

TOWN OF CHARLTON, NEW YORK
REGULATORY BASIS FINANCIAL STATEMENTS
DECEMBER 31, 2011

TOWN OF CHARLTON, NEW YORK

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CUSACK & COMPANY
Certified Public Accountants LLC
7 AIRPORT PARK BOULEVARD
LATHAM, NEW YORK 12110
(518) 786-3550
FAX (518) 786-1538
E-MAIL ADDRESS: INFO@CUSACKCPA.COM
WWW.CUSACKCPA.COM

CLIFTON PARK/HALFMOON OFFICE
(518) 664-7063
FAX (518) 541-3083

MEMBERS OF:
AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS
AND
NEW YORK STATE SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Supervisor and Members of the Town Board
of the Town of Charlton, New York

We have audited the accompanying regulatory basis financial statements of the Town of Charlton, New York as of and for the year ended December 31, 2011 as listed in the table of contents. These financial statements are the responsibility of the Town of Charlton, New York's management. Our responsibility is to express an opinion on these regulatory basis financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the regulatory basis financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the regulatory basis financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall regulatory basis financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Town prepared these financial statements using accounting principles prescribed by the New York State Office of the State Comptroller to demonstrate compliance with the State's regulatory basis of accounting, which practices differ from accounting principles generally accepted in the United States of America. The effect on the financial statements of the variances between these regulatory accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determined, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Town of Charlton, New York, as of December 31, 2011, and the changes in its financial position for the year then ended. Further, the Town of Charlton has not presented a management's discussion and analysis that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of the basic financial statements.

As described in Note 1(k), the Town has not recorded other postemployment benefits in accordance with generally accepted accounting principles. The amounts that would have been recorded as a liability, had other postemployment benefits been recorded in accordance with generally accepted accounting principles, is not known.

In our opinion, except for the recording of other postemployment benefits as previously described, the regulatory basis financial statements referred to above present fairly, in all material respects, the financial position of the Town of Charlton, New York as of December 31, 2011, and the results of its operations for the year then ended in conformity with accounting principles prescribed by the New York State Office of the State Comptroller.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2012 on our consideration of the Town of Charlton's internal control over financial reporting and on our 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 our audit.

A handwritten signature in black ink that reads "Cusack & Company, CPA's LLC". The signature is written in a cursive, flowing style.

CUSACK & COMPANY, CPA'S LLC

Latham, New York
November 5, 2012

TOWN OF CHARLTON, NEW YORK
REGULATORY BASIS BALANCE SHEETS
ALL FUND TYPES AND ACCOUNT GROUPS
DECEMBER 31, 2011

	Governmental Fund Types				Fiduciary	Account Groups		
	General	Highway	Water	Capital Projects	Fund Type	Trust and Agency	Fixed Assets	Long Term Debt
Assets								
Cash	\$ 717,572	\$ 3,299	\$ 122,683	\$ 9,622	\$ 621,815	\$ -	\$ -	-
Due from other governments	207,957	74,679	-	-	-	-	-	-
Prepaid expenditures	15,096	-	-	-	-	-	-	-
Other receivables	10,994	-	11,721	-	-	-	-	-
Cash, restricted	-	15,442	120,784	-	-	-	-	-
Fixed Assets	-	-	-	-	-	-	4,721,795	-
Provisions to be made in future budgets	-	-	-	-	-	-	-	1,172,773
Total assets	\$ 951,619	\$ 93,420	\$ 255,188	\$ 9,622	\$ 621,815	\$ 4,721,795	\$ 1,172,773	
Liabilities and Fund Equity								
Liabilities:								
Accounts payable	\$ 7,111	\$ 26,688	\$ 12,850	\$ -	\$ -	\$ -	\$ -	-
Accrued liabilities	16,657	-	-	-	621,815	-	-	-
Due to other governments	-	-	45,390	-	-	-	-	4,623
Compensated absences	-	-	-	-	-	-	-	-
BANS/Bonds payable	-	-	-	500,000	-	-	-	1,168,150
Total liabilities	23,768	26,688	58,240	500,000	621,815	-	-	1,172,773
Fund Equity:								
Investment in Fixed Assets	-	-	-	-	-	-	4,721,795	-
Fund balances:								
Nonspendable	15,096	-	-	-	-	-	-	-
Restricted	68,854	15,442	120,784	-	-	-	-	-
Assigned	176,122	51,290	76,164	-	-	-	-	-
Unassigned	667,779	-	-	(490,378)	-	-	-	-
Total fund balances	927,851	66,732	196,948	(490,378)	-	-	4,721,795	-
Total liabilities and fund equity	\$ 951,619	\$ 93,420	\$ 255,188	\$ 9,622	\$ 621,815	\$ 4,721,795	\$ 1,172,773	

See accompanying notes and independent auditor's report.

