

TOWN OF UPTON, MASSACHUSETTS

Report on Examination of
Basic Financial Statements
and Additional Information
Year Ended June 30, 2016

Report on Internal Control
Over Financial Reporting and
On Compliance and Other Matters
Year Ended June 30, 2016

TOWN OF UPTON, MASSACHUSETTS

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Upton, Massachusetts, (the "Town") as of and for the year ended June 30, 2016, 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, 2016, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of the Town's proportionate share of net pension liability and contributions to pension plan, the schedule of the Commonwealth's collective share of the Massachusetts Teachers' Retirement System's net pension liability, the funding progress and contribution funding for other postemployment benefits, and budgetary comparison information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated February 23, 2017 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

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
February 23, 2017

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, 2016. 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

- In a May 2015 Special Town Meeting, the local legislative body approved a nearly \$1.4 million Proposition 2 ½ override to fund the increased regional school assessment from the Mendon-Upton Regional School District. Accordingly, property tax revenues reported in the governmental activities increased over 11% in fiscal year 2016.
- 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 \$53.8 million (*total net position*). This represents an increase of approximately \$0.7 million from the prior year. This increase was due almost entirely to a nearly \$0.8 million increase in the Town's water and sewer enterprise funds.
- As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of over \$8.4 million, which is approximately \$0.8 million decrease from the prior year. Each of the Town's major funds reported increases in fund balances in fiscal year 2016, primarily as the result of actual revenues exceeding budget and forecasts. In addition, the Town's spending relative to its Town Hall renovation project was concluded in fiscal year 2016.
- Of the ending fund balance in the Town's governmental funds, approximately \$2.8 million is *available for spending* at the government's discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was approximately 15% percent of the total general fund expenditures and the total general fund balance was approximately 17% of the total general fund expenditures.
- The Town's total long-term debt decreased by approximately \$1.3 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 2016. In addition, the Town has a \$0.3 million short-term borrowing in the form of a BAN outstanding at June 30, 2016, which was used to finance the purchase of a fire truck in fiscal year 2014.

Overview of the Financial Statements

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

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

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

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

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenue (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include general government, public safety, highways and streets, sanitation, education through a regional district, community development, health and human services, culture and recreation, fringe benefits and debt service. The business-type activities of the Town include its water and sewer operations.

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

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

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

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

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

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

The Town maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the Community Preservation Fund. Beginning in fiscal year 2014, the Town separately presented as a major fund the activities relating to its town hall renovation, which was completed in fiscal year 2015. The remaining monies within this fund were transferred for financial reporting purposes into the Town's Community Preservation Fund in fiscal year 2016. 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 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 \$53.8 million (*total net position*). The Town reported a deficit of approximately \$4.4 million in its unrestricted net position in its governmental activities at June 30, 2016, primarily as the result of the recording of nearly \$8.7 million in long-term obligations associated with other postemployment benefits and pension liabilities.

The condensed comparative statement of net position is as follows:

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|--------------------------------|----------------------|---------------------------------|---------------------|----------------------|----------------------|
| | June 30, | | June 30, | | June 30, | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| <u>Assets</u> | | | | | | |
| Current and other assets | \$ 10,570,084 | \$ 9,908,376 | \$ 2,438,283 | \$ 1,912,681 | \$ 13,008,367 | \$ 11,821,057 |
| Capital assets, net | 50,016,959 | 50,769,434 | 12,600,712 | 12,839,004 | 62,617,671 | 63,608,438 |
| Total Assets | <u>60,587,043</u> | <u>60,677,810</u> | <u>15,038,995</u> | <u>14,751,685</u> | <u>75,626,038</u> | <u>75,429,495</u> |
| <u>Deferred Outflows of Resources</u> | | | | | | |
| Pensions | <u>508,357</u> | <u>3,565</u> | <u>57,112</u> | <u>400</u> | <u>565,469</u> | <u>3,965</u> |
| <u>Liabilities</u> | | | | | | |
| Long term liabilities | 14,600,298 | 14,815,266 | 6,184,141 | 6,759,344 | 20,784,439 | 21,574,610 |
| Other liabilities | 598,741 | 737,439 | 117,368 | 75,220 | 716,109 | 812,659 |
| Total Liabilities | <u>15,199,039</u> | <u>15,552,705</u> | <u>6,301,509</u> | <u>6,834,564</u> | <u>21,500,548</u> | <u>22,387,269</u> |
| <u>Deferred Inflows of Resources</u> | | | | | | |
| Pensions | <u>824,506</u> | <u>-</u> | <u>92,631</u> | <u>-</u> | <u>917,137</u> | <u>-</u> |
| <u>Net Position</u> | | | | | | |
| Net investment in capital assets | 43,855,813 | 44,202,434 | 7,470,157 | 7,105,903 | 51,325,970 | 51,308,337 |
| Restricted | 5,603,854 | 6,227,574 | - | - | 5,603,854 | 6,227,574 |
| Unrestricted | (4,387,812) | (5,301,338) | 1,231,810 | 811,618 | (3,156,002) | (4,489,720) |
| Total Net Position | <u>\$ 45,071,855</u> | <u>\$ 45,128,670</u> | <u>\$ 8,701,967</u> | <u>\$ 7,917,521</u> | <u>\$ 53,773,822</u> | <u>\$ 53,046,191</u> |

The largest portion of the Town's net position reflects its investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt (netted down by those amounts expected to be reimbursed by the Commonwealth) used to acquire those assets that is still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position (approximately \$5.6 million) represents resources that are subject to external restrictions on how they may be used. The remaining balance is referred to as *unrestricted net position*, and may be used to meet the government's ongoing obligations to citizens and creditors. The Town reports a deficit in unrestricted net position in its governmental activities, primarily as the result of the recording of nearly \$8.7 million in long-term obligations associated with other postemployment benefits and pension liabilities.

The condensed comparative statement of activities is as follows:

| | Governmental Activities | | Business-Type Activities | | Total | |
|--|--------------------------------|---------------|---------------------------------|--------------|---------------|---------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Revenues | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 1,299,223 | \$ 1,248,711 | \$ 1,894,515 | \$ 1,510,816 | \$ 3,193,738 | \$ 2,759,527 |
| Operating grants and contributions | 477,214 | 453,412 | - | - | 477,214 | 453,412 |
| Capital grants and contributions | 914,487 | 724,515 | 47,013 | 57,881 | 961,500 | 782,396 |
| General revenues: | | | | | | |
| Property taxes | 18,963,044 | 17,015,555 | - | - | 18,963,044 | 17,015,555 |
| Intergovernmental | 493,337 | 473,754 | - | - | 493,337 | 473,754 |
| Other | 1,403,488 | 1,354,421 | 5,780 | 9,594 | 1,409,268 | 1,364,015 |
| Total revenues | 23,550,793 | 21,270,368 | 1,947,308 | 1,578,291 | 25,498,101 | 22,848,659 |
| Expenses | | | | | | |
| General government | 1,821,786 | 1,778,475 | - | - | 1,821,786 | 1,778,475 |
| Public safety | 4,287,673 | 4,156,364 | - | - | 4,287,673 | 4,156,364 |
| Education | 12,314,686 | 10,786,275 | - | - | 12,314,686 | 10,786,275 |
| Public works | 3,389,605 | 3,420,382 | - | - | 3,389,605 | 3,420,382 |
| Health and human services | 441,367 | 391,692 | - | - | 441,367 | 391,692 |
| Culture and recreation | 707,393 | 582,219 | - | - | 707,393 | 582,219 |
| Debt service | 232,155 | 263,008 | 191,605 | 202,344 | 423,760 | 465,352 |
| Water | - | - | 570,112 | 592,742 | 570,112 | 592,742 |
| Sewer | - | - | 814,088 | 840,386 | 814,088 | 840,386 |
| Total expenses | 23,194,665 | 21,378,415 | 1,575,805 | 1,635,472 | 24,770,470 | 23,013,887 |
| Change in net position before transfers | 356,128 | (108,047) | 371,503 | (57,181) | 727,631 | (165,228) |
| Transfers | (412,943) | (419,262) | 412,943 | 389,209 | - | (30,053) |
| Change in net position | (56,815) | (527,309) | 784,446 | 332,028 | 727,631 | (195,281) |
| Net position - beginning of year | 45,128,670 | 45,655,979 | 7,917,521 | 7,585,493 | 53,046,191 | 53,241,472 |
| Net position - end of year | \$ 45,071,855 | \$ 45,128,670 | \$ 8,701,967 | \$ 7,917,521 | \$ 53,773,822 | \$ 53,046,191 |

Governmental Activities. During fiscal year 2016, Town property taxes made up approximately 81% of total revenues, which is consistent with the prior year's ratio. In actual dollars, the Town's property taxes increased over \$1.9 million, or approximately 11%, from the prior year. The sharp increase was due to (i) an approximate \$1.4 million Proposition 2 ½ override in fiscal year 2016, (ii) new growth and (iii) normal growth in property taxes in accordance with Proposition 2 ½. No other revenues were greater than 10% of total revenues in fiscal years 2016 or 2015 and all remaining revenues were consistent with the prior year.

The Town's largest expense category is education, which the Town continues to devote substantial resources towards. Education expenses totaled approximately 53% of total annual expenditures in fiscal year 2016, which is greater than the prior year's ratio of 50%. The Proposition 2 ½ override was initiated because of a sharp increase in the Town's proportion of the Mendon-Upton Regional School District's annual education assessment which also led to the increase in cost over the prior year. Public safety and public works expenses represented approximately 18% and 15% of total annual expenditures in fiscal year 2016, respectively; each of which was slightly lower than fiscal year 2015. No other expense categories were greater than 10% in fiscal years 2016 or 2015. The majority of the remaining expense categories were consistent with the prior year.

Business-Type Activities. User charges represent the majority of the reported revenues in both fiscal years 2016 and 2015. There was an approximate \$384,000, or 25%, increase in user charges in fiscal year 2016. User charges increased in 2016 as a result of increased consumption and a utility rate increase. In addition, the sewer enterprise reported a \$224,000 increase in connection fees relative to the construction of a new residential housing project. Expenses decreased in fiscal year 2016 slightly in both the water and sewer enterprise funds.

