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Bill Fraher, CPA

TOWN OF CHARLTON

MANAGEMENT LETTER

June 30, 2014



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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, 2014, 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 March 9, 2015. 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.

A handwritten signature in black ink, appearing to read 'Bill Fraher', written in a cursive style.

Bill Fraher, CPA
March 9, 2015

**TOWN OF CHARLTON, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2014**

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, 2014, general fund revenues and transfers in (budgetary basis) were \$23.4 million, an increase of 1.3% from the prior year. The Town's general fund revenues were over budget by \$150,295 (0.7%) due mainly to strong building permit collections, while the Town's general fund unexpended appropriations were \$288,774 (1.3%) due to residual remaining budgetary amounts across many departments.

At June 30, 2014, the Town's general fund unassigned (formerly undesignated) fund balance (on a GAAP fund basis, exclusive of stabilization fund balance) was approximately \$1,003,686, a slight increase from \$906,181 at June 30, 2013. Unassigned fund balance increased due to favorable budgetary results.

At June 30, 2014, the Town's stabilization fund balance also increased slightly from the prior year (the balance was \$1,415,997 at June 30, 2014, compared to \$1,388,942 at June 30, 2013). This increase was due to the use of stabilization fund balance for the FY 2014 budget that was slightly more than fully replenished by a free cash transfer and investment income. 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.

**TOWN OF CHARLTON, MASSACHUSETTS
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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 has improved since the prior year. At June 30, 2014, the general ledger balance shows a deficit of \$100,000, down significantly from \$234,000 at June 30, 2013. Of the current deficit of \$100,000, approximately half will be covered by police detail accounts receivable from the 2014 fiscal year. However that still leaves approximately \$78,000 (remaining current deficit of \$50,000 plus initial Town Meeting approved "seed money" of \$28,000) that will need to be collected from outstanding balances from before July 1, 2013,

The police department has made significant effort in collecting old outstanding balances, and that process continues. It is possible that some of the remaining deficit of \$78,000 will be collected, but how much is not known at this time. Given the size of the deficit, it is possible that the Town may have to appropriate funds to address any remaining deficit. The police department's collection efforts should continue and should focus on remaining balances from the past few years as well as even older balances from larger detail users such as utilities and other communities.

The ongoing police detail system still should be reviewed and improvements implemented. Currently, the Town Accountant is verifying all activity from the ledger to the police department's detail system, and reconciling variances are identified monthly. Underlying reasons for these reconciling variances should be addressed and changes made to police department procedures to ensure that accurate information is being entered and updated into the detail system.

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.

TOWN OF CHARLTON, MASSACHUSETTS
MANAGEMENT LETTER
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Section II - Control Deficiencies (continued)

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

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

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

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

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

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

II-C-3. 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.

**TOWN OF CHARLTON, MASSACHUSETTS
MANAGEMENT LETTER
JUNE 30, 2014**

Section II - Control Deficiencies (continued)

II-C-4. Ambulance Fund

The Town has many ambulance accounts receivable that are over one year old. At June 30, 2014, a large number of outstanding accounts related to prior year balances (of the total ambulance accounts receivable of \$635,606 at June 30, 2014, \$403,463 (63%) 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 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, 2014, this account had a balance of approximately \$31,000. 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.

TOWN OF CHARLTON, MASSACHUSETTS
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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, 2014, the liability on the Town's financial statements is \$3,387,103. 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 \$627,394, of which \$348,389 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.

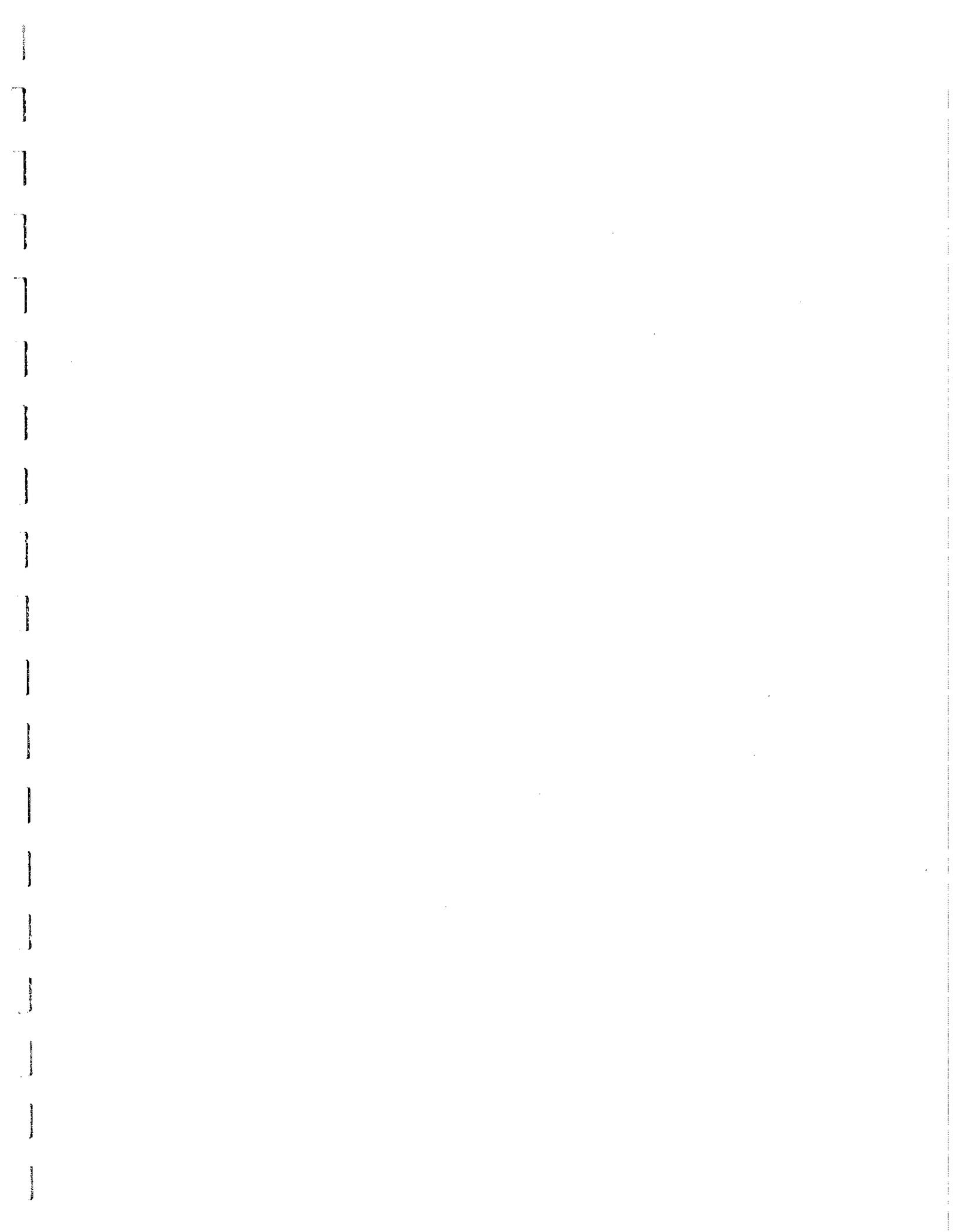
The Town fulfilled its obligation under GASB 45 for its 2009 through 2014 financial statements. As required by GASB 45, the Town will need an updated valuation for the 2015 financial statements. This valuation should segregate amounts for the Town's water and sewer enterprise funds.

