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Bill Fraher, CPA

TOWN OF CHARLTON

MANAGEMENT LETTER

June 30, 2013



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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, 2013, 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 December 23, 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
December 23, 2013

**TOWN OF CHARLTON, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2013**

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, 2013, general fund revenues and transfers in (budgetary basis) were \$23.1 million, an increase of 3.9% from the prior year. The Town's general fund revenues were over budget by \$282,986 (1.2%) due mainly to strong excise tax collections and one time miscellaneous revenues, while the Town's general fund unexpended appropriations were \$143,838 (0.6%) due to residual remaining budgetary amounts across many departments.

At June 30, 2013, the Town's general fund unassigned (formerly undesignated) fund balance (on a GAAP fund basis, exclusive of stabilization fund balance) was approximately \$906,181, a decrease from \$1,052,000 at June 30, 2012. Unassigned fund balance decreased due to amounts used to offset the 2013 budget not offset by current year results.

At June 30, 2013, the Town's stabilization fund balance also decreased slightly from the prior year (the balance was \$1,388,942 at June 30, 2013, compared to \$1,485,536 at June 30, 2012). This decrease was due to the use of stabilization fund balance for the FY 2013 budget that was not fully replenished by a free cash transfer. For GAAP financial statement purposes only, the stabilization fund is now presented as part of unassigned 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 10% 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.

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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 Detail Fund

The system for tracking for police details needs to be improved. At June 30, 2013, the general ledger balance could not be reconciled to police detail records, and there is a large deficit in this fund of \$234,000. It appears that a significant percentage of this deficit relates to details performed prior to calendar year 2013.

The police department is in the process of addressing the collection of outstanding unpaid details, but much work is left to be accomplished. Going forward, 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.

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.

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Section II - Control Deficiencies (continued)

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

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. Internal Control Policies and Procedures Manual

The Town does not have a comprehensive internal control policies and procedures manual relating to the accounting and financial operations of all Town departments. This manual can provide many benefits, including the documentation of procedures for ongoing monitoring purposes, the ability to more easily train new staff in policies and procedures that have been approved by management and the setting of consistent practices for all Town departments.

A comprehensive internal control policies and procedures manual should be developed and approved. This document should be in sufficient detail to establish clear requirements for day to day operations and allow new staff to understand the Town's internal control systems.

II-C-4. Ambulance Fund

The Town has many ambulance accounts receivable that are over one year old. At June 30, 2013, a large number of outstanding accounts related to prior year balances (of the total ambulance accounts receivable of \$518,762 at June 30, 2013, \$353,082 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 and that truly

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Section II - Control Deficiencies (continued)

II-C-4. Ambulance Fund (continued)

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, 2013, this account had a balance of approximately \$11,000. This account is not on the general ledger and should be added to the ambulance ledger balance.

II-C-5. 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-6. 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.

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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, 2013, the liability on the Town's financial statements is \$2,759,709. This is based on the first five years of recognizing this liability and amortizing (over a 30 year period) the current actuarial liability of \$7,900,891. The financial statement liability increased from last year by \$609,307, of which \$381,623 relates to the amortization of the unfunded liability.

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 2013 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. GASB 63

For the 2013 financial statements, the Town implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement replaced the current entity wide "statement of net assets" with a "statement of net position", and added the categories of deferred inflows and outflows to the past categories of assets, liabilities and net assets (now called net position). The Town has completed its implementation of this GASB Statement.

Concurrent with and related to GASB 63, the Town implemented GASB Statement Number 65, *Items Previously Reported as Assets and Liabilities*. This statement provided guidance on the reporting of certain items previously classified as assets and liabilities that are now required to be classified as deferred outflows or deferred inflows. This statement resulted in the reclassification of unavailable (formerly deferred) revenue from liabilities to deferred inflows. This Statement was not required to be implemented until fiscal year 2014, but earlier implementation was encouraged.

There were several other new GASB statements required to be implemented for the fiscal year 2013 audit. These statements did not have any significant impact on the Town's financial statements.



Bill Fraher, CPA

TOWN OF CHARLTON, MASSACHUSETTS

Basic Financial Statements, Required Supplementary
Information and Supplementary Information

Year ended June 30, 2013

(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:

Report on the Financial Statements

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, 2013, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

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, 2013, 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.

Other Matters

Required Supplementary Information

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 in accordance with auditing standards generally accepted in the United States of America, 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.

Supplementary Information

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 United States of America. In my opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards* I have also issued my report dated December 23, 2013 on my consideration of the Town of Charlton's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of my audit.


Bill Fraher, CPA
December 23, 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, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Charlton, Massachusetts, as of and for the year ended June 30, 2013, which collectively comprise the Town's basic financial statements and have issued my report thereon dated December 23, 2013.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, 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 December 23, 2013.