Financial Analysis of the Government's Funds

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

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

As of the close of the current fiscal year, the Town's governmental funds balance sheet reported a combined ending fund balance surplus of over \$8.4 million, which is an approximate \$0.8 million increase from the prior year. Each of the Town's reported major funds reported increases in fund balances in fiscal year 2016, primarily as the result of actual revenues exceeding budget and forecasts. In addition, the Town's spending relative to its Town Hall renovation project was concluded in fiscal year 2016. Of the ending fund balance, approximately \$2.8 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 \$3.1 million, while total fund balance was nearly \$3.5 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents approximately 15% of total general fund expenditures, while total fund balance represents approximately 17% of that same amount.

The Town's Community Preservation Fund is restricted for historical preservation and conservation of open space. At June 30, 2016, the Community Preservation Fund balance had over \$1.7 million that is restricted in its use.

The remainder of the governmental funds are either (1) nonspendable due to being the corpus of an endowment in the amount of approximately \$130,000; (2) restricted due to constraints placed externally by third-parties in the amount of approximately \$3.3 million; or (3) reported as a deficit in the unrestricted fund balance in the amount of approximately \$(277,000), 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 were approximately \$7.9 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, 2016, the Town's investment in capital assets for its governmental and business-type activities approximated \$50.0 million and \$12.6 million, respectively. Governmental net fixed assets decreased nearly \$0.8 million as 2016 depreciation expense of nearly \$1.9 million exceeded capital additions of approximately \$1.1 million in fiscal year 2016. Business-type net fixed assets decreased by over \$0.2 million as 2016 depreciation expense of \$0.3 million exceeded modest 2016 capital additions.

Additional information on the Town capital assets can be found in the notes to the financial statements.

Long-term Debt. At the end of the current fiscal year, the Town had total debt outstanding of approximately \$11.1 million, which represents a decrease of approximately \$1.3 million from the prior 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 2016.

In May 2016, the Town executed a one-year short-term borrowing in the form of a BAN to finance the purchase of a fire truck.

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.

State statutes limit the amount of general obligation debt a governmental entity may issue to 5% of its total assessed valuation. The current debt limitation for the Town is approximately \$50.2 million, which significantly exceeds the Town's outstanding general obligation debt.

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

Economic Factors and Next Year's Budgets and Rates

- The Town's real estate tax base is made up predominantly of residential taxes, which in 2016 are approximately 94% of the entire levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2 ½% of the previous year's tax levy. The Town typically taxes at or near its levy limit annually.
- The Town is experiencing an uptick in new home building and expects several additional residential housing projects to commence in the near future.
- Property values within the Town have recouped the losses experienced during the recent nationwide housing crisis. In fact, the Town's total property valuations exceeded \$1.0 billion for the first time in 2016. The Town's median house price and median household income considerably exceed the statewide averages. As a result, the Town believes its property values have stabilized and expects additional growth in the near term.
- Employment levels for the Town's residents continue to outpace state-wide and national averages.

Each of these factors were considered in preparing the Town's budget for the 2017 fiscal year, which was adopted at Town Meeting in May 2016. The fiscal year 2017 tax rate, which reflects the adopted budget, was set on December 1, 2016.

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, 2016**

| | Governmental Activities | Business-Type Activities | Total |
|---|----------------------------|-----------------------------|----------------------|
| ASSETS | | | |
| Cash and cash equivalents | \$ 3,930,874 | \$ 1,570,883 | \$ 5,501,757 |
| Investments | 4,902,721 | - | 4,902,721 |
| Receivables, net of allowance for uncollectible accounts: | | | |
| Real estate and personal property taxes | 1,570,973 | - | 1,570,973 |
| User charges and fees | 61,573 | 625,606 | 687,179 |
| Motor vehicle excise taxes | 72,596 | - | 72,596 |
| Intergovernmental | 31,347 | 241,794 | 273,141 |
| Land | 4,590,304 | - | 4,590,304 |
| Depreciable capital assets, net of accumulated depreciation | 45,426,655 | 12,600,712 | 58,027,367 |
| Total Assets | <u>60,587,043</u> | <u>15,038,995</u> | <u>75,626,038</u> |
| DEFERRED OUTFLOWS OF RESOURCES | | | |
| Pensions | <u>508,357</u> | <u>57,112</u> | <u>565,469</u> |
| LIABILITIES | | | |
| Current liabilities: | | | |
| Warrants and accounts payable | 331,799 | 84,478 | 416,277 |
| Other liabilities | 4,935 | - | 4,935 |
| Accrued interest expense | - | 32,890 | 32,890 |
| Bond anticipation note payable | 262,007 | - | 262,007 |
| Noncurrent liabilities: | | | |
| Due in one year or less | 681,000 | 612,401 | 1,293,401 |
| Due in more than one year | <u>13,919,298</u> | <u>5,571,740</u> | <u>19,491,038</u> |
| Total Liabilities | <u>15,199,039</u> | <u>6,301,509</u> | <u>21,500,548</u> |
| DEFERRED INFLOWS OF RESOURCES | | | |
| Pensions | <u>824,506</u> | <u>92,631</u> | <u>917,137</u> |
| NET POSITION | | | |
| Net investment in capital assets | 43,855,813 | 7,470,157 | 51,325,970 |
| Restricted for: | | | |
| Nonexpendable funds | 129,709 | - | 129,709 |
| Expendable funds | 2,757,090 | - | 2,757,090 |
| Community preservation | 1,748,495 | - | 1,748,495 |
| Other | 968,560 | - | 968,560 |
| Unrestricted | <u>(4,387,812)</u> | <u>1,231,810</u> | <u>(3,156,002)</u> |
| Total Net Position | <u>\$ 45,071,855</u> | <u>\$ 8,701,967</u> | <u>\$ 53,773,822</u> |

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016**

| Functions/Programs | Expenses | Program Revenues | | | Net (Expenses) Revenues and Changes in Net Position | | |
|---|---------------|-------------------------|--|--|---|-----------------------------|----------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| <u>Governmental Activities:</u> | | | | | | | |
| General government | \$ 1,821,786 | \$ 168,323 | \$ 269,018 | \$ 301,314 | \$ (1,083,131) | | \$ (1,083,131) |
| Public safety | 4,287,673 | 647,274 | 84,648 | 172,834 | (3,382,917) | | (3,382,917) |
| Education | 12,314,686 | - | 19,248 | - | (12,295,438) | | (12,295,438) |
| Public works | 3,389,605 | 36,900 | - | 440,339 | (2,912,366) | | (2,912,366) |
| Health and human services | 441,367 | 252,547 | 41,513 | - | (147,307) | | (147,307) |
| Culture and recreation | 707,393 | 194,179 | 62,787 | - | (450,427) | | (450,427) |
| Debt service | 232,155 | - | - | - | (232,155) | | (232,155) |
| Total Governmental Activities | 23,194,665 | 1,299,223 | 477,214 | 914,487 | (20,503,741) | | (20,503,741) |
| <u>Business-Type Activities:</u> | | | | | | | |
| Water | 936,287 | 1,031,035 | - | - | - | \$ 94,748 | 94,748 |
| Sewer | 639,518 | 863,480 | - | 47,013 | - | 270,975 | 270,975 |
| Total Business-Type Activities | 1,575,805 | 1,894,515 | - | 47,013 | - | 365,723 | 365,723 |
| Total Primary Government | \$ 24,770,470 | \$ 3,193,738 | \$ 477,214 | \$ 961,500 | (20,503,741) | 365,723 | (20,138,018) |
| <u>General Revenues:</u> | | | | | | | |
| Real estate and personal property taxes | | | | | 18,963,044 | - | 18,963,044 |
| Motor vehicle and other excise | | | | | 1,135,370 | - | 1,135,370 |
| Penalties and interest on taxes | | | | | 159,246 | - | 159,246 |
| Grants not restricted for a purpose | | | | | 493,337 | - | 493,337 |
| Investment income | | | | | 108,872 | 5,780 | 114,652 |
| <u>Transfers (net)</u> | | | | | (412,943) | 412,943 | - |
| Total general revenues and transfers | | | | | 20,446,926 | 418,723 | 20,865,649 |
| Change in Net Position | | | | | (56,815) | 784,446 | 727,631 |
| <u>Net Position:</u> | | | | | | | |
| Beginning of year | | | | | 45,128,670 | 7,917,521 | 53,046,191 |
| End of year | | | | | \$ 45,071,855 | \$ 8,701,967 | \$ 53,773,822 |

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016**

| | General | Community Preservation | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------------|-----------------------------------|--------------------------------|
| Assets | | | | |
| Cash and cash equivalents | \$ 2,268,664 | \$ 1,007,216 | \$ 654,994 | \$ 3,930,874 |
| Investments | 1,361,444 | 761,279 | 2,779,998 | 4,902,721 |
| Receivables, net of allowance for uncollectibles: | | | | |
| Real estate and personal property taxes | 1,550,030 | 20,943 | - | 1,570,973 |
| Motor vehicle excise taxes | 72,596 | - | - | 72,596 |
| Departmental | - | - | 61,573 | 61,573 |
| Due from other governments | 2,061 | - | 29,286 | 31,347 |
| Total Assets | <u>5,254,795</u> | <u>1,789,438</u> | <u>3,525,851</u> | <u>10,570,084</u> |
| Deferred Outflows of Resources | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total Assets and Deferred Outflows of Resources | <u>\$ 5,254,795</u> | <u>\$ 1,789,438</u> | <u>\$ 3,525,851</u> | <u>\$ 10,570,084</u> |
| Liabilities | | | | |
| Warrants and accounts payable | \$ 276,182 | \$ 20,000 | \$ 35,617 | \$ 331,799 |
| Other liabilities | 4,935 | - | - | 4,935 |
| Bond anticipation note payable | - | - | 262,007 | 262,007 |
| Total Liabilities | <u>281,117</u> | <u>20,000</u> | <u>297,624</u> | <u>598,741</u> |
| Deferred Inflows of Resources | | | | |
| Unavailable revenues - property taxes | 1,404,401 | 20,943 | - | 1,425,344 |
| Unavailable revenues - motor vehicle excise taxes | 72,596 | - | - | 72,596 |
| Unavailable revenues - departmental | - | - | 61,573 | 61,573 |
| Total Deferred Inflows of Resources | <u>1,476,997</u> | <u>20,943</u> | <u>61,573</u> | <u>1,559,513</u> |
| Fund Balances | | | | |
| Nonspendable | - | - | 129,709 | 129,709 |
| Restricted | - | 1,748,495 | 3,314,254 | 5,062,749 |
| Committed | 407,199 | - | - | 407,199 |
| Assigned | 4,197 | - | - | 4,197 |
| Unassigned | 3,085,285 | - | (277,309) | 2,807,976 |
| Total Fund Balances | <u>3,496,681</u> | <u>1,748,495</u> | <u>3,166,654</u> | <u>8,411,830</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 5,254,795</u> | <u>\$ 1,789,438</u> | <u>\$ 3,525,851</u> | <u>\$ 10,570,084</u> |

