



Bill Fraher, CPA

TOWN OF CHARLTON, MASSACHUSETTS

Basic Financial Statements, Required Supplementary
Information and Supplementary Information

Year ended June 30, 2012

(With Independent Auditor's Report Thereon)

TOWN OF CHARLTON, MASSACHUSETTS

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Independent Auditor's Report

The Board of Selectman
Town Of Charlton, Massachusetts:

I 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 Charlton, Massachusetts, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Charlton's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my 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 of Charlton, Massachusetts, as of June 30, 2012, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, I have also issued my report dated January 28, 2013 on my consideration of the Town of Charlton's internal control structure over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.



The Board of Selectmen
Town of Charlton, Massachusetts
Independent Auditor's Report

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 10 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Government Auditing 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. I have applied certain limited procedures to the required supplementary information, which consisted of inquiries of management regarding 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 obtained during the audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Charlton's financial statements as a whole. The combining fund financial statements listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other procedures in accordance with auditing standards generally accepted in the U.S. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Bill Fraher, CPA
Boston, Massachusetts
January 28, 2013



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**INDEPENDENT AUDITOR'S 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 Board of Selectmen
Town of Charlton, Massachusetts

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Charlton, Massachusetts, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements and have issued my report thereon dated January 28, 2013. I conducted my 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.

Internal Control over Financial Reporting

Management of the Town is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the Town's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Charlton, Massachusetts' internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Town of Charlton, Massachusetts' internal control over financial reporting.

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 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.

My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.



The Board of Selectmen
Town of Charlton, Massachusetts
Report on Compliance and on Internal Control over Financial Reporting

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

I noted certain other matters that I reported to management of the Town of Charlton, Massachusetts, in a separate letter dated January 28, 2013.

This report is intended solely for the information and use of the Board of Selectmen, management, others within the organization, federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script, appearing to read 'Bill Fraher'.

Bill Fraher, CPA
Boston, Massachusetts
January 28, 2013

**Town of Charlton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
June 30, 2012**

Each year, we are required to present a Management's Discussion and Analysis (MD&A) with our annual financial report. The MD&A appears in the front of our financial report and is intended to introduce our financial statements to users and help them assess whether our government's overall financial health has improved or deteriorated as a result of the past year's operations.

One required component of MD&A is to briefly describe the reasons for significant changes in our asset, liability, revenue and expenditure/expense account balances compared to last year.

Financial Highlights of Fiscal Year 2012 (July 1, 2011 - June 30, 2012)

- The assets of the Town of Charlton exceeded its liabilities at the close of the most recent fiscal year by \$62,814,207 (net assets). Of this amount, \$3,147,567 is considered unrestricted (unrestricted net assets). The unrestricted net assets of the Town's governmental activities are a deficit of \$70,100 due to the OPEB liability of \$2,150,402. The unrestricted net assets of business-type activities are \$3,217,667. Total net assets decreased from the prior year in governmental activities by \$1,014,705 and increased in business-type activities by \$816,337. The decrease in governmental activities was mostly due to the recognition of the current year's amount of OPEB expense and other entity wide accrual issues.
- The total cost of all town services for Fiscal Year 2012 was \$26,020,424 compared with \$25,623,242 in 2011. For the current year, \$23,557,727 was spent on governmental activities and an additional \$2,462,697 on business type activities consisting solely of water and sewer activities. There were no significant changes from the prior year in any expense categories other than an increase in education (regional school budgetary increase) and a decrease in public works (prior year landfill liability accrual).
- At June 30, 2012, the Town's governmental funds reported a combined ending fund balance of \$4,868,875, a decrease of \$1,764,611 from the June 30, 2011 amount of \$6,633,486. The total at 2012 is made up of \$3,029,736 in the general fund (of which \$1,052,384 is unassigned) and \$1,839,139 in all other governmental funds. General fund total fund balances increased by \$110,999 from the prior year due to positive budgetary results. All other governmental funds total fund balances decreased by \$1,875,610 primarily due to the expenditure of highway facility and landfill capping bond proceeds.
- The Town's total bonded indebtedness is \$19,808,484. The Town also has \$267,451 in accrued interest on long term debt.

**Town of Charlton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
June 30, 2012**

Overview of the Financial Statements

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

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

The *statement of net assets* presents information on all of the Town's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets 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 government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise of 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).

The government-wide financial statements have separate columns for government activities and business-type activities. The Town's activities are classified as follows:

- **Governmental Activities** – Activities reported here include education, public safety, public works, library and general administration. Property taxes, motor vehicle excise taxes, federal, state and other local revenues finance these activities.
- **Business-type Activities** – Activities reported here are for water and sewer operations. User fees charged to the customers receiving services finance these services.

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 three categories: government funds, proprietary funds and fiduciary funds.

**Town of Charlton, Massachusetts
Management's Discussion and Analysis
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Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *government 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* 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 government 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. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Proprietary funds. The Town has one proprietary fund type. *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 statements because their resources are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. All of the Town's fiduciary funds are agency funds.

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

The government activities of the government-wide financial statements and the governmental funds of the fund financial statements do not use the same accounting basis and measurement focus. Capital assets and long-term liabilities are not included on the balance sheet of the governmental funds, but are included on the statement of net assets. Capital assets are recorded as expenditures when they are purchased in the governmental funds and depreciated over the useful life in the government-wide financial statements. We have included schedules that provide a crosswalk from the government-wide financial statements to the governmental funds of the fund financial statements.

- Reconciliation of the Governmental funds balance sheet total fund balances to the statement of net assets.

**Town of Charlton, Massachusetts
Management's Discussion and Analysis
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- Reconciliation of the statement of revenues and expenditures and changes in fund balance of governmental funds to the statement of activities

The reconciliation of government-wide financial statements to enterprise funds of the fund financial statements is not necessary. The business-type activities of the government-wide financial statements and the enterprise funds use the same accounting basis and measurement focus.

Financial Analysis of the Government-wide Financial Statements

Statement of Net Assets

Net assets may serve over time as a useful indicator of a government's financial position. However, the net assets of governmental activities should be viewed independently from business-type activities. Resources of the governmental activities are not used to finance costs related to business-type activities. Revenues of the business-type activities are used to finance the operations of water and sewer activities.

The net assets of the Town of Charlton decreased by \$198,368. The net assets of the governmental activities decreased by \$1,014,705 (compared with a prior year decrease of \$1,222,637) and the net assets of the business-type activities increased by \$816,337 (compared with a prior year increase of \$390,746). There were no significant changes to the amounts in the statement of net assets other than the reclassification of certain items from unrestricted to restricted net assets (to better conform to GASB requirements) and an increase in capital assets and reduction in cash and investments due to capital expenses. The main reasons for the governmental activities net asset decrease are related to GASB 45 Other Post Employee Benefits costs and post closure landfill care costs.

Statement of Activities

Government Activities

In Fiscal Year 2012, property taxes and vehicle excise taxes accounted for 81% of all governmental activities revenues (compared to 80% last year). Of all governmental activities expenses, 50% related to education (compared with 46% last year). The overall decrease in net assets of governmental activities is due primarily to depreciation expense and the recognition of OPEB expenses.

**Town of Charlton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
June 30, 2012**

Business-type Activities

Water and sewer rates are structured to cover all costs related to the activity. The revenues of the business-type activities exceeded expenses by \$816,337. This increase in the net assets of business-type activities is due primarily to the collection of special assessments related to sewer system expansion and the receipt of water and sewer capital grants.

Financial Analysis of the Town's Funds

General Fund – The year-end fund balances of the general fund were \$3,029,736 which is \$110,999 more than the prior year's fund balances. The Town appropriates money from what the Massachusetts Department of Revenue calls the "free cash account" [roughly defined as the undesignated (unrestricted) fund balance with year end adjustments for receivables and some payables]. If the amount taken to fund the budget is not replenished by excess revenues or unexpended appropriations, fund balance will decrease. For fiscal year 2012, the Town appropriated \$815,962 of free cash, primarily to fund a transfer of \$208,006 to the stabilization fund and capital items of \$607,956.

Other Governmental Funds – Fund balances of other non-major governmental funds (in total) decreased by \$1,875,610, primarily due to the expenditure of highway facility bond proceeds.

Proprietary Funds.

Water and Sewer Funds. The Town of Charlton, Massachusetts' proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Enterprise Fund at year end were \$3,217,667 compared with \$4,751,408 last year (\$1,423,645 was reclassified to restricted for the 2012 financial statements representing amounts required to be restricted for debt service). The total decrease in unrestricted net assets was \$406,223 (after accounting for the reclassification of restricted net assets) while overall net assets increased by \$816,337. The decrease in unrestricted net assets is due to depreciation and other unbudgeted items that are reflected in the financial statements.

General Fund Budgetary Highlights

On a budgetary basis, the Town showed a \$660,307 favorable variance to the bottom line budget. Of this amount, \$347,496 reflects revenues above budgeted amounts and \$312,811 relates to unexpended appropriations.

**Town of Charlton, Massachusetts
Management's Discussion and Analysis
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Capital Asset and Debt Administration

Capital Assets

The Town of Charlton's investments in capital assets for its governmental and business-type activities as of June 30, 2012, amounts to \$72,644,807 (net of accumulated depreciation), compared to \$71,779,817 at June 30, 2011. This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles. On the governmental side, net capital assets increased by \$858,139 (capital additions exceeding depreciation) due to the highway facility project. Net capital assets increased on the business-type activity side by \$6,851 due to expansion projects for water lines, offset by depreciation.

