

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

**TOWN OF UPTON, MASSACHUSETTS**

Report on Examination of  
Basic Financial Statements  
and Additional Information  
Year Ended June 30, 2018

Report on Internal Control  
Over Financial Reporting and  
On Compliance and Other Matters  
Year Ended June 30, 2018



# 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, 2018, 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, 2018, and the respective changes in financial position and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

## Restatement

We audited the Town's basic financial statements for the year ended June 30, 2017, for which we issued an unmodified opinion dated February 14, 2018. As discussed in Note V to the financial statements, the Town adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* in the current year. In connection with the adoption of this accounting standard, previously reported total net positions in the governmental activities and business-type activities in the Statement of Net Position as well as those in the proprietary funds were restated.

## Other Matters

### *Required Supplementary Information*

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

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

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

In accordance with *Government Auditing Standards*, we have also issued a report dated January 28, 2019 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  
January 28, 2019

## 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, 2018. We encourage readers to consider the information presented here in conjunction with their review of the basic financial statements, notes to the basic financial statements and required supplementary information.

### **Financial Highlights**

- The Town adopted a new accounting pronouncement related to other postemployment benefits, or OPEB, in fiscal year 2018. As a result, beginning net positions in the Town’s governmental activities and business-type activities decreased approximately \$1.9 million and \$0.1 million, respectively.
- 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 \$53.5 million (*total net position*). This represents an increase of approximately \$1.1 million from the prior year. The Town reported increases of approximately \$762,000 and \$382,000 in its governmental and business-type activities, respectively, in fiscal year 2018.
- 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 \$10.6 million, which is an approximate \$1.3 million increase from the prior year. Each of the Town’s major funds reported increases in fund balances in fiscal year 2018. The Town’s general fund reported an increase in net position of approximately \$1,058,000 in fiscal year 2018, which was primarily the result of better than expected budgetary performance.
- Of the ending fund balance in the Town’s governmental funds, approximately \$4.0 million is *available for spending* at the government’s discretion as *unassigned fund balance*. The remainder is earmarked for specific expenditures.
- At the end of the current fiscal year, the unassigned fund balance for the general fund was nearly 20% percent of the total general fund expenditures and the total general fund balance was over 23% of the total general fund expenditures.
- The Town’s total long-term debt decreased by approximately \$1.1 million during the current fiscal year. This decrease was due to the normal, scheduled repayment of long-term obligations. The Town did not complete any long-term borrowings in fiscal year 2018. The Town’s short-term borrowings in the form of bond anticipation notes, or BANs, increase from approximately \$212,000 at June 30, 2017 to over \$1,762,000 at June 30, 2018.

## **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. Data from the other governmental funds are combined into a single, aggregated presentation.

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

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

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

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

## **Government-Wide Financial Analysis**

The condensed comparative statements of net position for fiscal years 2018 and 2017 are as follows:

	Governmental Activities		Business-Type Activities		Total	
	June 30,		June 30,		June 30,	
	2018	2017 (a)	2018	2017 (a)	2018	2017 (a)
<b>Assets</b>						
Current and other assets	\$ 13,009,007	\$ 11,341,386	\$ 3,619,116	\$ 2,682,324	\$ 16,628,123	\$ 14,023,710
Capital assets, net	49,278,261	49,326,759	12,502,255	12,394,871	61,780,516	61,721,630
<b>Total Assets</b>	<b>62,287,268</b>	<b>60,668,145</b>	<b>16,121,371</b>	<b>15,077,195</b>	<b>78,408,639</b>	<b>75,745,340</b>
<b>Deferred Outflows of Resources</b>	<b>1,216,901</b>	<b>1,142,495</b>	<b>136,605</b>	<b>128,355</b>	<b>1,353,506</b>	<b>1,270,850</b>
<b>Liabilities</b>						
Long-term liabilities	17,396,245	17,396,209	5,361,066	5,857,402	22,757,311	23,253,611
Other liabilities	1,182,885	565,439	1,257,309	120,925	2,440,194	686,364
<b>Total Liabilities</b>	<b>18,579,130</b>	<b>17,961,648</b>	<b>6,618,375</b>	<b>5,978,327</b>	<b>25,197,505</b>	<b>23,939,975</b>
<b>Deferred Inflows of Resources</b>	<b>972,050</b>	<b>658,276</b>	<b>104,779</b>	<b>73,955</b>	<b>1,076,829</b>	<b>732,231</b>
<b>Net Position</b>						
Net investment in capital assets	44,102,707	43,847,581	7,553,382	7,966,019	51,656,089	51,813,600
Restricted	6,597,492	6,099,396	-	-	6,597,492	6,099,396
Unrestricted	(6,747,210)	(6,756,261)	1,981,440	1,187,249	(4,765,770)	(5,569,012)
<b>Total Net Position</b>	<b>\$ 43,952,989</b>	<b>\$ 43,190,716</b>	<b>\$ 9,534,822</b>	<b>\$ 9,153,268</b>	<b>\$ 53,487,811</b>	<b>\$ 52,343,984</b>

(a) As restated for the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; refer to Note V to the financial statements.

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 \$53.5 million (*total net position*). The Town reported a deficit of approximately \$6.7 million in its unrestricted net position in its governmental activities at June 30, 2018 primarily as the result of the recording of over \$12.7 million in long-term obligations associated with net OPEB and net pension liabilities.

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, 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 \$6.6 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 condensed comparative statements of activities for fiscal years 2018 and 2017 are as follows:

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,301,854	\$ 1,418,530	\$ 1,705,941	\$ 1,721,279	\$ 3,007,795	\$ 3,139,809
Operating grants and	482,576	433,998	-	-	482,576	433,998
Capital grants and contributions	569,643	505,943	24,280	35,816	593,923	541,759
General revenues:						
Property taxes	20,288,901	19,647,237	-	-	20,288,901	19,647,237
Intergovernmental	531,879	511,914	-	-	531,879	511,914
Other	1,701,081	1,801,768	5,485	6,273	1,706,566	1,808,041
Total revenues	<u>24,875,934</u>	<u>24,319,390</u>	<u>1,735,706</u>	<u>1,763,368</u>	<u>26,611,640</u>	<u>26,082,758</u>
<b>Expenses</b>						
General government	2,094,653	2,066,871	-	-	2,094,653	2,066,871
Public safety	4,628,627	4,516,400	-	-	4,628,627	4,516,400
Education	12,617,986	12,593,764	-	-	12,617,986	12,593,764
Public works	3,319,894	3,431,156	-	-	3,319,894	3,431,156
Health and human services	438,166	455,860	-	-	438,166	455,860
Culture and recreation	529,579	669,876	-	-	529,579	669,876
Debt service	191,658	212,116	181,631	155,793	373,289	367,909
Water	-	-	627,823	600,777	627,823	600,777
Sewer	-	-	837,796	805,604	837,796	805,604
Total expenses	<u>23,820,563</u>	<u>23,946,043</u>	<u>1,647,250</u>	<u>1,562,174</u>	<u>25,467,813</u>	<u>25,508,217</u>
Change in net position before transfers	1,055,371	373,347	88,456	201,194	1,143,827	574,541
Transfers	<u>(293,098)</u>	<u>(358,191)</u>	<u>293,098</u>	<u>358,191</u>	<u>-</u>	<u>-</u>
Change in net position	762,273	15,156	381,554	559,385	1,143,827	574,541
Net position - beginning of year	43,190,716	45,071,855	9,153,268	8,701,967	52,343,984	53,773,822
Restatement (a)	<u>-</u>	<u>(1,896,295)</u>	<u>-</u>	<u>(108,084)</u>	<u>-</u>	<u>(2,004,379)</u>
Net position - end of year	<u>\$ 43,952,989</u>	<u>\$ 43,190,716</u>	<u>\$ 9,534,822</u>	<u>\$ 9,153,268</u>	<u>\$ 53,487,811</u>	<u>\$ 52,343,984</u>

(a) Restatement the result of the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*; refer to Note V to the financial statements.

**Governmental Activities.** During fiscal year 2018, Town property taxes made up approximately 82% of total revenues, which is consistent with the prior year's ratio. No other revenues were greater than 10% of total revenues in fiscal years 2018 or 2017 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 years 2018 and 2017. Public safety and public works expenses represented approximately 19% and 14% of total annual expenditures in fiscal year 2018, respectively; each of which was consistent with the prior year. The modest changes in each functional category was consistent with fluctuations in the allocations of non-cash OPEB and pension benefits. No other expense categories were greater than 10% in fiscal years 2018 or 2017. 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 2018 and 2017. In 2018, user charges decreased modestly as consumption was lower year-over-year. Expenses increased modestly year-over-year.

### **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 \$10.6 million, which is an approximate \$1.3 million increase from the prior year. Each of the Town's reported major funds reported increases in fund balances in fiscal year 2018, primarily as the result of better than expected budgetary performance. Of the ending fund balance, approximately \$4.0 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 over \$4.3 million, while total fund balance was approximately \$5.1 million. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents nearly 20% of total general fund expenditures, while total fund balance represents over 23% of that same amount.