III-2. GASB 68

For the 2015 financial statements, the Town will be required to implement GASB Statement Number 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* and GASB Statement #71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. These statements require that the Town recognize annual pension expenses on an actuarially determined basis and recognize its share of the Regional Retirement System's unfunded liability in the financial statements. These Statements will place an additional large liability on the Town's government-wide financial statements and require more extensive footnote disclosures and Required Supplementary Information (RSI) including 10 years of historical information.

At this time, it appears that the Regional Retirement System will be providing the information required for the Town to comply with this statement. The Town should contact the Regional System and ensure that all information is available for the fiscal year 2015 audit.

While Statements 68 and 71 relate only to the Town's pension plan, GASB is planning on issuing similar standards for OPEB, likely effective for the Town's fiscal year 2017 audit. Further information will be available and will be discussed in next year's management letter.





Bill Fraher, CPA

TOWN OF CHARLTON, MASSACHUSETTS

Basic Financial Statements, Required Supplementary
Information and Supplementary Information

Year ended June 30, 2014

(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, 2014, 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, 2014, 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 and certain pension information on page 39 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 March 9, 2015 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
March 9, 2015



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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, 2014, which collectively comprise the Town's basic financial statements and have issued my report thereon dated March 9, 2015.

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 March 9, 2015.

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
March 9, 2015

**Town of Charlton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
June 30, 2014**

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 2014 (July 1, 2013 - June 30, 2014)

- The assets of the Town of Charlton exceeded its liabilities at the close of the most recent fiscal year by \$60,464,680 (net position). Of this amount, \$1,429,854 is considered unrestricted (unrestricted net position). The unrestricted net position of the Town's governmental activities are a deficit of \$700,275 due to the OPEB liability of \$3,387,103. The unrestricted net position of business-type activities is \$2,130,129. Total net position decreased from the prior year in governmental activities by \$1,700,634 and increased in business-type activities by \$291,415. 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 2014 was \$27,814,224 compared with \$27,250,640 in 2013. For the current year, \$25,316,076 was spent on governmental activities and an additional \$2,498,148 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).
- At June 30, 2014, the Town's governmental funds reported a combined ending fund balance of \$5,357,111, a decrease of \$307,802 from the June 30, 2013 amount of \$5,664,913. The total at 2014 is made up of \$2,983,092 in the general fund (of which \$2,419,683 is unassigned) and \$2,374,019 in all other governmental funds. General fund total fund balances decreased by \$18,821 from the prior year. All other governmental funds total fund balances decreased by \$288,981 primarily due to the completion of the Prindle Dam project.
- The Town's total bonded indebtedness is \$17,122,661. The Town also has \$225,739 in accrued interest on long term debt.

**Town of Charlton, Massachusetts
Management's Discussion and Analysis
Required Supplemental Information
June 30, 2014**

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
Required Supplemental Information
June 30, 2014

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
Required Supplemental Information
June 30, 2014**

- 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 \$1,409,219. The net position of the governmental activities decreased by \$1,700,634 (compared with a prior year decrease of \$768,314) and the net position of the business-type activities increased by \$291,415 (compared with a prior year decrease of \$171,994). There were no significant changes to the amounts in the statement of net position other than the increase in the OPEB liability. The main reason for the governmental activities net asset decrease is related to GASB 45 Other Post Employee Benefits costs. The reason the decrease is larger than last year is last year's receipt of one time capital grants.

Statement of Activities

Government Activities

In Fiscal Year 2014, property taxes and vehicle excise taxes accounted for 83% of all governmental activities revenues (compared to 79% last year). Of all governmental activities expenses, 49% related to education (compared with 49% 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, 2014**

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, 2014, amounts to \$69,210,626 (net of accumulated depreciation), compared to \$71,414,089 at June 30, 2013. This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles. On the governmental side, net capital assets decreased by \$1,449,649 (depreciation exceeding capital additions). Net capital assets decreased on the business-type activity side by \$753,813 due to depreciation.