Debt

The Town of Charlton had \$4,970,000 in bonds outstanding for governmental activities on June 30, 2012, which represents a decrease of \$535,000 from June 30, 2011. An additional \$14,838,485 in bonds was outstanding for the business-type activities, a decrease of \$1,574,640 from the prior year.

TOWN OF CHARLTON, MASSACHUSETTS

Statement of Net Assets

June 30, 2012

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 3,611,087	3,775,242	7,386,329
Investments	2,197,878	854,437	3,052,315
Receivables (net of allowance for uncollectibles)	1,336,327	111,691	1,448,018
Due from commonwealth	-	3,017,368	3,017,368
Unapportioned assessments due in future years	-	5,598,668	5,598,668
Capital assets:			
Assets not being depreciated	6,428,109	6,941,219	13,369,328
Assets being depreciated, net	<u>37,646,389</u>	<u>21,629,090</u>	<u>59,275,479</u>
 Total assets	 <u>\$ 51,219,790</u>	 <u>41,927,715</u>	 <u>93,147,505</u>
<u>Liabilities</u>			
Warrants and accounts payable	\$ 332,602	59,716	392,318
Other accrued liabilities	149,823	-	149,823
Accrued interest payable	62,382	205,069	267,451
Notes payable	500,000	380,000	880,000
Other liabilities	2,506	-	2,506
Deferred revenue	-	5,598,668	5,598,668
Long-term liabilities:			
Due within one year:			
Landfill postclosure care costs	20,000	-	20,000
Compensated absences	141,497	-	141,497
Bonds payable	505,000	1,319,186	1,824,186
Due in more than one year:			
Landfill postclosure care costs	430,000	-	430,000
Compensated absences	492,148	-	492,148
Other post employment benefits	2,150,402	-	2,150,402
Bonds payable	<u>4,465,000</u>	<u>13,519,299</u>	<u>17,984,299</u>
 Total liabilities	 <u>9,251,360</u>	 <u>21,081,938</u>	 <u>30,333,298</u>
<u>Net Assets</u>			
Invested in capital assets, net of related debt	39,697,892	16,204,465	55,902,357
Restricted for:			
Perpetual funds - nonexpendable	246,971	-	246,971
Perpetual funds - expendable	206,817	-	206,817
Other specific purposes	1,886,850	1,423,645	3,310,495
Unrestricted	<u>(70,100)</u>	<u>3,217,667</u>	<u>3,147,567</u>
 Total net assets	 <u>\$ 41,968,430</u>	 <u>20,845,777</u>	 <u>62,814,207</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF CHARLTON, MASSACHUSETTS

Statement of Activities

For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Governmental activities:							
General government	\$ 2,401,106	181,241	93,995	54,388	(2,071,482)	-	(2,071,482)
Public safety	5,226,015	1,030,962	88,131	-	(4,106,922)	-	(4,106,922)
Education	11,676,928	-	15,882	-	(11,661,046)	-	(11,661,046)
Public works	2,922,730	36,992	-	684,525	(2,201,213)	-	(2,201,213)
Human services	448,165	46,732	41,675	-	(359,758)	-	(359,758)
Recreation and culture	700,162	3,986	56,802	50,980	(588,394)	-	(588,394)
Interest on debt service	182,621	-	-	-	(182,621)	-	(182,621)
Total governmental activities	23,557,727	1,299,913	296,485	789,893	(21,171,436)	-	(21,171,436)
Business-type activities:							
Water	224,459	85	-	364,121	-	139,747	139,747
Sewer	2,238,238	1,930,339	-	416,920	-	109,021	109,021
Total business-type activities	2,462,697	1,930,424	-	781,041	-	248,768	248,768
Total government	\$ 26,020,424	3,230,337	296,485	1,570,934	(21,171,436)	248,768	(20,922,668)
General revenues:							
Property taxes					\$ 16,562,770	-	16,562,770
Excise taxes					1,751,849	-	1,751,849
Payments in lieu of taxes					806,687	-	806,687
Intergovernmental					1,272,874	-	1,272,874
Unrestricted investment earnings					44,233	5,713	49,946
Miscellaneous					190,493	89,681	280,174
Transfers					(472,175)	472,175	-
Total general revenues and transfers					20,156,731	567,569	20,724,300
Changes in net assets					(1,014,705)	816,337	(198,368)
Net assets - beginning of year					42,983,135	20,029,440	63,012,575
Net assets - end of year					\$ 41,968,430	20,845,777	62,814,207

The notes to the financial statements are an integral part of this statement.

TOWN OF CHARLTON, MASSACHUSETTS

Balance Sheet - Governmental Funds

June 30, 2012

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 1,903,220	1,707,867	3,611,087
Investments	1,324,666	873,212	2,197,878
Receivables:			
Property taxes	310,207	-	310,207
Tax liens and foreclosures	260,267	-	260,267
Motor vehicle and other excise	278,781	-	278,781
Departmental	-	732,268	732,268
Less: allowance for abatements	(245,196)	-	(245,196)
 Total assets	 <u>\$ 3,831,945</u>	 <u>3,313,347</u>	 <u>7,145,292</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Warrants and accounts payable	\$ 212,713	119,889	332,602
Other accrued liabilities	27,772	122,051	149,823
Notes payable	-	500,000	500,000
Deferred revenue	559,218	732,268	1,291,486
Other liabilities	2,506	-	2,506
 Total liabilities	 <u>802,209</u>	 <u>1,474,208</u>	 <u>2,276,417</u>
Fund balances:			
Nonspendable	-	246,971	246,971
Restricted	44,505	1,923,686	1,968,191
Committed	1,485,536	125,476	1,611,012
Assigned	447,311	-	447,311
Unassigned	1,052,384	(456,994)	595,390
 Total fund balances	 <u>3,029,736</u>	 <u>1,839,139</u>	 <u>4,868,875</u>
 Total liabilities and fund balances	 <u>\$ 3,831,945</u>	 <u>3,313,347</u>	 <u>7,145,292</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF CHARLTON, MASSACHUSETTS

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For the Year Ended June 30, 2012

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Revenues:			
Property taxes	\$ 16,522,520	-	16,522,520
Excise taxes	1,729,131	-	1,729,131
Payments in lieu of taxes	808,591	-	808,591
Departmental charges for services	211,024	822,375	1,033,399
Licenses and permits	157,986	-	157,986
Intergovernmental	1,291,470	667,979	1,959,449
Fines	98,797	-	98,797
Investment income	42,854	1,379	44,233
Other	146,709	454,912	601,621
Total revenues	<u>21,009,082</u>	<u>1,946,645</u>	<u>22,955,727</u>
Expenditures:			
Current:			
General government	1,706,953	97,004	1,803,957
Public safety	3,751,688	135,194	3,886,882
Education	11,374,187	-	11,374,187
Public works	1,125,678	2,613,733	3,739,411
Human services	220,585	67,789	288,374
Recreation and culture	386,654	164,732	551,386
Intergovernmental	30,611	-	30,611
Employee benefits	1,628,896	-	1,628,896
Other	220,219	-	220,219
Debt service	724,240	-	724,240
Total expenditures	<u>21,169,711</u>	<u>3,078,452</u>	<u>24,248,163</u>
Excess (deficiency) of revenues over expenditures	(160,629)	(1,131,807)	(1,292,436)
Other financing sources (uses):			
Operating transfers in	901,214	75,000	976,214
Operating transfers out	(629,586)	(818,803)	(1,448,389)
Total other financing sources (uses)	<u>271,628</u>	<u>(743,803)</u>	<u>(472,175)</u>
Net changes in fund balances	110,999	(1,875,610)	(1,764,611)
Fund balance, beginning of year, as revised	<u>2,918,737</u>	<u>3,714,749</u>	<u>6,633,486</u>
Fund balance, end of year	<u>\$ 3,029,736</u>	<u>1,839,139</u>	<u>4,868,875</u>

TOWN OF CHARLTON, MASSACHUSETTS

Reconciliation of the Governmental Fund Balance Sheet
To the Statement of Net Assets
Year Ended June 30, 2012

Total fund balances - governmental funds \$ 4,868,875

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. These assets consist of:

Land and land improvements	3,096,465
Construction in progress	3,331,644
Infrastructure assets	44,499,893
Buildings and building improvements	22,941,262
Other capital assets	6,262,721
Accumulated depreciation	<u>(36,057,487)</u>

Total Capital Assets 44,074,498

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in funds. 1,291,486

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in funds. These liabilities consist of:

Bonds payable	(4,970,000)
Landfill postclosure care costs	(450,000)
Accrued interest on bonds	(62,382)
Other post employment benefits	(2,150,402)
Compensated absences	<u>(633,645)</u>

Total long-term liabilities (8,266,429)

Net assets of governmental activities \$ 41,968,430

TOWN OF CHARLTON, MASSACHUSETTS

Reconciliation of the Governmental Funds - Statement of Revenues,
Expenditures and Changes in Fund Balances To the Statement of Activities
Year Ended June 30, 2012