TOWN OF CHARLTON, NEW YORK
REGULATORY BASIS STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUND TYPES
FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Governmental Fund Types</u>			
	<u>General</u>	<u>Highway</u>	<u>Water</u>	<u>Capital Projects</u>
Revenue				
Real property taxes	\$ -	\$ -	\$ 137,072	\$ -
Real property tax items	2,394	-	-	-
Non property tax items	690,807	486,555	-	-
Departmental income	37,003	-	103,026	-
Use of money and property	2,958	673	1,622	24
Licenses and permits	4,458	-	-	-
Fines and forfeitures	39,737	-	-	-
Sale of property and compensation for loss	9,073	8,200	-	-
Miscellaneous local sources	5,243	-	-	-
State aid	183,272	99,314	-	-
Federal aid	-	56,009	-	-
Total revenue	<u>974,945</u>	<u>650,751</u>	<u>241,720</u>	<u>24</u>
Expenditures				
General governmental support	382,528	-	-	48,485
Public safety	59,104	-	-	-
Public health	34,554	-	-	-
Transportation	60,765	539,309	-	-
Economic assistance and opportunity	5,553	-	-	-
Culture and recreation	69,273	-	-	-
Home and community services	24,078	-	482,863	-
Employee benefits	81,263	107,136	5,575	-
Debt service (principal and interest)	228,135	-	20,950	-
Total expenditures	<u>945,253</u>	<u>646,445</u>	<u>509,388</u>	<u>48,485</u>
Excess of revenue over (under) expenditures	<u>29,692</u>	<u>4,306</u>	<u>(267,668)</u>	<u>(48,461)</u>
Other financing sources (uses)				
BANs redeemed	-	-	-	100,000
Operating transfers in	-	-	-	17,000
Operating transfers out	(17,000)	-	-	-
Total of other financing sources (uses)	<u>(17,000)</u>	<u>-</u>	<u>-</u>	<u>117,000</u>
Excess of revenues and other sources over (under) expenditures and other sources (uses)	<u>12,692</u>	<u>4,306</u>	<u>(267,668)</u>	<u>68,539</u>
Fund balance (deficit) at beginning of year	<u>915,159</u>	<u>62,426</u>	<u>464,616</u>	<u>(558,917)</u>
Fund balance (deficit) at end of year	<u>\$ 927,851</u>	<u>\$ 66,732</u>	<u>\$ 196,948</u>	<u>\$ (490,378)</u>

See accompanying notes and independent auditor's report.

TOWN OF CHARLTON, NEW YORK

**REGULATORY BASIS STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES - BUDGET AND ACTUAL -
GENERAL FUND**

FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Budget	Modified Budget	Actual and Encumbrances	Variance Favorable (Unfavorable)
Revenue	\$ 2,500	\$ 2,500	\$ 2,394	\$ (106)
Real property tax items	632,413	632,413	690,807	58,394
Non property tax items	42,000	42,000	37,003	(4,997)
Departmental income	6,000	6,000	2,958	(3,042)
Use of money and property	3,000	3,000	4,458	1,458
Licenses and permits	45,000	45,000	39,737	(5,263)
Fines and forfeitures	-	-	9,073	9,073
Sale of property and compensation for loss	6,000	6,000	5,243	(757)
Miscellaneous local sources	159,500	159,500	183,272	23,772
State aid	896,413	896,413	974,945	78,532
Total revenue				
Expenditures	407,207	421,087	382,528	38,559
General government support	73,756	76,756	59,104	17,652
Public safety	34,554	34,554	34,554	-
Public health	55,894	59,525	60,765	(1,240)
Transportation	5,655	5,655	5,553	102
Economic Assistance and Opportunity	74,721	77,721	69,273	8,448
Culture and recreation	31,067	31,142	24,078	7,064
Home and community services	84,859	90,778	81,263	9,515
Employee benefits	128,700	228,735	228,135	600
Debt services (principal and interest)	896,413	1,025,953	945,253	80,700
Total expenditures				
Excess (deficiency) of revenue over expenditures	\$ -	\$ (129,540)	\$ 29,692	\$ 159,232