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

| | |
|---|------------------------------------|
| Total Governmental Fund Balances | \$ 8,411,830 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 50,016,959 |
| Other long-term assets are not available to pay for current-period expenditures and are therefore unavailable within the funds. | 1,559,513 |
| Long-term liabilities are not due and payable in the current period and are therefore, not reported in the government funds: | |
| Other postemployment benefits | (2,812,350) |
| Net pension liability | (6,203,097) |
| Bonds and notes payable | <u>(5,901,000)</u> |
| Net Position of Governmental Activities | <u><u>\$ 45,071,855</u></u> |

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016**

| | General | Community Preservation | Town Hall Renovation | Nonmajor Governmental Funds | Total Governmental Funds |
|--|---------------------|---------------------------|-------------------------|-----------------------------------|--------------------------------|
| Revenues | | | | | |
| Real estate and personal property taxes, net | \$ 18,542,603 | \$ 385,666 | \$ - | \$ - | \$ 18,928,269 |
| Intergovernmental | 713,972 | 190,051 | - | 934,251 | 1,838,274 |
| Motor vehicle and other excises | 1,190,568 | - | - | - | 1,190,568 |
| Licenses and permits | 274,281 | - | - | - | 274,281 |
| Departmental and other revenue | 688,451 | - | - | 289,908 | 978,359 |
| Penalties and interest on taxes | 157,045 | 2,201 | - | - | 159,246 |
| Fines and forfeitures | 25,084 | - | - | - | 25,084 |
| Investment income | 11,426 | 13,030 | - | 84,416 | 108,872 |
| Contributions and donations | - | - | 3,460 | 43,344 | 46,804 |
| Total Revenues | <u>21,603,430</u> | <u>590,948</u> | <u>3,460</u> | <u>1,351,919</u> | <u>23,549,757</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| General government | 1,194,888 | 41,500 | 42,746 | 307,626 | 1,586,760 |
| Public safety | 2,862,870 | - | - | 254,803 | 3,117,673 |
| Education | 12,286,918 | - | - | 27,768 | 12,314,686 |
| Public works | 1,826,740 | - | - | 440,339 | 2,267,079 |
| Health and human services | 319,843 | - | - | 27,596 | 347,439 |
| Culture and recreation | 319,252 | 48,005 | - | 273,054 | 640,311 |
| Fringe benefits | 1,107,805 | - | - | - | 1,107,805 |
| Debt service: | | | | | |
| Principal maturities | 496,000 | 170,000 | - | - | 666,000 |
| Interest | 111,832 | 120,323 | - | - | 232,155 |
| State and county tax assessments | 57,536 | - | - | - | 57,536 |
| Total Expenditures | <u>20,583,684</u> | <u>379,828</u> | <u>42,746</u> | <u>1,331,186</u> | <u>22,337,444</u> |
| (Deficiency) Excess of Revenues Over Expenditures | <u>1,019,746</u> | <u>211,120</u> | <u>(39,286)</u> | <u>20,733</u> | <u>1,212,313</u> |
| Other Financing Sources (Uses) | | | | | |
| Transfers in | 12,552 | 77,405 | - | 53,505 | 143,462 |
| Transfers out | (466,448) | - | (89,405) | (552) | (556,405) |
| Total Other Financing Sources, Net | <u>(453,896)</u> | <u>77,405</u> | <u>(89,405)</u> | <u>52,953</u> | <u>(412,943)</u> |
| Net Change in Fund Balances | <u>565,850</u> | <u>288,525</u> | <u>(128,691)</u> | <u>73,686</u> | <u>799,370</u> |
| Fund Balances - Beginning of year | <u>2,930,831</u> | <u>1,459,970</u> | <u>128,691</u> | <u>3,092,968</u> | <u>7,612,460</u> |
| Fund Balances - End of year | <u>\$ 3,496,681</u> | <u>\$ 1,748,495</u> | <u>\$ -</u> | <u>\$ 3,166,654</u> | <u>\$ 8,411,830</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, 2016**

Net Change in Fund Balances - Total Governmental Fund Balances **\$ 799,370**

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is capitalized and depreciated over their estimated useful lives. The following represents capital asset activity during 2016:

| | | |
|----------------------|--------------------|-----------|
| Capital outlays | 1,104,705 | |
| Depreciation expense | <u>(1,857,180)</u> | (752,475) |

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. The following activity was recorded in 2016:

| | | |
|-----------------|----------------|---------|
| Debt maturities | <u>666,000</u> | 666,000 |
|-----------------|----------------|---------|

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

| | | |
|-------------------------------|------------------|-----------|
| Other postemployment benefits | (490,750) | |
| Net pension liability | <u>(279,996)</u> | (770,746) |

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

1,036

Change in Net Position of Governmental Activities **\$ (56,815)**

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016**

| | Business-Type Activities Enterprise Funds | | |
|---|--|---------------------|---------------------|
| | Water | Sewer | Total |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 1,007,242 | \$ 563,641 | \$ 1,570,883 |
| User charges receivable | 364,384 | 261,222 | 625,606 |
| Due from the Commonwealth | - | 76,246 | 76,246 |
| Total current assets | <u>1,371,626</u> | <u>901,109</u> | <u>2,272,735</u> |
| Noncurrent assets: | | | |
| Due from the Commonwealth | - | 165,548 | 165,548 |
| Capital assets, net of accumulated depreciation | <u>8,391,882</u> | <u>4,208,830</u> | <u>12,600,712</u> |
| Total Assets | <u>9,763,508</u> | <u>5,275,487</u> | <u>15,038,995</u> |
| Deferred Outflows of Resources | | | |
| Pensions | <u>29,405</u> | <u>27,707</u> | <u>57,112</u> |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable and accrued expenses | 48,503 | 35,975 | 84,478 |
| Accrued interest expense | 29,840 | 3,050 | 32,890 |
| Current portion of long-term debt | <u>292,801</u> | <u>319,600</u> | <u>612,401</u> |
| Total current liabilities | <u>371,144</u> | <u>358,625</u> | <u>729,769</u> |
| Noncurrent liabilities: | | | |
| Long-term debt | 3,777,721 | 816,679 | 4,594,400 |
| Other postemployment benefits | 162,672 | 153,287 | 315,959 |
| Net pension liability | <u>340,513</u> | <u>320,868</u> | <u>661,381</u> |
| Total Liabilities | <u>4,652,050</u> | <u>1,649,459</u> | <u>6,301,509</u> |
| Deferred Inflows of Resources | | | |
| Pensions | <u>47,691</u> | <u>44,940</u> | <u>92,631</u> |
| Net Position | | | |
| Net investment in capital assets | 4,321,360 | 3,314,345 | 7,635,705 |
| Unrestricted | <u>771,812</u> | <u>294,450</u> | <u>1,066,262</u> |
| Total Net Position | <u>\$ 5,093,172</u> | <u>\$ 3,608,795</u> | <u>\$ 8,701,967</u> |

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016**

| | Business-Type Activities Enterprise Funds | | |
|---|--|--------------|--------------|
| | Water | Sewer | Total |
| Operating Revenues | | | |
| Charges for services | \$ 1,031,035 | \$ 863,480 | \$ 1,894,515 |
| Total Operating Revenues | 1,031,035 | 863,480 | 1,894,515 |
| Operating Expenses | | | |
| Operating costs | 609,727 | 496,567 | 1,106,294 |
| Depreciation expense | 204,361 | 73,545 | 277,906 |
| Total Operating Expenses | 814,088 | 570,112 | 1,384,200 |
| Operating Income (Loss) | 216,947 | 293,368 | 510,315 |
| Nonoperating Revenues (Expenses) | | | |
| Intergovernmental | - | 47,013 | 47,013 |
| Interest income | 3,321 | 2,459 | 5,780 |
| Interest expense | (122,199) | (69,406) | (191,605) |
| Transfers, net | 215,285 | 197,658 | 412,943 |
| Total Nonoperating Revenues, Net | 96,407 | 177,724 | 274,131 |
| Change in Net Assets | 313,354 | 471,092 | 784,446 |
| Net Position - Beginning of year | 4,779,818 | 3,137,703 | 7,917,521 |
| Net Position - End of year | \$ 5,093,172 | \$ 3,608,795 | \$ 8,701,967 |

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016**

| | Business-Type Activities Enterprise Funds | | |
|---|--|-------------------|---------------------|
| | Water | Sewer | Total |
| Cash Flows from Operating Activities | | | |
| Receipts from users | \$ 1,010,595 | \$ 845,224 | \$ 1,855,819 |
| Payments to vendors and employees | (553,685) | (450,232) | (1,003,917) |
| Net Cash Provided by Operating Activities | 456,910 | 394,992 | 851,902 |
| Cash Flows from Noncapital Financing Activities | | | |
| Transfers, net | 215,285 | 197,658 | 412,943 |
| Net Cash Provided by Noncapital Related Financing Activities | 215,285 | 197,658 | 412,943 |
| Cash Flows from Capital and Related Financing Activities | | | |
| Acquisition and property and equipment | (19,807) | (19,807) | (39,614) |
| Intergovernmental receipts for debt service | - | 119,013 | 119,013 |
| Principal payments on bonds payable | (288,662) | (309,638) | (598,300) |
| Interest income | 3,321 | 2,459 | 5,780 |
| Interest expense | (123,246) | (69,572) | (192,818) |
| Net Cash Used for Capital and Related Financing Activities | (428,394) | (277,545) | (705,939) |
| Net increase in cash and cash equivalents | 243,801 | 315,105 | 558,906 |
| Cash and cash equivalents - Beginning of year | 763,441 | 248,536 | 1,011,977 |
| Cash and cash equivalents - End of year | <u>\$ 1,007,242</u> | <u>\$ 563,641</u> | <u>\$ 1,570,883</u> |
| Reconciliation of Operating Income to Net Cash Provided By Operating Activities: | | | |
| Operating income | \$ 216,947 | \$ 293,368 | \$ 510,315 |
| Depreciation expense | 204,361 | 73,545 | 277,906 |
| Changes in assets and liabilities: | | | |
| Receivables, net | (20,440) | (18,256) | (38,696) |
| Accounts payable and other liabilities | 56,042 | 46,335 | 102,377 |
| Net Cash Provided by Operating Activities | <u>\$ 456,910</u> | <u>\$ 394,992</u> | <u>\$ 851,902</u> |