Net changes in fund balances - governmental funds	\$ (1,764,611)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, these amounts are recorded as capital assets and depreciated over their estimated useful lives. This is the amount by which depreciation is less (more) than capital outlays (net of donations of capital assets) for the year.	858,139
Bond proceeds provide financial resources and bond payments are recorded as expenditures in governmental funds, while these are recorded as increases or decreases to long-term liabilities in the statement of net assets. This is the amount by which long-term debt repayments are more (less) than bond proceeds and accrued interest for the year.	541,619
Some expenses in the Statement of Activities do not require the use of current financial resources are not reported in the funds.	
Compensated absences	(117,624)
Landfill post-closure costs	
Change in net OPEB obligation	(591,698)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	<u>59,470</u>
Changes in net assets of governmental activities	\$ <u>(1,014,705)</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF CHARLTON, MASSACHUSETTS

Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2012

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance To Final Budget Favorable (Unfavorable)</u>
Resources (inflows):				
Property taxes	\$ 16,542,091	16,542,091	16,546,050	3,959
Excise taxes	1,635,036	1,635,036	1,729,131	94,095
Payments in lieu of taxes	809,673	809,673	808,591	(1,082)
Departmental charges for services	189,265	189,265	211,024	21,759
Licenses and permits	131,654	131,654	157,986	26,332
Intergovernmental	1,200,676	1,200,676	1,291,470	90,794
Fines	83,200	83,200	98,797	15,597
Investment income	49,760	49,760	32,613	(17,147)
Other	78,683	78,683	146,709	68,026
Transfers from other funds	<u>1,076,293</u>	<u>1,096,293</u>	<u>1,141,456</u>	<u>45,163</u>
Total resources	<u>21,796,331</u>	<u>21,816,331</u>	<u>22,163,827</u>	<u>347,496</u>
Charges to appropriations (outflows):				
General government	1,834,613	1,856,191	1,707,522	148,669
Public safety	3,793,376	3,825,377	3,740,848	84,529
Education	11,376,125	11,376,125	11,374,187	1,938
Public works	1,380,715	1,395,715	1,404,401	(8,686)
Human services	219,931	230,931	220,874	10,057
Recreation and culture	374,959	388,909	386,655	2,254
Debt service	729,240	729,240	724,240	5,000
Intergovernmental	32,232	32,232	30,610	1,622
Employee benefits	1,689,591	1,684,996	1,629,654	55,342
Insurance	301,239	232,305	220,219	12,086
Transfers to other funds	<u>917,592</u>	<u>917,592</u>	<u>917,592</u>	<u>-</u>
Total charges to appropriations	<u>22,649,613</u>	<u>22,669,613</u>	<u>22,356,802</u>	<u>312,811</u>
Excess (deficiency) of resources over charges to appropriations	<u>(853,282)</u>	<u>(853,282)</u>	<u>(192,975)</u>	<u>660,307</u>
Fund balance allocation	<u>853,282</u>	<u>853,282</u>		
Excess (deficiency) of resources over charges to appropriations and fund balance allocation	<u>\$ -</u>	<u>-</u>		

The notes to the financial statements are an integral part of this statement.

TOWN OF CHARLTON, MASSACHUSETTS

Statement of Net Assets - Proprietary Funds

June 30, 2012

	<u>Water</u> <u>Enterprise Fund</u>	<u>Sewer</u> <u>Enterprise Fund</u>	<u>Total</u>
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 1,048,960	2,726,282	3,775,242
Investments	735,041	119,396	854,437
Receivables (net):			
User charges	-	102,841	102,841
Liens	-	4,928	4,928
Special Assessments	-	3,922	3,922
Due from other governments	47,195	117,532	164,727
Total current assets	1,831,196	3,074,901	4,906,097
Noncurrent assets:			
Due from other governments	627,327	2,225,314	2,852,641
Unapportioned assessments due in future years	-	5,598,668	5,598,668
Capital assets	6,843,719	30,141,019	36,984,738
Accumulated depreciation	-	(8,414,429)	(8,414,429)
Total noncurrent assets	7,471,046	29,550,572	37,021,618
Total assets	\$ 9,302,242	32,625,473	41,927,715
<u>Liabilities</u>			
Current Liabilities:			
Warrants and accounts payable	\$ 58,276	1,440	59,716
Accrued interest payable	58,473	146,596	205,069
Notes payable	380,000	-	380,000
Bonds payable	261,386	1,057,800	1,319,186
Total current liabilities	758,135	1,205,836	1,963,971
Noncurrent liabilities:			
Deferred revenue	-	5,598,668	5,598,668
Bonds payable	3,916,320	9,602,979	13,519,299
Total noncurrent liabilities	3,916,320	15,201,647	19,117,967
Total liabilities	4,674,455	16,407,483	21,081,938
<u>Net Assets</u>			
Invested in capital assets, net of related debt	2,913,340	13,291,125	16,204,465
Restricted - other specific purposes	-	1,423,645	1,423,645
Unrestricted	1,714,447	1,503,220	3,217,667
Total net assets	\$ 4,627,787	16,217,990	20,845,777

The notes to the financial statements are an integral part of this statement.

TOWN OF CHARLTON, MASSACHUSETTS

Statement of Revenues, Expenses and Changes in Fund Net Assets

Proprietary Funds

For the Year Ended June 30, 2012

	Water Enterprise Fund	Sewer Enterprise Fund	Total
Operating revenues:			
Charges for services	\$ -	1,113,699	1,113,699
Special assessments	-	816,640	816,640
Other	85	-	85
	<hr/>	<hr/>	<hr/>
Total operating revenues	85	1,930,339	1,930,424
Operating expenditures:			
Salaries, wages and employee benefits	13,048	65,964	79,012
Other operating expenses	71,368	954,995	1,026,363
Depreciation	-	737,743	737,743
	<hr/>	<hr/>	<hr/>
Total operating expenditures	84,416	1,758,702	1,843,118
Operating income	(84,331)	171,637	87,306
Nonoperating revenues (expenses):			
Intergovernmental	364,121	416,920	781,041
Investment income	(3,280)	8,993	5,713
Interest expense	(140,043)	(479,536)	(619,579)
Other	79,457	10,224	89,681
	<hr/>	<hr/>	<hr/>
Total nonoperating revenues (expenses)	300,255	(43,399)	256,856
Income before transfers	215,924	128,238	344,162
Operating transfers in	6,203	554,586	560,789
Operating transfers (out)	-	(88,614)	(88,614)
	<hr/>	<hr/>	<hr/>
Changes in net assets	222,127	594,210	816,337
Net assets, beginning of year	4,405,660	15,623,780	20,029,440
	<hr/>	<hr/>	<hr/>
Net assets, end of year	\$ <u>4,627,787</u>	<u>16,217,990</u>	<u>20,845,777</u>

The notes to the financial statements are an integral part of this statement.

TOWN OF CHARLTON, MASSACHUSETTS

Statement of Cash Flows - Proprietary Funds

For the Year Ended June 30, 2012

	Water Enterprise Fund	Sewer Enterprise Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$ 85	1,951,832	1,951,917
Cash paid to suppliers	(72,832)	(963,016)	(1,035,848)
Cash paid to employees	(13,048)	(65,964)	(79,012)
Transfers in (out)	6,203	472,175	478,378
	<u>(79,592)</u>	<u>1,395,027</u>	<u>1,315,435</u>
Net cash provided by operating activities			
Cash flows from investing activities:			
Net (purchase) sale of investments	41,912	(36,845)	5,067
Interest on deposits and investments	6,269	10,008	16,277
	<u>48,181</u>	<u>(26,837)</u>	<u>21,344</u>
Net cash provided by investing activities			
Cash flows from capital and related financing activities:			
Capital expenditures	(607,193)	(80,475)	(687,668)
Intergovernmental receipts and subsidy adjustments	682,609	4,557	687,166
Interest paid, net of subsidy	(67,223)	(223,894)	(291,117)
Net borrowing (repayments), net of subsidy	110,807	(854,626)	(743,819)
	<u>119,000</u>	<u>(1,154,438)</u>	<u>(1,035,438)</u>
Net cash provided by capital and related financing activities:			
Net increase in cash and cash equivalents	87,589	213,752	301,341
Cash and cash equivalents, beginning of year	961,371	2,512,530	3,473,901
Cash and cash equivalents, end of year	<u>\$ 1,048,960</u>	<u>2,726,282</u>	<u>3,775,242</u>
Reconciliation of operating income to net cash provided			
By operating activities:			
Operating income (loss)	\$ (84,331)	171,637	87,306
Transfers in (out)	6,203	472,175	478,378
Depreciation, bad debts & reserve	-	737,743	737,743
Decrease (Increase) in accounts receivable	-	21,493	21,493
Increase (Decrease) in accounts payable	(1,464)	(8,021)	(9,485)
	<u>(79,592)</u>	<u>1,395,027</u>	<u>1,315,435</u>
Net cash provided by operating activities			

The notes to the financial statements are an integral part of this statement.

TOWN OF CHARLTON, MASSACHUSETTS

Statement of Net Assets

Fiduciary Funds

June 30, 2012

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and cash equivalents	(61,348)
Accounts receivable - police details	<u>209,331</u>
Total assets	<u>147,983</u>
<u>Liabilities</u>	
Accounts payable	14,125
Other liabilities	<u>133,858</u>
Total liabilities	<u>147,983</u>
<u>Net Assets</u>	
Unrestricted	<u>-</u>
Total net assets	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2012

Note 1. Reporting Entity and Significant Accounting Policies

A. Introduction

The Town of Charlton was incorporated as a town in 1755 under the statutes of the Commonwealth of Massachusetts. The Town operates with a selectmen-open Town meeting form of government and an elected five member Board of Selectmen. The Town provides general municipal services including public safety, education, public works, health, culture and recreation. Sewer and water services are provided on an enterprise basis. The Town's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board is the standard setting body for governmental accounting and financial reporting.