The Town's Community Preservation Fund is restricted for historical preservation and conservation of open space. At June 30, 2018, the Community Preservation Fund balance had over \$1.9 million that is restricted in its use.

The remainder of the governmental funds are either (1) nonspendable as the corpus of an endowment in the amount of approximately \$130,000; (2) restricted due to constraints placed externally by third-parties in the amount of approximately \$3.8 million; or (3) reported as a deficit in the unassigned fund balance in the amount of approximately \$(315,000), which are expected to be satisfied through future grant receipts or from long-term borrowings.

**Proprietary Funds.** The Town's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. At the end of the year, net position of the water and sewer enterprise funds were almost \$9.5 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, 2018, the Town's investment in capital assets for its governmental and business-type activities approximated \$49.3 million and \$12.5 million, respectively, which were consistent with the prior year. 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 long-term general obligation and notes payable debt outstanding of approximately \$8.7 million, which represents a decrease of approximately \$1.1 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 2018.

In May 2018, the Town executed an approximate \$1,762,000 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 \$57.4 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 2018 are approximately 95% of the entire property tax levy. In addition, Chapter 580 of the Acts of 1980, more commonly referred to as Proposition 2 ½, limits the Town's ability to increase taxes in any one year by more than 2 ½% of the previous year's tax levy. The Town typically taxes at or near its levy limit annually.
- Employment rates, the median household income and values of its real property significantly outpace state-wide and national metrics.
- Real estate values have been steadily rising over the past several years. Property values in most of the Town are at all-time highs.
- Net state aid for fiscal year 2019 is expected to increase to approximately \$746,000 from \$711,000 in fiscal year 2018.

Each of these factors were considered in preparing the Town's budget for the 2019 fiscal year, which was adopted at Town Meeting in May 2018. The fiscal year 2019 tax rate, which reflects the adopted budget, was set on December 5, 2018.

## **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, 2018**

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 5,818,846	\$ 2,997,904	\$ 8,816,750
Investments	5,819,446	-	5,819,446
Receivables, net of allowance for uncollectible accounts:			
Real estate and personal property taxes	1,101,312	-	1,101,312
User charges and fees	63,431	536,285	599,716
Motor vehicle excise taxes	150,988	-	150,988
Intergovernmental	54,984	84,927	139,911
Land	4,760,540	-	4,760,540
Construction in-process	122,363	136,858	259,221
Depreciable capital assets, net of accumulated depreciation	<u>44,395,358</u>	<u>12,365,397</u>	<u>56,760,755</u>
Total Assets	<u>62,287,268</u>	<u>16,121,371</u>	<u>78,408,639</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Other postemployment benefits	5,518	509	6,027
Pensions	<u>1,211,383</u>	<u>136,096</u>	<u>1,347,479</u>
Total Deferred Outflows of Resources	<u>1,216,901</u>	<u>136,605</u>	<u>1,353,506</u>
<b>LIABILITIES</b>			
Current liabilities:			
Warrants and accounts payable	415,758	210,256	626,014
Retainage payable	-	17,015	17,015
Other liabilities	5,120	-	5,120
Accrued interest expense	-	30,038	30,038
Bond anticipation note payable	762,007	1,000,000	1,762,007
Noncurrent liabilities:			
Due in one year or less	562,000	574,801	1,136,801
Due in more than one year	<u>16,834,245</u>	<u>4,786,265</u>	<u>21,620,510</u>
Total Liabilities	<u>18,579,130</u>	<u>6,618,375</u>	<u>25,197,505</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Other postemployment benefits	249,002	23,546	272,548
Pensions	<u>723,048</u>	<u>81,233</u>	<u>804,281</u>
Total Deferred Inflows of Resources	<u>972,050</u>	<u>104,779</u>	<u>1,076,829</u>
<b>NET POSITION</b>			
Net investment in capital assets	44,102,707	7,553,382	51,656,089
Restricted for:			
Nonexpendable funds	129,709	-	129,709
Expendable funds	3,067,820	-	3,067,820
Community preservation	1,906,217	-	1,906,217
Other	1,493,746	-	1,493,746
Unrestricted	<u>(6,747,210)</u>	<u>1,981,440</u>	<u>(4,765,770)</u>
Total Net Position	<u>\$ 43,952,989</u>	<u>\$ 9,534,822</u>	<u>\$ 53,487,811</u>

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**STATEMENT OF ACTIVITIES**  
**YEAR ENDED JUNE 30, 2018**

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
<b>Governmental Activities:</b>							
General government	\$ 2,094,653	\$ 175,530	\$ 195,853	\$ 254,937	\$ (1,468,333)		\$ (1,468,333)
Public safety	4,628,627	626,072	114,071	-	(3,888,484)		(3,888,484)
Education	12,617,986	-	19,248	-	(12,598,738)		(12,598,738)
Public works	3,319,894	29,568	-	314,706	(2,975,620)		(2,975,620)
Health and human services	438,166	277,404	74,770	-	(85,992)		(85,992)
Culture and recreation	529,579	193,280	78,634	-	(257,665)		(257,665)
Debt service	191,658	-	-	-	(191,658)		(191,658)
Total Governmental Activities	23,820,563	1,301,854	482,576	569,643	(21,466,490)		(21,466,490)
<b>Business-Type Activities:</b>							
Water	939,902	989,917	-	-	-	\$ 50,015	50,015
Sewer	707,348	716,024	-	24,280	-	32,956	32,956
Total Business-Type Activities	1,647,250	1,705,941	-	24,280	-	82,971	82,971
Total Primary Government	\$ 25,467,813	\$ 3,007,795	\$ 482,576	\$ 593,923	(21,466,490)	82,971	(21,383,519)
<b>General Revenues:</b>							
Real estate and personal property taxes				20,288,901	-	20,288,901	
Motor vehicle and other excise				1,297,729	-	1,297,729	
Penalties and interest on taxes				232,062	-	232,062	
Grants not restricted for a purpose				531,879	-	531,879	
Investment income				171,290	5,485	176,775	
<b>Transfers (net)</b>							
Total general revenues and transfers				(293,098)	293,098	-	
Change in Net Position				22,228,763	298,583	22,527,346	
<b>Net Position:</b>							
Beginning of year (as restated; refer to Note V)				43,190,716	9,153,268	52,343,984	
End of year				\$ 43,952,989	\$ 9,534,822	\$ 53,487,811	

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2018**

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 3,882,479	\$ 590,943	\$ 1,345,424	\$ 5,818,846
Investments	1,419,513	1,315,274	3,084,659	5,819,446
Receivables, net of allowance for uncollectibles:				
Real estate and personal property taxes	1,082,624	18,688	-	1,101,312
Motor vehicle excise taxes	150,988	-	-	150,988
Departmental	-	-	63,431	63,431
Due from other governments	3,137	-	51,847	54,984
Total Assets	<u>6,538,741</u>	<u>1,924,905</u>	<u>4,545,361</u>	<u>13,009,007</u>
<b>Deferred Outflows of Resources</b>				
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total Assets and Deferred Outflows of Resources</b>	<b><u>\$ 6,538,741</u></b>	<b><u>\$ 1,924,905</u></b>	<b><u>\$ 4,545,361</u></b>	<b><u>\$ 13,009,007</u></b>
<b>Liabilities</b>				
Warrants and accounts payable	\$ 347,615	\$ -	\$ 68,143	\$ 415,758
Other liabilities	5,120	-	-	5,120
Bond anticipation note payable	-	-	762,007	762,007
Total Liabilities	<u>352,735</u>	<u>-</u>	<u>830,150</u>	<u>1,182,885</u>
<b>Deferred Inflows of Resources</b>				
Unavailable revenues - property taxes	965,162	18,688	-	983,850
Unavailable revenues - motor vehicle excise taxes	150,988	-	-	150,988
Unavailable revenues - departmental	-	-	63,431	63,431
Total Deferred Inflows of Resources	<u>1,116,150</u>	<u>18,688</u>	<u>63,431</u>	<u>1,198,269</u>
<b>Fund Balances</b>				
Nonspendable	-	-	129,709	129,709
Restricted	-	1,906,217	3,836,942	5,743,159
Committed	721,809	-	-	721,809
Assigned	2,815	-	-	2,815
Unassigned	4,345,232	-	(314,871)	4,030,361
Total Fund Balances	<u>5,069,856</u>	<u>1,906,217</u>	<u>3,651,780</u>	<u>10,627,853</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b><u>\$ 6,538,741</u></b>	<b><u>\$ 1,924,905</u></b>	<b><u>\$ 4,545,361</u></b>	<b><u>\$ 13,009,007</u></b>

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TOTAL FUND BALANCES TO THE STATEMENT OF NET POSITION  
JUNE 30, 2018**