Purpose of this Report

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



Bill Fraher, CPA
December 23, 2013

Town of Charlton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
June 30, 2013

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, 2012 - June 30, 2013)

- The assets of the Town of Charlton exceeded its liabilities at the close of the most recent fiscal year by \$61,873,899 (net position). Of this amount, \$1,997,475 is considered unrestricted (unrestricted net position). The unrestricted net position of the Town's governmental activities are a deficit of \$523,268 due to the OPEB liability of \$2,759,709. The unrestricted net position of business-type activities is \$2,520,743. Total net position decreased from the prior year in governmental activities by \$768,314 and decreased in business-type activities by \$171,994. 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 2013 was \$27,250,640 compared with \$26,020,424 in 2012. For the current year, \$24,727,743 was spent on governmental activities and an additional \$2,522,897 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 an increase in public works due to higher snow and ice costs and increased depreciation from completion of the highway facility.
- At June 30, 2013, the Town's governmental funds reported a combined ending fund balance of \$5,664,913, an increase of \$796,038 from the June 30, 2012 amount of \$4,868,875. The total at 2013 is made up of \$3,001,913 in the general fund (of which \$2,295,123 is unassigned) and \$2,663,000 in all other governmental funds. General fund total fund balances decreased by \$27,823 from the prior year. All other governmental funds total fund balances increased by \$823,861 primarily due to the permanent bonding of a landfill note.
- The Town's total bonded indebtedness is \$19,127,458. The Town also has \$253,804 in accrued interest on long term debt.

**Town of Charlton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
June 30, 2013**

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

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise 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 position. 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.

**Town of Charlton, Massachusetts
Management's Discussion and Analysis
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June 30, 2013**

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

Net position may serve over time as a useful indicator of a government's financial position. However, the net position 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 position of the Town of Charlton decreased by \$940,308. The net position of the governmental activities decreased by \$768,314 (compared with a prior year decrease of \$1,014,705) and the net position of the business-type activities decreased by \$171,994 (compared with a prior year increase of \$816,337). There were no significant changes to the amounts in the statement of net position other than the reclassification of certain items from unrestricted to restricted net position (to better conform to GASB requirements). The main reason for the governmental activities net asset decrease is related to GASB 45 Other Post Employee Benefits costs.

Statement of Activities

Government Activities

In Fiscal Year 2013, property taxes and vehicle excise taxes accounted for 79% of all governmental activities revenues (compared to 81% last year). Of all governmental activities expenses, 49% related to education (compared with 50% last year). The overall decrease in net position 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, 2013**

Business-type Activities

Water and sewer rates are structured to cover all costs related to the activity. The expenses of the business-type activities exceeded revenue by \$171,994. This decrease in the net position of business-type activities is due primarily to the decrease in special assessments collected related to sewer system expansion. A large special assessment was collected in full in 2012.

Financial Analysis of the Town's Funds

General Fund – The year-end fund balances of the general fund were \$3,001,913 which is \$24,823 less 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 (unassigned) 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 2013, the Town appropriated \$612,720 of free cash, primarily to fund a transfer of \$148,071 to the stabilization fund and capital items of \$464,649.

Other Governmental Funds – Fund balances of other non-major governmental funds (in total) increased by \$823,861, primarily due to the permanent bonding of a landfill note and reduction of accrued liabilities.

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.

The unrestricted net position of the Enterprise Fund at year end was \$2,520,743 compared with \$3,217,667 last year. The total decrease in unrestricted net position was \$696,924 while overall net position decreased by \$171,994. The decrease in unrestricted net position is due to depreciation.

General Fund Budgetary Highlights

On a budgetary basis, the Town showed a \$426,824 favorable variance to the bottom line budget. Of this amount, \$282,986 reflects revenues above budgeted amounts and \$143,838 relates to unexpended appropriations.

**Town of Charlton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
June 30, 2013**

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, 2013, amounts to \$71,414,089 (net of accumulated depreciation), compared to \$72,644,807 at June 30, 2012. This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles. On the governmental side, net capital assets decreased by \$678,508 (depreciation exceeding capital additions). Net capital assets decreased on the business-type activity side by \$552,210 due to depreciation.

Debt

The Town of Charlton had \$5,230,000 in bonds outstanding for governmental activities on June 30, 2013, which represents an increase of \$260,000 from June 30, 2012. An additional \$13,897,458 in bonds was outstanding for the business-type activities, a decrease of \$941,027 from the prior year.

Requests for Information

This financial report is designed to provide a general overview of the Town of Charlton's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, Town Hall, 37 Main Street, Charlton, Massachusetts 01507.

TOWN OF CHARLTON, MASSACHUSETTSStatement of Net Position
June 30, 2013

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 3,848,734	3,518,728	7,367,462
Investments	2,144,471	478,872	2,623,343
Receivables (net of allowance for uncollectibles)	1,307,943	125,437	1,433,380
Due from commonwealth	-	2,724,435	2,724,435
Unapportioned assessments due in future years	-	5,112,266	5,112,266
Capital assets:			
Assets not being depreciated	3,141,960	2,253,456	5,395,416
Assets being depreciated, net	40,254,030	25,764,643	66,018,673
Total assets	\$ 50,697,138	39,977,837	90,674,975
<u>Liabilities</u>			
Warrants and accounts payable	\$ 273,540	95,040	368,580
Other accrued liabilities	110,147	-	110,147
Accrued interest payable	63,817	189,987	253,804
Notes payable	-	-	-
Other liabilities	2,440	-	2,440
Long-term liabilities:			
Due within one year:			
Landfill postclosure care costs	20,000	-	20,000
Compensated absences	146,873	-	146,873
Bonds payable	587,000	1,393,378	1,980,378
Due in more than one year:			
Landfill postclosure care costs	410,000	-	410,000
Compensated absences	480,496	9,304	489,800
Other post employment benefits	2,759,709	-	2,759,709
Bonds payable	4,643,000	12,504,080	17,147,080
Total liabilities	9,497,022	14,191,789	23,688,811
<u>Deferred Inflows of Resources</u>			
Unavailable revenue	-	5,112,265	5,112,265
<u>Net Position</u>			
Net investment in capital assets	39,015,990	16,693,699	55,709,689
Restricted for:			
Perpetual funds - nonexpendable	258,746	-	258,746
Perpetual funds - expendable	207,352	-	207,352
Other specific purposes	2,241,296	1,459,341	3,700,637
Unrestricted	(523,268)	2,520,743	1,997,475
Total net position	\$ 41,200,116	20,673,783	61,873,899