B. Financial Reporting Entity

GAAP require that the accompanying financial statements present the Town (primary government) and its component units. Component units are included in the Town's reporting entity if their operational and financial relationships with the Town are significant. In determining the financial reporting entity, the Town considered all potential component units and found that none exist.

Joint Ventures:

The Town is a participant in Dudley-Charlton Regional School District. The School was created to provide education to students in grades one through twelve, from the Towns of Charlton and Dudley and is governed by an eight member School Committee. The Town is indirectly liable for the District's debt and other expenditures and is assessed annually for its share of operating and capital costs. The Town's assessment for fiscal year 2012 was \$10,400,648, which represents approximately 63% of the District's operating budget. A copy of the District's financial statement is available from the Superintendent's Office, 68 Dudley-Oxford Road, Dudley, MA 01571.

The Town is a participant in the Southern Worcester County Regional Vocational School District (the District). The School was created to provide vocational technical education to students in Charlton and other neighboring communities and is governed by a board composed of the School Committees of member Towns. The Town is indirectly liable for the District's debt and other expenditures and is assessed annually for its share of operating and capital costs. The Town's assessment for fiscal year 2012 was \$911,325, which represents approximately 13% of the School's operating budget. A copy of the School's financial statement is available from the Superintendent's Office, 57 Old Muggett Hill Road, Charlton, MA 01507.

C. Financial Statement Presentation

The financial condition and results of operations of the Town's funds are presented as of and for the year ended June 30, 2012. The accounting policies of the Town conform to GAAP.

D. Government-wide and Fund Financial Statements

The Town's basic financial statements include both government-wide and fund financial statements. The government-wide financial statements report information on all the non-fiduciary activities of the Town. For the most part, the effect of interfund activities has been removed from these statements.

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2012

Note 1. Reporting Entity and Significant Accounting Policies (continued)

D. Government-wide and Fund Financial Statements (continued)

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.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods services, or privileges provided by a certain function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. GAAP requires that major individual governmental funds and major individual enterprise funds be reported as separate columns in the fund financial statements. The Town's general, water and sewer funds are reported as major funds. The Town reports the following fund financial statements:

Governmental Funds

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

Other Governmental Funds - These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes.

Proprietary Funds

Water Fund - This fund is used to account for the Town's water operations.

Sewer Fund - This fund is used to account for the Town's sewer operations.

Fiduciary Funds

Agency Funds - These funds are used to report resources held by the Town in a purely custodial capacity (assets equal liabilities).

E. Measurement Focus and Basis of Accounting

The government-wide, propriety, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide and propriety fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. The Town considers revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year end. Property taxes and interest associated with

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2012

Note 1. Reporting Entity and Significant Accounting Policies (continued)

E. Measurement Focus and Basis of Accounting (continued)

the current fiscal year are considered to be susceptible to accrual. Expenditures generally are recorded when a liability is incurred, as under accrual accounting, however, principal and interest on general long-term debt, claims and judgments, and compensated absences are recorded when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

All governmental and business-type activities and enterprise fund of the Town follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

F. Assets, Liabilities, and Net Assets or Equity

a. Deposits and Investments

State statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits (including demand deposits, term deposits and certificates of deposit) in any one financial institution may not exceed certain levels without collateralization by the financial institutions involved. The Town, with certain restrictions, can also purchase obligations of United States Government or its agencies, repurchase agreements, money market funds and units of the Massachusetts Municipal Depository Trust (MMDT), an investment pool established by the State Treasurer.

In addition, certain other governmental funds have other investment powers, most notably the ability to invest in common stocks, corporate bonds and other specified investments.

The Town pools cash to facilitate the management of cash. Each fund presents its pro rata share of the combined cash account as cash and cash equivalents in the accompanying basic financial statements. The Town has defined cash and cash equivalents to include cash on hand, demand deposits, cash with fiscal agent and deposits with the MMDT. Investments are reported at fair value.

b. Property Taxes

The Town is responsible for assessing and collecting property taxes in accordance with enabling state laws. Property taxes are determined, each year, on the full and fair cash value of taxable properties as of January 1st. The tax levy is divided into two billings and is payable on a quarterly basis. The first billing is an estimate of the current year's levy based on the prior year's taxes. 50% is due on August 1st and 50% is due on November 1st. The second billing reflects adjustments to the current year's actual levy with 50% due on February 1st and 50% due on May 1st. Taxes due and unpaid after the respective due dates are subject to interest and penalties. The Town has an ultimate right to foreclose on property for which taxes have not been paid.

Property taxes levied are recorded as receivable in the fiscal year billed. A statewide tax limitation statute known as "Proposition 2-1/2" limits the property tax levy to an amount equal to 2 1/2% of the value of all taxable property in the Town. A secondary limitation is that no levy in a

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2012

Note 1. Reporting Entity and Significant Accounting Policies (continued)

F. Assets, Liabilities, and Net Assets or Equity (continued)

b. Property Taxes (continued)

fiscal year may exceed the preceding year's allowable tax levy by more than 2-1/2 %, plus taxes levied on certain property newly added to the tax rolls. Certain Proposition 2-1/2 taxing limitations can be overridden by a Town-wide referendum vote.

c. Inventories

The costs of inventories are not material and the purchase method is used in all funds.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. General infrastructure assets acquired prior to July 1, 2002 consist of the roadways and curbing assets that were acquired or that received substantial improvements subsequent to July 1, 1980 and are reported at estimated historical cost using deflated replacement cost. The cost 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 are defined by the Town as assets with an initial, individual cost of more than \$10,000 and an estimated life in excess of five years. Such assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20 - 30
Buildings	40
Building improvements	7 - 20
Vehicles and equipment	3 - 10
Infrastructure	20 - 100

e. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation and certain sick leave absences. In the government-wide and proprietary fund financial statements, this liability is recognized when the associated benefit has been earned. For sick leave benefits, a liability is recognized when the sick leave benefit (primarily sick leave buy back benefits) is fully vested.

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2012

Note 1. Reporting Entity and Significant Accounting Policies (continued)

F. Assets, Liabilities, and Net Assets or Equity (continued)

f. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are (if material) deferred and amortized over the life of the bonds. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance's are reported as other financing sources while discounts received on debt issuance's are reported as other financing uses. Issuance costs are reported as debt service expenditures.

g. Fund Balances - Governmental Funds

In the governmental fund financial statements, fund balance is divided into five categories - nonspendable, restricted, committed, assigned and unassigned – based on the level of spending constraints. Presented below is a discussion of each GASB 54 fund balance classification.

Nonspendable - Amounts that cannot be spent because they are either not in spendable form or must be kept intact for legal or contractual reasons. This category is utilized mainly for permanent fund principal and also includes (if applicable) prepaid expenses, inventory and long term portion of loans receivable (unless the purpose is restricted, committed or assigned).

Restricted - Amounts constrained to specific purpose by external parties, enabling legislation and constitutional provision. Enabling legislation means the government is authorized to collect revenue and other parties (citizens, courts) can compel the government to spend the funds only on the authorized purpose.

Committed – Amounts constrained to specific purpose by the highest level of decision making authority (Town Meeting) and can be changed only by the same action.

Assigned – Amounts intended for use for a specific purpose by the Selectmen, Town Committee or Town management but do not meet the criteria to be classified as restricted or committed.

Unassigned – The residual classification of the Town's general fund only (and residual deficits in other governmental funds).

Committed fund balance is created from Town Meeting action and must be uncommitted by similar action. Committed fund balance in the general fund represents \$1,485,536 in stabilization fund balance. Stabilization funds are obtained by Town Meeting authorization and are generated from transfers from the general fund budget. These funds are set aside for extra-ordinary or unforeseen purposes, must be approved by Town Meeting and can be utilized for any lawful purpose.

Assigned fund balance is created primarily from authorized actions of the Board of Selectmen or Town management. Assigned fund balance includes general fund encumbrances and article carry forwards of \$447,311.

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2012

Note 1. Reporting Entity and Significant Accounting Policies (continued)

F. Assets, Liabilities, and Net Assets or Equity (continued)

g. Fund Balances - Governmental Funds (continued)

The Town's policy is to apply expenditures against restricted fund balance, committed fund balance, assigned fund balance and unassigned fund balance at the end of the fiscal year via adjusting journal entries.

It is possible for non-general funds to have negative unassigned fund balances when non-spendable amounts plus restricted, committed and assigned fund balances exceed the total positive fund balance in a specific fund.

The Town's fund balance policy sets a reserve goal at 10% of general fund operating expenditures. Reserves are defined as general fund unassigned fund balance plus general fund committed (stabilization) fund balance.

h. Net Assets

Net assets appear in the Town's proprietary (enterprise) funds and the entity wide financial statements. Net assets are the difference between assets and liabilities. Net assets invested in capital assets represent capital assets less accumulated depreciation and outstanding debt (net of related debt subsidies from the state). Restricted net assets consist of net assets with constraints placed on the use either by grantors, creditors, contributors or laws and regulations of other governments or by constitutional provisions or enabling legislation.