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2016**

| | Private Purpose Trust Funds | OPEB Trust Fund | Agency Funds |
|---------------------------------------|-----------------------------------|--------------------|-----------------|
| Assets | | | |
| Cash and cash equivalents | \$ - | \$ 95,225 | \$ 239,206 |
| Investments | 1,412,180 | - | - |
| Accounts receivable | - | - | 8,772 |
| Total Assets | <u>1,412,180</u> | <u>95,225</u> | <u>247,978</u> |
| Liabilities | | | |
| Warrants and accounts payable | - | - | 8,048 |
| Deposits | - | - | 233,241 |
| Other liabilities | - | - | 6,689 |
| Total Liabilities | <u>-</u> | <u>-</u> | <u>247,978</u> |
| Net Position Held in Trust For | | | |
| OPEB | - | 95,225 | - |
| Other purposes | 1,412,180 | - | - |
| Total Net Position | <u>\$ 1,412,180</u> | <u>\$ 95,225</u> | <u>\$ -</u> |

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED JUNE 30, 2016**

| | Private Purpose Trust Funds | OPEB Trust Fund |
|---|-----------------------------------|--------------------|
| Additions | | |
| Investment income | \$ 35,417 | \$ 129 |
| Total Additions | 35,417 | 129 |
| Deductions | | |
| Education | 36,543 | - |
| Total Deductions | 36,543 | - |
| Transfers In | - | - |
| Change in Net Position | (1,126) | 129 |
| Net Position - Beginning of year | 1,413,306 | 95,096 |
| Net Position - End of year | <u>\$ 1,412,180</u> | <u>\$ 95,225</u> |

See accompanying notes to basic financial statements.

TOWN OF UPTON, MASSACHUSETTS

NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Component units, while separate entities, are in substance part of the governmental operations if the significance of their operations and/or financial relationship with the Town meet certain criteria. Pursuant to these criteria there are no component units required to be included in the financial statements.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual government funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

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

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

- 2) The total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least five percent of the corresponding element for all governmental and enterprise funds combined.

In addition, any other governmental or enterprise fund that management believes is particularly significant to the basic financial statements may be reported as a major fund.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded when a liability is incurred. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

The Town reports the following major governmental funds:

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

Community Preservation Fund – is used to account for specific activities related to the purchase of land parcels within the Town for community preservation purposes as well as historical preservation.

Town Hall Renovation Fund – was used to account for the construction and renovation activities undertaken in fiscal year 2013 and completed in fiscal year 2015 relative to the renovation of the Upton town hall. The Town concluded separately presenting this as a major fund in fiscal year 2016.

The *nonmajor governmental funds* consist of special revenue, capital projects and permanent funds that are aggregated and presented in the nonmajor governmental funds column on the governmental funds financial statements. The following describes the general use of these fund types:

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

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

Permanent Funds – are used to account for financial resources that are restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

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

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

The Town reports the following major proprietary funds:

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

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

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

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

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

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

D. Assets, Liabilities, 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.

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment income.

Fair Value of Investments – The Town reports its investments 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 City’s best estimate of what market participants would use in pricing the investment at the measurement date.

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, 2016:

| Investments by Fair Value Level | June 30, 2016 | Fair Value Measurements Using | | |
|---------------------------------------|---------------|-------------------------------|--------------|---------|
| | | Level 1 | Level 2 | Level 3 |
| Debt securities: | | | | |
| U.S. Government obligations | \$ 207,416 | \$ 207,416 | \$ - | \$ - |
| Municipal obligations | 255,133 | 255,133 | - | - |
| Corporate bonds | 165,596 | 165,596 | - | - |
| Total debt securities | 628,145 | 628,145 | - | - |
| Equity securities | 1,668,181 | 1,668,181 | - | - |
| Mutual funds | 2,633,856 | 2,633,856 | - | - |
| State treasurer investment pool | 1,384,719 | - | 1,384,719 | - |
| Total investments by fair value level | \$ 6,314,901 | \$ 4,930,182 | \$ 1,384,719 | \$ - |

Debt and equity securities and mutual funds classified in Level 1 are valued using prices quoted in active markets for those securities. The State Treasurer investment pool is classified in Level 2 based on the composition and fair value of underlying investments contained within this pool, which can be determined using inputs other than the quoted prices that are observable either directly or indirectly.

Receivables – Real estate and personal property taxes are assessed on January 1 every year. Bills are sent quarterly and are due on August 1, November 1, February 1, and May 1, or thirty days subsequent to the mailing date. Interest accrues on delinquent taxes up to the statutory percentage rate per annum. Property taxes levied are recorded as receivables in the fiscal year of the levy. The Town is permitted to take delinquent tax accounts into tax titles fourteen days subsequent to the mailing of demand of delinquent taxes.

Real estate taxes, water and user fees are secured through a lien process in the second quarter of the following fiscal year and are considered 100% collectible. Accordingly, an allowance for uncollectible accounts for these receivables is not reported. All personal property tax, excise tax and other departmental receivables are shown net of an allowance for uncollectible accounts, which are comprised of those outstanding amounts greater than five years old, if material.

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

Inventories and Prepaid Items – Inventories, which are not material to the basic financial statements, are considered to be expenditures at the time of purchase. Certain payments to vendors reflect costs applicable to future accounting periods and may be recorded as prepaid items in both government-wide and governmental fund financial statements.

Capital Assets – Capital assets, which include land, buildings and improvements, machinery and equipment, vehicles and infrastructure (e.g. roads, water and sewer mains and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at the estimated fair market value at the date of donation. Net interest incurred during the construction phase of capital assets of business-type activities, if material, is included as part of the capitalized value of the assets constructed.

Capital assets (excluding land and construction-in-process) are depreciated using the straight-line method over the following estimated useful lives:

| | |
|---|----------------|
| Infrastructure | 25 to 75 years |
| Buildings and improvements | 20 to 50 years |
| Equipment, furniture, fixtures and vehicles | 3 to 10 years |

All purchases and construction costs in excess of \$5,000 are capitalized at the date of acquisition or construction, if their expected lives are greater than two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

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

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

Investment Income – Excluding the permanent funds, investment income derived from major and nonmajor governmental funds is legally assigned to the general fund unless otherwise directed by state law. Investment income of the proprietary funds is retained by the respective funds.

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

Long-term Obligations – Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bond anticipation notes payable are reported net of the applicable bond premium or discount.

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

Deferred Outflows/Inflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Town reports items related to its net pension liability 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 five 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 pension liability as deferred inflows of resources in both its government-wide and business-type activities, which it expects to amortize into pension expense within the next five years, which will result in reductions in reported pension expense. 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.

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.

Fund Equity – The Town presents fund balances in its governmental funds using classifications that comprise a hierarchy based primarily on the extent in which the Town is required to honor constraints on the specific purpose for which amounts in the funds can be spent.

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

Non-spendable represents amounts that cannot be spent because they are either (a) not in spendable form (i.e. inventory or prepaid expenses) or (b) legally or contractually required to be maintained intact such as the corpus of an endowment.

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

Committed represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision making authority, which consists of the Town Meeting members through Town Meeting Votes. Those committed amounts cannot be used for any other purpose unless the Town Meeting removes or changes the specified use by taking the same type of action (through Town Meeting Votes) it employed previously to commit those amounts.

Assigned represents amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. The authority for assigning fund balance is expressed by the Town Meeting, Board of Selectmen or their designee.

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

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.

The following table reflects the Town's fund equity categorizations:

| | General | Community Preservation | Nonmajor Governmental Funds | Total |
|---------------------------|---------------------|---------------------------|-----------------------------------|---------------------|
| Nonspendable: | | | | |
| Perpetual permanent funds | \$ - | \$ - | \$ 129,709 | \$ 129,709 |
| Restricted: | | | | |
| General government | - | 1,748,495 | 325,096 | 2,073,591 |
| Public safety | - | - | 11,787 | 11,787 |
| Health and human services | - | - | 55,046 | 55,046 |
| Culture and recreation | - | - | 165,235 | 165,235 |
| Expendable trust funds | - | - | 2,757,090 | 2,757,090 |
| Committed: | | | | |
| General government | 60,178 | - | - | 60,178 |
| Public safety | 43,753 | - | - | 43,753 |
| Education | 282,768 | - | - | 282,768 |
| Public works | 9,750 | - | - | 9,750 |
| Culture and recreation | 10,750 | - | - | 10,750 |
| Assigned: | | | | |
| Encumbrances | 4,197 | - | - | 4,197 |
| Unassigned: | | | | |
| Unrestricted | 1,704,347 | - | (277,309) | 1,427,038 |
| Capital stabilization | 190,501 | - | - | 190,501 |
| General stabilization | 1,190,437 | - | - | 1,190,437 |
| | <u>\$ 3,496,681</u> | <u>\$ 1,748,495</u> | <u>\$ 3,166,654</u> | <u>\$ 8,411,830</u> |

Stabilization Funds – The Town maintains a general stabilization fund, which may be used for any municipal purpose upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$1,190,437 at June 30, 2016 and is reported as unassigned fund balance in the general fund. The Town also maintains a capital stabilization fund, which may be used for capital purposes upon a two-thirds vote of the Town Meeting. The balance of the fund totals \$190,501 at June 30, 2016 and is reported as unassigned fund balance in the general fund.

The Town previously maintained a stabilization fund for the Mendon-Upton Regional School District, which was reported as a component of the Town's committed fund balance. In a November 2015 Special Town Meeting, the local legislative body voted to transfer the then accumulated balance of \$549,253 in this fund to the Town's general stabilization fund.

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

E. Excess of Expenditures Over Appropriations and Deficits

During the fiscal year ended June 30, 2016, there were no instances where expenditures exceeded appropriations. Deficits of \$277,309 in the nonmajor funds will be funded in future years through grants, notes or other available sources.

F. Use of Estimates

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

II. Detailed Notes to All Funds

A. Deposits and Investments

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

State laws and regulations require the Town to invest funds only in pre-approved investment instruments which include but are not necessarily limited to bank deposits, money markets, certificates of deposit, U.S. obligations, repurchase agreements, and State Treasurer's investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days, and the underlying security must be a United States obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

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

Custodial Credit Risk: Deposits – In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a deposit policy for custodial credit risk relative to cash holdings. At June 30, 2016, bank balances totaling \$218,395 were not covered by federal depository insurance or by other depositors' insurance programs and therefore were exposed to custodial credit risk.

