension plan investment expenses, including inflation (previously 7.75%)
Mortality rates	Based on the RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB
Disabled life mortality	For disabled lives, the mortality rates were based on the RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of returns (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the Retirement System’s target allocation as of December 31, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term	
		Expected	Rate of Return
Global equity	39%	4.68%	
Core fixed income	15%	0.59%	
Value-added fixed income	8%	4.40%	
Private equity	13%	8.50%	
Real estate	10%	3.70%	
Timberland	4%	4.30%	
Portfolio completion	11%	3.40%	

Discount Rate – The discount rate used to measure the total pension liability was 7.65% (formerly 7.75%). The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made in accordance with MGL. Based on those assumptions, the Retirement System’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity Analysis – The following presents the Town’s proportionate share of the net pension liability calculated using the discount rate of 7.65% as well as the Town’s proportionate share of the net pension liability using a discount rate that is 1.0% lower or higher than the current rate:

Current Rate	Net Pension Liability At		
	1% Decrease	Current Rate	1% Increase
7.65%	\$ 11,214,393	\$ 9,190,164	\$ 7,480,760

## B. Other Postemployment Benefits

The Town administers a single-employer defined benefit healthcare plan (the “OPEB Plan”). The OPEB Plan provides health and life insurance benefits (other postemployment benefits) to current and future retirees, their dependents and beneficiaries in accordance with Section 20 of Chapter 32B of MGL.

Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law and Town ordinance. All benefits are provided through the Town’s premium-based insurance program. The OPEB Plan does not issue a stand-alone financial report and is presented as a fiduciary fund in the Town’s financial statements. OPEB Plan disclosures can be found in this footnote disclosure.

Employees Covered by Benefit Terms – The following employees were covered by the benefit terms as of June 30, 2020:

Inactive employees or beneficiaries receiving benefits	17
Active employees	58
	<u>75</u>

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Retirees contribute 50% of the calculated contribution through pension benefit deductions and the remainder of the cost 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 plus additional contributions in varying amounts annually. The costs of administering the OPEB Plan are paid by the Town. For the year ended June 30, 2020, the Town’s average contribution rate was 4% of covered payroll.

Net OPEB Liability – The Town’s net OPEB liability was determined using an actuarial valuation as of July 1, 2019 and a measurement date of June 30, 2020. The components of the net OPEB liability of the Town at June 30, 2020 were as follows:

Total OPEB liability	\$ 7,848,043
Plan fiduciary net position	<u>(685,272)</u>
Net OPEB liability	<u>\$ 7,162,771</u>
Plan fiduciary net position as a percentage of the total OPEB liability	8.73%

The total OPEB liability in the most recent actuarial valuation was determined using the following key actuarial assumptions applied to all periods included in the measurement, unless otherwise specified:

Actuarial cost method	Individual entry age normal
Asset valuation method	Market value of assets as of reporting date
Investment rate of return	6.5%, net of investment expenses, including inflation (previously 7.5%)
Single equivalent discount rate	2.26%, net of investment expenses, including inflation
Healthcare cost trend rates	7.0% for 2019, decreasing 0.45% per year to 5.2%, then grading down to an ultimate trend rate of 4.0% in 2075
Pre-retirement mortality	RP-2014 Blue Collar Mortality Table projected with generational improvement using Scale MP-2018
Post-retirement mortality	RP-2014 Blue Collar Mortality Table projected with generational improvement using Scale MP-2018

The long-term expected rate of return on OPEB Plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of OPEB Plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	31%	4.96%
International equity	21%	7.01%
Domestic bond	22%	2.22%
International bond	6%	1.53%
Alternatives	20%	2.76%
Cash and cash equivalents	0%	0.00%

*Discount Rate* – The discount rate used to measure the total OPEB liability was 2.26% (formerly 3.6%). The projection of cash flows used to determine the discount rate assumed that contributions from the Town will be made in accordance with the OPEB Plan’s funding policy. Based on those assumptions, the OPEB Plan’s fiduciary net position was projected to be insufficient to make all projected benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to the first eight periods of projected future benefit payments and the 2.21% municipal bond rate was applied to all periods thereafter to determine the total OPEB liability.