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<b>Total Governmental Fund Balances</b>	\$ 10,627,853
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	49,278,261
Other long-term assets are not available to pay for current-period expenditures and are therefore unavailable within the funds.	1,198,269
Deferred outflows and inflows of resources to be recognized in future personnel benefit expenses are not available resources and therefore are not reported in the funds:	
Deferred outflows of resources - other postemployment benefits	5,518
Deferred outflows of resources - pensions	1,211,383
Deferred inflows of resources - other postemployment benefits	(249,002)
Deferred inflows of resources - pensions	<u>(723,048)</u>
Net effect of reporting deferred outflows and inflows of resources	244,851
Long-term liabilities are not due and payable in the current period and are therefore, not reported in the government funds:	
Net other postemployment benefits liability	(5,314,623)
Net pension liability	(7,408,622)
Bonds and notes payable	<u>(4,673,000)</u>
Net effect of reporting long-term liabilities	<u>(17,396,245)</u>
<b>Net Position of Governmental Activities</b>	<u><u>\$ 43,952,989</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, 2018**

	General	Community Preservation	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Real estate and personal property taxes, net	\$ 20,128,370	\$ 431,036	\$ -	\$ 20,559,406
Intergovernmental	759,576	127,046	595,006	1,481,628
Motor vehicle and other excises	1,294,655	-	-	1,294,655
Licenses and permits	247,765	-	-	247,765
Departmental and other revenue	661,091	-	349,203	1,010,294
Penalties and interest on taxes	229,450	2,612	-	232,062
Fines and forfeitures	38,141	-	-	38,141
Investment income	34,768	(14,723)	151,245	171,290
Contributions and donations	-	-	102,470	102,470
Total Revenues	<u>23,393,816</u>	<u>545,971</u>	<u>1,197,924</u>	<u>25,137,711</u>
<b>Expenditures</b>				
Current:				
General government	1,358,173	185,067	249,038	1,792,278
Public safety	3,276,678	-	109,132	3,385,810
Education	12,617,786	-	200	12,617,986
Public works	2,299,007	-	441,813	2,740,820
Health and human services	312,700	-	9,713	322,413
Culture and recreation	308,150	5,403	252,327	565,880
Fringe benefits	1,310,915	-	-	1,310,915
Debt service:				
Principal maturities	382,000	165,000	-	547,000
Interest	64,483	127,175	-	191,658
State and county tax assessments	57,901	-	-	57,901
Total Expenditures	<u>21,987,793</u>	<u>482,645</u>	<u>1,062,223</u>	<u>23,532,661</u>
<b>Excess of Revenues Over Expenditures</b>	<u>1,406,023</u>	<u>63,326</u>	<u>135,701</u>	<u>1,605,050</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	475	-	55,000	55,475
Transfers out	(348,098)	-	(475)	(348,573)
Total Other Financing Sources, Net	<u>(347,623)</u>	<u>-</u>	<u>54,525</u>	<u>(293,098)</u>
<b>Net Change in Fund Balances</b>	<u>1,058,400</u>	<u>63,326</u>	<u>190,226</u>	<u>1,311,952</u>
<b>Fund Balances - Beginning of year</b>	<u>4,011,456</u>	<u>1,842,891</u>	<u>3,461,554</u>	<u>9,315,901</u>
<b>Fund Balances - End of year</b>	<u><b>\$ 5,069,856</b></u>	<u><b>\$ 1,906,217</b></u>	<u><b>\$ 3,651,780</b></u>	<u><b>\$ 10,627,853</b></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, 2018**

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<b>Net Change in Fund Balances - Total Governmental Fund Balances</b>	\$ 1,311,952
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is capitalized and depreciated over their estimated useful lives. The following represents capital asset activity during 2018:

Capital outlays	1,956,682
Depreciation expense	<u>(2,005,180)</u>
Net effect of reporting capital assets	(48,498)

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 2018:

Debt maturities	<u>547,000</u>	547,000
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds:

Other postemployment benefits	(357,439)
Net pension liability	<u>(428,965)</u>
Net effect of reporting long-term liabilities	(786,404)

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.

<u>(261,777)</u>
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<b>Change in Net Position of Governmental Activities</b>	<u>\$ 762,273</u>
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See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**PROPRIETARY FUNDS**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2018**

	Business-Type Activities Enterprise Funds		
	Water	Sewer	Total
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 2,293,874	\$ 704,030	\$ 2,997,904
User charges receivable	300,832	235,453	536,285
Due from the Commonwealth	-	84,927	84,927
Total current assets	<u>2,594,706</u>	<u>1,024,410</u>	<u>3,619,116</u>
Capital assets, net of accumulated depreciation	<u>8,382,285</u>	<u>4,119,970</u>	<u>12,502,255</u>
<b>Total Assets</b>	<u>10,976,991</u>	<u>5,144,380</u>	<u>16,121,371</u>
<b>Deferred Outflows of Resources</b>			
Other postemployment benefits	200	309	509
Pensions	<u>70,069</u>	<u>66,027</u>	<u>136,096</u>
Total deferred outflows of resources	<u>70,269</u>	<u>66,336</u>	<u>136,605</u>
<b>Liabilities</b>			
Current liabilities:			
Accounts payable and accrued expenses	178,455	31,801	210,256
Accrued interest expense	27,398	2,640	30,038
Retainage payable	17,015	-	17,015
Short-term debt	1,000,000	-	1,000,000
Current portion of long-term debt	<u>236,801</u>	<u>338,000</u>	<u>574,801</u>
Total current liabilities	<u>1,459,669</u>	<u>372,441</u>	<u>1,832,110</u>
Noncurrent liabilities:			
Long-term debt	3,309,119	149,880	3,458,999
Net other postemployment benefits liability	198,720	296,209	494,929
Net pension liability	<u>428,530</u>	<u>403,807</u>	<u>832,337</u>
<b>Total Liabilities</b>	<u>5,396,038</u>	<u>1,222,337</u>	<u>6,618,375</u>
<b>Deferred Inflows of Resources</b>			
Other postemployment benefits	9,025	14,521	23,546
Pensions	<u>41,823</u>	<u>39,410</u>	<u>81,233</u>
Total deferred inflows of resources	<u>50,848</u>	<u>53,931</u>	<u>104,779</u>
<b>Net Position</b>			
Net investment in capital assets	4,699,508	3,717,017	8,416,525
Unrestricted	<u>900,866</u>	<u>217,431</u>	<u>1,118,297</u>
<b>Total Net Position</b>	<u>\$ 5,600,374</u>	<u>\$ 3,934,448</u>	<u>\$ 9,534,822</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, 2018**

	Business-Type Activities		
	Enterprise Funds		
	Water	Sewer	Total
<b>Operating Revenues</b>			
Charges for services	\$ 989,917	\$ 716,024	\$ 1,705,941
<b>Operating Expenses</b>			
Salaries, wages and personnel costs	300,943	274,733	575,676
Other operating costs	328,043	317,053	645,096
Depreciation expense	<u>208,810</u>	<u>36,037</u>	<u>244,847</u>
Total Operating Expenses	<u>837,796</u>	<u>627,823</u>	<u>1,465,619</u>
<b>Operating Income</b>	<u>152,121</u>	<u>88,201</u>	<u>240,322</u>
<b>Nonoperating Revenues (Expenses)</b>			
Interest income	2,857	2,628	5,485
Interest expense	<u>(102,106)</u>	<u>(79,525)</u>	<u>(181,631)</u>
Total Nonoperating Revenues and Expenses, net	<u>(99,249)</u>	<u>(76,897)</u>	<u>(176,146)</u>
<b>Income Before Other Revenues, Expenses, Gains Losses and Transfers</b>			
	<u>52,872</u>	<u>11,304</u>	<u>64,176</u>
Capital contributions	-	24,280	24,280
Transfers in	<u>167,800</u>	<u>125,298</u>	<u>293,098</u>
<b>Change in Net Assets</b>	<u>220,672</u>	<u>160,882</u>	<u>381,554</u>
<b>Net Position - Beginning of year (a)</b>	<u>5,379,702</u>	<u>3,773,566</u>	<u>9,153,268</u>
<b>Net Position - End of year</b>	<u><u>\$ 5,600,374</u></u>	<u><u>\$ 3,934,448</u></u>	<u><u>\$ 9,534,822</u></u>

(a) As restated; refer to Note V.