Custodial Credit Risk: Investments – In the case of investments, this is the risk that in the event of the invested party not being able to provide required payments to investors, ceasing to exist, or filing of bankruptcy, the Town may not be able to recover the full amount of its principal investment and/or investment earnings. Of the Town's investments, \$462,549 in governmental obligations, \$165,596 of corporate fixed income obligations and \$4,302,037 in equity securities and mutual funds are exposed to custodial credit risk because the related securities are uninsured, unregistered and are held by the counterparty. The Town does not have a formal investment policy related to custodial credit risk.

Credit Risk – Statutes require the Town Treasurer to invest Town funds in bonds or notes which are legal investments for savings banks, including U.S. obligations, certificates of deposit, money market accounts, bank deposits, repurchase agreements and the State Treasurer's investment pool. In addition, the statutes impose various limitations on the amount and length of investments and deposits. Repurchase agreements cannot be for a period of over ninety days and the underlying security must be a U.S. obligation. During the fiscal year, the Town did not enter into any repurchase agreements.

At June 30, 2016, all of the Town's investments in U.S. government obligation were rated Aaa by Moody's Investors Service, Inc. ("Moody's"). Of the Town's investments in corporate fixed income, securities with a fair value of \$25,250 were rated A1, \$65,364 were rated as A2 and \$74,982 were rated as Baa1 by Moody's. No other investment types were rated by Moody's or any other recognizable credit rating agency.

Investment Maturities – The Town had the following investments at June 30, 2016:

| Investments | Fair Value | Maturity in Years | | |
|-----------------------------------|---------------------|-------------------|-------------------|---------------|
| | | Less than Year | 1 to 5 Years | 6 to 10 Years |
| <u>Debt securities:</u> | | | | |
| U.S. Government obligations | \$ 462,549 | \$ - | \$ 462,549 | \$ - |
| Corporate fixed income | 165,596 | 25,249 | 140,347 | - |
| Certificates of deposit | 256,170 | 20,046 | 236,124 | - |
| Total investments with maturities | 884,315 | <u>\$ 45,295</u> | <u>\$ 839,020</u> | <u>\$ -</u> |
| <u>Other investments:</u> | | | | |
| Money markets | 2,057,014 | | | |
| State Treasurer's Investment Pool | 1,384,719 | | | |
| Equities | 1,668,181 | | | |
| Mutual funds | 2,633,856 | | | |
| Total Investments | <u>\$ 8,628,085</u> | | | |
| Cash deposits held | \$ 3,523,003 | | | |

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

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

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

B. Receivables

Receivables as of June 30, 2016 for the Town’s individual major and nonmajor governmental funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|----------------------------|---------------------|---------------------------------|---------------------|
| Property taxes | \$ 814,820 | \$ - | \$ 814,820 |
| Tax liens and foreclosures | 756,153 | - | 756,153 |
| Excise taxes | 72,596 | - | 72,596 |
| Ambulance | 104,473 | (42,900) | 61,573 |
| Intergovernmental | 31,347 | - | 31,347 |
| Total | <u>\$ 1,779,389</u> | <u>\$ (42,900)</u> | <u>\$ 1,736,489</u> |

Receivables in the Town’s proprietary funds consisted of the following at June 30, 2016:

| | Gross Amount | Allowance for Uncollectibles | Net Amount |
|--------------------|-------------------|---------------------------------|-------------------|
| Water user charges | \$ 364,384 | \$ - | \$ 364,384 |
| Sewer user charges | 261,222 | - | 261,222 |
| Intergovernmental | 241,794 | - | 241,794 |
| Total | <u>\$ 867,400</u> | <u>\$ -</u> | <u>\$ 867,400</u> |

Governmental funds report unavailable revenues as a deferred inflow of resources in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. The following table identifies the components of unavailable revenues at June 30, 2016 in the governmental funds:

| | General Fund | Community Preservation Fund | Nonmajor Governmental Funds | Total |
|----------------------------|---------------------|-----------------------------------|-----------------------------------|---------------------|
| Property taxes | \$ 655,794 | \$ 13,397 | \$ - | \$ 669,191 |
| Tax liens and foreclosures | 748,607 | 7,546 | - | 756,153 |
| Excise taxes | 72,596 | - | - | 72,596 |
| Ambulance | - | - | 61,573 | 61,573 |
| | <u>\$ 1,476,997</u> | <u>\$ 20,943</u> | <u>\$ 61,573</u> | <u>\$ 1,559,513</u> |

MCWT Loan Subsidies – The Town entered a loan agreement with the MCWT. The Town expects to be subsidized by the MCWT on a periodic basis for principal in the amount of \$241,794 and interest in the amount of \$68,266 until the maturity of this agreement in 2019. GAAP requires the recognition of gross debt relative to these agreements. Therefore, the principal amount of \$241,794 is reported as a receivable in the sewer enterprise fund.

C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2016 was as follows in governmental activities:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|---------------------|----------------|----------------------|
| <u>Governmental Activities:</u> | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 4,590,304 | \$ - | \$ - | \$ 4,590,304 |
| Total capital assets not being depreciated | <u>4,590,304</u> | <u>-</u> | <u>-</u> | <u>4,590,304</u> |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 11,728,127 | 260,784 | - | 11,988,911 |
| Infrastructure | 53,365,544 | 445,069 | - | 53,810,613 |
| Vehicles and equipment | <u>4,964,280</u> | <u>398,852</u> | <u>(9,195)</u> | <u>5,353,937</u> |
| Total capital assets being depreciated | <u>70,057,951</u> | <u>1,104,705</u> | <u>(9,195)</u> | <u>71,153,461</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (1,777,074) | (277,278) | - | (2,054,352) |
| Infrastructure | (18,385,229) | (1,312,357) | - | (19,697,586) |
| Vehicles and equipment | <u>(3,716,518)</u> | <u>(267,545)</u> | <u>9,195</u> | <u>(3,974,868)</u> |
| Total accumulated depreciation | <u>(23,878,821)</u> | <u>(1,857,180)</u> | <u>9,195</u> | <u>(25,726,806)</u> |
| Total capital assets being depreciated, net | <u>46,179,130</u> | <u>(752,475)</u> | <u>-</u> | <u>45,426,655</u> |
| Governmental activities capital assets, net | <u>\$ 50,769,434</u> | <u>\$ (752,475)</u> | <u>\$ -</u> | <u>\$ 50,016,959</u> |

Depreciation expense was charged to functions/programs as follows:

Governmental Activities:

| | |
|------------------------|---------------------|
| General government | \$ 194,994 |
| Public safety | 244,556 |
| Public works | 1,400,739 |
| Culture and recreation | 16,891 |
| | <u>\$ 1,857,180</u> |

Capital asset activity for the fiscal year ended June 30, 2016 was as follows in business-type activities:

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|---------------------|-------------|----------------------|
| <u>Business-type Activities: Water</u> | | | | |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | \$ 659,983 | \$ - | \$ - | \$ 659,983 |
| Infrastructure | 10,240,136 | - | - | 10,240,136 |
| Vehicles and equipment | 22,000 | 19,807 | - | 41,807 |
| Total capital assets being depreciated | <u>10,922,119</u> | <u>19,807</u> | <u>-</u> | <u>10,941,926</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (545,108) | (2,686) | - | (547,794) |
| Infrastructure | (1,789,575) | (195,294) | - | (1,984,869) |
| Vehicles and equipment | (11,000) | (6,381) | - | (17,381) |
| Total accumulated depreciation | <u>(2,345,683)</u> | <u>(204,361)</u> | <u>-</u> | <u>(2,550,044)</u> |
| Total Net Business-type Activities: Water | <u>8,576,436</u> | <u>(184,554)</u> | <u>-</u> | <u>8,391,882</u> |
| <u>Business-type Activities: Sewer</u> | | | | |
| Capital assets being depreciated: | | | | |
| Buildings and improvements | 4,346,929 | - | - | 4,346,929 |
| Infrastructure | 1,020,428 | - | - | 1,020,428 |
| Vehicles and equipment | - | 19,807 | - | 19,807 |
| Total capital assets being depreciated | <u>5,367,357</u> | <u>19,807</u> | <u>-</u> | <u>5,387,164</u> |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (831,944) | (57,959) | - | (889,903) |
| Infrastructure | (272,845) | (13,605) | - | (286,450) |
| Vehicles and equipment | - | (1,981) | - | (1,981) |
| Total accumulated depreciation | <u>(1,104,789)</u> | <u>(73,545)</u> | <u>-</u> | <u>(1,178,334)</u> |
| Total Net Business-type Activities: Sewer | <u>4,262,568</u> | <u>(53,738)</u> | <u>-</u> | <u>4,208,830</u> |
| Total Net Business-type Activities | <u>\$ 12,839,004</u> | <u>\$ (238,292)</u> | <u>\$ -</u> | <u>\$ 12,600,712</u> |

Depreciation expense was charged to functions/programs as follows:

Business-type Activities:

| | |
|-------|-------------------|
| Water | \$ 204,361 |
| Sewer | 73,545 |
| | <u>\$ 277,906</u> |

D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2016 are summarized as follows:

| <u>Transfers Out</u> | <u>Transfers In</u> | | | | | <u>Total</u> | |
|-----------------------------|---------------------|-------------------------------|-----------------------|------------------------------|------------------------------|-------------------|-----|
| | <u>General Fund</u> | <u>Community Preservation</u> | <u>Nonmajor Funds</u> | <u>Water Enterprise Fund</u> | <u>Sewer Enterprise Fund</u> | | |
| General fund | \$ - | \$ - | \$ 53,505 | \$ 215,285 | \$ 197,658 | \$ 466,448 | (1) |
| Town Hall renovation fund | 12,000 | 77,405 | - | - | - | 89,405 | (2) |
| Nonmajor governmental funds | 552 | - | - | - | - | 552 | (3) |
| | <u>\$ 12,552</u> | <u>\$ 77,405</u> | <u>\$ 53,505</u> | <u>\$ 215,285</u> | <u>\$ 197,658</u> | <u>\$ 556,405</u> | |

- (1) \$50,000 was transferred to capital projects for debt service; \$2,000 was transferred to the conservation trust; \$1,505 to special revenue funds; \$387,943 was transferred to the enterprise funds for operations and \$25,000 in pension appropriations was paid by the general fund on behalf of the enterprise funds.
- (2) For financial reporting purposes, the Town concluded separately presenting the Town Hall renovation project. The residual balance of \$77,405 was transferred to the community preservation fund and \$12,000 was transferred to the general fund.
- (3) Special revenue funds transferred \$552 to the general fund.