TOWN OF CHARLTON, NEW YORK

**REGULATORY BASIS STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES - BUDGET AND ACTUAL -
HIGHWAY FUND**

FOR THE YEAR ENDED DECEMBER 31, 2011

	<u>Original Budget</u>	<u>Modified Budget</u>	<u>Actual and Encumbrances</u>	<u>Variance Favorable (Unfavorable)</u>
Revenue				
Non-property tax items	\$ 486,555	\$ 486,555	\$ 486,555	\$ -
Use of money and property	-	-	673	673
Sale of property and compensation for loss	-	-	8,200	8,200
State aid	84,895	85,379	99,314	13,935
Federal aid	-	-	56,009	56,009
Total revenue	<u>571,450</u>	<u>571,934</u>	<u>650,751</u>	<u>78,817</u>
Expenditures				
Transportation	588,588	594,577	539,309	55,268
Employee benefits	122,862	117,622	107,136	10,486
Total expenditures	<u>711,450</u>	<u>712,199</u>	<u>646,445</u>	<u>65,734</u>
Excess (deficiency) of revenue over expenditures and other uses	<u>\$ (140,000)</u>	<u>\$ (140,265)</u>	<u>\$ 4,306</u>	<u>\$ 144,571</u>

TOWN OF CHARLTON, NEW YORK

REGULATORY BASIS STATEMENT OF REVENUES, EXPENDITURES AND ENCUMBRANCES - BUDGET AND ACTUAL -

WATER FUND

FOR THE YEAR ENDED DECEMBER 31, 2011

	Original Budget	Modified Budget	Actual and Encumbrances	Variance Favorable (Unfavorable)
Revenue				
Real property taxes	\$ 133,614	\$ 133,614	\$ 137,072	\$ 3,458
Departmental income	105,000	105,000	103,026	(1,974)
Use of money and property	-	-	1,622	1,622
Total revenue	<u>238,614</u>	<u>238,614</u>	<u>241,720</u>	<u>3,106</u>
Expenditures				
Home and community services	244,879	539,654	482,863	56,791
Employee benefits	5,578	5,803	5,575	228
Debt service	20,951	20,951	20,950	1
Total expenditures	<u>271,408</u>	<u>566,408</u>	<u>509,388</u>	<u>57,020</u>
Deficiency of revenue over expenditures and other uses	<u>\$ (32,794)</u>	<u>\$ (327,794)</u>	<u>\$ (267,668)</u>	<u>\$ 60,126</u>

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Town of Charlton, New York (the "Town") have been prepared in conformity with accounting principles prescribed by the New York State Office of the State Comptroller for complying with Article 3, Section 30 of General Municipal Law in which every municipal corporation is required to make an annual financial report. The most significant difference between this regulatory basis of accounting and generally accepted accounting principles ("GAAP") is that Government Accounting Standards Board ("GASB") Statement 34 "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments" need not be implemented to meet the requirements of General Municipal Law. GASB 34 requires significant changes including:

- Government-Wide Reporting
- Focus on Major Funds
- Changes in Budgetary Reporting
- Full Accrual Accounting Including Depreciation
- Management Discussion and Analysis
- Capitalization of Infrastructure Assets

Management has considered the costs and benefits of adopting GASB 34 and determined that auditing the financial statements utilizing another Comprehensive Basis of Accounting as opposed to GAAP makes fiscal sense for the Town.

The Town of Charlton, New York, which was established in 1792 in Saratoga County, is governed by its Town Charter, other general laws of the State of New York and various local laws. The Town Board, which is the governing body of the Town, consists of the Supervisor and four voting Council members, all elected. The Town Supervisor serves as the chief executive officer and chief fiscal officer.

The Town provides the following basic services: public safety, health services, maintenance of town roads, recreation, home and community service, economic assistance and other general services. The accounting policies of the Town conform to the accounting principles prescribed by the New York State Office of the State Comptroller, which with some exceptions, generally conform to generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the acceptable standards setting body for establishing accounting and financial reporting practices. The following is a summary of significant policies:

- (a) ***Financial Reporting Entity:*** The financial reporting entity consists of (a) the primary government which is the Town of Charlton, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete as set forth in GASB Statement 14.

The decision to include a potential component unit in the Town reporting entity is based on several criteria set forth in GASB 14 including legal standing, fiscal dependency, and financial accountability. Based on the application of these criteria, the following is a brief review of certain entities considered in determining the Town's reporting entity.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (b) ***Basis of Presentation - Fund Accounting:*** The accounts of the Town are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for within a separate set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues, and expenditures. The various funds are summarized by type in the financial statements. The following fund types and account groups are used by the Town.

GOVERNMENTAL FUND TYPES

Governmental funds are those in which most governmental functions of the Town are reported. The acquisition, use and balances of the Town's expendable financial resources and the related liabilities are accounted for through the governmental funds. The measurement focus is upon determination of changes in financial position, rather than upon determination of net income. The following are the Town's governmental fund types:

- Townwide General Fund - is the primary operating fund of the Town. It is used to account for all general financial resources not accounted for in another fund.
- Highway Fund - established pursuant to Highway Law to account for revenues and expenditures related to highway repairs and improvements, bridges, machinery, snow removal and miscellaneous highway related items.
- Water District Fund - to account for water district revenues and expenditures.
- Capital Projects Fund - is used to account for financial resources used for the acquisition or construction of major capital expenditures.