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**PROPRIETARY FUNDS**  
**STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2018**

	Business-Type Activities		
	Water	Sewer	Enterprise Funds
	Water	Sewer	Total
<b>Cash Flows from Operating Activities</b>			
Receipts from users	\$ 1,059,054	\$ 758,853	\$ 1,817,907
Payments to employees	(256,665)	(232,173)	(488,838)
Payments to vendors	(207,999)	(299,271)	(507,270)
Net Cash Provided by Operating Activities	<u>594,390</u>	<u>227,409</u>	<u>821,799</u>
<b>Cash Flows from Noncapital Financing Activities</b>			
Transfers in	167,800	125,298	293,098
Net Cash Provided by Noncapital Related Financing Activities	<u>167,800</u>	<u>125,298</u>	<u>293,098</u>
<b>Cash Flows from Capital and Related Financing Activities</b>			
Acquisition and property and equipment	(344,383)	(7,848)	(352,231)
Intergovernmental receipts for debt service	-	104,901	104,901
Borrowings on short term notes payable	1,000,000	-	1,000,000
Principal payments on bonds payable	(231,801)	(328,799)	(560,600)
Interest expense	(103,343)	(79,730)	(183,073)
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>320,473</u>	<u>(311,476)</u>	<u>8,997</u>
<b>Cash Flows from Investing Activities</b>			
Interest income	2,857	2,628	5,485
Net Cash Provided by Investing Activities	<u>2,857</u>	<u>2,628</u>	<u>5,485</u>
<b>Net change in cash and cash equivalents</b>			
	1,085,520	43,859	1,129,379
<b>Cash and cash equivalents - Beginning of year</b>	<u>1,208,354</u>	<u>660,171</u>	<u>1,868,525</u>
<b>Cash and cash equivalents - End of year</b>	<u>\$ 2,293,874</u>	<u>\$ 704,030</u>	<u>\$ 2,997,904</u>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</b>			
Operating income	\$ 152,121	\$ 88,201	\$ 240,322
Depreciation expense	208,810	36,037	244,847
Changes in assets and liabilities:			
Receivables, net	69,137	42,829	111,966
Accounts payable and other liabilities	164,322	60,342	224,664
Net Cash Provided by Operating Activities	<u>\$ 594,390</u>	<u>\$ 227,409</u>	<u>\$ 821,799</u>

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**STATEMENT OF FIDUCIARY NET POSITION**  
**JUNE 30, 2018**

	Private Purpose Trust Funds	OPEB Trust Fund	Agency Funds
<b>Assets</b>			
Cash and cash equivalents	\$ -	\$ 1,050	\$ 283,438
Investments	1,449,893	435,514	-
Accounts receivable	-	-	24,855
<b>Total Assets</b>	<b><u>1,449,893</u></b>	<b><u>436,564</u></b>	<b><u>308,293</u></b>
<b>Liabilities</b>			
Warrants and accounts payable	-	-	8,361
Deposits	-	-	291,547
Agency liabilities	-	-	8,385
<b>Total Liabilities</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>308,293</u></b>
<b>Net Position:</b>			
Restricted for other postemployment benefits	-	436,564	-
Restricted for private purposes	<u>1,449,893</u>	<u>-</u>	<u>-</u>
<b>Total Net Position</b>	<b><u>\$ 1,449,893</u></b>	<b><u>\$ 436,564</u></b>	<b><u>\$ -</u></b>

See accompanying notes to basic financial statements.

**TOWN OF UPTON, MASSACHUSETTS**

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**YEAR ENDED JUNE 30, 2018**

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	<u>Private Purpose Trust Funds</u>	<u>OPEB Trust Fund</u>
<b>Additions</b>		
Contributions:		
Employer contributions	\$ -	\$ 177,923
Investment income:		
Interest and dividends	-	16,152
Net appreciation in fair value of investments	44,854	5,692
Less management fees	<u>-</u>	<u>(2,170)</u>
Net investment income	<u>44,854</u>	<u>19,674</u>
<b>Deductions</b>		
Health and welfare benefits paid	-	77,923
Public support	<u>6,923</u>	<u>-</u>
Total Deductions	<u>6,923</u>	<u>77,923</u>
<b>Change in Net Position</b>	<b>37,931</b>	<b>119,674</b>
<b>Net Position - Beginning of year</b>	<u>1,411,962</u>	<u>316,890</u>
<b>Net Position - End of year</b>	<u><u>\$ 1,449,893</u></u>	<u><u>\$ 436,564</u></u>

See accompanying notes to basic financial statements.

## **TOWN OF UPTON, MASSACHUSETTS**

### **NOTES TO BASIC FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2018**

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#### **I. Summary of Significant Accounting Policies**

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

##### **A. Reporting Entity**

The Town, 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, each of whom serve staggered three-year terms. An appointed Town Manager oversees the Town’s daily executive and administrative duties. The Town provides governmental services for the territory within its boundaries, including police and fire protection, public education in grades kindergarten to grade twelve through a regional district, library, water and sewer services, street maintenance, parks and recreational facilities. The water and sewer services are self-funded and treated as business enterprises.

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.

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 other postemployment benefits, or 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.

*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”). 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.

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

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

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

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

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 other postemployment benefits and pension liabilities as deferred outflows of resources in both its government-wide and business-type activities, which it expects to amortize into pension expense within the next 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 other postemployment benefits and pension liabilities as deferred inflows of resources in both its government-wide and business-type activities, which it expects to amortize as a benefit into pension expense within the next five years. In its governmental fund financial statements, the Town reports *unavailable revenues* as deferred inflows of resources within the governmental funds balance sheet. Unavailable revenues are derived from three sources – property taxes, motor vehicle excise taxes and departmental revenues. The Town expects to recognize these items into revenue in the period(s) that these amounts become available.

**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 – nonspendable, restricted, committed, assigned, and unassigned as described below:

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

	<u>General</u>	<u>Community Preservation</u>	<u>Governmental Funds</u>	<u>Nonmajor</u>	<u>Total</u>
<b>Nonspendable:</b>					
Permanent funds	\$ -	\$ -	\$ 129,709	\$ 129,709	
<b>Restricted:</b>					
General government	-	1,906,217	340,083	2,246,300	
Public safety	-	-	32,723	32,723	
Public works	-	-	18,817	18,817	
Health and human services	-	-	148,349	148,349	
Culture and recreation	-	-	229,150	229,150	
Expendable trust funds	-	-	3,067,820	3,067,820	
<b>Committed:</b>					
Public works	678,027	-	-	-	678,027
Other purposes	43,782	-	-	-	43,782
<b>Assigned:</b>					
Encumbrances	2,815	-	-	-	2,815
<b>Unassigned:</b>					
Unrestricted	2,929,594	-	(314,871)	2,614,723	
Capital stabilization	195,288	-	-	195,288	
General stabilization	1,220,350	-	-	1,220,350	
	<u>\$ 5,069,856</u>	<u>\$ 1,906,217</u>	<u>\$ 3,651,780</u>	<u>\$ 10,627,853</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 Town also maintains a capital stabilization fund, which may be used for capital purposes upon a two-thirds vote of the Town Meeting. These balances are reported as components of the unassigned fund balance in the general fund.

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

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

During the fiscal year ended June 30, 2018, there were no instances where expenditures exceeded appropriations. The following deficits in nonmajor governmental funds will be funded in future years through grants, general obligations notes or other available sources:

Public safety awards	\$ 33,317
Capital projects	<u>281,554</u>
	<u>\$ 314,871</u>

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

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

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

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

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

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

*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 Town'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, 2018:

Investments by Fair Value Level	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
<b>Debt securities:</b>				
U.S. Treasury notes	\$ 240,535	\$ 240,535	\$ -	\$ -
U.S. Agency obligations	480,116	-	480,116	-
Corporate bonds	395,839	-	395,839	-
<b>Total debt securities</b>	<b>1,116,490</b>	<b>240,535</b>	<b>875,955</b>	<b>-</b>
<b>Equity securities</b>				
Mutual funds	214,059	214,059	-	-
<b>Total investments by fair value level</b>	<b>6,285,339</b>	<b>\$ 454,594</b>	<b>\$ 5,830,745</b>	<b>\$ -</b>
<b>Investments measured at amortized cost:</b>				
MMDT		<u>1,419,514</u>		
<b>Total investments at fair value</b>	<b>\$ 7,704,853</b>			

All of the Town's investments in U.S Treasuries and equity securities were classified in Level 1 as each investment is quoted in an active market. Corporate bonds, U.S. government agency bonds are valued using matrix pricing based on the securities' relationship to benchmark quoted prices. The MMDT is valued at amortized cost, which approximates fair value.

*Custodial Credit Risk: Deposits* – In the case of deposits, this is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town relies on private and federal depository insurance to mitigate this risk. At June 30, 2018, bank balances totaling \$241,431 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. All of the Town’s investments are registered in its name and cannot be pledged or assigned. As a result, the Town is not exposed to custodial credit risk on its investments.

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

*Concentration of Credit Risk: Investments* – The Town does not place a limit on the amount that may be invested in any one issuer. At June 30, 2018, the Town’s investment in the MMDT represented approximately 18% of the Town’s total investment balance. No other individual investment exceeded 5% of the Town’s investment balance.

*Investment Maturities* – The Town had the following investments at June 30, 2018:

Investments	Fair Value	Maturity in Years		
		Less than Year	1 to 5 Years	6 to 10 Years
<u><i>Debt securities:</i></u>				
U.S. Government obligations	\$ 720,651	\$ 129,388	\$ 591,264	\$ -
Corporate fixed income	<u>395,839</u>	-	<u>395,839</u>	-
Total investments with maturities	<u>1,116,490</u>	<u>\$ 129,388</u>	<u>\$ 987,103</u>	<u>\$ -</u>
<u><i>Other investments:</i></u>				
Equity securities	214,059			
Mutual funds	4,954,790			
MMDT	<u>1,419,514</u>			
Total Investments	<u>\$ 7,704,853</u>			

At June 30, 2018, 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 \$62,457 were rated A2, \$97,138 were rated as A3, \$177,188 were rated Baa1 and \$59,056 were rated as Baa2 by Moody’s. No other investment types were rated by Moody’s or any other recognizable credit rating agency.