Debt

The Town of Charlton had \$4,643,000 in bonds outstanding for governmental activities on June 30, 2014, which represents a decrease of \$587,000 from June 30, 2013. An additional \$12,479,661 in bonds was outstanding for the business-type activities, a decrease of \$1,417,797 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, MASSACHUSETTS

Statement of Net Position

June 30, 2014

	Governmental Activities	Business-Type Activities	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 3,606,779	3,236,781	6,843,560
Investments	2,131,070	439,109	2,570,179
Receivables (net of allowance for uncollectibles)	1,347,161	342,335	1,689,496
Due from commonwealth	-	135,094	135,094
Total current assets	<u>7,085,010</u>	<u>4,153,319</u>	<u>11,238,329</u>
Noncurrent assets:			
Special Assessments	-	5,585,277	5,585,277
Due from Commonwealth	-	2,286,877	2,286,877
Capital assets:			
Assets not being depreciated	3,489,245	2,253,456	5,742,701
Assets being depreciated, net	<u>38,457,096</u>	<u>25,010,829</u>	<u>63,467,925</u>
Total noncurrent assets	<u>41,946,341</u>	<u>35,136,439</u>	<u>77,082,780</u>
Total assets	<u>49,031,351</u>	<u>39,289,758</u>	<u>88,321,109</u>
<u>Liabilities</u>			
Current liabilities:			
Warrants and accounts payable	172,425	78,276	250,701
Accrued payroll and withholdings	177,239	-	177,239
Other accrued liabilities	79,529	-	79,529
Accrued interest payable	55,525	170,214	225,739
Landfill post closure monitoring costs	15,000	-	15,000
Compensated absences	127,500	-	127,500
Bonds payable	<u>552,000</u>	<u>1,425,717</u>	<u>1,977,717</u>
Total current liabilities	<u>1,179,218</u>	<u>1,674,207</u>	<u>2,853,425</u>
Noncurrent liabilities:			
Landfill post closure monitoring costs	420,000	-	420,000
Compensated absences	454,548	11,132	465,680
Other post employment benefits	3,387,103	-	3,387,103
Bonds payable	<u>4,091,000</u>	<u>11,053,944</u>	<u>15,144,944</u>
Total noncurrent liabilities	<u>8,352,651</u>	<u>11,065,076</u>	<u>19,417,727</u>
Total liabilities	<u>9,531,869</u>	<u>12,739,283</u>	<u>22,271,152</u>
<u>Deferred Inflows of Resources</u>			
Unavailable revenue	-	5,585,277	5,585,277
<u>Net Position</u>			
Net investment in capital assets	37,303,341	17,071,501	54,374,842
Restricted for:			
Permanent funds - nonexpendable	262,816	-	262,816
Permanent funds - expendable	226,813	-	226,813
Capital projects	188,096	-	188,096
Grants and other	2,218,691	1,763,568	3,982,259
Unrestricted	<u>(700,275)</u>	<u>2,130,129</u>	<u>1,429,854</u>
Total net position	<u>\$ 39,499,482</u>	<u>20,965,198</u>	<u>60,464,680</u>

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

TOWN OF CHARLTON, MASSACHUSETTS

Statement of Activities

For the Year Ended June 30, 2014

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	\$ 2,542,177	155,820	-	-	(2,386,357)	-	(2,386,357)
Public safety	5,643,712	1,077,083	114,354	-	(4,452,275)	-	(4,452,275)
Education	12,511,863	-	21,728	-	(12,490,135)	-	(12,490,135)
Public works	3,116,583	24,025	60,152	526,156	(2,506,250)	-	(2,506,250)
Human services	504,738	65,095	73,694	-	(365,949)	-	(365,949)
Recreation and culture	837,565	3,479	51,507	-	(782,579)	-	(782,579)
Interest on debt service	159,438	-	-	-	(159,438)	-	(159,438)
Total governmental activities	25,316,076	1,325,502	321,435	526,156	(23,142,983)	-	(23,142,983)
Business-type activities:							
Water	319,847	251,343	-	93,667	-	25,163	25,163
Sewer	2,178,301	1,785,345	-	207,668	-	(185,288)	(185,288)
Total business-type activities	2,498,148	2,036,688	-	301,335	-	(160,125)	(160,125)
Total government	\$ 27,814,224	3,362,190	321,435	827,491	(23,142,983)	(160,125)	(23,303,108)
		General revenues:					
					\$ 17,815,381	-	17,815,381
					1,693,538	-	1,693,538
					807,447	-	807,447
					1,280,744	-	1,280,744
					116,938	34,585	151,523
					145,256	-	145,256
					(416,955)	416,955	-
					21,442,349	451,540	21,893,889
					(1,700,634)	291,415	(1,409,219)
					41,200,116	20,673,783	61,873,899
					\$ 39,499,482	20,965,198	60,464,680

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

TOWN OF CHARLTON, MASSACHUSETTS

Balance Sheet - Governmental Funds

June 30, 2014

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash and cash equivalents	\$ 1,877,216	1,729,563	3,606,779
Investments	1,400,049	731,021	2,131,070
Receivables:			
Property taxes	247,398	-	247,398
Tax liens and foreclosures	469,921	-	469,921
Motor vehicle and other excise	136,529	-	136,529
Departmental	-	860,901	860,901
Less: allowance for abatements	(75,149)	-	(75,149)
Less: allowance for uncollectibles	-	(292,439)	(292,439)
Total assets	\$ 4,055,964	3,029,046	7,085,010
<u>Liabilities</u>			
Warrants and accounts payable	\$ 162,595	9,830	172,425
Accrued payroll and withholdings	177,239	-	177,239
Other accrued liabilities	-	76,735	76,735
Other liabilities	2,794	-	2,794
Total liabilities	342,628	86,565	429,193
<u>Deferred Inflows of Resources</u>			
Unavailable revenue	730,244	568,462	1,298,706
<u>Fund balances</u>			
Nonspendable	-	262,816	262,816
Restricted	61,721	2,003,417	2,065,138
Committed	-	-	-
Assigned	501,688	107,786	609,474
Unassigned	2,419,683	-	2,419,683
Total fund balances	2,983,092	2,374,019	5,357,111
Total liabilities, deferred inflows of resources and fund balances	\$ 4,055,964	3,029,046	7,085,010