FIDUCIARY FUND TYPES

Fiduciary funds account for assets held by the Town as an agent for individuals, private organizations, other governmental units, and/or other funds. Expendable trust funds are accounted for in essentially the same manner as governmental funds.

ACCOUNT GROUPS

Account groups are used to establish accounting controls and accountability for general fixed assets and general long-term debt. The two account groups are not "funds". They are concerned only with the measurement of financial position. They are not involved with measurement of results of operations.

Fixed Asset Account Group - This account group is established to account for all fixed assets of the Town.

General Long-Term Debt Account Group - This account group is used to record all long-term obligations of the Town, such as compensated absences and bonds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (c) *Basis of Accounting:* The modified accrual basis of accounting is followed by the governmental and expendable trust funds. Under the modified accrual basis of accounting, revenues are recorded when they are susceptible to accrual, i.e., both measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Expenditures are recorded when the liability is incurred, if measurable except that interest on long-term debt is not recognized as an expenditure until due.

In applying the susceptible-to-accrual concept to State and Federal Aid, the legal and contractual requirements of the numerous individual programs are used as guidance. There are, however, essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the Town; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are generally reflected as revenues at the time of receipt.

The primary non-property tax item is sales tax which is recorded as revenue in the general and the Townwide highway fund when it is received by Saratoga County and available for distribution to the Town. Other revenues are recorded when received in cash because they are generally not measurable until actually received.

- (d) *Budgetary Data:*

General Budget Process - Prior to October 1 of each year, the Budget Officer submits to the Town Board a proposed operating budget for the fiscal year commencing the following January 1. The operating budget includes proposed expenditures and the sources of financing. Public hearings are conducted to obtain taxpayers' comments. Prior to November 20, the budget is adopted by the Town Board. The Town Board must approve all modifications of the budget.

Budget Basis of Accounting - Budgets are adopted annually on a basis consistent with generally accepted accounting principles. Appropriations authorized for the current year are increased by the amount of encumbrances carried forward from the prior year.

- (e) *Encumbrances:* Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances at year end are reported as reservations of fund balances since the commitments do not constitute expenditure or liabilities.
- (f) *Inventory:* Inventory consists primarily of salt and fuel and is valued at cost.
- (g) *General Fixed Assets:* Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the fixed assets account group. These fixed assets are valued at historical cost or estimated historical cost if actual cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (g) General Fixed Assets (Continued): Fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks and drainage have not been capitalized. Such assets normally are immovable and of value only to the Town. Therefore, the purpose of stewardship for capital expenditures is satisfied without recording these assets.

No depreciation has been provided on general fixed assets, nor has interest been capitalized.

- (h) Compensated Absences: Town employees are granted vacation and sick leave in varying amounts. In the event of termination or upon retirement, an employee is entitled to payment for accumulated vacation leave at various rates subject to certain maximum limitations. The liability for accumulated vacation has been recorded in the applicable fund. The liability for accumulated sick time has been recorded in the general long-term debt account group.
- (i) Fund Balance Reserves: The Town's fund balance reserves represent those portions of the fund balance not available for appropriation, or legally designated for a specific future use.
- (j) Property Taxes: Real property tax levies are fully accrued at the beginning of the fiscal year. The current year's property taxes are levied no later than January 1 based upon the full assessed value of real property within the Town. The taxes are collected by the Town Tax Collector during the period January 1 through March 31. On March 31, settlement proceedings take place whereby the County of Saratoga, New York becomes the tax collecting agent for the Town. All real property tax enforcement action becomes the duty of the County of Saratoga, New York.
- (k) Postemployment Benefits: In addition to providing pension benefits, the Town also provides certain health care benefits for retired employees. Substantially all the Town's employees may become eligible for these benefits if they reach normal retirement age while working for the Town.

Effective for the year ended December 31, 2009, Governmental Accounting Standards Board Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" ("GASB 45") requires the Town to recognize the cost of other postemployment benefits ("OPEB") in the financial statements in the periods in which the exchange occurs rather than in the periods when the benefits are paid. GASB 45 requires the services of an actuary to calculate current OPEB costs and to amortize prior service costs over a period not to exceed thirty years. The expense recognized under this policy would be significantly larger than prior practice which recognized expense on a pay-as-you-go basis.

The Town has evaluated the costs and benefits of adopting GASB 45 and determined that at this time the cost outweighs the benefit. Therefore, the Town has continued to recognize OPEB costs on a pay-as-you-go basis, which is not in accordance with generally accepted accounting principles. The amount that would be recorded in the long-term debt account group had GASB 45 been adopted is not known.