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.

## B. Receivables

Receivables as of June 30, 2018 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	\$ 682,485	\$ -	\$ 682,485
Tax liens and possessions	468,827	(50,000)	418,827
Excise taxes	150,988	-	150,988
Ambulance	137,031	(73,600)	63,431
Intergovernmental	<u>54,984</u>	<u>-</u>	<u>54,984</u>
<b>Total</b>	<b><u>\$ 1,494,315</u></b>	<b><u>\$ (123,600)</u></b>	<b><u>\$ 1,370,715</u></b>

Receivables in the Town's proprietary funds consisted of the following at June 30, 2018:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Water user charges	\$ 300,832	\$ -	\$ 300,832
Sewer user charges	235,453	-	235,453
Due from MCWT	<u>84,927</u>	<u>-</u>	<u>84,927</u>
<b>Total</b>	<b><u>\$ 621,212</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 621,212</u></b>

Governmental funds report unavailable revenues as a deferred inflow of resources. The following table identifies the components of unavailable revenues at June 30, 2018 in the governmental funds:

	General Fund	Community Preservation Fund	Nonmajor Governmental Funds	Total
Property taxes	\$ 552,947	\$ 12,076	\$ -	\$ 565,023
Tax liens and possessions	412,215	6,612	-	418,827
Excise taxes	150,988	-	-	150,988
Ambulance	-	-	63,431	63,431
	<b><u>\$ 1,116,150</u></b>	<b><u>\$ 18,688</u></b>	<b><u>\$ 63,431</u></b>	<b><u>\$ 1,198,269</u></b>

## C. Capital Assets

Capital asset activity for the fiscal year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b><i>Governmental Activities:</i></b>				
Capital assets not being depreciated:				
Land	\$ 4,590,304	\$ 170,235	\$ -	\$ 4,760,539
Construction in-process	<u>-</u>	<u>122,363</u>	<u>-</u>	<u>122,363</u>
	<u>4,590,304</u>	<u>292,598</u>	<u>-</u>	<u>4,882,902</u>
Capital assets being depreciated:				
Buildings and improvements	12,059,188	192,640	-	12,251,828
Infrastructure	54,548,798	1,032,848	-	55,581,646
Machinery and equipment	1,450,749	402,674	-	1,853,423
Vehicles	<u>3,203,168</u>	<u>35,922</u>	<u>-</u>	<u>3,239,090</u>
Total capital assets being depreciated	<u>71,261,903</u>	<u>1,664,084</u>	<u>-</u>	<u>72,925,987</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,336,758)	(286,642)	-	(2,623,400)
Infrastructure	(21,020,977)	(1,355,021)	-	(22,375,998)
Machinery and equipment	(930,154)	(137,020)	-	(1,067,174)
Vehicles	<u>(2,237,559)</u>	<u>(226,498)</u>	<u>-</u>	<u>(2,464,057)</u>
Total accumulated depreciation	<u>(26,525,448)</u>	<u>(2,005,181)</u>	<u>-</u>	<u>(28,530,629)</u>
Total capital assets being depreciated, net	<u>44,736,455</u>	<u>(341,097)</u>	<u>-</u>	<u>44,395,358</u>
Governmental activities capital assets, net	<u>\$ 53,917,063</u>	<u>\$ 244,099</u>	<u>\$ -</u>	<u>\$ 54,161,162</u>
 <b><i>Business-Type Activities:</i></b>				
Capital assets not being depreciated:				
Construction in process	\$ -	\$ 136,858	\$ -	\$ 136,858
Capital assets being depreciated:				
Buildings and improvements	5,006,912	62,670	-	5,069,582
Infrastructure	11,322,510	165,487	-	11,487,997
Vehicles and equipment	<u>77,251</u>	<u>30,704</u>	<u>-</u>	<u>107,955</u>
Total capital assets being depreciated	<u>16,406,673</u>	<u>258,861</u>	<u>-</u>	<u>16,665,534</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,498,342)	(62,596)	-	(1,560,938)
Infrastructure	(2,480,993)	(212,517)	-	(2,693,510)
Vehicles and equipment	<u>(32,467)</u>	<u>(13,222)</u>	<u>-</u>	<u>(45,689)</u>
Total accumulated depreciation	<u>(4,011,802)</u>	<u>(288,335)</u>	<u>-</u>	<u>(4,300,137)</u>
Total capital assets being depreciated, net	<u>12,394,871</u>	<u>(29,474)</u>	<u>-</u>	<u>12,365,397</u>
Business-type activities capital assets, net	<u>\$ 12,394,871</u>	<u>\$ 107,384</u>	<u>\$ -</u>	<u>\$ 12,502,255</u>

Capital asset activity for the fiscal year ended June 30, 2018 within the individual business-type activities was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b><i>Business-Type Activities: Water</i></b>				
Capital assets not being depreciated:				
Construction in process	\$ -	\$ 136,858	\$ -	\$ 136,858
Capital assets being depreciated:				
Buildings and improvements	659,983	42,038	-	702,021
Infrastructure	10,302,082	165,487	-	10,467,569
Vehicles and equipment	41,807	-	-	41,807
Total capital assets being depreciated	<u>11,003,872</u>	<u>207,525</u>	<u>-</u>	<u>11,211,397</u>
Less accumulated depreciation for:				
Buildings and improvements	(550,480)	(3,737)	-	(554,217)
Infrastructure	(2,180,937)	(198,911)	-	(2,379,848)
Vehicles and equipment	(25,743)	(6,162)	-	(31,905)
Total accumulated depreciation	<u>(2,757,160)</u>	<u>(208,810)</u>	<u>-</u>	<u>(2,965,970)</u>
Water capital assets, net	<u>\$ 8,246,712</u>	<u>\$ 135,573</u>	<u>\$ -</u>	<u>\$ 8,382,285</u>

	Beginning Balance	Increases	Decreases	Ending Balance
<b><i>Business-Type Activities: Sewer</i></b>				
Capital assets being depreciated:				
Buildings and improvements	\$ 4,346,929	\$ 20,632	\$ -	\$ 4,367,561
Infrastructure	1,020,428	-	-	1,020,428
Vehicles and equipment	35,444	30,704	-	66,148
Total capital assets being depreciated	<u>5,402,801</u>	<u>51,336</u>	<u>-</u>	<u>5,454,137</u>
Less accumulated depreciation for:				
Buildings and improvements	(947,862)	(58,859)	-	(1,006,721)
Infrastructure	(300,056)	(13,606)	-	(313,662)
Vehicles and equipment	(6,724)	(7,060)	-	(13,784)
Total accumulated depreciation	<u>(1,254,642)</u>	<u>(79,525)</u>	<u>-</u>	<u>(1,334,167)</u>
Sewer capital assets, net	<u>\$ 4,148,159</u>	<u>\$ (28,189)</u>	<u>\$ -</u>	<u>\$ 4,119,970</u>

Depreciation expense was charged to functions/programs as follows:

<b><u>Governmental Activities:</u></b>		<b><u>Business-Type Activities:</u></b>	
General government	\$ 211,827	Water	\$ 207,116
Public safety	299,193	Sewer	<u>76,308</u>
Public works	1,469,540		<u>\$ 283,424</u>
Health and human services	400		
Culture and recreation	<u>24,221</u>		
	<u>\$ 2,005,181</u>		

## D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2018 are summarized as follows:

Transfers Out	Transfers In					Total
	General Fund	Nonmajor Funds	Water Fund	Sewer Enterprise Fund		
General fund	\$ -	\$ 55,000	\$ 167,800	\$ 125,298	\$ 348,098	(1)
Nonmajor governmental funds	<u>475</u>	-	-	-	<u>475</u>	(2)
	<u><u>\$ 475</u></u>	<u><u>\$ 55,000</u></u>	<u><u>\$ 167,800</u></u>	<u><u>\$ 125,298</u></u>	<u><u>\$ 348,573</u></u>	

(1) \$50,000 was transferred to capital projects for debt service; \$5,000 was transferred to the conservation trust; and \$293,098 was transferred to the enterprise funds for operations.

(2) Transfers to close out funds.

There were no interfund receivables or payables at June 30, 2018.