*Changes in the Net OPEB Liability* – The following table summarizes the changes in the net OPEB liability for the year ended June 30, 2020:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balances at June 30, 2019	\$ 7,174,603	\$ 565,143	\$ 6,609,460
Changes for the year:			
Service cost	440,387	-	440,387
Interest	272,566	-	272,566
Changes of benefit terms	(65,078)	-	(65,078)
Experience differences	(1,788,712)	-	(1,788,712)
Changes in assumptions	1,901,684	-	1,901,684
Employer contributions	-	187,407	(187,407)
Net investment income	-	20,129	(20,129)
Benefit payments	(87,407)	(87,407)	-
Net changes	<u>673,440</u>	<u>120,129</u>	<u>553,311</u>
Balances at June 30, 2020	<u>\$ 7,848,043</u>	<u>\$ 685,272</u>	<u>\$ 7,162,771</u>

There were a number of changes in assumptions made in the current year's actuarial study. The most notable included a decrease in the discount rate from 3.60% to 2.66%.

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

Current Discount Rate	Net OPEB Liability At		
	1% Decrease	Current Rate	1% Increase
2.26%	\$ 8,927,567	\$ 7,162,771	\$ 5,821,655

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

Current Trend Rate	Net OPEB Liability At		
	1% Decrease	Current Rate	1% Increase
7.0% decreasing to 4%	\$ 5,575,009	\$ 7,162,771	\$ 9,359,391

*OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB* – For the year ended June 30, 2020, the Town recognized OPEB expense of \$635,347. Deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2020 were reported as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,594,709
Changes of assumptions	1,987,673	196,418
Net difference between projected and actual earnings on OPEB Plan investments	<u>27,628</u>	<u>-</u>
	<u><u>\$ 2,015,301</u></u>	<u><u>\$ 1,791,127</u></u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended June 30,

2021	\$ 29,858
2022	29,857
2023	28,351
2024	26,082
2025	21,630
Thereafter	<u>88,396</u>
	<u><u>\$ 224,174</u></u>

*Investment Custody* – The Town Treasurer is the custodian of the OPEB Plan in accordance with MGL and since the Town has not designated a Board of Trustees, the Town Treasurer is also the Trustee and as such is responsible for the general supervision of the management, investment and reinvestment of the OPEB Plan assets. OPEB Plan assets may be invested and reinvested by the custodian consistent with the prudent investor rule established under MGL and may, with the approval of the State Retiree Benefits Trust Fund Board of Trustees, be invested in the State Retiree Benefits Trust Fund. OPEB Plan assets must be segregated from other funds and not be subject to the claims of any general creditor of the Town.

*Investment Policy* – The OPEB Plan has a formal investment policy that it adopted in 2012. The OPEB Plan invests its funds in permissible investments as stipulated by the Commonwealth.

*Investment Rate of Return* – For the year ended June 30, 2020, the annual money-weighted rate of return on investments, net of investment expense, was 3.56%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

## C. 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 carries commercial insurance to better mitigate these risks. The amount of claim settlements has not exceeded insurance coverage in any of the past three years.

## D. Commitments and Contingencies

General – The Town is party to certain legal claims, including legal claims associated with its personnel, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability at June 30, 2020 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, 2020.

Appellate Tax Board – The Town has pending cases filed with the Massachusetts Appellate Tax Board of the Commonwealth of Massachusetts (“ATB”). The Town cannot estimate at this time the amount of previously assessed property taxes (and interest) that may be refunded to these taxpayers, 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.

Grant Compliance – Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, would not have a material effect on its financial condition.

Arbitrage – The Town is subject to certain Federal arbitrage laws in accordance with long-term borrowing agreements. Failure to comply with the rules could result in the payment of penalties. The Town does not believe it has failed to comply with any of these agreements.

Allowance for Uncollectible Accounts – Management’s estimate of allowances for uncollectible accounts involves judgment. Management evaluates the collectability of receivables by analyzing historical revenues, historical loss levels as well as the collectability of individual accounts. Should management’s estimates prove to be incorrect, the Town may be required to recognize additional bad debt charges, which may have a material effect on the Town’s financial position and results of operations.

COVID-19 – In March 2020, the World Health Organization declared the breakout of the novel coronavirus (“COVID-19”) a pandemic. Resulting travel restrictions, business closures and disruptions to municipal operations negatively affecting the Town’s financial condition in a variety of ways. While this disruption is currently believed to be temporary, there is uncertainty around its duration.