OPEB costs on a pay-as-you-go basis was approximately \$15,000 in 2011 for 5 retirees.

2. CASH AND INVESTMENTS

The Town's written investment policy was adopted by the Town Board and is governed by State statutes. Town monies must be deposited in FDIC insured commercial banks or trust companies designated by the Town Board. New York State statutes and guidelines authorize the Town to invest in obligations of the U.S. Government and its agencies, certificates of deposit, repurchase agreements, and obligations of the State of New York.

Collateral is required for demand deposits and certificates of deposit at 100 percent of all deposits not covered by federal deposit insurance. Obligations that may be pledged as collateral are obligations of the United States and its agencies, obligations issued, fully insured, or guaranteed by New York State, and obligations issued by any municipality or school district of New York State. Restrictions may apply to some of the above categories.

During 2011, cash and investments were either insured by federal depository insurance or collateralized by assets of the Town's custodial bank in the Town's name.

3. POOLED BANK ACCOUNTS

Separate bank accounts are not maintained for each of the Town's funds. Instead, cash is pooled and deposited in pooled bank accounts with accounting records maintained to show the portion of the balance attributable to each fund. At December 31, 2011 the Town's funds had the following book balances in the pooled bank account:

<u>Fund</u>	<u>Cash</u>
General	\$ 700,484
Highway	3,299
Water	<u>89,197</u>
	<u>\$ 792,980</u>

4. FIXED ASSETS

A summary of changes in the fixed asset account group is as follows:

	<u>Balance at</u> <u>January 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at</u> <u>December 31, 2011</u>
Land	\$ 66,461	\$ -	\$ -	\$ 66,461
Buildings	3,397,272	-	-	3,397,272
Equipment	<u>1,245,687</u>	<u>13,172</u>	<u>797</u>	<u>1,258,062</u>
	<u>\$ 4,709,420</u>	<u>\$ 13,172</u>	<u>\$ 797</u>	<u>\$ 4,721,795</u>

5. SHORT-TERM DEBT

Liabilities for bond anticipation notes (BAN's) are generally accounted for in the capital projects fund. The notes or renewal thereof may not extend more than two years beyond the original date of issue unless a portion is redeemed within two years and within each 12 month period thereafter.

5. SHORT-TERM DEBT (CONTINUED)

State law requires that BAN's issued for capital purposes be converted to long-term obligations within five years after the original issue date. However, BAN's issued for assessable improvement projects may be renewed for periods equivalent to the maximum life of the permanent financing, provided that stipulated annual reductions of principal are made.

The following is a summary of changes in BAN's for the year ended December 31, 2011:

BAN's Outstanding , January 1, 2011	\$ 600,000
BAN's Issued	-
BAN's Redeemed	<u>100,000</u>
BAN's Outstanding, December 31, 2011	<u>\$ 500,000</u>

BAN's consist of a \$500,000 note maturing February 12, 2012 with an interest rate of 2.25% for the Town Hall.

6. LONG-TERM DEBT

The following is a summary of changes in long-term liabilities for the year ended December 31, 2011:

	<u>Balance</u> <u>January 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>December 31, 2011</u>
Bonds Payable	\$ 1,253,600	\$ -	\$ 85,450	\$ 1,168,150
Compensated Absences	<u>4,623</u>	<u>-</u>	<u>-</u>	<u>4,623</u>
	<u>\$ 1,258,223</u>	<u>\$ -</u>	<u>\$ 85,450</u>	<u>\$ 1,172,773</u>

Future maturities of bonds payable and the related interest expense are as follows:

	<u>Principal</u>	<u>Interest</u>
2012	\$ 85,450	\$ 47,213
2013	90,450	43,725
2014	90,450	39,238
2015	95,450	35,550
2016	95,450	29,263
Thereafter	<u>710,900</u>	<u>88,063</u>
	<u>\$ 1,168,150</u>	<u>\$ 283,052</u>

7. FUND BALANCE

As of December 31, 2011, the Tow implemented GASB 54 "Fund Balance Reporting and Governmental Fund Type Definitions."

7. FUND BALANCE (CONTINUED)

GASB 54 defines five categories of fund balance as follows:

- **Nonspendable** fund balance includes amounts that cannot be spent because they are either not in spendable form or contractually required to be maintained intact.
- **Restricted** fund balance includes amounts restricted when constraints placed on the use of resources are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.
- **Committed** fund balance includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town Board. The Town had no committed fund balances at December 31, 2011.
- **Assigned** fund balance includes amounts that are constrained by the Town's intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances include funds that are legally mandated to be accounted for separately as well as amounts that have been contractually obligated by the Town or designated by the Town for ensuing year's budget.
- **Unassigned** fund balance represents fund balance that has not been assigned to other funds and that has not been restricted, committed or assigned to specific purposes within the fund.