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, 2013

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Totals
Governmental activities:							
General government	\$ 2,603,846	207,759	100,333	92,815	(2,202,939)	-	(2,202,939)
Public safety	5,202,175	1,135,509	47,638	282,485	(3,736,543)	-	(3,736,543)
Education	12,039,828	-	21,633	-	(12,018,195)	-	(12,018,195)
Public works	3,428,202	27,005	65,875	871,343	(2,463,979)	-	(2,463,979)
Human services	454,407	47,225	45,942	-	(361,240)	-	(361,240)
Recreation and culture	799,250	4,013	84,337	-	(710,900)	-	(710,900)
Interest on debt service	200,035	-	-	-	(200,035)	-	(200,035)
Total governmental activities	24,727,743	1,421,511	365,758	1,246,643	(21,693,831)	-	(21,693,831)
Business-type activities:							
Water	356,496	13,485	-	62,133	-	(280,878)	(280,878)
Sewer	2,166,401	1,719,331	-	249,790	-	(197,280)	(197,280)
Total business-type activities	2,522,897	1,732,816	-	311,923	-	(478,158)	(478,158)
Total government	\$ 27,250,640	3,154,327	365,758	1,558,566	(21,693,831)	(478,158)	(22,171,989)
General revenues:							
Property taxes					\$ 17,127,791	-	17,127,791
Excise taxes					1,717,953	-	1,717,953
Payments in lieu of taxes					808,568	-	808,568
Intergovernmental					1,318,374	-	1,318,374
Unrestricted investment earnings					51,131	18,354	69,485
Miscellaneous					189,510	-	189,510
Transfers					(287,810)	287,810	-
Total general revenues and transfers					20,925,517	306,164	21,231,681
Changes in net position					(768,314)	(171,994)	(940,308)
Net position - beginning of year					41,968,430	20,845,777	62,814,207
Net position - end of year					\$ 41,200,116	20,673,783	61,873,899

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

TOWN OF CHARLTON, MASSACHUSETTS

Balance Sheet - Governmental Funds

June 30, 2013

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 1,890,720	1,958,014	3,848,734
Investments	1,345,916	798,555	2,144,471
Receivables:			
Property taxes	176,039	-	176,039
Tax liens and foreclosures	392,547	-	392,547
Motor vehicle and other excise	188,767	-	188,767
Departmental	-	743,057	743,057
Less: allowance for abatements	<u>(192,467)</u>	<u>-</u>	<u>(192,467)</u>
 Total assets	 <u>\$ 3,801,522</u>	 <u>3,499,626</u>	 <u>7,301,148</u>
<u>Liabilities</u>			
Warrants and accounts payable	\$ 256,706	16,834	273,540
Other accrued liabilities	33,412	76,735	110,147
Other liabilities	<u>2,440</u>	<u>-</u>	<u>2,440</u>
 Total liabilities	 <u>292,558</u>	 <u>93,569</u>	 <u>386,127</u>
<u>Deferred Inflows of Resources</u>			
Unavailable revenue	<u>507,051</u>	<u>743,057</u>	<u>1,250,108</u>
<u>Fund balances</u>			
Nonspendable	-	258,746	258,746
Restricted	44,394	2,238,324	2,282,718
Committed	-	-	-
Assigned	662,396	165,930	828,326
Unassigned	<u>2,295,123</u>	<u>-</u>	<u>2,295,123</u>
 Total fund balances	 <u>3,001,913</u>	 <u>2,663,000</u>	 <u>5,664,913</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$ 3,801,522</u>	 <u>3,499,626</u>	 <u>7,301,148</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, 2013

	General Fund	Nonmajor Governmental Funds	Total
Revenues:			
Property taxes	\$ 17,089,946	-	17,089,946
Excise taxes	1,807,966	-	1,807,966
Payments in lieu of taxes	808,568	-	808,568
Departmental charges for services	220,148	891,800	1,111,948
Licenses and permits	165,421	-	165,421
Intergovernmental	1,342,552	1,159,621	2,502,173
Fines	97,408	-	97,408
Investment income	42,226	8,905	51,131
Other	139,343	292,912	432,255
Total revenues	<u>21,713,578</u>	<u>2,353,238</u>	<u>24,066,816</u>
Expenditures:			
Current:			
General government	1,828,125	134,481	1,962,606
Public safety	3,806,027	177,668	3,983,695
Education	11,737,087	-	11,737,087
Public works	1,601,419	991,922	2,593,341
Human services	236,334	60,895	297,229
Recreation and culture	393,989	87,573	481,562
Intergovernmental	30,352	-	30,352
Employee benefits	1,705,659	-	1,705,659
Other	252,837	-	252,837
Debt service	703,600	-	703,600
Total expenditures	<u>22,295,429</u>	<u>1,452,539</u>	<u>23,747,968</u>
Excess (deficiency) of revenues over expenditures	(581,851)	900,699	318,848
Other financing sources (uses):			
Proceeds from issuance of bonds	-	765,000	765,000
Operating transfers in	1,038,739	-	1,038,739
Operating transfers out	(484,711)	(841,838)	(1,326,549)
Total other financing sources (uses)	<u>554,028</u>	<u>(76,838)</u>	<u>477,190</u>
Net changes in fund balances	(27,823)	823,861	796,038
Fund balance, beginning of year	<u>3,029,736</u>	<u>1,839,139</u>	<u>4,868,875</u>
Fund balance, end of year	<u>\$ 3,001,913</u>	<u>2,663,000</u>	<u>5,664,913</u>