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, 2014

	General Fund	Nonmajor Governmental Funds	Total
Revenues:			
Property taxes	\$ 17,539,949	-	17,539,949
Excise taxes	1,745,776	-	1,745,776
Payments in lieu of taxes	807,447	-	807,447
Departmental charges for services	220,119	875,709	1,095,828
Licenses and permits	338,802	-	338,802
Intergovernmental	1,329,662	690,878	2,020,540
Fines	89,685	-	89,685
Investment income	82,769	15,023	97,792
Other	130,513	117,467	247,980
Total revenues	<u>22,284,722</u>	<u>1,699,077</u>	<u>23,983,799</u>
Expenditures:			
Current:			
General government	1,834,452	126,831	1,961,283
Public safety	3,763,891	199,929	3,963,820
Education	12,209,122	-	12,209,122
Public works	1,311,213	784,452	2,095,665
Human services	263,568	77,927	341,495
Recreation and culture	442,184	70,684	512,868
Intergovernmental	36,449	-	36,449
Employee benefits	1,779,640	-	1,779,640
Other	219,574	-	219,574
Debt service	754,730	-	754,730
Total expenditures	<u>22,614,823</u>	<u>1,259,823</u>	<u>23,874,646</u>
Excess (deficiency) of revenues over expenditures	(330,101)	439,254	109,153
Other financing sources (uses):			
Operating transfers in	811,172	-	811,172
Operating transfers out	(499,892)	(728,235)	(1,228,127)
Total other financing sources (uses)	<u>311,280</u>	<u>(728,235)</u>	<u>(416,955)</u>
Net changes in fund balances	(18,821)	(288,981)	(307,802)
Fund balance, beginning of year	<u>3,001,913</u>	<u>2,663,000</u>	<u>5,664,913</u>
Fund balance, end of year	<u>\$ 2,983,092</u>	<u>2,374,019</u>	<u>5,357,111</u>

TOWN OF CHARLTON, MASSACHUSETTS

Reconciliation of the Governmental Fund Balance Sheet
To the Statement of Net Position
Year Ended June 30, 2014

Total fund balances - governmental funds \$ 5,357,111

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	392,780
Infrastructure assets	45,888,595
Buildings and building improvements	26,309,087
Other capital assets	6,822,407
Accumulated depreciation	<u>(40,573,743)</u>

Total Capital Assets 41,946,341

Other long-term assets are not available to pay for current
period expenditures and, therefore, are deferred in funds. 1,298,706

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

Bonds payable	(4,643,000)
Landfill postclosure care costs	(435,000)
Accrued interest on bonds	(55,525)
Other post employment benefits	(3,387,103)
Compensated absences	<u>(582,048)</u>

Total long-term liabilities (9,102,676)

Net position of governmental activities \$ 39,499,482

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, 2014

Net changes in fund balances - governmental funds	\$ (307,802)
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.	(1,449,649)
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.	595,292
Some expenses in the Statement of Activities do not require the use of current financial resources are not reported in the funds.	
Compensated absences	45,321
Landfill post-closure costs	(5,000)
Change in net OPEB obligation	(627,394)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds.	<u>48,598</u>
Changes in net position of governmental activities	\$ <u>(1,700,634)</u>

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

TOWN OF CHARLTON, MASSACHUSETTS

Budgetary Comparison Schedule - General Fund

For the Year Ended June 30, 2014

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual (Budgetary Basis)</u>	<u>Variance To Final Budget Favorable (Unfavorable)</u>
Revenues:				
Property taxes	\$ 17,599,909	17,599,909	17,549,328	(50,581)
Excise taxes	1,789,000	1,789,000	1,745,776	(43,224)
Payments in lieu of taxes	808,568	808,568	807,447	(1,121)
Departmental charges for services	224,100	224,100	220,119	(3,981)
Licenses and permits	165,400	165,400	338,802	173,402
Intergovernmental	1,337,264	1,337,264	1,329,662	(7,602)
Fines and forfeits	93,395	93,395	89,685	(3,710)
Investment income	20,900	20,900	13,291	(7,609)
Other	35,792	35,792	130,513	94,721
Total revenues	<u>22,074,328</u>	<u>22,074,328</u>	<u>22,224,623</u>	<u>150,295</u>
Expenditures:				
General government	1,880,503	1,934,324	1,716,769	217,555
Public safety	3,756,143	3,802,155	3,735,340	66,815
Education	12,321,905	12,243,225	12,209,274	33,951
Public works	1,251,187	1,274,187	1,407,951	(133,764)
Human services	256,127	271,596	260,691	10,905
Recreation and culture	445,130	445,130	440,480	4,650
Debt service	759,730	759,730	754,730	5,000
Intergovernmental	35,229	35,229	36,448	(1,219)
Employee benefits	1,852,974	1,817,974	1,779,920	38,054
Other	291,664	266,401	219,574	46,827
Total expenditures	<u>22,850,592</u>	<u>22,849,951</u>	<u>22,561,177</u>	<u>288,774</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(776,264)</u>	<u>(775,623)</u>	<u>(336,554)</u>	<u>439,069</u>
Other financing sources (uses):				
Operating transfers in	1,348,462	1,348,462	1,407,184	58,722
Operating transfers out	(1,053,481)	(1,054,122)	(1,053,481)	641
Total other financing sources (uses)	<u>294,981</u>	<u>294,340</u>	<u>353,703</u>	<u>59,363</u>
Net changes in fund balances	<u>(481,283)</u>	<u>(481,283)</u>	17,149	<u>498,432</u>
Fund balance, beginning of year			<u>999,803</u>	
Fund balance, end of year			<u>1,016,952</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, 2014

	Water Enterprise Fund	Sewer Enterprise Fund	Total
<u>Assets</u>			
Current assets:			
Cash and cash equivalents	\$ 582,203	2,654,578	3,236,781
Investments	10,166	428,943	439,109
Receivables (net):			
User charges	-	123,759	123,759
Liens	462	11,399	11,861
Special Assessments	10,165	7,005	17,170
Unbilled revenue	-	189,545	189,545
Due from other governments	30,011	105,083	135,094
Total current assets	633,007	3,520,312	4,153,319
Noncurrent assets:			
Due from other governments	540,802	1,746,075	2,286,877
Unapportioned assessments due in future years	978,026	4,607,251	5,585,277
Capital assets	7,185,273	30,141,019	37,326,292
Accumulated depreciation	(85,310)	(9,976,697)	(10,062,007)
Total noncurrent assets	8,618,791	26,517,648	35,136,439
Total assets	\$ 9,251,798	30,037,960	39,289,758
<u>Liabilities</u>			
Current liabilities:			
Warrants and accounts payable	\$ 3,630	74,646	78,276
Accrued interest payable	42,838	127,376	170,214
Bonds payable	313,948	1,111,769	1,425,717
Total current liabilities	360,416	1,313,791	1,674,207
Noncurrent liabilities:			
Compensated absences	-	11,132	11,132
Bonds payable	3,647,498	7,406,446	11,053,944
Total noncurrent liabilities	3,647,498	7,417,578	11,065,076
Total liabilities	4,007,914	8,731,369	12,739,283
<u>Deferred Inflows of Resources</u>			
Unavailable revenue	978,026	4,607,251	5,585,277
<u>Net Position</u>			
Net investment in capital assets	3,679,319	13,392,182	17,071,501
Restricted - future debt service	233,918	1,529,650	1,763,568
Unrestricted	352,621	1,777,508	2,130,129
Total net position	\$ 4,265,858	16,699,340	20,965,198