I. Use of Estimates

In preparing the Town's financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2. Budgetary Information

Under the Town's by-laws, budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review. The Selectmen and the Finance Committee have until May, when the Town meeting is held, to make their recommendations regarding department requests. After approval of the budget at the annual Town meeting, the tax recapitulation sheet is prepared. During this process the property tax rate is determined and the recap sheet is sent to the Department of Revenue for approval. This process should generally be completed by November so the actual tax bills can be mailed by January 1, due and payable by February 1.

The Town must establish its tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2 1/2 and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures, state and county assessments, and transfers, plus (b) provision for the prior fiscal year's deficits, if any, less (c) the aggregate of all non-

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2012

Note 2. Budgetary Information (continued)

property tax revenues and transfers projected to be received by the Town, including available funds.

The final Town budget as presented in the Budgetary Comparison Schedule - General Fund was developed as follows:

Charges to appropriations and transfers out	<u>\$22,669,613</u>
To be funded as follows:	
Budgeted revenue	\$20,720,038
Transfers from other funds	856,051
Transfers from stabilization	240,242
Allocation of surplus	<u>853,282</u>
Total funding (resources)	<u>\$22,669,613</u>

The Town's General Fund budget is prepared on a basis other than GAAP. The "actual" results column of the Budgetary Comparison Schedule - General Fund is presented on a "budget basis" to provide a meaningful comparison with the budget. The major differences between the budget and GAAP bases are:

- a. Property tax revenues are recorded when the cash is received as opposed to when susceptible to accrual (GAAP);
- b. Encumbrances and continuing appropriations are recorded as expenditures (budgetary) as opposed to a reservation of fund balance (GAAP); and
- c. On behalf payment for state teacher's retirement system is recognized for GAAP only.
- d. Stabilization funds are combined with the general fund for GAAP basis.

The following reconciliation summarizes the differences between budgetary and GAAP basis accounting principles for the general fund for the year ended June 30, 2012:

Excess (deficiency) of resources over charges to appropriations:	(\$192,975)
Adjustments:	
Record revenues on a modified accrual basis	(\$23,530)
Stabilization fund interest	\$10,241
Stabilization fund transfer from general fund	\$288,006
Stabilization fund transfer to general fund	(\$240,242)
Adjustment for Encumbrances and Continuing Articles	<u>\$269,499</u>
Net changes in fund balances - GAAP Basis	<u>\$110,999</u>

Within the adopted budget a sum is allocated to provide funding for extraordinary or unforeseen expenditures. The Finance Committee can authorize transfers from this reserve fund. Any other modifications to the budget would require action by Town Meeting.

Town of Charlton, Massachusetts

Notes to the Financial Statements

June 30, 2012

Note 3. Deposits and Investments

Cash Deposits

Custodial risk on cash deposits is the risk that in the event of a depository failure, the Town will not be able to recover the value of its deposits or collateral securities that are in the possession of the depository. The Town attempts to limit custodial risk by placing funds in a variety of financial institutions and maximizing amounts insured or collateralized. At June 30, 2012, the Town's carrying amount of deposits was \$5,582,908 and the bank balance was \$5,875,069. Of the bank balances, \$4,130,497 was covered by Federal Deposit Insurance Corporation or other state insurance. [Note that the carrying amount of bank deposits, plus MMDT and money market funds (below) plus petty cash are considered cash and cash equivalents in the financial statements.]

Investments

At June 30, 2012, the Town's investment balances were as follows:

<u>Type of Investment</u>	<u>Fair Value</u>
US government and agency securities	\$1,616,227
Other fixed income securities	1,090,911
Equity securities	110,877
Pooled investments: money market funds	370,680
Pooled investments: mutual funds	234,300
External investment pool: MMDT	<u>1,371,225</u>
Total investments	<u>\$4,794,220</u>

Custodial credit risk for investments is the risk that, in the event of the failure of the counter party to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have an investment policy covering custodial credit risk.

Interest rate risk is the risk that changes in market interest rates that will adversely affect the fair market value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair market value to changes in market interest rates. The Town does not have an investment policy covering interest rate risk. The US government and agency securities investments have maturities of \$846 between one and two years, and \$1,615,381 between three and five years. The other fixed income securities have maturities as follows: for bonds, \$103,377 less than one year, and \$186,421 between one and two years and for certificates of deposit, \$251,641 less than one year, and \$549,472 from one to two years.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. Credit risk is measured by the assignment of a rating by a nationally recognized statistical rating organization. The US government and agency securities investments are rated Aaa and AA by Moody's Investor Services and AA+ by Standard and Poor's and are not considered to have credit risk. The other fixed income securities investments are rated A to AA by Standard and

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2012

Note 3. Deposits and Investments (continued)

Poor's. MMDT, equities securities and money market funds are not rated as to credit risk. The Town does not have an investment policy which would limit its investment choices as to credit risk.

Concentration of credit risk – The Town does not have an investment policy which limits the amount that can be invested in any one issuer or security. Excluding US federal agency securities, and external investment pools, there are no securities or issuers which represent more than 5% of the total investments of the governmental funds or governmental activities.

Note 4. Capital Assets

Capital asset activity for the year ended June 30, 2012 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land and land improvements	\$3,096,465	-	-	3,096,465
Construction in progress	8,558,590	2,059,263	7,286,209	3,331,644
Total capital assets not being depreciated	<u>11,655,055</u>	<u>2,059,263</u>	<u>7,286,209</u>	<u>6,428,109</u>
Capital assets being depreciated:				
Land improvements	-	10,750	-	10,750
Buildings and improvements	15,476,131	7,465,131	-	22,941,262
Equipment	6,087,455	164,516	-	6,251,971
Infrastructure	43,979,691	520,202	-	44,499,893
Total capital assets being depreciated	<u>65,543,277</u>	<u>8,160,599</u>	-	<u>73,703,876</u>
Less accumulated depreciation for:				
Land improvements	-	(8,313)	-	(8,313)
Buildings and improvements	(6,471,198)	(478,269)	-	(6,949,467)
Equipment	(4,787,096)	(301,061)	-	(5,088,157)
Infrastructure	(22,723,679)	(1,287,871)	-	(24,011,550)
Total accumulated depreciation	<u>(33,981,973)</u>	<u>(2,075,514)</u>	-	<u>(36,057,487)</u>
Capital assets being depreciated, net	31,561,304	6,085,085	-	37,646,389
Total governmental activities capital assets, net	<u>\$43,216,359</u>	<u>8,144,348</u>	<u>7,286,209</u>	<u>44,074,498</u>

Depreciation expense was charged to functions as follows:

	<u>Governmental Activities</u>
General government	\$69,397
Public safety	242,457
Education	302,741
Public works	1,368,606
Culture and recreation	92,313
Total governmental activities depreciation expense	<u>\$2,075,514</u>

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2012

Note 4. Capital Assets (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land and land improvements	\$97,500	-	-	97,500
Construction in progress	<u>9,128,096</u>	<u>665,469</u>	<u>2,949,846</u>	<u>6,843,719</u>
Total capital assets not being depreciated	<u>9,225,596</u>	<u>665,469</u>	<u>2,949,846</u>	<u>6,941,219</u>
Capital assets being depreciated:				
Buildings and improvements	11,697,860	2,988,007	-	14,685,867
Equipment	1,046,461	42,316	-	1,088,777
Infrastructure	<u>14,268,876</u>	=	=	<u>14,268,876</u>
Total capital assets being depreciated	<u>27,013,197</u>	<u>3,030,322</u>	=	<u>30,043,520</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,372,101)	(337,652)	-	(3,709,753)
Equipment	(285,571)	(43,370)	-	(328,941)
Infrastructure	<u>(4,017,663)</u>	<u>(358,073)</u>	=	<u>(4,375,736)</u>
Total accumulated depreciation	<u>(7,675,335)</u>	<u>(739,095)</u>	=	<u>(8,414,430)</u>
Capital assets being depreciated, net	<u>19,337,862</u>	<u>2,291,227</u>	=	<u>21,629,090</u>
Total governmental activities capital assets, net	<u>\$28,563,458</u>	<u>2,956,696</u>	<u>2,949,846</u>	<u>28,570,309</u>
Depreciation expense was charged to functions as follows:		<u>Business-type Activities</u>		
Sewer		<u>\$739,095</u>		
Total business-type activities depreciation expense		<u>\$739,095</u>		

Note 5. Short-term Debt

Subject to state laws, the Town is authorized to issue general obligation debt on a temporary basis.

The following classes of short-term loans can be issued:

Tax anticipation notes (TANs) - This debt is issued to provide funding for operations during lean periods in a fiscal cycle. They are repaid from subsequent collections of taxes or other revenues.

Bond anticipation notes (BANs) - This debt is issued to provide initial funding for capital projects. They are redeemed from the proceeds from the sale of the bonds.

Grant anticipation notes (GANs) - This debt is issued to provide funding for projects in anticipation of reimbursement from federal or state grants. They are repaid from subsequent distributions from the federal or state agency.