TOWN OF CHARLTON, MASSACHUSETTS

Reconciliation of the Governmental Fund Balance Sheet
To the Statement of Net Position
Year Ended June 30, 2013

Total fund balances - governmental funds \$ 5,664,913

Amounts reported for governmental activities in the statement
of net position 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	3,107,215
Construction in progress	45,495
Infrastructure assets	45,371,240
Buildings and building improvements	26,309,087
Other capital assets	6,778,844
Accumulated depreciation	<u>(38,215,891)</u>

Total Capital Assets 43,395,990

Other long-term assets are not available to pay for current
period expenditures and, therefore, are deferred in funds. 1,250,108

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	(5,230,000)
Landfill postclosure care costs	(430,000)
Accrued interest on bonds	(63,817)
Other post employment benefits	(2,759,709)
Compensated absences	<u>(627,369)</u>

Total long-term liabilities (9,110,895)

Net position of governmental activities \$ 41,200,116

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, 2013

Net changes in fund balances - governmental funds	\$ 796,038
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.	(678,508)
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 position. This is the amount by which long-term debt repayments are more (less) than bond proceeds and accrued interest for the year.	(261,435)
Some expenses in the Statement of Activities do not require the use of current financial resources are not reported in the funds.	
Compensated absences	6,276
Landfill post-closure costs	20,000
Change in net OPEB obligation	(609,307)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	<u>(41,378)</u>
Changes in net position of governmental activities	\$ <u>(768,314)</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, 2013

	<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	\$ 17,072,798	17,072,798	17,076,952	4,154
Excise taxes	1,714,450	1,714,450	1,807,966	93,516
Payments in lieu of taxes	808,591	808,591	808,568	(23)
Departmental charges for services	215,010	215,010	220,148	5,138
Licenses and permits	158,986	158,986	165,421	6,435
Intergovernmental	1,335,653	1,289,109	1,342,552	53,443
Fines	94,811	94,811	97,408	2,597
Investment income	32,613	32,613	20,970	(11,643)
Other	39,410	39,410	139,343	99,933
Transfers from other funds	1,278,581	1,355,224	1,384,660	29,436
Total resources	<u>22,750,903</u>	<u>22,781,002</u>	<u>23,063,988</u>	<u>282,986</u>
Charges to appropriations (outflows):				
General government	2,102,387	2,071,540	1,913,469	158,071
Public safety	4,015,190	4,025,391	3,984,305	41,086
Education	11,744,468	11,739,468	11,737,087	2,381
Public works	1,408,539	1,474,884	1,571,465	(96,581)
Human services	238,331	245,174	238,065	7,109
Recreation and culture	406,960	409,557	408,322	1,235
Debt service	693,606	708,366	703,600	4,766
Intergovernmental	30,813	30,813	30,352	461
Employee benefits	1,733,128	1,713,878	1,705,817	8,061
Insurance	286,239	270,086	252,837	17,249
Transfers to other funds	712,179	712,782	712,782	-
Total charges to appropriations	<u>23,371,840</u>	<u>23,401,939</u>	<u>23,258,101</u>	<u>143,838</u>
Excess (deficiency) of resources over charges to appropriations	<u>(620,937)</u>	<u>(620,937)</u>	<u>(194,113)</u>	<u>426,824</u>
Fund balance allocation	<u>620,937</u>	<u>620,937</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 Position - Proprietary Funds

June 30, 2013

	<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	\$ 628,705	2,890,023	3,518,728
Investments	347,221	131,651	478,872
Receivables (net):			
User charges	-	107,530	107,530
Liens	-	9,648	9,648
Special Assessments	-	8,259	8,259
Due from other governments	34,530	116,847	151,377
Total current assets	1,010,456	3,263,958	4,274,414
Noncurrent assets:			
Due from other governments	587,489	1,985,569	2,573,058
Unapportioned assessments due in future years	-	5,112,266	5,112,266
Capital assets	7,072,977	30,141,019	37,213,996
Accumulated depreciation	-	(9,195,897)	(9,195,897)
Total noncurrent assets	7,660,466	28,042,957	35,703,423
Total assets	\$ 8,670,922	31,306,915	39,977,837
<u>Liabilities</u>			
Current Liabilities:			
Warrants and accounts payable	\$ 74,898	20,142	95,040
Accrued interest payable	48,151	141,836	189,987
Bonds payable	308,613	1,084,765	1,393,378
Total current liabilities	431,662	1,246,743	1,678,405
Noncurrent liabilities:			
Compensated absences	-	9,304	9,304
Bonds payable	3,985,865	8,518,215	12,504,080
Total noncurrent liabilities	3,985,865	8,527,519	12,513,384
Total liabilities	4,417,527	9,774,262	14,191,789
<u>Deferred Inflows of Resources</u>			
Unavailable revenue	-	5,112,265	5,112,265
<u>Net Position</u>			
Net investment in capital assets	3,365,988	13,327,711	16,693,699
Restricted - future debt service	-	1,459,341	1,459,341
Unrestricted	887,407	1,633,336	2,520,743
Total net position	\$ 4,253,395	16,420,388	20,673,783