E. Temporary Debt

The Town (excluding component units) is authorized to borrow on a temporary basis to fund the following:

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

Capital Projects and Other Approved Costs – Projects may be temporarily funded through the issuance of bond anticipation notes (“BANS”) or state aid anticipation notes (“SAANS”). In certain cases, prior to the issuance of these temporary notes, the governing body must take the necessary legal steps to authorize the issuance of the general obligation bonds. Temporary notes may not exceed the aggregate amount of bonds authorized or the grant award amount. Temporary notes are general obligations of the Town and carry maturity dates that are limited by state law. Temporary notes activity for fiscal year 2016 was as follows:

| <u>Type</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Balance July 1, 2015</u> | <u>Additions</u> | <u>Retirements</u> | <u>Rollovers</u> | <u>Balance June 30, 2016</u> |
|-------------|----------------------|----------------------|-----------------------------|------------------|--------------------|------------------|------------------------------|
| BAN | 0.50% | 5/27/16 | \$ 312,007 | \$ - | \$ (50,000) | \$ (262,007) | \$ - |
| BAN | 0.75% | 5/26/17 | - | - | - | 262,007 | 262,007 |
| | | | <u>\$ 312,007</u> | <u>\$ -</u> | <u>\$ (50,000)</u> | <u>\$ -</u> | <u>\$ 262,007</u> |

These BANs were used to finance the purchase of a fire truck.

F. Long-term Obligations

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

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

The following reflects the activity in the long-term liability accounts during the fiscal year ended June 30, 2016:

| Description of Issue | Beginning Balance | Additions | Deletions | Ending Balance | Due within one year |
|--|----------------------|---------------------|-----------------------|----------------------|---------------------|
| <i>Governmental Activities:</i> | | | | | |
| General obligation bonds and notes payable | \$ 6,567,000 | \$ - | \$ (666,000) | \$ 5,901,000 | \$ 681,000 |
| Other postemployment benefits, net | 2,321,600 | 648,141 | (157,391) | 2,812,350 | - |
| Net pension liability | 5,926,666 | 350,301 | (390,019) | 5,886,948 | - |
| Total Governmental Activities | <u>\$ 14,815,266</u> | <u>\$ 998,442</u> | <u>\$ (1,213,410)</u> | <u>\$ 14,600,298</u> | <u>\$ 681,000</u> |
| <i>Business-type Activities:</i> | | | | | |
| <u>Water</u> | | | | | |
| General obligation bonds and notes payable | \$ 4,359,184 | \$ - | \$ (288,662) | \$ 4,070,522 | \$ 292,801 |
| Other postemployment benefits, net | 147,640 | 24,136 | (9,104) | 162,672 | - |
| Net pension liability | 342,810 | 10,203 | (12,500) | 340,513 | - |
| Water enterprise | <u>4,849,634</u> | <u>34,339</u> | <u>(310,266)</u> | <u>4,573,707</u> | <u>292,801</u> |
| <u>Sewer</u> | | | | | |
| General obligation bonds and notes payable | 1,445,917 | - | (309,638) | 1,136,279 | 319,600 |
| Other postemployment benefits, net | 140,760 | 21,105 | (8,578) | 153,287 | - |
| Net pension liability | 323,033 | 10,335 | (12,500) | 320,868 | - |
| Sewer enterprise | <u>1,909,710</u> | <u>31,440</u> | <u>(330,716)</u> | <u>1,610,434</u> | <u>319,600</u> |
| Total Business-type Activities | <u>\$ 6,759,344</u> | <u>\$ 65,779</u> | <u>\$ (640,982)</u> | <u>\$ 6,184,141</u> | <u>\$ 612,401</u> |
| Total Long-term Obligations | <u>\$ 21,574,610</u> | <u>\$ 1,064,221</u> | <u>\$ (1,854,392)</u> | <u>\$ 20,784,439</u> | <u>\$ 1,293,401</u> |

Legal Debt Margin – State law permits a Town, under the provisions of Chapter 44, Section 10, to authorize indebtedness up to a limit of 5% of its equalized valuation. Debt issued in accordance with this section of the law is designated as being “inside the debt limit.” In addition, a Town may authorize debt in excess of that limit for specific purposes. Such debt, when issued, is designated as being “outside the debt limit.” The Town’s legal debt margin as of June 30, 2016 was approximately \$50.2 million based on an equalized valuation of approximately \$1.0 billion.

General obligation bonds outstanding at June 30, 2016 are as follows:

| Description | Interest Rate | Beginning Balance | Additions | Maturities and Retirements | Ending Balance |
|--|---------------|----------------------|-------------|----------------------------|----------------------|
| <i><u>Governmental Activities:</u></i> | | | | | |
| General obligation bonds | 2.00 - 5.00% | \$ 6,567,000 | \$ - | \$ (666,000) | \$ 5,901,000 |
| Total Governmental Activities | | <u>\$ 6,567,000</u> | <u>\$ -</u> | <u>\$ (666,000)</u> | <u>\$ 5,901,000</u> |
| <i><u>Business-type Activities - Water</u></i> | | | | | |
| General obligation bonds | 1.75 - 5.00% | \$ 4,359,184 | \$ - | \$ (288,662) | \$ 4,070,522 |
| <i><u>Business-type Activities - Sewer</u></i> | | | | | |
| General obligation bond | 3.50 - 5.00% | 193,817 | - | (10,338) | 183,479 |
| MCWT Note | 1.25% | 1,252,100 | - | (299,300) | 952,800 |
| Sewer enterprise | | 1,445,917 | - | (309,638) | 1,136,279 |
| Total Business-type Activities | | <u>\$ 5,805,101</u> | <u>\$ -</u> | <u>\$ (598,300)</u> | <u>\$ 5,206,801</u> |
| Total Bond and Note Debt | | <u>\$ 12,372,101</u> | <u>\$ -</u> | <u>\$ (1,264,300)</u> | <u>\$ 11,107,801</u> |

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

| Year Ending June 30, | Principal | | | Interest | | | Total |
|---|---------------------|---------------------|---------------------|---------------------|--------------------|---------------------|---------------------|
| | Balance | Subsidy | Net | Balance | Subsidy | Net | |
| <i><u>Governmental Activities</u></i> | | | | | | | |
| 2017 | \$ 681,000 | \$ - | \$ 681,000 | \$ 210,156 | \$ - | \$ 210,156 | \$ 891,156 |
| 2018 | 547,000 | - | 547,000 | 189,221 | - | 189,221 | 736,221 |
| 2019 | 562,000 | - | 562,000 | 169,574 | - | 169,574 | 731,574 |
| 2020 | 582,000 | - | 582,000 | 147,678 | - | 147,678 | 729,678 |
| 2021 | 237,000 | - | 237,000 | 123,107 | - | 123,107 | 360,107 |
| 2022 - 2026 | 1,117,000 | - | 1,117,000 | 513,136 | - | 513,136 | 1,630,136 |
| 2027 - 2031 | 1,280,000 | - | 1,280,000 | 307,488 | - | 307,488 | 1,587,488 |
| 2032 - 2034 | 895,000 | - | 895,000 | 54,700 | - | 54,700 | 949,700 |
| Total | <u>\$ 5,901,000</u> | <u>\$ -</u> | <u>\$ 5,901,000</u> | <u>\$ 1,715,060</u> | <u>\$ -</u> | <u>\$ 1,715,060</u> | <u>\$ 7,616,060</u> |
| <i><u>Business-type Activities: Total</u></i> | | | | | | | |
| 2017 | \$ 612,401 | \$ (76,246) | \$ 536,155 | \$ 156,098 | \$ (35,816) | \$ 120,282 | \$ 656,437 |
| 2018 | 560,601 | (80,621) | 479,980 | 133,550 | (24,280) | 109,270 | 589,250 |
| 2019 | 574,801 | (84,927) | 489,874 | 111,105 | (8,170) | 102,935 | 592,809 |
| 2020 | 253,000 | - | 253,000 | 96,175 | - | 96,175 | 349,175 |
| 2021 | 283,000 | - | 283,000 | 88,840 | - | 88,840 | 371,840 |
| 2022 - 2026 | 1,373,000 | - | 1,373,000 | 329,431 | - | 329,431 | 1,702,431 |
| 2027 - 2031 | 1,149,998 | - | 1,149,998 | 142,450 | - | 142,450 | 1,292,448 |
| 2032 - 2033 | 400,000 | - | 400,000 | 16,500 | - | 16,500 | 416,500 |
| Total | <u>\$ 5,206,801</u> | <u>\$ (241,794)</u> | <u>\$ 4,965,007</u> | <u>\$ 1,074,149</u> | <u>\$ (68,266)</u> | <u>\$ 1,005,883</u> | <u>\$ 5,970,890</u> |

| <i>Business-type Activities: Water</i> | | | | | | | |
|--|---------------------|---------------------|---------------------|-------------------|--------------------|-------------------|---------------------|
| 2017 | \$ 292,801 | \$ - | \$ 292,801 | \$ 109,320 | \$ - | \$ 109,320 | \$ 402,121 |
| 2018 | 231,801 | - | 231,801 | 103,063 | - | 103,063 | 334,864 |
| 2019 | 236,801 | - | 236,801 | 97,176 | - | 97,176 | 333,977 |
| 2020 | 240,939 | - | 240,939 | 90,920 | - | 90,920 | 331,859 |
| 2021 | 265,770 | - | 265,770 | 84,188 | - | 84,188 | 349,958 |
| 2022 - 2026 | 1,286,850 | - | 1,286,850 | 314,613 | - | 314,613 | 1,601,463 |
| 2027 - 2031 | 1,115,560 | - | 1,115,560 | 140,641 | - | 140,641 | 1,256,201 |
| 2032 - 2033 | 400,000 | - | 400,000 | 16,500 | - | 16,500 | 416,500 |
| Total | <u>\$ 4,070,522</u> | <u>\$ -</u> | <u>\$ 4,070,522</u> | <u>\$ 956,421</u> | <u>\$ -</u> | <u>\$ 956,421</u> | <u>\$ 5,026,943</u> |
| <i>Business-type Activities: Sewer</i> | | | | | | | |
| 2017 | \$ 319,600 | \$ (76,246) | \$ 243,354 | \$ 46,778 | \$ (35,816) | \$ 10,962 | \$ 254,316 |
| 2018 | 328,800 | (80,621) | 248,179 | 30,487 | (24,280) | 6,207 | 254,386 |
| 2019 | 338,000 | (84,927) | 253,073 | 13,929 | (8,170) | 5,759 | 258,832 |
| 2020 | 12,061 | - | 12,061 | 5,255 | - | 5,255 | 17,316 |
| 2021 | 17,230 | - | 17,230 | 4,652 | - | 4,652 | 21,882 |
| 2022 - 2026 | 86,150 | - | 86,150 | 14,818 | - | 14,818 | 100,968 |
| 2027 - 2028 | 34,438 | - | 34,438 | 1,809 | - | 1,809 | 36,247 |
| Total | <u>\$ 1,136,279</u> | <u>\$ (241,794)</u> | <u>\$ 894,485</u> | <u>\$ 117,728</u> | <u>\$ (68,266)</u> | <u>\$ 49,462</u> | <u>\$ 943,947</u> |

MCWT Loan Subsidies – As previously noted, the Town entered a loan agreement with the MCWT. The Town expects that it will be subsidized by MCWT on a periodic basis for principal in the amount of \$241,794 and interest in the amount of \$68,266 through 2019.