Fund balances for major funds are detailed as follows:

	General Fund	Highway Fund	Water Fund
Nonspendable			
Prepaid Expenses	\$ 15,096	\$ -	\$ -
Restricted			
Park Fees	68,854	-	-
Highway Equipment	-	15,442	-
Water Reserve	-	-	120,784
Assigned			
Subsequent Years Budget	176,122	-	5,712
Highway Fund	-	51,290	-
Water Fund	-	-	70,452
Unassigned	667,779	-	-
Total	<u>\$ 927,851</u>	<u>\$ 66,732</u>	<u>\$ 196,948</u>

8. OPERATING TRANSFERS

During the course of normal operations, the Town records numerous transactions between funds including expenditures for the provisions of services as well as transfers between funds to finance various projects.

There were no interfund receivable and payable balances arising from these transactions as of December 31, 2011.

9. PENSION PLAN

Plan Description

The Town participates in the New York State and Local Employees' Retirement System and the Public Employees' Group Life Insurance Plan (Systems). These are cost-sharing multiple-employer retirement systems. The Systems provide retirement benefits as well as death and disability benefits. Obligations of employers and employees to contribute and benefits to employees are governed by the New York State Retirement and Social Security Law (NYSRSSL). As set forth in the NYSRSSL, the Comptroller of the State of New York (Comptroller) serves as sole trustee and administrative head of the Systems. The Comptroller shall adopt and may amend rules and regulations for the administration and transaction of the business of the Systems and for the custody and control of their funds. The Systems issue a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to the New York State and Local Retirement Systems, 110 State Street, Albany, NY 12244.

Funding Policy

The Systems are noncontributory except for employees who joined the New York Employees' Retirement System after July 27, 1976 who contribute 3% of their salary, for the first ten years of service credit and employees who joined after January 1, 2010 who generally contribute 3% of their salary for their entire length of service. Under the authority of the NYSRSSL, the Comptroller shall certify annually the rates expressed as proportions of payroll of members, which shall be used in computing the contributions required to be made by employers to the pension accumulation fund.

The Town is required to contribute at an actuarially determined rate. The required contributions for the current year and preceding year were as follows:

2011	\$	60,382
2010	\$	49,739

The Town's contributions made to the Systems were equal to 100 percent of the contributions required for each year.

10. COMMITMENTS AND CONTINGENCIES

Litigation: The Town is a defendant in lawsuits arising in the normal course of business. In the opinion of the Town, after considering all relevant facts, the ultimate losses not covered by insurance resulting from such litigation would be immaterial in relation to the regulatory basis financial statements taken as a whole.

Self-Insurance: The Town participates in a self-insurance plan for workers' compensation under Local Law No. 1 and 2, 1956, pursuant to Article 5 of the Workers' Compensation Law. The plan is open to any eligible municipality or public entity for participation. The County of Saratoga, New York is responsible for administration of the plan and its reserves. The Town contribution, \$2,484 in 2011, to the plan is levied together with taxes for the County and special district purposes as a single bill.

Environmental Concerns: The Town is engaged in many activities (i.e., highway maintenance, salt and gasoline storage), in the normal course of operations that are potentially hazardous to the environment. Policies, procedures and safeguards have been implemented by the Town to assist in the protection of the environment. As of December 31, 2011 the Town is not aware of any significant environmental problems that should be disclosed in the financial statements.

10. SUBSEQUENT EVENTS

Management has evaluated subsequent events or transactions as to any potential material impact on operations or financial position occurring through November 5, 2012, the date the financial statements were available to be issued. No such events or transactions were identified.

OTHER FINANCIAL INFORMATION

**ADDITIONAL REPORTS REQUIRED BY
GOVERNMENT AUDITING STANDARDS**

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

To the Supervisor and
Members of the Town Board
Town of Charlton, New York

We have audited the regulatory basis financial statements of the Town of Charlton, New York as of and for the year ended December 31, 2011, and have issued our report thereon dated November 5, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Charlton, New York's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting, findings 2011-1, 2011-2, 2011-3, 2011-5, 2011-6 and 2011-7. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within the Town, and the Town Board and is not intended to be and should not be used by anyone other than these specified parties.