The Commonwealth level-funded fiscal year 2021 state aid; however, there exists the possibility that future years’ budgets at the state level may affect local aid. While the Town expects that this matter may negatively impact its fiscal year 2021 results of operations and financial position, the related financial impact cannot be reasonably estimated at this time.

## **IV. Implementation of New GASB Pronouncements**

### **A. Current Year Implementations**

None.

### **B. Future Year Implementations**

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. The objective of the Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. As amended, the provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2021). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This Statement redefines the manner in which long-term leases are accounted and reported. As amended, the provisions of this Statement are effective for financial reporting periods beginning after June 15, 2021 (fiscal year 2022). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest costs incurred before the end of a construction period. As amended, the provisions of this Statement are effective for financial reporting periods beginning after December 15, 2020 (fiscal year 2022). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. As amended, the provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2021). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In May 2019, the GASB issued GASB Statement No. 91, *Conduit Debt Obligations*. The objective of this Statement is to standardize the reporting of conduit debt obligations by issuers by clarifying the existing definition of conduit debt obligation, among other matters. As amended, the provisions of this Statement are effective for financial reporting periods beginning after December 15, 2021 (fiscal year 2023). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2020, the GASB issued GASB Statement No. 93, *Replacement of Interbank Offered Rates*. The objective of this Statement is to address accounting and financial reporting implications that result from the replacement of an interbank offered rate. This Statement eliminates the use of LIBOR as an appropriate benchmark interest rate for derivative instruments that hedge interest rate risk of taxable debt for reporting periods after December 31, 2021. The reporting provisions of this Statement are effective for financial reporting periods beginning after June 15, 2020 (fiscal year 2021). The District is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2020, the GASB issued GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. The objective of this Statement is to improve financial reporting by addressing issues related to public-private and public-public partnership arrangements. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2023). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objective of this Statement is to address accounting for subscription-based information technology arrangements to government end users based on the standards established in Statement No. 87, as amended. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2022 (fiscal year 2023). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2020, the GASB issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32*. The objective of this Statement is to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution OPEB plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2021 (fiscal year 2022). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

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**TOWN OF UPTON MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION**  
**TOWN PENSION PLAN**

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**SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
*(dollar amounts are in thousands)*

Year Ended June 30,	Proportion of the Net Pension Liability	Proportionate Share of the Net Pension Liability	Covered Payroll	Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of the Total Pension Liability
2020	1.032%	\$ 9,190	\$ 3,654	251.5%	47.4%
2019	1.013%	9,188	3,910	235.0%	43.1%
2018	1.011%	8,241	3,364	245.0%	46.4%
2017	0.926%	7,759	3,590	216.1%	42.0%
2016	0.923%	6,548	3,378	193.8%	44.5%
2015	1.108%	6,593	3,248	203.0%	47.9%

**SCHEDULE OF THE TOWN'S CONTRIBUTIONS TO THE PENSION PLAN**  
*(dollar amounts are in thousands)*

Year Ended June 30,	Contributions in Relation to the		Contribution Deficiency (Excess)	Covered Payroll	Contributions as a Percentage of Covered Payroll
	Actuarially Determined Contribution	Actuarially Determined Contribution			
2020	\$ 629	\$ 629	\$ -	\$ 3,654	17.2%
2019	564	564	-	3,910	14.4%
2018	511	511	-	3,364	15.2%
2017	450	450	-	3,590	12.5%
2016	415	415	-	3,378	12.3%
2015	438	438	-	3,248	13.5%

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

See accompanying independent auditors' report.