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, 2014

	Water Enterprise Fund	Sewer Enterprise Fund	Total
Operating revenues:			
Charges for services	\$ 6,798	1,205,802	1,212,600
Special assessments	244,545	579,543	824,088
Other	-	-	-
Total operating revenues	<u>251,343</u>	<u>1,785,345</u>	<u>2,036,688</u>
Operating expenditures:			
Salaries, wages and employee benefits	12,999	70,635	83,634
Other operating expenses	131,944	942,745	1,074,689
Depreciation	57,144	780,800	837,944
Total operating expenditures	<u>202,087</u>	<u>1,794,180</u>	<u>1,996,267</u>
Operating income	<u>49,256</u>	<u>(8,835)</u>	<u>40,421</u>
Nonoperating revenues (expenses):			
Intergovernmental	93,667	207,668	301,335
Investment income	2,431	32,154	34,585
Interest expense	(117,760)	(384,121)	(501,881)
Total nonoperating revenues (expenses)	<u>(21,662)</u>	<u>(144,299)</u>	<u>(165,961)</u>
Income before transfers	27,594	(153,134)	(125,540)
Operating transfers in	5,691	499,892	505,583
Operating transfers (out)	(20,822)	(67,806)	(88,628)
Changes in net position	12,463	278,952	291,415
Net position, beginning of year	<u>4,253,395</u>	<u>16,420,388</u>	<u>20,673,783</u>
Net position, end of year	<u>\$ 4,265,858</u>	<u>16,699,340</u>	<u>20,965,198</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, 2014

	Water Enterprise Fund	Sewer Enterprise Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$ 240,716	1,579,074	1,819,790
Cash paid to suppliers	(203,212)	(888,240)	(1,091,452)
Cash paid to employees	(12,999)	(68,807)	(81,806)
Transfers in (out)	(15,131)	432,086	416,955
Net cash provided by operating activities	<u>9,374</u>	<u>1,054,113</u>	<u>1,063,487</u>
Cash flows from investing activities:			
Net (purchase) sale of investments	337,055	(297,292)	39,763
Interest on deposits and investments	2,143	20,028	22,171
Net cash provided by investing activities	<u>339,198</u>	<u>(277,264)</u>	<u>61,934</u>
Cash flows from capital and related financing activities:			
Capital expenditures	(84,133)	-	(84,133)
Intergovernmental receipts and subsidy adjustments	15,017	-	15,017
Interest paid, net of subsidy	(64,032)	(164,408)	(228,440)
Net borrowing (repayments), net of subsidy	(261,926)	(847,886)	(1,109,812)
Net cash provided by capital and related financing activities:	<u>(395,074)</u>	<u>(1,012,294)</u>	<u>(1,407,368)</u>
Net increase in cash and cash equivalents	(46,502)	(235,445)	(281,947)
Cash and cash equivalents, beginning of year	628,705	2,890,023	3,518,728
Cash and cash equivalents, end of year	<u>\$ 582,203</u>	<u>2,654,578</u>	<u>3,236,781</u>
Reconciliation of operating income to net cash provided			
By operating activities:			
Operating income (loss)	\$ 49,256	(8,835)	40,421
Transfers in (out)	(15,131)	432,086	416,955
Depreciation, bad debts & reserve	57,144	780,800	837,944
Decrease (increase) in accounts receivable	(10,627)	(206,272)	(216,899)
Increase (decrease) in accounts payable	(71,268)	54,506	(16,762)
Increase (decrease) in compensated absences	-	1,828	1,828
Net cash provided by operating activities	<u>\$ 9,374</u>	<u>1,054,113</u>	<u>1,063,487</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, 2014

	<u>Agency Funds</u>
<u>Assets</u>	
Cash and cash equivalents	52,321
Accounts receivable - police details	<u>98,284</u>
 Total assets	 <u>150,605</u>
<u>Liabilities</u>	
Accounts payable	9,007
Other liabilities	<u>141,598</u>
 Total liabilities	 <u>150,605</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, 2014

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 2014 was \$10,863,164, 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 2014 was \$1,287,497, which represents approximately 16% 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, 2014. 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, 2014

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, 2014

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, Deferred Outflows, Liabilities, Deferred Inflows and Net Position

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, 2014

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

F. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position (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. Deferred Outflows/Inflows of Resources

In addition to assets and liabilities, the entity wide and governmental fund statements may present deferred outflow and deferred inflows of resources. Deferred outflows of resources represent a consumption of net position that applies to a future period and will be recognized as an outflow (expense/expenditure) at that time. Deferred inflows of resources represents acquisition of net position that applies to a future period and will be recognized as an inflow (revenue) at that time. In the entity wide, proprietary fund and government fund statements, the Town has recorded unavailable revenue as deferred inflows of resources since the related revenue is not available until a future period.

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2014

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

F. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position (continued)

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

h. 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 \$501,688.