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 Position

Proprietary Funds

For the Year Ended June 30, 2013

	<u>Water Enterprise Fund</u>	<u>Sewer Enterprise Fund</u>	<u>Total</u>
Operating revenues:			
Charges for services	\$ -	1,129,351	1,129,351
Special assessments	-	589,980	589,980
Other	13,485	-	13,485
	<u>13,485</u>	<u>-</u>	<u>13,485</u>
Total operating revenues	<u>13,485</u>	<u>1,719,331</u>	<u>1,732,816</u>
Operating expenditures:			
Salaries, wages and employee benefits	12,745	75,051	87,796
Other operating expenses	181,848	878,225	1,060,073
Depreciation	28,163	781,468	809,631
	<u>222,756</u>	<u>1,734,744</u>	<u>1,957,500</u>
Total operating expenditures	<u>222,756</u>	<u>1,734,744</u>	<u>1,957,500</u>
Operating income	<u>(209,271)</u>	<u>(15,413)</u>	<u>(224,684)</u>
Nonoperating revenues (expenses):			
Intergovernmental	62,133	249,790	311,923
Investment income	10,283	8,071	18,354
Interest expense	(133,740)	(431,657)	(565,397)
	<u>(61,324)</u>	<u>(173,796)</u>	<u>(235,120)</u>
Total nonoperating revenues (expenses)	<u>(61,324)</u>	<u>(173,796)</u>	<u>(235,120)</u>
Income before transfers	(270,595)	(189,209)	(459,804)
Operating transfers in	6,203	484,711	490,914
Operating transfers (out)	(110,000)	(93,104)	(203,104)
	<u>(374,392)</u>	<u>202,398</u>	<u>(171,994)</u>
Changes in net position	<u>(374,392)</u>	<u>202,398</u>	<u>(171,994)</u>
Net position, beginning of year	<u>4,627,787</u>	<u>16,217,990</u>	<u>20,845,777</u>
Net position, end of year	\$ <u>4,253,395</u>	<u>16,420,388</u>	<u>20,673,783</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, 2013

	Water Enterprise Fund	Sewer Enterprise Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$ 13,485	1,705,584	1,719,069
Cash paid to suppliers	(165,226)	(859,521)	(1,024,747)
Cash paid to employees	(12,745)	(65,747)	(78,492)
Transfers in (out)	(103,797)	391,607	287,810
Net cash provided by operating activities	<u>(268,283)</u>	<u>1,171,923</u>	<u>903,640</u>
Cash flows from investing activities:			
Net (purchase) sale of investments	387,820	(12,255)	375,565
Interest on deposits and investments	10,283	8,071	18,354
Net cash provided by investing activities	<u>398,103</u>	<u>(4,184)</u>	<u>393,919</u>
Cash flows from capital and related financing activities:			
Capital expenditures	(271,641)	-	(271,641)
Intergovernmental receipts and subsidy adjustments	-	13,615	13,615
Interest paid, net of subsidy	(71,107)	(185,339)	(256,446)
Net borrowing (repayments), net of subsidy	(207,327)	(832,274)	(1,039,601)
Net cash provided by capital and related financing activities:	<u>(550,075)</u>	<u>(1,003,998)</u>	<u>(1,554,073)</u>
Net increase in cash and cash equivalents	(420,255)	163,741	(256,514)
Cash and cash equivalents, beginning of year	1,048,960	2,726,282	3,775,242
Cash and cash equivalents, end of year	<u>\$ 628,705</u>	<u>2,890,023</u>	<u>3,518,728</u>
Reconciliation of operating income to net cash provided			
By operating activities:			
Operating income (loss)	\$ (209,271)	(15,413)	(224,684)
Transfers in (out)	(103,797)	391,607	287,810
Depreciation, bad debts & reserve	28,163	781,468	809,631
Decrease (increase) in accounts receivable	-	(13,745)	(13,745)
Increase (decrease) in accounts payable	16,622	18,702	35,324
Increase (decrease) in compensated absences	-	9,304	9,304
Net cash provided by operating activities	<u>\$ (268,283)</u>	<u>1,171,923</u>	<u>903,640</u>

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

TOWN OF CHARLTON, MASSACHUSETTS

Statement of Net Position

Fiduciary Funds

June 30, 2013

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and cash equivalents	(81,347)
Accounts receivable - police details	<u>234,730</u>
 Total assets	 <u>153,383</u>
 <u>Liabilities</u>	
Accounts payable	7,962
Other liabilities	<u>145,421</u>
 Total liabilities	 <u>153,383</u>
 <u>Net Position</u>	
Unrestricted	<u>-</u>
 Total net position	 \$ <u><u>-</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, 2013

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 2013 was \$10,634,763, which represents approximately 62% 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 2013 was \$1,044,237, which represents approximately 15% 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, 2013. 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, 2013

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, 2013

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.

F. Assets, Liabilities, and Net position 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 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.

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2013

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

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

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.

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

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2013

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

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

f. Long-term Obligations

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. There are no general fund committed fund balances at year end.