**TOWN OF UPTON MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER POSTEMPLOYMENT BENEFITS PLAN**

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**SCHEDULE OF CHANGES IN NET OPEB LIABILITY AND RELATED RATIOS**

	Year Ended June 30,		
	2020	2019	2018
<b>Total OPEB Liability:</b>			
Service cost	\$ 440,387	\$ 390,635	\$ 406,421
Interest	272,566	258,057	231,662
Changes in benefit terms	(65,078)	-	-
Differences between actual and expected experience	(1,788,712)	-	-
Changes in assumptions	1,901,684	387,129	(310,613)
Benefit payments	<u>(87,407)</u>	<u>(107,334)</u>	<u>(77,923)</u>
Net Change in Total OPEB Liability	<u>673,440</u>	<u>928,487</u>	<u>249,547</u>
<b>Total OPEB Liability:</b>			
Beginning of year	<u>7,174,603</u>	<u>6,246,116</u>	<u>5,996,569</u>
End of year (a)	<u>\$ 7,848,043</u>	<u>\$ 7,174,603</u>	<u>\$ 6,246,116</u>
<b>Plan Fiduciary Net Position:</b>			
Contributions	\$ 187,407	\$ 207,334	\$ 177,923
Net investment income	20,129	28,579	19,664
Benefit payments	<u>(87,407)</u>	<u>(107,334)</u>	<u>(77,923)</u>
Net Change in Plan Fiduciary Net Position	<u>120,129</u>	<u>128,579</u>	<u>119,664</u>
<b>Plan Fiduciary Net Position:</b>			
Beginning of year	<u>565,143</u>	<u>436,564</u>	<u>316,900</u>
End of year (b)	<u>\$ 685,272</u>	<u>\$ 565,143</u>	<u>\$ 436,564</u>
Net OPEB Liability — End of Year	<u>\$ 7,162,771</u>	<u>\$ 6,609,460</u>	<u>\$ 5,809,552</u>
<b>Plan Fiduciary Net Position as a Percentage of the Total OPEB Liability</b>	8.73%	7.88%	6.99%
Covered payroll	\$ 4,317,301	\$ 4,555,893	\$ 3,462,872
Net OPEB Liability as a Percentage of Covered Payroll	165.91%	145.07%	167.77%

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

See accompanying independent auditors' report.

**TOWN OF UPTON MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION  
OTHER POSTEMPLOYMENT BENEFITS PLAN**

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**SCHEDE OF CONTRIBUTIONS**

	Year Ended June 30,		
	2020	2019	2018
Actuarially determined contribution	\$ 820,077	\$ 738,260	\$ 735,509
Contributions in relation to the actuarially determined contribution	<u>(187,407)</u>	<u>(207,334)</u>	<u>(177,923)</u>
Contribution deficiency (excess)	<u><u>\$ 632,670</u></u>	<u><u>\$ 530,926</u></u>	<u><u>\$ 557,586</u></u>
Covered payroll	\$ 4,317,301	\$ 4,555,893	\$ 3,462,872
Contribution as a percentage of covered payroll	4.34%	4.55%	5.14%

Notes to Schedule:

Valuation date	July 1, 2019
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value of the assets as of the reporting date
Investment rate of return	6.5%, net of investment expenses, including inflation (previously 7.5%)
Single equivalent discount rate	2.26%, net of investment expenses, including inflation (previously 3.6%)
Healthcare cost trend rates	7.0% for 2019, decreasing 0.45% per year to 5.2%, then grading down to an ultimate trend rate of 4.0% in 2075
Mortality	RP-2014 Blue Collar Mortality Table projected with generational improvement using Scale MP-2018

**SCHEDE OF INVESTMENT RETURNS**

	Year Ended June 30,		
	2020	2019	2018
Annual money-weighted rate of return, net of investment expenses	3.56%	5.42%	5.22%

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

See accompanying independent auditors' report.