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 \$1,415,997 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, 2014

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

F. Assets, Deferred Outflows, Liabilities, Deferred Inflows and Net Position (continued)

h. 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.

i. 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.

j. 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, 2014

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:

Expenditures and transfers out	<u>\$23,904,073</u>
To be funded as follows:	
Budgeted revenue	\$22,074,328
Transfers from other funds	1,348,462
Allocation of surplus	<u>481,283</u>
Total funding	<u>\$23,904,073</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, 2014:

Net changes in fund balances - Budgetary Basis:	\$17,149
Adjustments:	
Record revenues on a modified accrual basis	(\$9,379)
Stabilization fund interest	\$69,478
Stabilization fund transfer from general fund	\$553,589
Stabilization fund transfer to general fund	(\$596,012)
Adjustment for Encumbrances and Continuing Articles	<u>(\$53,646)</u>
Net changes in fund balances - GAAP Basis	<u>(\$18,821)</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, 2014

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, 2014, the Town's carrying amount of deposits was \$6,544,299 and the bank balance was \$6,676,805. Of the bank balances, \$4,753,541 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, 2014, the Town's investment balances were as follows:

<u>Type of Investment</u>	<u>Fair Value</u>
US government and agency securities	\$583,250
Other fixed income securities	1,118,466
Equity securities	487,285
Pooled investments: money market funds (cash equivalents)	264,020
Pooled investments: mutual funds	381,177
External investment pool: MMDT (cash equivalents)	<u>87,562</u>
Total investments	<u>\$2,921,760</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 \$385,192 between three and five years, and \$198,058 thereafter. The other fixed income securities have maturities as follows: for bonds, \$255,357 between one and two years and \$154,929 between three and five years, for certificates of deposit, \$210,148 less than one year, and \$498,031 from one to two years.

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

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2014

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, 2014 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>45,495</u>	<u>347,285</u>	-	<u>392,780</u>
Total capital assets not being depreciated	<u>3,141,960</u>	<u>347,285</u>	-	<u>3,489,245</u>
Capital assets being depreciated:				
Land improvements	10,750	-	-	10,750
Buildings and improvements	26,309,087	-	-	26,309,087
Equipment	6,778,844	43,563	-	6,822,407
Infrastructure	<u>45,371,240</u>	<u>517,355</u>	-	<u>45,888,595</u>
Total capital assets being depreciated	<u>78,469,921</u>	<u>560,918</u>	-	<u>79,030,839</u>
Less accumulated depreciation for:				
Land improvements	(8,638)	(325)	-	(8,963)
Buildings and improvements	(7,527,867)	(631,725)	-	(8,159,592)
Equipment	(5,373,601)	(446,745)	-	(5,820,346)
Infrastructure	<u>(25,305,785)</u>	<u>(1,279,057)</u>	-	<u>(26,584,842)</u>
Total accumulated depreciation	<u>(38,215,891)</u>	<u>(2,357,852)</u>	-	<u>(40,573,743)</u>
Capital assets being depreciated, net	<u>40,254,030</u>	<u>(1,796,934)</u>	-	<u>38,457,096</u>
Total governmental activities capital assets, net	<u>\$43,395,990</u>	<u>(1,449,649)</u>	-	<u>41,946,341</u>

Depreciation expense was charged to functions as follows:

	<u>Governmental Activities</u>
General government	\$74,327
Public safety	321,456
Education	302,741
Public works	1,472,779
Culture and recreation	<u>186,549</u>
Total governmental activities depreciation expense	<u>\$2,357,852</u>

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2014

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>2,155,956</u>	=	=	<u>2,155,956</u>
Total capital assets not being depreciated	<u>2,253,456</u>	=	=	<u>2,253,456</u>
Capital assets being depreciated:				
Buildings and improvements	15,373,891	-	-	15,373,891
Equipment	1,088,777	-	-	1,088,777
Infrastructure	<u>18,526,037</u>	<u>84,131</u>	=	<u>18,610,168</u>
Total capital assets being depreciated	<u>34,988,705</u>	<u>84,131</u>	=	<u>35,072,836</u>
Less accumulated depreciation for:				
Buildings and improvements	(4,094,923)	(391,383)	-	(4,486,306)
Equipment	(375,397)	(46,456)	-	(421,853)
Infrastructure	<u>(4,753,743)</u>	<u>(400,105)</u>	=	<u>(5,153,848)</u>
Total accumulated depreciation	<u>(9,224,063)</u>	<u>(837,944)</u>	=	<u>(10,060,007)</u>
Capital assets being depreciated, net	<u>25,764,642</u>	<u>(753,813)</u>	=	<u>25,010,829</u>
Total governmental activities capital assets, net	<u>\$28,018,098</u>	<u>(753,813)</u>	=	<u>27,264,285</u>
Depreciation expense was charged to functions as follows:		<u>Business-type Activities</u>		
Water		\$ 57,144		
Sewer		<u>780,800</u>		
Total business-type activities depreciation expense		<u>\$837,944</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, 2014, was as follows:

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

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2014

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, 2014:

	<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	\$430,000	5,000	-	435,000	15,000
Compensated absences	627,369	-	45,321	582,048	127,500
Other post employment benefits	2,759,709	627,394	-	3,387,103	-
Bonds payable	<u>5,230,000</u>	=	<u>587,000</u>	<u>4,643,000</u>	<u>552,000</u>
	<u>\$9,047,078</u>	<u>632,394</u>	<u>632,321</u>	<u>9,047,151</u>	<u>694,500</u>
Business-type activities:					
Bonds payable	<u>\$13,897,457</u>	=	<u>1,417,796</u>	<u>12,479,661</u>	<u>1,425,717</u>
	<u>\$13,897,457</u>	=	<u>1,417,796</u>	<u>12,479,661</u>	<u>1,425,717</u>

Note 7. Bonds Payable

The Town's indebtedness consists of general obligation serial notes issued for funding various special projects. All bond issues must be approved by Town meeting. The outstanding governmental activities bonds are presented below.

<u>Project</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Outstanding at July 1, 2014</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2014</u>
Library	09/01/20	3.5%-4.5%	\$1,920,000	-	240,000	\$1,680,000
Highway Garage	02/15/25	2.5%-4.0%	2,160,000	-	180,000	1,980,000
Landfill Capping	02/15/20	2.5%-3.0%	350,000	-	50,000	300,000
Dark Fiber	11/01/13	1.6%	35,000	-	35,000	-
Landfill Capping	08/15/23	2.0%	500,000	-	52,500	447,500
Prindle Pond Dam	08/15/22	2.0%	<u>265,000</u>	=	<u>29,500</u>	<u>235,500</u>
Totals			<u>\$5,230,000</u>	=	<u>587,000</u>	<u>\$4,643,000</u>

The outstanding business-type activities bonds are presented below.