## E. Temporary Debt

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

*Current Operating Costs* – Prior to the collection of revenues, expenditures may be financed through the issuance of tax anticipation notes (“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 2018 was as follows:

Type	Interest Rate	Maturity Date	Balance				Balance June 30, 2018
			July 1, 2017	Additions	Retirements	Rollovers	
BAN	1.24%	matured	\$ 212,007	\$ -	\$ (50,000)	\$ (162,007)	\$ -
BAN	1.95%	5/24/19	<u>-</u>	<u>1,600,000</u>	<u>-</u>	<u>162,007</u>	<u>1,762,007</u>
			<u><u>\$ 212,007</u></u>	<u><u>\$ 1,600,000</u></u>	<u><u>\$ (50,000)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,762,007</u></u>

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

Fire truck	\$ 162,007
Fowler Street bridge	600,000
Water mains	<u>1,000,000</u>
	<u><u>\$ 1,762,007</u></u>

## 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.

The following reflects the activity in the long-term liability accounts during the fiscal year ended June 30, 2018:

Description of Issue	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
<i>Governmental Activities:</i>					
General obligation bonds and notes payable	\$ 5,220,000	\$ -	\$ (547,000)	\$ 4,673,000	\$ 562,000
Net other postemployment benefits liability (a)	5,200,668	522,907	(408,952)	5,314,623	-
Net pension liability	<u>6,975,541</u>	<u>2,758,346</u>	<u>(2,325,265)</u>	<u>7,408,622</u>	<u>-</u>
Total Governmental Activities	<u>\$ 17,396,209</u>	<u>\$ 3,281,253</u>	<u>\$ (3,281,217)</u>	<u>\$ 17,396,245</u>	<u>\$ 562,000</u>
<i>Business-Type Activities:</i>					
<i>Water</i>					
General obligation bonds and notes payable	\$ 3,777,721	\$ -	\$ (231,801)	\$ 3,545,920	\$ 236,801
Net other postemployment benefits liability (a)	188,079	26,252	(15,611)	198,720	-
Net pension liability	<u>403,480</u>	<u>159,548</u>	<u>(134,498)</u>	<u>428,530</u>	<u>-</u>
Water enterprise	<u>4,369,280</u>	<u>185,800</u>	<u>(381,910)</u>	<u>4,173,170</u>	<u>236,801</u>
<i>Sewer</i>					
General obligation bonds and notes payable	816,679	-	(328,799)	487,880	338,000
Net other postemployment benefits liability (a)	291,241	31,422	(26,454)	296,209	-
Net pension liability	<u>380,202</u>	<u>150,344</u>	<u>(126,739)</u>	<u>403,807</u>	<u>-</u>
Sewer enterprise	<u>1,488,122</u>	<u>181,766</u>	<u>(481,992)</u>	<u>1,187,896</u>	<u>338,000</u>
Total Business-Type Activities	<u>\$ 5,857,402</u>	<u>\$ 367,566</u>	<u>\$ (863,902)</u>	<u>\$ 5,361,066</u>	<u>\$ 574,801</u>

(a) The beginning balance was restated with the Town's adoption of GASB Statement No. 75.

General obligation bonds outstanding at June 30, 2018 are as follows:

Description	Interest Rate	Beginning Balance	Additions	Maturities and Retirements	Ending Balance
<i>Governmental Activities:</i>					
General obligation bonds	2.00 - 5.00%	\$ 5,220,000	\$ -	\$ (547,000)	\$ 4,673,000
Total Governmental Activities		<u>\$ 5,220,000</u>	<u>\$ -</u>	<u>\$ (547,000)</u>	<u>\$ 4,673,000</u>
<i>Business-Type Activities - Water</i>					
General obligation bonds	1.75 - 5.00%	\$ 3,777,721	\$ -	\$ (231,801)	\$ 3,545,920
<i>Business-Type Activities - Sewer</i>					
General obligation bond	3.50 - 5.00%	172,279	-	(11,199)	161,080
MCWT Note	1.25%	<u>644,400</u>	<u>-</u>	<u>(317,600)</u>	<u>326,800</u>
Sewer enterprise		<u>816,679</u>	<u>-</u>	<u>(328,799)</u>	<u>487,880</u>
Total Business-type Activities		<u>\$ 4,594,400</u>	<u>\$ -</u>	<u>\$ (560,600)</u>	<u>\$ 4,033,800</u>
Total General Obligation Bond and Note Debt		<u>\$ 9,814,400</u>	<u>\$ -</u>	<u>\$ (1,107,600)</u>	<u>\$ 8,706,800</u>

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

Year Ending June 30,	Principal			Interest			Total
	Balance	Subsidy	Net	Balance	Subsidy	Net	
<i>Governmental Activities</i>							
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	242,000	-	242,000	116,061	-	116,061	358,061
2023	210,000	-	210,000	109,350	-	109,350	319,350
2024 - 2028	1,150,000	-	1,150,000	439,631	-	439,631	1,589,631
2029 - 2033	1,380,000	-	1,380,000	204,081	-	204,081	1,584,081
2034	310,000	-	310,000	6,200	-	6,200	316,200
Total	<u>\$ 4,673,000</u>	<u>\$ -</u>	<u>\$ 4,673,000</u>	<u>\$ 1,315,682</u>	<u>\$ -</u>	<u>\$ 1,315,682</u>	<u>\$ 5,988,682</u>
<i>Business-Type Activities: Total</i>							
2019	\$ 574,801	\$ (84,927)	\$ 489,874	\$ 111,105	\$ (8,170)	\$ 102,935	\$ 592,809
2020	252,999	-	252,999	96,175	-	96,175	349,174
2021	283,000	-	283,000	88,840	-	88,840	371,840
2022	288,000	-	288,000	80,980	-	80,980	368,980
2023	265,000	-	265,000	73,362	-	73,362	338,362
2024 - 2028	1,385,000	-	1,385,000	252,563	-	252,563	1,637,563
2029 - 2033	985,000	-	985,000	81,745	-	81,745	1,066,745
Total	<u>\$ 4,033,800</u>	<u>\$ (84,927)</u>	<u>\$ 3,948,873</u>	<u>\$ 784,770</u>	<u>\$ (8,170)</u>	<u>\$ 776,600</u>	<u>\$ 4,725,473</u>
<i>Business-Type Activities: Water</i>							
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	270,770	-	270,770	76,888	-	76,888	347,658
2023	247,770	-	247,770	69,830	-	69,830	317,600
2024 - 2028	1,298,870	-	1,298,870	243,560	-	243,560	1,542,430
2029 - 2033	985,000	-	985,000	81,745	-	81,745	1,066,745
Total	<u>\$ 3,545,920</u>	<u>\$ -</u>	<u>\$ 3,545,920</u>	<u>\$ 744,307</u>	<u>\$ -</u>	<u>\$ 744,307</u>	<u>\$ 4,290,227</u>
<i>Business-Type Activities: Sewer</i>							
2019	\$ 338,000	\$ (84,927)	\$ 253,073	\$ 13,929	\$ (8,170)	\$ 5,759	\$ 258,832
2020	12,060	-	12,060	5,255	-	5,255	17,315
2021	17,230	-	17,230	4,652	-	4,652	21,882
2022	17,230	-	17,230	4,092	-	4,092	21,322
2023	17,230	-	17,230	3,532	-	3,532	20,762
2024 - 2028	86,130	-	86,130	9,003	-	9,003	95,133
Total	<u>\$ 487,880</u>	<u>\$ (84,927)</u>	<u>\$ 402,953</u>	<u>\$ 40,463</u>	<u>\$ (8,170)</u>	<u>\$ 32,293</u>	<u>\$ 435,246</u>

**Authorized and Unissued Debt** – At June 30, 2018, the Town had authorized and unissued debt totaling \$878,702 for road projects subject to state reimbursement and \$300,000 for water main replacements.

### **III. Other Information**

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

Pension Plan Description – The Town is a member and contributes to the Worcester Regional Retirement System (the “Retirement System”), a cost-sharing multiple-employer defined benefit pension plan. The Retirement System was established under Chapter 32 of Massachusetts General Laws (“MGL”). The Retirement System is administered by the Worcester Regional Retirement Board (the “Retirement Board”). Stand-alone financial statements for the year ended December 31, 2017 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, 2017 was as follows:

Active members	7,601
Inactive members entitled to, but not receiving benefits	1,653
Inactive members (or beneficiaries) currently receiving benefits	<u>3,723</u>
	<u>12,977</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 2018.

*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 \$511,372 to the Retirement System in fiscal year 2018, which equaled the actuarially-determined contribution requirement for the fiscal year. The Town's contributions as a percentage of covered payroll was approximately 15% in fiscal year 2018.

*Net Pension Liability* – At June 30, 2018, the Town reported a liability of \$8,240,959 for its proportionate share of the net pension liability. The net pension liability was measured as of January 1, 2016 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, 2017. There were no material changes to the Retirement System's benefit terms since the actuarial valuation. There were no material changes to the actuarial assumptions made in this update (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 1.01% at December 31, 2017 versus 0.93% at December 31, 2016.

*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, 2017, 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 \$988,527 in pension expense in the statement of activities in fiscal year 2018.