CUSACK & COMPANY, CPA'S LLC

Latham, New York
November 5, 2012

2011-1: Outsourcing of Financial Statement Preparation Process to Your Auditors

Auditing standards require the reporting of a significant deficiency if the Town does not employ an individual with the necessary qualifications to prepare a complete set of financial statements and related footnotes in accordance with generally accepted accounting principles. As the Town bookkeeper is not a certified public accountant, she is not able to determine that the financial statements and related footnotes are in accordance with generally accepted accounting principles. As a result, Cusack & Company, LLC has assisted the Town in preparing its management functions. Management continues to make all management decisions and perform all management functions. Additionally, management has designated an individual who possesses suitable skill, knowledge and experience to oversee our services. Such individual is responsible to evaluate the adequacy and results of the services performed, accepts responsibility for the results of the services, and maintains control and monitors such services.

We recommend that management consider the costs and benefits of obtaining an employee, consultant, volunteer, or board member with the appropriate technical expertise to satisfy the requirements of auditing standards.

2011-2 Cash Basis of Accounting

During our audit of the financial reporting system we noted that with some exceptions, the cash basis of accounting is utilized which is not in accordance with generally accepted accounting principles, as results can vary materially based on the timing of cash receipts and disbursements.

The following adjustments were required to convert the December 31, 2011 balance sheet to the accrual basis:

• Accrued December 2011 sales tax received in February 2012	\$ 85,514
• Accrued December 2011 Justice Fines received in January 2012	\$ 2,605
• Accrued fourth quarter franchise fee	\$ 8,389
• Accrued FEMA Aid	\$ 24,679
• Prepaid Retirement	\$ 15,096
• Accrued Payroll	\$ (6,465)
• Due to Other Governments (water purchases)	\$ (45,390)
• Escrow Liabilities	\$ (16,657)
• Accounts Payable	\$ (46,649)
• Accrued compensated absences	\$ (16,657)

The accrual basis of accounting is in accordance with generally accepted accounting principles and is preferred by the New York State Comptroller's Office for reporting in the annual update document.

We recommend that management consider accounting and reporting on the accrual basis of accounting.

2011-3 Park Fees

During our audit we noted that unused Park Fees had not been properly restricted from fund balance. We proposed an audit adjusting entry to reclassify \$68,854 of unused park fees to restricted fund balance.

We recommend that management develop and implement procedures to record unused park fees as restricted.

2011-4 Reclassifications

During our audit we proposed adjustments to reclassify certain items as follows:

A/C 97307	BAN Interest (Reported on AUD as Bond Interest)	\$ 12,900
A/C 90608	Health Insurance Reimbursements (Reported as Miscellaneous Income)	\$ 11,810
A/C 51304	Fuel Reimbursements (Reported as Miscellaneous Income)	\$ 5,305

Reimbursed expenses should be reported as offsets to the actual expense and not as revenue.

We recommend that management consider accounting for the above transactions as indicated above.

2011-5 Escrow Accounts

During our audit we noted that fees collected for escrow accounts were recorded as revenues. At December 31, 2011 we proposed an adjusting entry to record a liability for \$16,657 for escrow fees that had not been used. Additionally, we reduced fee revenue for the amount of escrow fees and reduced engineering and legal expenses for the expenses charged to the escrow accounts. As the Town operates merely as a conduit to ensure the proper fees are paid, these are not Town revenues and not Town expenses and should not be recorded as such

We recommend that management consider recording all escrow activity in the Trust and Agency Fund.

2011-6 Other Postemployment Benefits (“OPEB”)

In addition to providing pension benefits, the Town also provides certain health care benefits for retired employees and their dependents. Subsequently, all the Town employees may become eligible for those benefits if they reach normal retirement age while working for the Town.

Effective for the year ended December 31, 2009, Governmental Accounting Standards Board Statement No. 45 "Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions" ("GASB 45") requires the Town to recognize the cost of pension benefits to be reflected in the financial statements in the periods in which the exchange occurs rather than in the periods when the benefits are paid. GASB 45 requires the services of any actuary to calculate current OPEB costs and to amortize prior service costs over a period not to exceed thirty years. The expense recognized under this policy would be significantly larger than prior practice which recognized expense on a pay-as-you-go basis.

We recommend that the Town evaluate the costs and benefits of adopting GASB 45.

2011-7 Review and Approval of Journal Entries

During our review we noted that the bookkeeper made all journal entries that were never reviewed or approved by a responsible employee.

We recommend that management consider development and implementing a policy to review and approve journal entries.

2011-8 Monitoring of Collateral on Cash Accounts

New York State Municipal Law requires that all municipalities maintain collateral for all cash not covered by FDIC insurance. Although collateral statements are received monthly there was no evidence that these were compared to bank balances on hand to determine its adequacy.

We recommend that management develop and implement procedures to insure adequate collateral is maintained on a monthly basis.