<u>Project</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Outstanding at July 1, 2014</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Outstanding at June 30, 2014</u>
Sewer	02/15/16	2.5%	575,000	-	190,000	385,000
Sewer	08/01/20	2.0%	2,950,000	-	330,000	2,620,000
Sewer	08/01/20	2.0%	2,435,000	-	270,000	2,165,000
Sewer	08/01/19	2.0%	1,505,000	-	195,000	1,310,000
Sewer	07/15/30	2.0%	2,137,980	-	99,765	2,038,215
Water	08/01/22	2.0%	1,970,000	-	170,000	1,800,000
Water	08/01/24	2.0%	186,274	-	12,494	173,780
Water	07/15/24	2.0%	30,096	-	2,241	27,855
Water	07/15/30	2.0%	585,000	-	58,762	526,238
Water	07/15/30	2.0%	1,143,107	-	51,534	1,091,573
Water	08/15/22	2.0%	<u>380,000</u>	=	<u>38,000</u>	<u>342,000</u>
Totals			<u>13,897,457</u>	=	<u>1,417,796</u>	<u>12,479,661</u>

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2014

Note 7. Bonds Payable (continued)

The annual debt service requirements of the Town's outstanding indebtedness at June 30, 2014 are as follows:

Fiscal Year	Governmental Activities Principal	Governmental Activities Interest	Business-type Activities Principal	Business-type Activities Interest	Total Principal	Total Interest
2015	\$552,000	149,260	1,425,717	451,964	1,977,717	601,224
2016	552,000	131,070	1,468,640	387,768	2,020,640	518,838
2017	552,000	131,840	1,314,420	321,680	1,866,420	435,520
2018	552,000	96,420	1,352,712	261,089	1,904,712	357,509
2019	542,000	79,040	1,391,070	211,051	1,933,070	290,091
2020 – 2024	1,713,000	173,290	3,872,784	360,567	5,585,784	533,858
2025 – 2029	180,000	7,200	1,167,360	93,005	1,347,360	100,205
2030	=	=	<u>486,957</u>	<u>8,554</u>	<u>486,958</u>	<u>8,554</u>
Totals	<u>\$4,643,000</u>	<u>750,120</u>	<u>12,479,660</u>	<u>2,095,678</u>	<u>17,122,661</u>	<u>2,845,798</u>

Of the total business-type activities future debt service requirements of \$14,575,338, the Town is scheduled to receive \$3,405,343 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 (\$2,286,877) 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.

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, 2014, the Town may issue approximately \$65,339,250 of additional general obligation debt under the normal debt limit. The Town has \$12,477,068 of issued debt exempt from the debt limit. At June 30, 2014, 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 \$15,010,000 debt at June 30, 2014 (based on current assessment percentages) is 43.9% or \$6,589,390. For the Southern Worcester County Regional Vocational School District, the Town's share of the Regional School's \$18,265,000 debt at June 30, 2014 (based on current assessment percentages) is 12.64% or \$2,308,696.

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2014

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	\$ -	262,816	262,816
Restricted:			
Future debt service	61,721	-	61,721
Other capital projects	-	188,096	188,096
Permanent fund spendable amounts	-	226,813	226,813
Cable TV	-	75,092	75,092
Millennium debt and other	-	144,091	144,091
EMS/Ambulance services	-	793,271	793,271
Revolving funds	-	70,439	70,439
Landfill post closure	-	100,000	100,000
Small cities program	-	114,471	114,471
Other purposes - special revenue	-	290,334	290,334
Committed:			
Special revenue fund donations	-	107,786	107,786
Assigned:			
General government encumbrances	237,940	-	237,940
Public safety encumbrances	192,648	-	192,648
Other encumbrances	71,100	-	71,100
Unassigned:			
Stabilization fund	1,415,997	-	1,415,997
General fund residual balance	<u>1,003,686</u>	-	<u>1,003,686</u>
 Total governmental fund balances	 <u>\$2,983,092</u>	 <u>2,374,019</u>	 <u>5,357,111</u>

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, 2014, the general fund received transfers of \$615,204 from ambulance revolving, \$62,115 from sewer enterprise, \$20,822 from water enterprise and \$113,031 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 \$499,892 was made from the general fund to the sewer fund to offset sewer debt exclusion expenses. Finally, there was a transfer of \$596,012 from the stabilization fund to fund the general fund operating budget and a transfer of \$553,589 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.

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2014

Note 10. Pension Plans (continued)

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 Contributions Required and Made - The Town is assessed annually for their share of system. The Town was assessed and paid \$625,091 in 2012 \$679,988 in 2013 and \$704,243 in 2015. These amounts represent approximately 2% of system wide employer assessments.

The System issues an annual public report that can be obtained by contacting the Massachusetts Public Employee Retirement Administration Commission (PERAC), One Ashburton Place, Boston, MA 02108. Summary plan information is presented as required supplementary information (RSI) following these notes to the financial statements.

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 2014.

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2014

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

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.

Normal cost	\$491,384
Amortization of unfunded actuarial accrued liability	<u>348,389</u>
Annual required contributions	839,773
Interest on net OPEB obligation	110,388
Adjustment to annual required contribution	<u>(132,562)</u>
Annual OPEB cost	817,599
Employer contributions	<u>(190,205)</u>
Increase (decrease) in net OPEB obligation	627,394
Net OPEB obligation - beginning of year	<u>2,759,709</u>
Net OPEB obligation - end of year	<u>\$3,387,103</u>

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

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$817,599	23%	\$3,387,103
6/30/2013	\$778,809	22%	\$2,759,709
6/30/2012	\$740,701	20%	\$2,150,402

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2014

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

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 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 24 years, as of June 30, 2014
- Interest discount rate 4%
- Medical cost trend 5% in 2014 and thereafter

Note 12. Net Investment in Capital Assets

Net investment in capital assets at June 30, 2014 is derived as follows:

	Governmental Activities	Business-Type Activities
Capital assets, net of accumulated depreciation	\$41,946,341	\$27,264,285
Less: bonds payable outstanding on capital assets	(4,643,000)	(12,479,661)
Plus: capital projects borrowing balances	-	-
Plus: future state debt reimbursements	=	<u>2,286,877</u>
	<u>\$37,303,341</u>	<u>\$17,071,501</u>

Town of Charlton, Massachusetts
Notes to the Financial Statements
June 30, 2014

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 perform certain ongoing maintenance and monitoring for thirty years after closure. The Town's landfill is closed. The Town plans to fund post closure testing and monitoring costs, estimated at \$435,000 over the next twenty nine years, from its annual tax levy. This estimated liability is subject to change due to inflation, technology and applicable regulations.