Short-term debt activity for the year ended June 30, 2012, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental activities:				
Bond anticipation notes:				
Landfill closure	<u>\$-</u>	<u>500,000</u>	=	<u>500,000</u>
	<u>\$-</u>	<u>500,000</u>	=	<u>500,000</u>
Business-type activities:				
Bond anticipation notes:				
Water capital projects	\$-	380,000	-	380,000
Sewer capital projects	=	=	=	=
	<u>\$-</u>	<u>380,000</u>	=	<u>380,000</u>

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2012

Note 6. Long-term Obligations

The following is a summary of the changes in the Town's long-term obligation for the year ended June 30, 2012:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Governmental activities:					
Landfill post-closure monitoring	\$450,000	-	-	450,000	20,000
Compensated absences	516,021	117,624	-	633,645	141,497
Other post employment benefits	1,558,704	591,698	-	2,150,402	-
Bonds payable	<u>5,505,000</u>	=	<u>535,000</u>	<u>4,970,000</u>	<u>505,000</u>
	<u>8,029,725</u>	<u>709,332</u>	<u>535,000</u>	<u>8,204,047</u>	<u>666,497</u>
Business-type activities:					
Bonds payable	<u>16,413,125</u>	-	<u>1,574,640</u>	<u>14,838,485</u>	<u>1,319,186</u>
	<u>\$16,413,125</u>	=	<u>1,574,640</u>	<u>14,838,485</u>	<u>1,319,186</u>

Note 7. Bonds Payable

The Town's indebtedness consists of general obligation serial notes issued between fiscal years 2002 and 2011 for funding various special projects. All bond issues must be approved by Town meeting. The outstanding governmental activities bonds were issued for a variety of capital purposes, the largest portion related to library construction. The outstanding business-type activities bonds were issued for various water and sewer purposes, the largest portion related to the expansion of sewer lines. The bonds bear interest from 0% to 4.5% and are due in various annual installments ranging through 2029.

The annual debt service requirements of the Town's outstanding indebtedness at June 30, 2012 are as follows:

<u>Fiscal Year</u>	<u>Governmental Activities Principal</u>	<u>Governmental Activities Interest</u>	<u>Business-type Activities Principal</u>	<u>Business-type Activities Interest</u>	<u>Total Principal</u>	<u>Total Interest</u>
2013	\$505,000	170,360	1,319,185	564,200	1,824,185	734,561
2014	505,000	153,250	1,355,378	511,831	1,860,378	665,081
2015	470,000	136,420	1,389,010	445,504	1,859,010	581,924
2016	470,000	119,870	1,431,962	382,068	1,901,962	501,937
2017	470,000	104,280	1,277,770	316,740	1,747,770	421,020
2018 - 2022	2,010,000	287,280	5,697,577	746,600	7,707,577	1,033,880
2023 - 2027	540,000	43,200	1,403,098	140,191	1,943,098	183,391
2028 - 2029	=	=	<u>964,505</u>	<u>33,796</u>	<u>964,505</u>	<u>33,796</u>
Totals	<u>\$4,970,000</u>	<u>1,014,660</u>	<u>14,838,485</u>	<u>3,140,930</u>	<u>19,808,485</u>	<u>4,155,590</u>

Of the total business-type activities future debt service requirements of \$17,979,415, the Town is scheduled to receive \$4,578,940 as a debt service subsidy from the Commonwealth of Massachusetts Water Pollution Abatement Trust. The amount of this reimbursement that is related to debt principal (\$2,852,642) has been recorded as an intergovernmental receivable in the financial statements. The reimbursement related to accrued interest payable on this debt is also recorded as an intergovernmental receivable.

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2012

Note 7. Bonds Payable (continued)

The Town is subject to a dual level general debt limit; the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively, of the valuation of taxable property in the Town as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit without state approval. Authorizations under the double debt limit, however, require the approval of the Commonwealth's Oversight Board. Additionally, there are many categories of general obligation debt, which are exempt from the debt limit but are subject to other limitations.

As of June 30, 2012, the Town may issue approximately \$82,501,625 of additional general obligation debt under the normal debt limit. The Town has \$14,994,248 of issued debt exempt from the debt limit. At June 30, 2012, the Town also has authorized and unissued debt of \$2,222,508 for landfill capping, town hall improvements, water and septic purposes.

In addition to the Town's outstanding debt, the Town is assessed its share of debt from other governmental entities (known as overlapping debt). For the Dudley-Charlton Regional School District, the Town's share of the Regional School's \$20,180,000 debt at June 30, 2012 (based on current assessment percentages) is 43.9% or \$8,859,020.

Note 8. Governmental Fund Balances

The detailed breakdown of fund balances for the Town's governmental funds appears below.

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund Balances:			
Nonspendable:			
Permanent fund principal	\$ -	246,971	246,971
Restricted:			
Future debt service	44,505	-	44,505
Prindle dam capital project	-	144,346	144,346
Other capital projects	-	49,048	49,048
Permanent fund spendable amounts	-	206,817	206,817
Cable TV	-	199,883	199,883
Millennium debt	-	115,837	115,837
EMS/Ambulance services	-	735,483	735,483
Chapter 90 highway	-	37,812	37,812
Landfill post closure	-	100,000	100,000
Other purposes - special revenue	-	334,460	334,460
Committed:			
Stabilization fund	1,485,536	-	1,485,536
Special revenue fund donations	-	125,476	125,476
Assigned:			
General government encumbrances	276,612	-	276,612
Public works encumbrances	120,876	-	120,876
Other encumbrances	49,823	-	49,823
Unassigned:			
Landfill closure project	-	(456,994)	(456,994)
General fund residual balance	<u>1,052,384</u>	-	<u>1,052,384</u>
Total governmental fund balances	<u>\$3,029,736</u>	<u>1,839,139</u>	<u>4,868,875</u>

Town of Charlton, Massachusetts

Notes to the Financial Statements

June 30, 2012

Note 9. Inter-fund Transfers

Operating transfers constitute the transfer of resources from the fund that receives the resources to the fund that utilizes them. For the year ended June 30, 2012, the general fund received transfers of \$698,000 from ambulance revolving, \$82,411 from sewer enterprise and \$120,803 from other special revenue funds. These are annual transfers to offset related costs in the general fund operating budget or to close out funds in excess of amounts allowed by statute. In addition, a transfer of \$554,586 was made from the general fund to the sewer fund to offset operating expenses and a transfer of \$75,000 from the general fund to the highway garage capital project to offset project costs. Finally, there was a transfer of \$240,242 from the stabilization fund to fund the general fund operating budget and a transfer of \$288,006 from general fund unassigned fund balance to the stabilization fund (these appear only in the budgetary statement as the stabilization fund is now included in the general fund based on the requirements of GASB 54).

Note 10. Pension Plans

Town employees participate in a cost sharing, multiple employer defined benefit plans. The system is funded by contributions from participants, employer contributions and/or state appropriations. This system, the Worcester Regional Retirement System, covers most eligible employees of the Town.

Worcester Regional Retirement System:

Eligibility and Vesting - Employees of the Town who are employed on a basis which anticipates work at an annual rate to exceed 1040 hours are eligible to participate in the System. Employees are eligible immediately after the date of employment. For participants who were employed by the Town prior to January 1, 1978, benefits become vested after 20 or more years of creditable service or upon reaching the age of 55. Benefits relating to participants who were hired subsequent to December 31, 1977 become vested after 20 or more years of creditable service or after 10 or more years of creditable service and if they have reached the age of 55.

Contributions - Employees contribute 5% of regular compensation if employed prior to January 1, 1975; 7% if first employed from January 1, 1975 to December 31, 1983; 8% of the first \$30,000 and 10% thereafter if first employed on or after January 1, 1984; and 9% of the first \$30,000 and 11% thereafter if first employed on or after January 1, 1998. Employee contributions may be returned to the participants upon leaving Town employment prior to retirement, within certain age and length of employment restrictions, as prescribed by the Massachusetts General Laws.

Retirement Benefits - The amount of normal monthly retirement benefit is equal to a percentage of the participant's average monthly compensation, determined based on age at retirement, the maximum being 2.5% at age 65, and based on the higher of the participant's (1) highest three consecutive years of compensation or (2) last three calendar years of employment preceding retirement whether or not such years are consecutive, multiplied by years of service, up to a maximum of 80% of the average monthly compensation as computed above. Any cost-of-living adjustments granted since 1981 and any increase in other benefits imposed by law after that year are borne by the Commonwealth of Massachusetts.

Other - Provisions exist in the plan for cost of living adjustments and disability benefits.

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2012

Note 10. Pension Plans (continued)

Town Contributions Required and Made - The Town is assessed annually for their share of system. The Town was assessed and paid \$527,495 in 2010 \$615,015 in 2011 and \$625,091 in 2012. These amounts represent approximately 2% of system wide employer assessments.

Trend Information showing the System's progress in accumulating sufficient assets to pay benefits when due is presented in the System's annual financial report. A copy of this report is available from the system.

Note 11. Other Post-Employment Benefits (OPEB)

The Town implemented GASB 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, for the 2009 financial statements. As allowed by GASB 45, the Town established the net OPEB obligation at zero for the beginning of fiscal year 2009 and has applied the measurement and recognition requirements of GASB 45 on a prospective basis for 2009 through 2012.

Plan Description - The Town provides health and life insurance coverage for its retirees and their survivors as a single-employer defined benefit Other Post-Employment Benefits Plan (the Plan). The plan was established in accordance with Massachusetts General Law Chapter 32B, to employees who retire in accordance with various predetermined years of service and under various age requirements. Changes to plan design and contribution rates must be negotiated through the collective bargaining process.