Authorized and Unissued Debt – At June 30, 2016, the Town had authorized and unissued debt for the following:

| <u>Project</u> | <u>Amount</u> |
|--|-------------------|
| Road projects subject to state reimbursement | <u>\$ 878,702</u> |

III. Other Information

A. Retirement System

Pension Plan Description – The Town 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, 2014 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-seven employers as of December 31, 2015 was as follows:

| | |
|--|---------------|
| Active members | 6,773 |
| Inactive members entitled to, but not receiving benefits | 1,925 |
| Inactive members (or beneficiaries) currently receiving benefits | <u>3,382</u> |
| | <u>12,080</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 from retirement system to system. 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 2016.

Contributions Requirements – The Retirement Board has elected provisions of Chapter 32, Section 22D (as amended) of MGL, which require that a funding schedule be established to fully fund the pension plan by June 30, 2040. Under provisions of this law, participating employers are assessed their share of the total retirement cost based on the entry age, normal actuarial cost method.

The Town contributed \$415,019 to the Retirement System in fiscal year 2016, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 12% in fiscal year 2016.

Net Pension Liability – At June 30, 2016, the Town reported a liability of \$6,548,329 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2014 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, 2015. There were no material changes to the Retirement System's benefit terms since the actuarial valuation. In 2015, the discount rate used in the actuarial valuation decreased from 8.00% to 7.75%. There were no other material changes made in this update to the actuarial assumptions (see below).

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 0.92% at December 31, 2015, which was more than 0.18% lower than the proportion measured at January 1, 2015. The decrease in proportionate share was primarily attributable to two new employers being admitted into the Retirement System.

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, 2015, 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 \$726,471 in pension expense in the statement of activities in fiscal year 2016.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual Experience | \$ — | \$ — |
| Changes of assumptions | 242,112 | — |
| Net difference between projected and actual earnings on pension plan investments | 323,357 | — |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | — | 917,137 |
| Town contributions subsequent to the measurement date | <u>—</u> | <u>—</u> |
| Total | <u>\$ 565,469</u> | <u>\$ 917,137</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, | |
| 2017 | \$ 80,760 |
| 2018 | 80,760 |
| 2019 | 80,760 |
| 2020 | 80,246 |
| Thereafter | <u>29,142</u> |
| Total | <u>\$ 351,668</u> |

Actuarial Valuation – The measurement of the Retirement System's total pension liability is developed by an independent actuary. The latest actuarial valuation was performed as of January 1, 2014. The significant actuarial assumptions used in the January 1, 2014 actuarial valuation included:

| | |
|----------------------------|---|
| Inflation: | Not explicitly assumed for the update to December 31, 2015 (3.5% per year for the actuarial valuation as of January 1, 2014). |
| Salary increased: | 3.0% per year, including longevity. |
| Investment rate of return: | 7.75%, net of pension plan investment expense, including inflation. |
| Mortality rates: | Based on the RP-2000 Mortality Table projected to 2014 with Scale AA. |
| Disabled life mortality: | For disabled retirees, the mortality rates were based on the RP-2000 Mortality Table set forward two years. |

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, 2015 are summarized in the following table:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Rate of Return</u> |
|--------------------------|--------------------------|--|
| Global equity | 40 % | 8.02 % |
| Fixed income | 23 % | 5.09 % |
| Private equity | 10 % | 9.50 % |
| Real estate | 10 % | 6.50 % |
| Timber/natural resources | 4 % | 7.07 % |
| Hedge funds | 9 % | 6.50 % |
| Other | 4 % | 6.18 % |

Discount Rate – The discount rate used to measure the total pension liability was 7.75%, which is a reduction from the previous 8.0% discount rate. 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 Sections 22D and 22F of Chapter 32 of 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 8.0% as well as the Town's proportionate share of the net pension liability using a discount rate that is one percentage point lower (7.0%) or one percentage point higher (9.0%) than the current rate:

| | <u>1% Decrease (6.75%)</u> | <u>Current Discount (7.75%)</u> | <u>1% Increase (8.75%)</u> |
|---|--------------------------------|---|--------------------------------|
| Town's proportionate share of the net pension liability | \$ 7,884,286 | \$ 6,548,329 | \$ 5,413,953 |

B. Risk Financing

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

C. OPEB – Other Postemployment Benefits

Plan Description – In addition to the pension benefits previously described, the Town provides health and life insurance benefits to current and future retirees, their dependents and beneficiaries (hereinafter referred to as the "Plan") in accordance with MGL Chapter 32B. Specific benefit provisions and contribution rates are established by collective bargaining agreements, state law, and Town ordinance. All benefits are provided through the Town's insurance program. The Plan does not issue a stand-alone financial report since there are no assets legally segregated for the sole purpose of paying benefits under the Plan.

As of July 1, 2015 (the date of the latest actuarial valuation report), the number of participants in the Plan consisted of 56 active employees and 19 retired employees, which include spouses, for a total of 75 participants.

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

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

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

| | Governmental Activities | Business-type Activities | | Total |
|-------------------------------------|----------------------------|--------------------------|-------------------|---------------------|
| | | Water | Sewer | |
| OPEB obligation - beginning of year | \$ 2,321,600 | \$ 147,640 | \$ 140,760 | \$ 2,610,000 |
| Annual required contribution | 665,202 | 38,477 | 36,257 | 739,936 |
| Adjustments to ARC | (17,061) | (14,341) | (15,152) | (46,554) |
| Funding of OPEB trust | (95,053) | - | - | (95,053) |
| Contributions made | (62,338) | (9,104) | (8,578) | (80,020) |
| OPEB obligation - end of year | <u>\$ 2,812,350</u> | <u>\$ 162,672</u> | <u>\$ 153,287</u> | <u>\$ 3,128,309</u> |

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

| Fiscal Year Ended | Annual OPEB Cost (AOPEBC)* | Percentage of AOPEBC Contributed | Net OPEB Obligation |
|----------------------|----------------------------------|--|------------------------|
| June 30, 2016 | \$ 739,936 | 10.8% | \$ 3,128,309 |
| June 30, 2015 | 590,000 | 11.9% | 2,610,000 |
| June 30, 2014 | 590,000 | 11.9% | 2,120,000 |

* Reflected in the statement of activities as follows:

The AOPEBC was charged to the following functional programs: General Government \$99,781; Public Safety \$412,425; Public Works \$93,128; Health and Human Services \$33,260; Culture and Recreation \$26,608; Water \$38,477; and Sewer \$36,257.

Funding Status and Funding Progress – The funded status of the Plan at June 30, 2016 for the most recent actuarial valuation performed as of July 1, 2015, was as follows:

| Actuarial Value of Assets | Actuarial Accrual Liability (AAL) * | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|------------------------------|--|------------------------|--------------|-----------------|---|
| (a) | (b) | (b) - (a) | (a)/(b) | (c) | ((b)-(a))/(c) |
| \$ 95,096 | \$ 6,904,487 | \$ 6,809,391 | 1.4% | \$ 3,471,050 | 196.2% |

* Entry age normal cost

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

Methods and Assumptions – Projections of benefits for financial reporting purposes are based on the substantive Plan and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and the Plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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

| | |
|----------------------------|---|
| Valuation date | July 1, 2015 |
| Discount rate | 4.0% partial pre-funding 7.5% full pre-funding |
| Amortization method | Level dollar amount per year over 30 years on an open amortization period for partial pre-funding. Level dollar amount per year over 30 years on a closed amortization period for partial pre-funding. |
| Healthcare cost trend rate | 7% grading down to 5% over five years |
| Actuarial cost method | Projected unit credit |

D. Commitments and Contingencies

General – The Town is party to certain legal claims, which are subject to many uncertainties, and the outcome of individual litigation matters is not always predictable with assurance. Although the amount of liability, if any, at June 30, 2016, 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, 2016.

Appellate Tax Board – The Town has pending cases filed with the Massachusetts Appellate Tax Board of the Commonwealth of Massachusetts (“ATB”). All of these cases pertain to the telephone and telegraph companies, who have challenged their assessed valuations of personal property. In total, the assessed values for ATB cases approximates \$13.1 million at June 30, 2016.

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

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.

IV. Implementation of New GASB Pronouncements

A. Current Year Implementations

In February 2015, the GASB issued GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 addressed accounting and financial reporting issues relating to fair value measurements by providing guidance for determining a fair value measurement for financial reporting purposes. The provisions of this Statement became effective for the Town in fiscal year 2016 and did not have a material effect on its financial statements.

In June 2015, the GASB issued GASB Statement No. 73, *Accounting and Financial Reporting for Pension and Related Assets That Are Not within the Scope of GASB Statement No. 68 and Amendments to Certain Provision of GASB Statement No. 67 and No. 68*. The objective of GASB 73 was to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement established requirements for defined benefit pensions that are not within the scope of Statement 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it established requirements for defined contribution pensions that are not within the scope of Statement 68. The provisions of this Statement were effective for financial reporting periods beginning after June 15, 2015 (fiscal year 2016) – except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of GASB Statement No. 68, which are effective for fiscal years beginning after June 15, 2106 (fiscal year 2017). The provisions of this Statement became effective for the Town in fiscal year 2016 and did not have a material effect on its financial statements.

In June 2015, the GASB issued GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of GASB 76 was to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted principles, or GAAP. This Statement reduced the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP. The provisions of this Statement became effective in fiscal year 2016 and did not have a material effect on the Town's financial statements.

In December 2015, the GASB issued GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. GASB 79 established criteria for which an external investment pool may qualify to measure its investment value at amortized cost versus fair value. The provisions of this Statement became effective in fiscal year 2016 and did not have a material effect on the Town's financial statements.