**TOWN OF UPTON, MASSACHUSETTS**

**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED JUNE 30, 2020**

	Budgeted Amounts		Actual		Actual Budgetary Adjusted	Positive (Negative) Variance
	Original Budget	Final Budget	Budgetary Amounts	Encumbrances		
<b>Revenues:</b>						
Property taxes, net of tax refunds	\$ 21,133,121	\$ 21,133,121	\$ 21,092,352		\$ 21,092,352	\$ (40,769)
Intergovernmental	843,633	843,633	847,367		847,367	3,734
Motor vehicle and other excise taxes	1,025,192	1,025,192	1,316,001		1,316,001	290,809
Licenses and permits	160,000	160,000	287,644		287,644	127,644
Penalties and interest on taxes	115,000	115,000	91,444		91,444	(23,556)
Fines and forfeitures	31,000	31,000	28,380		28,380	(2,620)
Departmental and other revenues	601,458	601,458	790,733		790,733	189,275
Investment income	10,000	10,000	34,079		34,079	24,079
<b>Total Revenues</b>	<b>23,919,404</b>	<b>23,919,404</b>	<b>24,488,000</b>		<b>24,488,000</b>	<b>568,596</b>
<b>Expenditures:</b>						
General government	2,415,111	2,449,111	1,508,294	\$ 846,179	2,354,473	94,638
Public safety	3,803,014	3,998,084	3,368,203	362,546	3,730,749	267,335
Education	13,391,282	13,391,282	13,389,532	-	13,389,532	1,750
Public works	2,920,220	2,960,220	2,248,111	610,137	2,858,248	101,972
Health and human services	409,948	409,948	338,248	-	338,248	71,700
Culture and recreation	338,447	338,447	312,323	-	312,323	26,124
Pension and fringe benefits	1,868,590	1,868,590	1,412,267	-	1,412,267	456,323
State and county charges	60,411	60,411	60,171	-	60,171	240
Debt service	584,554	584,554	453,634	-	453,634	130,920
<b>Total Expenditures</b>	<b>25,791,577</b>	<b>26,060,647</b>	<b>23,090,783</b>	<b>1,818,862</b>	<b>24,909,645</b>	<b>1,151,002</b>
<b>Other Financing Sources (Uses):</b>						
Transfers in	64,300	64,300	64,300		64,300	-
Transfers out	(799,454)	(799,454)	(799,454)		(799,454)	-
<b>Total Other Financing Sources (Uses)</b>	<b>(735,154)</b>	<b>(735,154)</b>	<b>(735,154)</b>		<b>(735,154)</b>	<b>-</b>
<b>(Deficiency) Excess of Revenues and Other Financing Sources over Expenditures and Other Financing Uses</b>						
	<b>(2,607,327)</b>	<b>(2,876,397)</b>	<b>\$ 662,063</b>		<b>\$ (1,156,799)</b>	<b>\$ 1,719,598</b>
<b>Other Budgetary Items:</b>						
Prior year articles and encumbrances	1,191,617	1,191,617				
Free cash	1,415,710	1,684,780				
<b>Total Other Budgetary Items</b>	<b>2,607,327</b>	<b>2,876,397</b>				
<b>Net Budget</b>	<b>\$ -</b>	<b>\$ -</b>				

See notes to required supplementary information.

See accompanying independent auditors' report.

## TOWN OF UPTON, MASSACHUSETTS

### REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2020

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An annual budget is legally adopted for the general fund. Financial orders are initiated by the Town Manager, recommended by the Town Finance Committee and approved by Town Meeting at the Town's annual meeting, which is generally held in each spring. At the close of each fiscal year, unencumbered appropriation balances lapse and revert to unassigned fund balance. Unspent funds from continuing appropriations such as capital articles are carried forward into the subsequent fiscal year and are available for spending.

The Town adopts an annual budget for the general fund in conformity with the guidelines described above. The Town Accountant is responsible 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.

The Town's general fund is prepared on a basis of accounting other than GAAP. The "actual" results column of the Schedule of Revenues, Expenditures and Changes in Fund Equity – Budgetary Basis is presented on a budgetary basis to provide meaningful comparison with the budget. A reconciliation of reported balances is provided below:

	Accounting Differences	Fund Perspective Differences	Total
Revenue — budgetary basis			\$ 24,488,000
Revenue recognition adjustments	\$ 49,489	\$ -	49,489
Effect of property donations	690,388	-	690,388
Stabilization revenue	-	36,864	36,864
Revenue — GAAP basis	<u>\$ 739,877</u>	<u>\$ 36,864</u>	<u>\$ 25,264,741</u>
Expenditures — budgetary basis			\$ 23,090,783
Effect of property donations	\$ 690,388	\$ -	690,388
Expenditures — GAAP basis	<u>\$ 690,388</u>	<u>\$ -</u>	<u>\$ 23,781,171</u>
Other Financing Sources (Uses) — budgetary basis			\$ (735,154)
Transfer treatment	\$ -	\$ 500,000	500,000
Other Financing Sources (Uses) — GAAP basis	<u>\$ -</u>	<u>\$ 500,000</u>	<u>\$ (235,154)</u>



**ROSELLI, CLARK & ASSOCIATES**  
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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, 2020, 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 12, 2021.

**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.

A handwritten signature in black ink that reads "Roselli, Clark & Associates". The signature is fluid and cursive, with "Roselli" on the first line, "Clark" on the second line, and "& Associates" on the third line.

Roselli, Clark & Associates  
Certified Public Accountants  
Woburn, Massachusetts  
January 12, 2021