As of July 1, 2011 (the most recent valuation date), the number of Plan participants is as follows:

Active employees	80
Retirees and beneficiaries	<u>30</u>
Total	<u>110</u>

Funding Policy - Contribution requirements are negotiated as part of the collective bargaining process. As of July 1, 2011, the most recent valuation date, members receiving these benefits contributed 50% of the cost of the plans. The cost of administering the plan is paid for by the Town.

Annual OPEB Cost and Net OPEB Obligation - The Town's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, an actuarially determined amount that is calculated in accordance with GASB 45 parameters. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed thirty years. The components of the Town's annual OPEB cost for the year, the actual contribution to the plan and changes to the Town's net OPEB obligation are presented in the following table.

Town of Charlton, Massachusetts

Notes to the Financial Statements

June 30, 2012

Note 11. Other Post-Employment Benefits (OPEB) continued

Normal cost	\$375,473
Amortization of unfunded actuarial accrued liability	348,389
Interest	<u>25,972</u>
Annual required contributions	749,834
Interest on net OPEB obligation	62,355
Adjustment to annual required contribution	<u>(71,488)</u>
Annual OPEB cost	740,701
Employer contributions	<u>(149,003)</u>
Increase (decrease) in net OPEB obligation	591,698
Net OPEB obligation - beginning of year	<u>1,558,704</u>
Net OPEB obligation - end of year	<u>\$2,150,402</u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2012	\$740,701	20%	\$2,150,402
6/30/2011	\$709,569	22%	\$1,558,704
6/30/2010	\$625,047	17%	\$1,006,183

Funding Status and Funding Progress - The funded status of the plan at July 1, 2011, the most recent actuarial valuation, was as follows:

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age Normal Cost (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage Of Covered Payroll ((B-A)/C)
7/1/2011	\$0	\$7,900,891	\$7,900,891	0%	\$4,358,306	181%
7/1/2008	\$0	\$6,137,184	\$6,137,184	0%	\$4,004,177	153%

The actuarial valuation of an ongoing plan involves estimates of the value of the reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare cost trends. Amounts determined regarding funding status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

Methods and Assumptions - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2012

Note 11. Other Post-Employment Benefits (OPEB) continued

include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following additional information is provided as of the latest actuarial valuation:

- Valuation date July 1, 2011
- Actuarial cost method Entry age normal cost method
- Amortization method 30 years, level dollar
- Remaining amortization period 26 years, as of June 30, 2012
- Interest discount rate 4%
- Medical cost trend 8% trending down to 5% in 2014 and thereafter

Note 12. Net Assets Invested in Capital Assets, Net of Related Debt

Net assets invested in capital assets, net of related debt at June 30, 2012 is derived as follows:

	Governmental Activities	Business-Type Activities
Capital assets, net of accumulated depreciation	\$44,074,498	\$28,570,309
Less: bonds payable outstanding on capital assets	(4,570,000)	(15,218,485)
Plus: capital projects borrowing balances	193,394	-
Plus: future state debt reimbursements	=	2,852,641
	<u>\$39,697,892</u>	<u>\$16,204,465</u>

Note 13. Landfill Closure and Post Closure Care Costs

State and Federal regulations require that the Town place a final cover on its landfill after the landfill is closed and also to perform certain ongoing maintenance and monitoring for thirty years after closure. The Town's landfill has been closed, and a project to perform the needed closure steps is nearly complete. The Town plans to fund post closure testing and monitoring costs, estimated at \$450,000 over the next thirty years, from its annual tax levy. This estimated liability, which is subject to change due to inflation, technology and applicable regulations, is presented in the Statement of Net Assets.

Note 14. Deficit Fund Balance

At June 30, 2012, the Town's landfill fund has a deficit fund balance of \$456,994. This is due to \$500,000 in borrowing authorized by Town Meeting but not issued as of June 30, 2012. The Town has issued BANs and will issue long term debt in fiscal year 2013 and the deficit will be eliminated.

Note 15. Risk Management

Lawsuits may be pending or threatened against the Town, which arise from the ordinary course of operations, including actions commenced and claims asserted against it for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law.

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2012

Note 15. Risk Management (continued)

The Town estimates that potential claims against the Town, not covered by insurance, resulting from such litigation, would not materially affect the financial statements.

The Town receives some financial assistance from numerous federal and state agencies in the form of grants and entitlements. Expenditures of funds under these programs require compliance with the grant agreements and may be subject to audit. Any disallowed expenditures resulting from such audits become a liability of the Town, although the Town expects that these amounts, if any, would be immaterial to the financial statements.

Note 16. Implementation of new GASB Statements

During fiscal year 2012, the Town implemented the following GASB pronouncements:

- GASB Statement #64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. This statement did not impact the Town’s financial statements.

In future fiscal years, the Town will implement the following GASB pronouncements:

- GASB Statement #60 – *Accounting and Financial Reporting for Service Concession Arrangements*, which is required to be implemented in fiscal year 2013. This statement will have no impact on the Town’s financial statements.
- GASB Statement #61 – *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34*, which is required to be implemented in fiscal year 2013. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #62 – *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is required to be implemented in fiscal year 2013. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*, which is required to be implemented in fiscal year 2013. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #65 – *Items Previously Reported as Assets and Liabilities*, which is required to be implemented in fiscal year 2014. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #66 – *Technical Correction -2012 – An Amendment of GASB Statements No. 10 and No. 62*, which is required to be implemented in fiscal year 2014. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #67 – *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*, which is required to be implemented in fiscal year 2014. This statement will have no impact on the Town’s financial statements.
- GASB Statement #68 – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015. The Town is currently evaluating the possible impact of this will have on its financial statements.

TOWN OF CHARLTON, MASSACHUSETTS

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2012

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 1,524,738	149,751	33,378	1,707,867
Investments	303,764	148,889	420,559	873,212
Receivables:				
Departmental	<u>732,268</u>	<u>-</u>	<u>-</u>	<u>732,268</u>
Total assets	<u>\$ 2,560,770</u>	<u>298,640</u>	<u>453,937</u>	<u>3,313,347</u>
 <u>Liabilities and Fund Balances</u>				
<u>Liabilities:</u>				
Accounts payable	\$ 14,494	105,246	149	119,889
Other accrued liabilities	122,051	-	-	122,051
Notes payable	500,000	-	-	500,000
Deferred revenue	<u>732,268</u>	<u>-</u>	<u>-</u>	<u>732,268</u>
Total liabilities	<u>1,368,813</u>	<u>105,246</u>	<u>149</u>	<u>1,474,208</u>
 <u>Fund Balances:</u>				
Nonspendable	-	-	246,971	246,971
Restricted	1,523,475	193,394	206,817	1,923,686
Committed	125,476	-	-	125,476
Unassigned	<u>(456,994)</u>	<u>-</u>	<u>-</u>	<u>(456,994)</u>
Total fund balances	<u>1,191,957</u>	<u>193,394</u>	<u>453,788</u>	<u>1,839,139</u>
Total liabilities and fund balances	<u>\$ 2,560,770</u>	<u>298,640</u>	<u>453,937</u>	<u>3,313,347</u>

TOWN OF CHARLTON, MASSACHUSETTS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2012

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals</u>
Revenues:				
Departmental charges for services	\$ 814,340	-	8,035	822,375
Intergovernmental	667,979	-	-	667,979
Investment income	(4,673)	2,220	3,832	1,379
Other	<u>227,922</u>	<u>226,990</u>	<u>-</u>	<u>454,912</u>
Total revenues	<u>1,705,568</u>	<u>229,210</u>	<u>11,867</u>	<u>1,946,645</u>
Expenditures:				
Current:				
General government	97,004	-	-	97,004
Public safety	135,194	-	-	135,194
Public works	534,565	2,079,168	-	2,613,733
Human services	67,789	-	-	67,789
Recreation and culture	<u>90,368</u>	<u>69,180</u>	<u>5,184</u>	<u>164,732</u>
Total expenditures	<u>924,920</u>	<u>2,148,348</u>	<u>5,184</u>	<u>3,078,452</u>
Excess (deficiency) of revenues over expenditures	780,648	(1,919,138)	6,683	(1,131,807)
Other financing sources (uses):				
Operating transfers in	-	75,000	-	75,000
Operating transfers out	<u>(818,803)</u>	<u>-</u>	<u>-</u>	<u>(818,803)</u>
Total other financing sources (uses)	<u>(818,803)</u>	<u>75,000</u>	<u>-</u>	<u>(743,803)</u>
Net changes in fund balances	(38,155)	(1,844,138)	6,683	(1,875,610)
Fund balance, beginning of year	<u>1,230,112</u>	<u>2,037,532</u>	<u>447,105</u>	<u>3,714,749</u>
Fund balance, end of year	<u>\$ 1,191,957</u>	<u>193,394</u>	<u>453,788</u>	<u>1,839,139</u>

BF

Bill Fraher, CPA

TOWN OF CHARLTON

MANAGEMENT LETTER

June 30, 2012



Bill Fraher, CPA
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The Board of Selectmen
Town of Charlton, Massachusetts

Dear Board Members:

In planning and performing my audit of the financial statements of the Town of Charlton for the year ended June 30, 2012, I considered its internal control structure in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, during my audit, I noted certain matters involving the internal control structure and other operational matters that I am presenting for your consideration.