B. Future Year Implementations

In June 2015, the GASB issued GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other than Pension Plans*. GASB 74's objective is to improve the usefulness of information about postemployment benefits other than pensions included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 establishes new accounting and financial reporting requirements for governments whose employees are provided with OPEB, as well as for certain nonemployer governments that have a legal obligation to provide financial support for OPEB provided to the employees of other entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2017 (fiscal year 2018). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In August 2015, the GASB issued GASB Statement No. 77, *Tax Abatement Disclosures*. GASB 77 requires the disclosure of the terms of certain tax abatement agreements entered into by a government with individuals or entities. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In December 2015, the GASB issued GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The provisions of GASB 78 are applicable to certain government pension plans that (i) are not administered as a trust by a state or local governmental pension plan, (ii) are shared between governmental and nongovernmental employees, and (iii) have not predominant state or local governmental employer. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. This Statement is not expected to have a material effect on the Town's financial statements.

In January 2016, the GASB issued GASB Statement No. 80, *Blending Requirements for Certain Component Units*. The provisions of GASB 80 apply to component units that are organized as not-for-profit corporations in which the primary government is the sole corporate member. Such component units should be included in the reporting entity financial statements using the blending method. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2016 (fiscal year 2017), although early adoption is encouraged. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2016 (fiscal year 2018) and should be applied retroactively. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In March 2016, the GASB issued GASB Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of GASB 73 was to address issues raised with respect to previously issued statements related to pensions. Specifically, the Statement addressed issues regarding (i) the presentation of payroll-related measures in required supplementary information, (ii) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting and (iii) the classification of payments made by employers to satisfy employee (plan member) contributions requirements. The requirements for this Statement are effective for reporting periods beginning after June 15, 2016 (fiscal year 2017), except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017; earlier application is encouraged. The Town is currently evaluating whether adoption will have a material impact on the financial statements.

* * * * *

TOWN OF UPTON, MASSACHUSETTS**REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**
YEAR ENDED JUNE 30, 2016

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

| | Year Ended December 31, | |
|---|-------------------------|-----------|
| | 2015 | 2014 |
| Town's proportion of the net pension liability (asset) | 0.922551% | 1.107858% |
| Town's proportionate share of the net pension liability (asset) | \$ 6,548 | \$ 6,593 |
| Town's covered-employee payroll | \$ 3,378 | \$ 3,248 |
| Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 193.8% | 203.0% |
| Plan fiduciary net position as a percentage of the total pension liability | 47.94% | 47.94% |

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

| | Year Ended December 31, | |
|--|-------------------------|----------|
| | 2015 | 2014 |
| Actuarially determined contribution | \$ 415 | \$ 438 |
| Contributions in relation to the actuarially determined contribution | 415 | 438 |
| Contribution deficiency (excess) | \$ - | \$ - |
| Town's covered-employee payroll | \$ 3,378 | \$ 3,248 |
| Contributions as a percentage of covered-employee payroll | 12.3% | 13.5% |

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

See accompanying independent auditors' report.

TOWN OF UPTON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2016

SCHEDULES OF FUNDING PROGRESS

| Actuarial Valuation Date | Actuarial Value of Assets | Actuarial Accrued Liability (AAL) | Unfunded AAL (UAAL) | Funded Ratio | Covered Payroll | UAAL as a Percentage of Covered Payroll |
|--------------------------------|---------------------------------|---|---------------------------|-----------------|--------------------|--|
| | (a) | (b) | (b-a) | (a/b) | (c) | (b-a)/c |
| 7/1/2015 | \$ 95,096 | \$ 6,904,487 | \$ 6,809,391 | 1.4% | \$ 3,471,050 | 196.2% |
| 7/1/2012 | - | 4,180,000 | 4,180,000 | 0.0% | 3,540,000 | 118.1% |
| 7/1/2009 | - | 4,298,116 | 4,298,116 | 0.0% | 2,746,676 | 156.5% |

SCHEDULES OF CONTRIBUTION FUNDING

| Year Ended June 30, | Annual Required Contributions | Actual Contributions | Percentage Contributed |
|------------------------|-------------------------------------|-------------------------|---------------------------|
| 2016 | \$ 739,936 | \$ 80,020 | 10.8% |
| 2015 | 590,000 | 165,000 | 28.0% |
| 2014 | 550,000 | 70,000 | 12.7% |

See accompanying independent auditors' report.

TOWN OF UPTON, MASSACHUSETTS

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2016

| | Budgeted Amounts | | Actual | | Actual | Variance |
|---|------------------|---------------|---------------|--------------|---------------|---------------|
| | Original | Final | Budgetary | Encumbrances | Budgetary | Favorable |
| | Budget | Budget | Amounts | | Adjusted | (Unfavorable) |
| REVENUES | | | | | | |
| Real and personal property taxes | \$ 18,468,717 | \$ 18,468,717 | \$ 18,554,438 | \$ - | \$ 18,554,438 | \$ 85,721 |
| Intergovernmental | 708,680 | 708,680 | 713,972 | - | 713,972 | 5,292 |
| Motor vehicle excise taxes | 1,070,000 | 1,070,000 | 1,190,568 | - | 1,190,568 | 120,568 |
| Licenses and permits | 151,000 | 151,000 | 274,281 | - | 274,281 | 123,281 |
| Departmental and other | 586,200 | 586,200 | 688,451 | - | 688,451 | 102,251 |
| Penalties and interest on taxes | 116,250 | 116,250 | 157,045 | - | 157,045 | 40,795 |
| Fines and forfeitures | 11,000 | 11,000 | 25,084 | - | 25,084 | 14,084 |
| Investment income | 7,500 | 7,500 | 5,621 | - | 5,621 | (1,879) |
| Total Revenues | 21,119,347 | 21,119,347 | 21,609,460 | - | 21,609,460 | 490,113 |
| EXPENDITURES | | | | | | |
| General government | 1,385,501 | 1,419,969 | 1,344,888 | 70,007 | 1,414,895 | 5,074 |
| Public safety | 3,051,438 | 2,959,130 | 2,862,870 | 45,365 | 2,908,235 | 50,895 |
| Education | 12,288,692 | 12,288,692 | 12,286,918 | - | 12,286,918 | 1,774 |
| Public works | 1,958,387 | 2,025,538 | 1,676,740 | 283,268 | 1,960,008 | 65,530 |
| Health and human services | 318,129 | 322,928 | 319,843 | 2,006 | 321,849 | 1,079 |
| Culture and recreation | 528,315 | 531,853 | 319,252 | 10,750 | 330,002 | 201,851 |
| State and county tax assessments | 57,536 | 57,536 | 57,536 | - | 57,536 | - |
| Pension and fringe benefits | 1,145,919 | 1,145,919 | 1,132,805 | - | 1,132,805 | 13,114 |
| Debt service | 933,834 | 607,832 | 607,832 | - | 607,832 | - |
| Total Expenditures | 21,667,751 | 21,359,397 | 20,608,684 | \$ 411,396 | 21,020,080 | 339,317 |
| OTHER FINANCING SOURCES (USES) | | | | | | |
| Transfers in | - | - | 12,552 | | 12,552 | 12,552 |
| Transfers out | (98,934) | (490,471) | (441,448) | | (441,448) | 49,023 |
| Total Other Financing Sources (Uses) | (98,934) | (490,471) | (428,896) | | (428,896) | 61,575 |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures/Use of Prior Year Budgetary Fund Balance | (647,338) | (730,521) | \$ 571,880 | | \$ 160,484 | \$ 891,005 |
| <u>Other budgetary items</u> | | | | | | |
| Uses of free cash | 40,000 | 123,183 | | | | |
| Prior year encumbrances and articles | 607,338 | 607,338 | | | | |
| | \$ 647,338 | \$ 730,521 | | | | |

TOWN OF UPTON, MASSACHUSETTS

REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2016

I. Budgetary Basis of Accounting

Budgetary Information – An annual budget is legally adopted for the general fund and the Enterprise Fund. Financial orders are initiated by the Town Manager, recommended by the Town Finance Committee and approved by the Town Meeting at the Town's annual meeting in each spring. Expenditures may not legally exceed appropriations at the department level or in the categories of personnel and non-personnel expenses. Department heads may transfer, without Town Meeting approval, appropriation balances from one account to another within their department or budget, and within the categories of personnel and non-personnel. The Town Meeting must approve any transfer of unencumbered appropriation balances between departments. At the close of each fiscal year, unencumbered appropriation balances lapse and revert to unassigned fund balance. The Town adopts an annual budget for the general fund in conformity with the guidelines described above. During fiscal year 2016, supplemental budgetary appropriations, were not significant. The Town Accountant has the responsibility to ensure that budgetary control is maintained in the manner in which the appropriations were voted by Town Meeting. Budgetary control is exercised through the Town's accounting system.

Budgetary-to-GAAP Reconciliation – The Town's general fund is prepared on a basis of accounting other than GAAP to conform to the Uniform Municipal Accounting System basis of accounting as prescribed by the Massachusetts Department of Revenue. A reconciliation of the budgetary-basis to GAAP-basis results for the general fund for the fiscal year ended June 30, 2016, is as follows:

| | Accounting Differences | Fund Perspective Differences | Total |
|--|---------------------------|---------------------------------|----------------------|
| Revenue on a budgetary basis | | | \$ 21,609,460 |
| Sixty-day receivable difference | \$ (11,835) | \$ - | (11,835) |
| Interest earned by Stabilization Fund | - | 5,805 | 5,805 |
| Revenue on a GAAP basis | <u>\$ (11,835)</u> | <u>\$ 5,805</u> | <u>\$ 21,603,430</u> |
| Expenditures on a budgetary basis | | | \$ 20,608,684 |
| Transfer recognition - pensions | \$ - | \$ (25,000) | (25,000) |
| Expenditures on a GAAP basis | <u>\$ -</u> | <u>\$ (25,000)</u> | <u>\$ 20,583,684</u> |
| Transfers on a budgetary basis (net) | | | \$ (428,896) |
| Transfer recognition - pensions | \$ - | \$ (25,000) | (25,000) |
| Transfers on a GAAP basis (net) | <u>\$ -</u> | <u>\$ (25,000)</u> | <u>\$ (453,896)</u> |

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



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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Upton, Massachusetts (the "Town"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated February 23, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Roselli, Clark & Associates

Roselli, Clark & Associates
Certified Public Accountants
Woburn, Massachusetts
February 23, 2017