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 \$662,396.

Stabilization funds are obtained by Town Meeting authorization and are almost exclusively generated from transfers from the general fund budget. These funds are set aside for extraordinary or unforeseen purposes, must be approved by Town Meeting and can be utilized for any lawful purpose. General fund unassigned fund balance includes \$1,388,942 from the Town's general stabilization fund.

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.

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2013

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

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

g. Fund Balances - Governmental Funds (continued)

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 Position

Net position appears in the Town's proprietary (enterprise) funds and the entity wide financial statements. Net position is the difference between: 1) assets and deferred outflows of resources and 2) liabilities and deferred inflows of resources. Net investment in capital assets represents capital assets less accumulated depreciation and outstanding debt (net of related debt subsidies from the state). Restricted net position consists of net position 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, 2013

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>\$23,401,939</u>
To be funded as follows:	
Budgeted revenue	\$21,425,778
Transfers from other funds	1,009,303
Transfers from stabilization	345,921
Allocation of surplus	<u>620,937</u>
Total funding (resources)	<u>\$23,401,939</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, 2013:

Excess (deficiency) of resources over charges to appropriations:	(\$194,113)
Adjustments:	
Record revenues on a modified accrual basis	\$12,994
Stabilization fund interest	\$21,256
Stabilization fund transfer from general fund	\$228,071
Stabilization fund transfer to general fund	(\$345,921)
Adjustment for Encumbrances and Continuing Articles	<u>\$249,890</u>
Net changes in fund balances - GAAP Basis	<u>(\$27,823)</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, 2013

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, 2013, the Town's carrying amount of deposits was \$6,253,494 and the bank balance was \$6,541,338. Of the bank balances, \$5,450,880 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, 2013, the Town's investment balances were as follows:

<u>Type of Investment</u>	<u>Fair Value</u>
US government and agency securities	\$500,427
Other fixed income securities	1,470,146
Equity securities	283,487
Pooled investments: money market funds (cash equivalents)	83,863
Pooled investments: mutual funds	369,284
External investment pool: MMDT (cash equivalents)	<u>948,585</u>
Total investments	<u>\$3,655,792</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 \$894 between one and two years, \$299,533 between three and five years, and \$200,000 thereafter. The other fixed income securities have maturities as follows: for bonds, \$250,518 between one and two years and \$154,628 between three and five years, for certificates of deposit, \$360,000 less than one year, \$210,000 from one to two years, and \$495,000 from three to five 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, 2013

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, 2013 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets not being depreciated:				
Land and land improvements	\$3,096,465	-	-	3,096,465
Construction in progress	<u>3,331,644</u>	<u>45,495</u>	<u>3,331,644</u>	<u>45,495</u>
Total capital assets not being depreciated	<u>6,428,109</u>	<u>45,495</u>	<u>3,331,644</u>	<u>45,495</u>
Capital assets being depreciated:				
Land improvements	10,750	10,750	-	10,750
Buildings and improvements	22,941,262	3,378,399	10,574	26,309,087
Equipment	6,251,971	667,491	140,618	6,778,844
Infrastructure	<u>44,499,893</u>	<u>871,347</u>	-	<u>45,371,240</u>
Total capital assets being depreciated	<u>73,703,876</u>	<u>4,917,237</u>	<u>151,192</u>	<u>78,469,921</u>
Less accumulated depreciation for:				
Land improvements	(8,313)	(325)	-	(8,638)
Buildings and improvements	(6,949,467)	(588,974)	(10,574)	(7,527,867)
Equipment	(5,088,157)	(401,300)	(115,856)	(5,373,601)
Infrastructure	<u>(24,011,550)</u>	<u>(1,294,235)</u>	-	<u>(25,305,785)</u>
Total accumulated depreciation	<u>(36,057,487)</u>	<u>(2,284,834)</u>	<u>(126,430)</u>	<u>(38,215,891)</u>
Capital assets being depreciated, net	<u>37,646,389</u>	<u>2,632,403</u>	<u>24,762</u>	<u>40,254,030</u>
Total governmental activities capital assets, net	<u>\$44,074,498</u>	<u>2,677,898</u>	<u>3,356,406</u>	<u>43,395,990</u>

Depreciation expense was charged to functions as follows:

	<u>Governmental Activities</u>
General government	\$73,496
Public safety	295,855
Education	302,741
Public works	1,427,859
Culture and recreation	<u>184,883</u>
Total governmental activities depreciation expense	<u>\$2,284,834</u>

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2013

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>6,843,719</u>	-	<u>4,687,763</u>	<u>2,155,956</u>
Total capital assets not being depreciated	<u>6,941,219</u>	-	<u>4,687,763</u>	<u>2,253,456</u>
Capital assets being depreciated:				
Buildings and improvements	14,685,866	688,025	-	15,373,891
Equipment	1,088,777	-	-	1,088,777
Infrastructure	<u>14,268,876</u>	<u>4,257,162</u>	-	<u>18,526,038</u>
Total capital assets being depreciated	<u>30,043,519</u>	<u>4,945,187</u>	-	<u>34,988,706</u>
Less accumulated depreciation for:				
Buildings and improvements	(3,709,753)	(385,170)	-	(4,094,923)
Equipment	(328,941)	(46,456)	-	(375,397)
Infrastructure	<u>(4,375,736)</u>	<u>(378,008)</u>	-	<u>(4,753,744)</u>
Total accumulated depreciation	<u>(8,414,430)</u>	<u>(809,634)</u>	-	<u>(9,224,064)</u>
Capital assets being depreciated, net	<u>21,629,089</u>	<u>4,135,553</u>	-	<u>25,764,642</u>
Total governmental activities capital assets, net	<u>\$28,570,308</u>	<u>4,135,553</u>	<u>4,687,763</u>	<u>28,018,098</u>
Depreciation expense was charged to functions as follows:				
		<u>Business-type Activities</u>		
Water		\$ 28,166		
Sewer		<u>781,468</u>		
Total business-type activities depreciation expense		<u>\$809,634</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, 2013, 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>\$500,000</u>	-	<u>500,000</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>\$380,000</u>	-	<u>380,000</u>	-