My consideration of the internal control structure was for the limited purpose described in the preceding paragraph and would not necessarily disclose all matters that would be considered reportable conditions under standards established by the American Institute of Certified Public Accountants. In addition, because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected by such control structure.

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 misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the Town of Charlton, Massachusetts' financial statements will not be prevented or detected and corrected on a timely basis. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses.

Other matters involving the internal control structure and other operational matters are presented in the following report. These matters were considered in determining the nature, timing and extent of the audit tests applied in my audit of the financial statements, and this report does not affect my report on those financial statements dated January 28, 2013. I have not considered the internal control structure since the date of my report.

This report is intended solely for the use of the Board of Selectmen and Town Management and is not intended and should not be used by anyone other than these specified parties.

Bill Fraher, CPA
January 28, 2013

TOWN OF CHARLTON, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2012

Section I - Overview of Operating Results

[Please note that the discussion of the Town's financial results are based on amounts in the Town's fund financial statements (rather than the entity wide statements), presented in accordance with Generally Accepted Accounting Principles (GAAP).]

For the year ended June 30, 2012, general fund revenues and transfers in (budgetary basis) were \$22.2 million, an increase of 1.8% from the prior year. The Town's general fund revenues were over budget by \$347,496 (1.6%) due mainly to strong excise tax collections and supplemental state aid, while the Town's general fund unexpended appropriations were \$312,811 (1.4%) due to residual remaining budgetary amounts across many departments.

At June 30, 2012, the Town's general fund unassigned (formerly undesignated) fund balance (on a GAAP fund basis) was approximately \$1,052,000, a slight decrease from \$1,070,000 at June 30, 2011. Unassigned fund balance decreased due to amounts used to offset the 2012 budget not offset by current year results.

At June 30, 2012, the Town's stabilization fund balance increased slightly from the prior year (the balance was \$1,485,536 at June 30, 2012, compared to \$1,427,531 at June 30, 2011). This increase was due to the use of stabilization fund balance for the FY 2012 budget that was more than replenished by a free cash transfer. For GAAP financial statement purposes only, the stabilization fund is now presented as committed fund balance in the general fund per the requirements of GASB Statement Number 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

The Town has worked hard to maintain a positive financial position during the economic slow down of recent years. When combined, the Town's undesignated fund balance and stabilization fund make up approximately 11% of the Town's operating budget which is in the middle of the desired 5% to 15% range. If the economy continues to struggle and local aid continues to be cut, the Town could find the process of balancing the annual budget and maintaining current levels of free cash and stabilization even more difficult. As it has done in the past, the Town should monitor the trend of tax revenues, local aid and other receipts and ensure that annual operating budgets are kept within available revenue and other funding sources.

TOWN OF CHARLTON, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2012

Section II - Control Deficiencies

Under auditing standards, there are three categories of internal control deficiencies and other matters that can be identified during an audit. These three categories are material weaknesses, significant deficiencies and control deficiencies. Any items that are identified as material weaknesses or significant deficiencies require modification of the auditor's report on internal control and compliance (which is presented in the report on the financial statements).

II-A. Material Weaknesses

There were no material weaknesses noted during this year's audit.

II-B. Significant Deficiencies

There were no significant deficiencies noted during this year's audit.

II-C. Control Deficiencies

Control deficiencies are issues that do not rise to the level of material weaknesses or significant deficiencies. These are discussed below.

II-C-1. Police Details/Agency Funds

The system for tracking for police details needs to be improved. At June 30, 2012, the general ledger balance could not be reconciled to police detail records, and there is a large deficit in this fund of \$209,331. It appears that a significant percentage of this deficit relates to details performed prior to calendar year 2012.

The police department needs to immediately address the collection of outstanding unpaid details. In addition, the police department should provide the Town Accountant with all invoices, collection backup and write offs. A system needs to be in place so that payments for details are collected on a timelier basis and amounts are periodically reconciled to the general ledger. Given the size of the deficit, the lack of a reconciliation and the likely amount of old unpaid items, it is possible that the Town may have to appropriate funds to address this deficit.

Finally, there is no formal policy on writing off uncollectible amounts. The Town should require that write offs of uncollectible details are approved by the Board of Selectmen.

Other agency funds include driveway bonds, some of which are very old. This raises the issue of whether many of these are still valid. The Town is in the process of reviewing these bonds to determine the current status and will adjust these as required.

TOWN OF CHARLTON, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2012

Section II - Control Deficiencies (continued)

II-C-2. Statements of Auditing Standards on Fraud & Risk Assessment

The Auditing Standards Board has issued numerous Statements on Auditing Standards (SAS) related to fraud and risk assessment.

One such statement, SAS 99 - *Consideration of Fraud in a Financial Statement Audit*, outlines an auditor's responsibility as it relates to the possibility of fraud. One area where most communities are exposed to fraud risk is in the area of miscellaneous cash receipts. Due to the nature of Town operations, it is necessary that certain miscellaneous cash receipts be decentralized at various Town departments. Although the dollars involved are often not material to the financial statements, this situation creates an internal control concern.

The Town should monitor this area for possible internal control improvements. One possible internal control enhancement is to have periodic internal audits of selected departmental cash receipts, where departmental turnovers are matched to underlying documentation. While other steps could be implemented, the cost of a more tightly controlled system for miscellaneous departmental receipts must be weighed against the related internal control benefits.

The Auditing Standards Board also issued several SAS that are collectively called the "Risk Assessment Standards". These standards change and expand an auditor's responsibility in reviewing, identifying and assessing risks faced during a financial statement audit. These standards also provide recommendations on management's responsibilities in this area.

One of the elements of an organization's internal control is risk assessment. Therefore, it is important that the Town periodically perform a risk assessment process to analyze, identify and evaluate areas where the Town may be exposed to various financial risks. As part of this process, the Town should review its systems, procedures and internal controls in all material financial and operational areas to determine if any modifications are required to minimize such risk. The Town should also ensure that it has an ongoing monitoring program in place to periodically test the effectiveness of any related policies and procedures that are in place.

II-C-3. Ambulance Fund

The Town has many ambulance accounts receivable that are over one year old. At June 30, 2012, a large number of outstanding accounts related to prior year balances (of the total accounts receivable of \$458,972 at June 30, 2012, \$279,502.43 are over 120 days old).

Accounts that are uncollectible after a certain period should be subject to further procedures. The Town should ensure that it is receiving payment on ambulance services wherever possible

TOWN OF CHARLTON, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2012

Section II - Control Deficiencies (continued)

II-C-3. Ambulance Fund (continued)

and that truly uncollectible accounts are written off (with proper approvals) in a timely manner. The fire department should have written, properly approved collection and write off policies in place.

In addition, the Town has a bank account that is used for ambulance deposits (received from the ambulance billing company). At June 30, 2012, this account had a balance of approximately \$13,000. This account is not on the general ledger and should be added to the ambulance ledger balance.

II-C-4. Town Clerk Cash Receipts

In processing cash receipts, the Town Clerk still does not utilize the cash register (which was been purchased by the Town over a year ago). This cash register will enhance internal controls over the collection of all receipts in the Clerk's office.

In order to enhance internal controls, the Town Clerk should begin utilizing the cash register for cash receipts processing as soon as possible.

II-C-5. Sewer Billing Revenue and Rates

During our testing of sewer billings and sewer revenue, we noted that there has been a migration of sewer customers from a "flat amount" rate to actual metered usage. As a result of this migration, sewer billings and revenue have declined over the past few years. It appears that amounts billed to customers are reduced as customers change to metered billing.

The sewer department should examine the long term impact of this change in billing methodology and ensure that rates are sufficient to cover costs on an ongoing basis.

TOWN OF CHARLTON, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2012

Section III - Informational Matters/New Accounting & Auditing Standards

III-1. GASB 45

For the 2009 financial statements, the Town implemented GASB Statement Number 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. As required by GASB 45, the Town is recognizing its post employment benefit liability (primarily retiree health insurance) over a 30 year period.

At June 30, 2012, the liability on the Town's financial statements is \$2,150,402. This is based on the first four years of recognizing this liability and amortizing (over a 30 year period) the current actuarial liability of \$7,900,891.

As the Town continues to recognize current year unfunded costs, amortize the actuarial liability and record amounts at future values, this financial statement liability will continue to grow. If unfunded, this actuarial liability is projected to be \$40 million at the end of the thirty year amortization period (this equates to approximately \$15 million in current dollars). As this liability grows, the Town should consider addressing a possible long-term funding strategy. The size of the unfunded liability and the existence of a funding plan could have an impact on future bond ratings.

The Town fulfilled its obligation under GASB 45 for its 2009 through 2012 financial statements. As required by GASB 45, the Town will need an updated valuation for the 2015 financial statements. This valuation should segregate amounts (if applicable) for the Town's water and sewer enterprise funds.

III-2. New GASB Statements

For the 2013 financial statements, the Town will be required to implement GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement replaces the current entity wide statement of net assets with a statement of net position, and adds the categories of deferred inflows and outflows to the current categories of assets, liabilities and net assets (which will now be called net position).

We will work with the Town over the coming year to ensure proper implementation of the new GASB statement.

There are several other new GASB statements that are required to be implemented for the fiscal year 2013 audit. At this time, other than Statement No. 63, it does not appear that these statements will have any significant impact on the Town's financial statements.