Deferred Outflows of Resources and Deferred Inflows of Resources – At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 54,822	\$ -
Changes of assumptions	785,339	-
Net difference between projected and actual earnings on pension plan investments	-	256,956
Changes in proportion and differences between Town contributions and proportionate share of contributions	<u>507,317</u>	<u>547,324</u>
	<u><u>\$ 1,347,478</u></u>	<u><u>\$ 804,280</u></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,

2019	\$ 156,852
2020	156,184
2021	89,668
2022	28,236
2023	<u>112,258</u>
	<u><u>\$ 543,198</u></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, 2016. The significant actuarial assumptions used in the January 1, 2016 actuarial valuation included:

Inflation:	3.0% per year
Amortization method:	Payment increases 4.0% per year, except for early retirement incentive ("ERI") programs for 2002 and 2003 (4.5%) and 2010 (level dollar)
Remaining amortization period:	19 years, except for ERI for 2002 and 2003 (12 years) and 2010 (6 years)
Asset valuation method:	5-year smoothing market value
Salary increases:	Group 1: 4.20-6.00%, based on service Group 4: 4.75-7.00%, based on service
Investment rate of return:	7.75%, net of pension plan investment expense, including inflation
Mortality rates:	Based on the RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB

Disabled life mortality:

For disabled lives, the mortality rates were based on the RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future rates of returns (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic rates of return for each major asset class included in the Retirement System's target allocation as of December 31, 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Rate of Return
Global equity	40%	4.91%
Fixed income	22%	2.04%
Private equity	11%	6.50%
Real estate	10%	3.70%
Timber/natural resources	4%	3.25%
Hedge funds	13%	3.40%

Discount Rate – The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed plan member contributions were made at the current contribution rate and that employer contributions will be made in accordance with 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 7.75% as well as the Town's proportionate share of the net pension liability using a discount rate that is one percentage point lower (6.75%) or one percentage point higher (8.75%) than the current rate:

	1% Decrease (6.75%)	Current (7.75%)	1% Increase (8.75%)
Town's proportionate share of the net pension liability	\$ 10,043,957	\$ 8,240,959	\$ 6,718,316

## 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. Other Postemployment Benefits

The Town administers a single-employer defined benefit healthcare plan (the "OPEB Plan"). The OPEB Plan provides health and life insurance benefits (other postemployment benefits, or OPEB) to current and future retirees, their dependents and beneficiaries in accordance with Section 20 of Massachusetts General Law 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 premium-based insurance program. The OPEB Plan does not issue a stand-alone financial report and is presented as a fiduciary fund in the Town's financial statements. OPEB Plan disclosures can be found in this footnote disclosure.

Employees Covered by Benefit Terms – The following employees were covered by the benefit terms as of June 30, 2018:

Inactive employees or beneficiaries receiving benefits	14
Active employees	<u>57</u>
	<u>71</u>

Contributions – The contribution requirements of OPEB Plan members and the Town are established and may be amended by the Town. Retirees contribute 50% of the calculated contribution through pension benefit deductions and the remainder of the cost is funded by the Town. The Town currently contributes enough money to the Plan to satisfy current obligations on a pay-as-you-go basis plus additional contributions in varying amounts annually. The costs of administering the OPEB Plan are paid by the Town. For the year ended June 30, 2018, the Town's average contribution rate was 5% of covered-employee payroll.

Net OPEB Liability – The Town's net OPEB liability was measured as of June 30, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of June 30, 2017.

The components of the net OPEB Liability of the Town at June 30, 2018 were as follows:

Total OPEB liability	\$ 6,246,116
Plan fiduciary net position	<u>(436,564)</u>
Net OPEB liability	<u><u>\$ 5,809,552</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	6.99%

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

Actuarial cost method	Individual entry age normal
Healthcare cost trend rates	8.0% initial decreasing 0.5% per year to 5.5%, then grading down to an ultimate trend rate of 3.8% utilizing the Society of Actuaries Getzen Medical Trend Model
Investment rate of return	3.92%, net of investment expenses, including inflation
Pre-retirement mortality	RP-2000 Employees Mortality Table, base year 2009, projected with generational mortality improvement using scale BB
Post-retirement mortality	RP-2000 Healthy Annuitant Mortality Table, base year 2009, projected with generational mortality improvement using scale BB

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic equity	25%	6.11%
International equity	10%	2.78%
Domestic bond	35%	3.82%
International bond	10%	3.94%
Alternatives	20%	3.67%
Cash and cash equivalents	<u>0%</u>	0.00%
	<u>100%</u>	

Discount Rate – The discount rate used to measure the total OPEB liability was 3.92%. The projection of cash flows used to determine the discount rate assumed that contributions from the Town will be made in accordance with the OPEB Plan’s funding policy. Based on those assumptions, the OPEB Plan’s fiduciary net position was projected to be insufficient to make all projected benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB Plan investments was applied to the first seven periods of projected future benefit payments and the 3.87% municipal bond rate was applied to all periods thereafter to determine the total OPEB liability.

Changes in the Net OPEB Liability – The following table summarizes the changes in the net OPEB liability for the year ended June 30, 2018:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
	(a)	(b)	(a) - (b)
Balances at June 30, 2017	\$ 5,996,569	\$ 316,900	\$ 5,679,669
Changes for the year:			
Service cost	406,421	-	406,421
Interest	231,662	-	231,662
Changes in assumptions	(310,613)	-	(310,613)
Employer contributions	(77,923)	177,923	(255,846)
Net investment income	-	19,664	(19,664)
Benefit payments	-	(77,923)	77,923
Net changes	249,547	119,664	129,883
Balances at June 30, 2018	<u>\$ 6,246,116</u>	<u>\$ 436,564</u>	<u>\$ 5,809,552</u>

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

	1% Decrease (2.92%)	Current Discount (3.92%)	1% Increase (4.92%)
Net OPEB liability	\$ 7,027,378	\$ 5,809,552	\$ 4,858,511

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

	Healthcare Cost		
	1% Decrease (7.0% decreasing to 2.8%)	Trend Rates (8.0% decreasing to 3.8%)	1% Increase (9.0% decreasing to 4.8%)
Net OPEB liability	\$ 4,600,778	\$ 5,809,552	\$ 7,528,530

*OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB* – For the year ended June 30, 2018, the Town recognized OPEB expense of \$574,008. Deferred outflows of resources and deferred inflows of resources related to OPEB at June 30, 2018 were reported as follows:

	Deferred Outflows of	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions	-	272,548
Net difference between projected and actual earnings on OPEB Plan investments	<u>6,027</u>	<u>-</u>
	<u><u>\$ 6,027</u></u>	<u><u>\$ 272,548</u></u>

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

Year Ended June 30,

2019	\$ (36,558)
2020	(36,558)
2021	(36,558)
2022	(36,559)
2023	(38,065)
Thereafter	<u>(82,223)</u>
	<u><u>\$ (266,521)</u></u>

*Investment Custody* – In accordance with Massachusetts General Laws, the Town Treasurer is the custodian of the OPEB Plan and since the Town has not designated a Board of Trustees, the Town Treasurer is also the Trustee and as such is responsible for the general supervision of the management, investment and reinvestment of the OPEB Plan assets. OPEB Plan assets may be invested and reinvested by the custodian consistent with the prudent investor rule established in Chapter 203C and may, with the approval of the State Retiree Benefits Trust Fund Board of Trustees, be invested in the State Retiree Benefits Trust Fund established in Section 24 of Chapter 32A. OPEB Plan assets must be segregated from other funds and not be subject to the claims of any general creditor of the Town.

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

*Investment Rate of Return* – For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 5.22%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

#### **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, 2018, 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, 2018.

Appellate Tax Board – The Town has pending cases filed with the Massachusetts Appellate Tax Board of the Commonwealth of Massachusetts (“ATB”). In total, the assessed values for ATB cases approximates \$4.3 million at June 30, 2018 and consists entirely of challenged personal property tax values by telephone and telegraph companies.

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 June 2015, the GASB issued GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension Plans*. GASB 75 established 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 became effective in fiscal year 2018. The adoption of GASB No. 75 resulted in a reduction in beginning net position of approximately \$1.9 million and \$0.1 million in the Town’s governmental and business-type activities, respectively. Refer to Note V.

In March 2016, the GASB issued GASB Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of the Statement was 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 became effective in fiscal year 2018 and did not have a material impact on the Town’s financial statements.

In May 2017, the GASB issued GASB Statement No. 86, *Certain Debt Extinguishment Issues*. The objective of the Statement was to improve consistency in accounting and financial reporting for in-substance defeasance of debt. The provisions of this Statement became effective in fiscal year 2018 and did not have a material impact on the Town’s financial statements.

## **B. Future Year Implementations**

In November 2016, the GASB issued GASB Statement No. 83, *Certain Asset Retirement Obligations*. The objective of the Statement is to address accounting and financial reporting for certain asset retirement obligations that have legally enforceable liability associated with the retirement of a tangible capital asset. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2018 (fiscal year 2019). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In January 2017, the GASB issued GASB Statement No. 84, *Fiduciary Activities*. The objective of the Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how these activities should be reported. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2018 (fiscal year 2020). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2017, the GASB issued GASB Statement No. 87, *Leases*. This Statement redefines the manner in which long-term leases are accounted and reported. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2021). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In April 2018, the GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The provisions of this Statement are effective for financial reporting periods beginning after June 15, 2018 (fiscal year 2019). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In June 2018, the GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This statement establishes accounting requirements for interest costs incurred before the end of a construction period. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2019 (fiscal year 2021). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

In August 2018, the GASB issued GASB Statement No. 90, *Majority Equity Interest – An Amendment of GASB Statements No. 14 and No. 61*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of this Statement are effective for financial reporting periods beginning after December 15, 2018 (fiscal year 2020). The Town is currently evaluating whether adoption will have a material impact on the financial statements.