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2013

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, 2013:

	<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	-	20,000	430,000	20,000
Compensated absences	633,645	-	6,276	627,369	146,873
Other post employment benefits	2,150,402	609,307	-	2,759,709	-
Bonds payable	<u>4,970,000</u>	<u>765,000</u>	<u>505,000</u>	<u>5,230,000</u>	<u>587,000</u>
	<u>\$8,204,047</u>	<u>1,374,307</u>	<u>531,276</u>	<u>9,047,078</u>	<u>753,873</u>
Business-type activities:					
Bonds payable	<u>\$14,838,485</u>	<u>380,000</u>	<u>1,321,028</u>	<u>13,897,457</u>	<u>1,393,378</u>
	<u>\$14,838,485</u>	<u>380,000</u>	<u>1,321,028</u>	<u>13,897,457</u>	<u>1,393,378</u>

Note 7. Bonds Payable

The Town's indebtedness consists of general obligation serial notes issued between fiscal years 2002 and 2013 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, 2013 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>
2014	\$587,000	167,730	1,393,378	519,051	1,980,378	686,781
2015	552,000	149,260	1,427,010	451,964	1,979,010	601,224
2016	552,000	131,070	1,469,962	387,768	2,021,962	518,838
2017	552,000	113,840	1,315,770	321,680	1,867,770	435,520
2018	552,000	96,420	1,354,092	261,089	1,906,092	357,509
2019 – 2023	2,075,000	237,930	5,032,764	540,551	7,107,764	778,481
2024 – 2028	360,000	21,600	1,174,907	113,497	1,534,907	135,097
2029	-	-	<u>729,574</u>	<u>19,130</u>	<u>724,574</u>	<u>19,130</u>
Totals	<u>\$5,230,000</u>	<u>917,850</u>	<u>13,897,457</u>	<u>2,614,730</u>	<u>19,127,457</u>	<u>3,532,580</u>

Of the total business-type activities future debt service requirements of \$16,514,030, the Town is scheduled to receive \$3,981,526 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 (\$2,573,058) 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, 2013

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, 2013, the Town may issue approximately \$66,828,905 of additional general obligation debt under the normal debt limit. The Town has \$13,896,708 of issued debt exempt from the debt limit. At June 30, 2013, the Town also has authorized and unissued debt of \$680,750 for town hall improvements and dam improvement 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 \$17,615,000 debt at June 30, 2013 (based on current assessment percentages) is 43.9% or \$7,732,985. For the Southern Worcester County Regional Vocational School District, the Town's share of the Regional School's \$9,100,000 debt at June 30, 2013 (based on current assessment percentages) is 12.7% or \$1,156,610.

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	\$ -	258,746	258,746
Restricted:			
Future debt service	44,394	-	44,394
Prindle dam capital project	-	375,625	375,625
Other capital projects	-	55,605	55,605
Permanent fund spendable amounts	-	207,352	207,352
Cable TV	-	197,654	197,654
Millennium debt	-	117,536	117,536
EMS/Ambulance services	-	732,079	732,079
Chapter 90 highway	-	28,462	28,462
Landfill post closure	-	100,000	100,000
Small cities program	-	114,070	114,070
Other purposes - special revenue	-	309,941	309,941
Committed:			
Special revenue fund donations	-	165,930	165,930
Assigned:			
General government encumbrances	355,699	-	355,699
Public safety encumbrances	221,200	-	221,200
Other encumbrances	85,497	-	85,497
Unassigned:			
Stabilization fund	1,388,942	-	1,388,942
General fund residual balance	<u>906,181</u>	-	<u>906,181</u>
Total governmental fund balances	<u>\$3,001,913</u>	<u>2,633,000</u>	<u>5,664,913</u>

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2013

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, 2013, the general fund received transfers of \$680,000 from ambulance revolving, \$86,901 from sewer enterprise, \$110,000 from water enterprise and \$161,838 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 \$484,711 was made from the general fund to the sewer fund to offset operating expenses. Finally, there was a transfer of \$345,921 from the stabilization fund to fund the general fund operating budget and a transfer of \$228,071 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, 2013

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 \$615,015 in 2011 \$625,091 in 2011 and \$679,988 in 2013. 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 2013.