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 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 2014, the Town implemented 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. This statement did not have a significant impact on the Town's 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 had no impact on the Town's financial statements.
- GASB Statement #70 – *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is required to be implemented in fiscal year 2014. This statement did not have a significant impact on the Town's financial statements.

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

- GASB Statement #68 – *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, which is required to be implemented in fiscal year 2015. The Town is currently evaluating the possible impact of this will have on its financial statements.
- GASB Statement #69 – *Government Combinations and Disposals of Government Operations*, which is required to be implemented in fiscal year 2015. This statement will have no impact on the Town's financial statements.
- GASB Statement #71 – *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*, which is required to be implemented in fiscal year 2015. The Town is currently evaluating the possible impact of this will have on its financial statements.

Town of Charlton, Massachusetts
 Required Supplementary Information
 Fiscal Year Ended June 30, 2014

Schedule of Funding Progress

Pension System – Worcester Regional Retirement System (All Members)

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u> (a)	<u>Actuarial Accrued Liability (AAL)</u> (b)	<u>Unfunded AAL (UAAL)</u> (b-a)	<u>Funded Ratio</u> (a/b)	<u>Covered Payroll</u> (c)	<u>UAAL as % Of Covered Payroll</u> ((b-a)/c)
1/1/12	\$ 436,671,982	\$ 982,796,782	\$ 546,124,800	44.4%	\$ 238,982,079	228.5%
1/1/10	413,976,785	863,002,067	449,025,282	48.0%	241,992,607	185.5%
1/1/07	389,758,785	692,768,325	303,009,540	56.3%	211,518,755	143.2%

Schedule of Employer Contributions

Pension System – Worcester Regional Retirement System

<u>Year Ended June 30,</u>	<u>Worcester Regional Retirement System</u>			<u>Town of Charlton</u>	
	<u>Annual Required Contributions</u>	<u>Actual Contributions</u> (a)	<u>Percentage Contributed</u>	<u>Actual Contributions</u> (b)	<u>Town's Percentage of System Wide Actual Contributions</u> (b/a)
2014	\$ 37,510,266	\$ 37,510,266	100%	\$ 704,243	1.9%
2013	35,056,320	35,056,320	100%	679,988	1.9%
2012	33,072,000	33,072,000	100%	625,091	1.9%

TOWN OF CHARLTON, MASSACHUSETTSCombining Balance Sheet - Nonmajor Governmental Funds
June 30, 2014

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 1,505,372	188,676	35,515	1,729,563
Investments	276,907	-	454,114	731,021
Receivables:				
Departmental	860,901	-	-	860,901
Allowance for uncollectibles	(292,439)	-	-	(292,439)
Total assets	\$ 2,350,741	188,676	489,629	3,029,046
<u>Liabilities</u>				
Accounts payable	\$ 9,250	580	-	9,830
Other accrued liabilities	76,735	-	-	76,735
Total liabilities	85,985	580	-	86,565
<u>Deferred Inflows of Resources</u>				
Unavailable revenue	568,462	-	-	568,462
<u>Fund balances</u>				
Nonspendable	-	-	262,816	262,816
Restricted	1,588,508	188,096	226,813	2,003,417
Assigned	107,786	-	-	107,786
Total fund balances	1,696,294	188,096	489,629	2,374,019
Total liabilities, deferred inflows of resources and fund balances	\$ 2,350,741	188,676	489,629	3,029,046

TOWN OF CHARLTON, MASSACHUSETTS

Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2014

	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Permanent</u>	<u>Totals</u>
Revenues:				
Departmental charges for services	\$ 852,493	-	23,216	875,709
Intergovernmental	690,878	-	-	690,878
Investment income	10,953	-	4,070	15,023
Other	105,707	11,760	-	117,467
	<u>1,660,031</u>	<u>11,760</u>	<u>27,286</u>	<u>1,699,077</u>
Total revenues				
	<u>1,660,031</u>	<u>11,760</u>	<u>27,286</u>	<u>1,699,077</u>
Expenditures:				
Current:				
General government	126,831	-	-	126,831
Public safety	199,929	-	-	199,929
Public works	529,558	254,894	-	784,452
Human services	77,927	-	-	77,927
Recreation and culture	66,929	-	3,755	70,684
	<u>1,001,174</u>	<u>254,894</u>	<u>3,755</u>	<u>1,259,823</u>
Total expenditures				
	<u>1,001,174</u>	<u>254,894</u>	<u>3,755</u>	<u>1,259,823</u>
Excess (deficiency) of revenues over expenditures	658,857	(243,134)	23,531	439,254
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	(728,235)	-	-	(728,235)
	<u>(728,235)</u>	<u>-</u>	<u>-</u>	<u>(728,235)</u>
Total other financing sources (uses)				
	<u>(728,235)</u>	<u>-</u>	<u>-</u>	<u>(728,235)</u>
Net changes in fund balances	(69,378)	(243,134)	23,531	(288,981)
Fund balance, beginning of year	1,765,672	431,230	466,098	2,663,000
	<u>1,765,672</u>	<u>431,230</u>	<u>466,098</u>	<u>2,663,000</u>
Fund balance, end of year	\$ 1,696,294	188,096	489,629	2,374,019
	<u>1,696,294</u>	<u>188,096</u>	<u>489,629</u>	<u>2,374,019</u>