## **V. Restatement**

The Town adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in fiscal year 2018. Previously, OPEB was accounted for under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The result of the adoption of GASB Statement No. 75 was to eliminate the net OPEB obligation recorded in the Town financial statements and record the net OPEB liability at June 30, 2017.

The impact is illustrated in the table below:

	Governmental Activities	Business-Type Activities		
		Water	Sewer	Total
Net position at June 30, 2017, as reported	\$ 45,087,011	\$ 5,376,649	\$ 3,884,703	\$ 9,261,352
Eliminate recorded OPEB obligation (GASB No. 45)	3,304,373	191,132	180,104	371,236
Record net OPEB liability (GASB No. 75)	(5,200,668)	(188,079)	(291,241)	(479,320)
Net position at June 30, 2017, as restated	<u>\$ 43,190,716</u>	<u>\$ 5,379,702</u>	<u>\$ 3,773,566</u>	<u>\$ 9,153,268</u>

\* \* \* \* \*

**TOWN OF UPTON, MASSACHUSETTS****REQUIRED SUPPLEMENTARY INFORMATION - PENSIONS**  
**YEAR ENDED JUNE 30, 2018****SCHEDULE OF THE TOWN'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY**  
(*dollar amounts are in thousands*)

	Year Ended December 31,			
	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset)	1.0106%	0.9264%	0.9226%	1.1079%
Town's proportionate share of the net pension liability (asset)	\$ 8,241	\$ 7,759	\$ 6,548	\$ 6,593
Town's covered payroll	\$ 3,364	\$ 3,590	\$ 3,378	\$ 3,248
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	245.0%	216.1%	193.8%	203.0%
Plan fiduciary net position as a percentage of the total pension liability	46.4%	42.0%	47.9%	47.9%

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

	Year Ended June 30,			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 511	\$ 450	\$ 415	\$ 438
Contributions in relation to the actuarially determined contribution	<u>511</u>	<u>450</u>	<u>415</u>	<u>438</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 3,364	\$ 3,590	\$ 3,378	\$ 3,248
Contributions as a percentage of covered payroll	15.2%	12.5%	12.3%	13.5%

Note: 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 - OPEB**  
**YEAR ENDED JUNE 30, 2018**

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

	<u>2018</u>
Total OPEB liability:	
Service cost	\$ 406,421
Interest	231,662
Changes in assumptions	(310,613)
Benefit payments	(77,923)
Net change in total OPEB liability	<u>249,547</u>
Total OPEB liability - beginning of year	<u>5,996,569</u>
Total OPEB liability - end of year (a)	<u><u>\$ 6,246,116</u></u>
Plan fiduciary net position:	
Contributions - employer	\$ 177,923
Net investment income	19,664
Benefit payments	(77,923)
Net change in Plan fiduciary net position	<u>119,664</u>
Plan fiduciary net position - beginning of year	<u>316,900</u>
Plan fiduciary net position - end of year (b)	<u><u>\$ 436,564</u></u>
Net OPEB liability - end of year (a) - (b)	<u><u>\$ 5,809,552</u></u>
Plan fiduciary net position as a percentage of the total OPEB liability	6.99%
Covered payroll	\$ 3,462,872
Net OPEB liability as a percentage of covered payroll	167.77%

Note: This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

Note: This schedule is presented using the optional format of combining the required schedules in paragraph 36a and 36b of GASB Statement No. 74.

See accompanying independent auditor's report.

**TOWN OF UPTON, MASSACHUSETTS****REQUIRED SUPPLEMENTARY INFORMATION - OPEB**  
**YEARS ENDED JUNE 30, 2018**

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**SCHEDEULE OF CONTRIBUTIONS**

	<u>2018</u>
Actuarially-determined contribution	\$ 735,509
Contributions in relation to the actuarially-determined contribution	<u>(177,923)</u>
Contribution deficiency (excess)	<u>\$ 557,586</u>
Covered payroll	\$ 3,462,872
Contribution as a percentage of covered payroll	5.1%

**Notes to Schedule**

Valuation Date	July 1, 2017
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value of assets as of reporting date
Inflation	2.6%
Discount rate	3.92%, net of investment expenses, including inflation
Healthcare cost trend rates	8.0% initial decreasing 0.5% per year to 5.5% then grading down to an ultimate trend rate of 3.8%
Salary increases	3.5% per annum
Payroll growth	2.5% per annum
Investment rate of return	3.87% per annum
Mortality	For pre-retirement – RP-2000 Employees Mortality Table, base year 2009, projected with generational mortality improvement using scale BB;
	For post-retirement – RP-2000 Healthy Annuitant Mortality Table, based year 2009, projected with generational mortality improvement using scale BB.

**SCHEDEULE OF INVESTMENT RETURNS**

	<u>2018</u>
Annual money-weighted rate of return, net of investment expense	5.22%

Note: These schedules are presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, information is presented for those years in which information is available.

See accompanying independent auditor's report.

**TOWN OF UPTON, MASSACHUSETTS**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL - GENERAL FUND**  
**YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Budgetary Amounts</u>	<u>Encumbrances</u>	<u>Actual Budgetary Adjusted</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original Budget</u>	<u>Final Budget</u>				
<b>REVENUES</b>						
Real and personal property taxes	\$ 19,566,845	\$ 19,566,845	\$ 20,111,619		\$ 20,111,619	\$ 544,774
Intergovernmental	759,508	759,508	759,576		759,576	68
Motor vehicle excise taxes	1,025,000	1,025,000	1,294,655		1,294,655	269,655
Licenses and permits	144,000	144,000	247,765		247,765	103,765
Departmental and other	618,650	618,650	661,091		661,091	42,441
Penalties and interest on taxes	115,000	115,000	229,450		229,450	114,450
Fines and forfeitures	31,000	31,000	38,141		38,141	7,141
Investment income	6,000	6,000	12,660		12,660	6,660
Total Revenues	22,266,003	22,266,003	23,354,957		23,354,957	1,088,954
<b>EXPENDITURES</b>						
General government	1,278,141	1,458,391	1,358,173	\$ 34,728	1,392,901	65,490
Public safety	3,272,662	3,380,662	3,276,678	11,374	3,288,052	92,610
Education	12,619,536	12,619,536	12,617,786	-	12,617,786	1,750
Public works	2,743,700	3,116,700	2,299,007	678,522	2,977,529	139,171
Health and human services	386,610	386,610	312,700	-	312,700	73,910
Culture and recreation	339,981	339,981	308,150	-	308,150	31,831
State and county tax assessments	57,904	57,904	57,904	-	57,904	-
Pension and fringe benefits	1,377,653	1,377,653	1,210,915	-	1,210,915	166,738
Debt service	446,547	446,547	446,480	-	446,480	67
Total Expenditures	22,522,734	23,183,984	21,887,793	\$ 724,624	22,612,417	571,567
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	475		475	475
Transfers out	(448,098)	(448,098)	(448,098)		(448,098)	-
Total Other Financing Sources (Uses)	(448,098)	(448,098)	(447,623)		(447,623)	475
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures/Use of Prior Year Budgetary Fund Balance</b>						
	(704,829)	(1,366,079)	\$ 1,019,541		\$ 294,917	\$ 1,660,996
<b>Other budgetary items</b>						
Prior year encumbrances and articles	561,829	561,829				
Free cash	143,000	804,250				
Total other budgetary items	704,829	1,366,079				
<b>Net budget</b>	<b>\$ -</b>	<b>\$ -</b>				

## TOWN OF UPTON, MASSACHUSETTS

### REQUIRED SUPPLEMENTARY INFORMATION YEAR ENDED JUNE 30, 2018

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#### **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 2018, 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, 2018, is as follows:

	Accounting Differences	Fund Perspective Differences	Total
Revenue on a budgetary basis			\$ 23,354,957
Revenue recognition adjustments	\$ 16,753	\$ -	16,753
Stabilization revenue	-	22,106	22,106
Revenue on a GAAP basis	<u>\$ 16,753</u>	<u>\$ 22,106</u>	<u>\$ 23,393,816</u>
Expenditures on a budgetary basis			\$ 21,887,793
Transfer recognition - OPEB	-	100,000	100,000
Expenditures on a GAAP basis	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 21,987,793</u>
Transfers on a budgetary basis (net)			\$ (447,623)
Transfer recognition - OPEB	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ 100,000</u>
Transfers on a GAAP basis (net)	<u>\$ -</u>	<u>\$ 100,000</u>	<u>\$ (347,623)</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, 2018, and the related notes to the financial statements, which collectively comprise the Town’s basic financial statements and have issued our report thereon dated January 28, 2019.

**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  
January 28, 2019