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, 2013

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

Normal cost	\$384,860
Amortization of unfunded actuarial accrued liability	381,623
Interest	<u>27,269</u>
Annual required contributions	793,752
Interest on net OPEB obligation	86,016
Adjustment to annual required contribution	<u>(100,939)</u>
Annual OPEB cost	778,809
Employer contributions	<u>(169,522)</u>
Increase (decrease) in net OPEB obligation	609,307
Net OPEB obligation - beginning of year	<u>2,150,402</u>
Net OPEB obligation - end of year	<u>\$2,759,709</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 <u>Ended</u>	Annual <u>OPEB Cost</u>	Percentage of Annual <u>OPEB Cost Contributed</u>	Net OPEB <u>Obligation</u>
6/30/2013	\$778,809	22%	\$2,759,709
6/30/2012	\$740,701	20%	\$2,150,402
6/30/2011	\$709,569	22%	\$1,558,704

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, 2013

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 25 years, as of June 30, 2013
- Interest discount rate 4%
- Medical cost trend 8% trending down to 5% in 2014 and thereafter

Note 12. Net Investment in Capital Assets

Net investment in capital assets at June 30, 2013 is derived as follows:

	Governmental Activities	Business-Type Activities
Capital assets, net of accumulated depreciation	\$43,395,990	\$28,018,099
Less: bonds payable outstanding on capital assets	(4,380,000)	(13,897,458)
Plus: capital projects borrowing balances	-	-
Plus: future state debt reimbursements	=	2,573,058
	<u>\$39,015,990</u>	<u>\$16,693,699</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 \$430,000 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 position.

Note 14. 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.

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

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2013

Note 14. Risk Management (continued)

audits become a liability of the Town, although the Town expects that these amounts, if any, would be immaterial to the financial statements.

Note 15. Implementation of new GASB Statements

During fiscal year 2013, the Town implemented the following GASB pronouncements:

- GASB Statement #60 – *Accounting and Financial Reporting for Service Concession Arrangement*. This statement did not impact the Town’s financial statements.
- GASB Statement #61 – *The Financial Reporting Entity: Omnibus – an Amendment of GASB Statements No. 14 and No. 34*. This statement did not have a significant impact on the Town’s 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. This statement did not have a significant impact on the Town’s financial statements.
- GASB Statement #63 – *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position*. This statement changed the terminology of “net assets” to “net position” in the financial statements.
- GASB Statement #65 – *Items Previously Reported as Assets and Liabilities*. This statement provided guidance on the reporting of certain items previously classified as assets and liabilities that are now required to be classified as deferred outflows or deferred inflows. This statement resulted in the reclassification unavailable (formerly deferred) revenue from liabilities to deferred inflows.

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

- 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.

TOWN OF CHARLTON, MASSACHUSETTS

Combining Balance Sheet - Nonmajor Governmental Funds

June 30, 2013

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 1,511,908	432,890	13,216	1,958,014
Investments	344,719	954	452,882	798,555
Receivables:				
Departmental	<u>743,057</u>	<u>-</u>	<u>-</u>	<u>743,057</u>
Total assets	<u>\$ 2,599,684</u>	<u>433,844</u>	<u>466,098</u>	<u>3,499,626</u>
<u>Liabilities</u>				
Accounts payable	\$ 14,220	2,614	-	16,834
Other accrued liabilities	<u>76,735</u>	<u>-</u>	<u>-</u>	<u>76,735</u>
Total liabilities	<u>90,955</u>	<u>2,614</u>	<u>-</u>	<u>93,569</u>
<u>Deferred Inflows of Resources</u>				
Unavailable revenue	<u>743,057</u>	<u>-</u>	<u>-</u>	<u>743,057</u>
<u>Fund balances</u>				
Nonspendable	-	-	258,746	258,746
Restricted	1,599,742	431,230	207,352	2,238,324
Assigned	<u>165,930</u>	<u>-</u>	<u>-</u>	<u>165,930</u>
Total fund balances	<u>1,765,672</u>	<u>431,230</u>	<u>466,098</u>	<u>2,663,000</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,599,684</u>	<u>433,844</u>	<u>466,098</u>	<u>3,499,626</u>

TOWN OF CHARLTON, MASSACHUSETTS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2013

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals</u>
Revenues:				
Departmental charges for services	\$ 880,925	-	10,875	891,800
Intergovernmental	1,159,621	-	-	1,159,621
Investment income	2,261	-	6,644	8,905
Other	<u>280,952</u>	<u>11,960</u>	-	<u>292,912</u>
Total revenues	<u>2,323,759</u>	<u>11,960</u>	<u>17,519</u>	<u>2,353,238</u>
Expenditures:				
Current:				
General government	134,481	-	-	134,481
Public safety	177,668	-	-	177,668
Public works	952,798	39,124	-	991,922
Human services	60,895	-	-	60,895
Recreation and culture	<u>82,364</u>	-	<u>5,209</u>	<u>87,573</u>
Total expenditures	<u>1,408,206</u>	<u>39,124</u>	<u>5,209</u>	<u>1,452,539</u>
Excess (deficiency) of revenues over expenditures	915,553	(27,164)	12,310	900,699
Other financing sources (uses):				
Proceeds from issuance of bonds	500,000	265,000	-	765,000
Operating transfers in	-	-	-	-
Operating transfers out	<u>(841,838)</u>	-	-	<u>(841,838)</u>
Total other financing sources (uses)	<u>(341,838)</u>	<u>265,000</u>	-	<u>(76,838)</u>
Net changes in fund balances	573,715	237,836	12,310	823,861
Fund balance, beginning of year	<u>1,191,957</u>	<u>193,394</u>	<u>453,788</u>	<u>1,839,139</u>
Fund balance, end of year	<u>\$ 1,765,672</u>	<u>431,230</u>	<u>466,098</u>	<u>2,663,000</u>