2011-9 Establish a Fraud Reporting Mechanism

Studies show that most frauds are known to someone in the defrauded organization and are revealed after a tip is received from someone with knowledge about the fraud. However, an employee may not report suspicions or knowledge of fraud if he or she does not know to whom to report, especially if the perpetrator is someone high up in the Organization or someone to whom the employee reports. The very existence of a fraud reporting mechanism would serve as a deterrent to misconduct by creating among employees a perception that fraud would be detected and reported. It would also demonstrate the Town's serious intent to prevent and detect fraud. In addition, the mechanism could also be used to report incidents of harassment, unsafe working conditions, violence, or violations of laws or regulations. This would allow the Town to address such situations in a timely manner and could help prevent or minimize fines, lawsuits, legal liability, or adverse publicity by demonstrating that the Town has procedures for receiving and addressing complaints.

We recommend that management consider establishing a fraud or suspected fraud reporting mechanism.

2010-12 Develop an Accounting Procedures Manual

We noted that the Town does not have an accounting procedures manual. There may be an assumption that because the Town's accounting system is relatively simple and accounting personnel have direct and easy access to the bookkeeper when questions arise, there is no need for a manual. However, written procedures, instructions, and assignments of duties will prevent or reduce misunderstandings, errors, inefficient or wasted effort, duplicated or omitted procedures, and other situations that can result in inaccurate or untimely accounting records. A well-devised accounting manual can also help to ensure that all similar transactions are treated consistently, that accounting principles used are proper, and that records are produced in the form desired by management. A good accounting manual should aid in the training of new employees and possibly allow for delegation to other employees of some accounting functions management performs.

We recommend that management consider the development of an accounting manual. It will take some time and effort for management to develop a manual; however, we believe this time will be more than offset by time saved later in training and supervising accounting personnel. Also, in the process of the comprehensive review of existing accounting procedures for the purpose of developing the manual, management might discover procedures that can be eliminated or improved to make the system more efficient and effective.

2011-11 Fixed Asset Capitalization Limit

During our audit we noted many immaterial items listed in fixed assets. (e.g. \$87 calculator)

We recommend that management consider establishing a fixed asset capitalization limit (\$500 to \$1,000 is common for municipalities).

2011-12 Fixed Asset Physical Inventory

During our audit of fixed assets we noted many items "which it appears unlikely that they still exist (e.g. 1956 York Trailer Rake).

We recommend that management develop and implement procedures to perform periodic physical inventories of fixed assets.

2011-13 Highway Fuel/Salt Inventory

During our audit we noted that the cost of fuel and salt inventory on hand at year end had not been recorded.

We recommend that management develop and implement procedures to record year end inventories of fuel and salt inventories.

2011-14 \$500,000 Anticipation Note

During our audit we noted that the renewal of the Bond Anticipation Note was not bid. Had the note been bid, a lower rate of interest may have been obtained.

We recommend that management consider putting future Bond Anticipation Note renewals to bid.

2011-15 Lack of Support Documentation

During our audit we noted that the three payments to the various fire districts totaling \$476,071 did not have a voucher. Additionally we noted quarterly payments to the Ballston Spa Library and two emergency squads had vouchers but no support.

We recommend that in the future the fire district payments be supported by a voucher with a copy of the tax warrant attached to support the amount and the last quarterly contract payments to the Library and emergency squads be supported by reference to the specific resolution or by attaching a copy of the appropriate page from the contract to the voucher to support the amount paid.

2011-16 Time and Attendance Records

During our review we noted that daily time records are not signed by the employee and for non-highway employees they are not signed by a supervising employee. Additionally, there is no standard time sheet for non-highway employees.

We recommend that employees be required to sign the time record and submit them to their supervisor or management for approval. Requiring signatures can help impress on employees the need for accuracy and honesty in filling out the time cards and that by signing it they are making a representation about those matters. Knowledge that the cards will be reviewed by the supervisor or manager will also encourage employees to fill out the cards accurately and honestly. The supervisors or managers, who will be generally knowledgeable about their employees' attendance, hours, and work assignments during the pay period, should sign each time card indicating review and approval of hours worked and time off. The supervisors or managers should be responsible for obtaining the cards from employees and submitting them to the bookkeeper on time. Additionally, we recommend that management consider a standard time record for non-highway employees.

2011-17 Selection of Depositories

Generally, Municipal Law requires the governing board of every local government designate one or more banks or trust companies for the deposit of public funds and that such designation specify the maximum amount which may be kept on deposit at any time. The Town's designation did not specify a maximum amount which may be kept on deposit. Additionally, a trust and agency account was established during the year with a \$600,000 deposit but the account was not authorized by the Town Board in their minutes.

We recommend the Town Board consider the authorization of individual bank accounts annually with maximum amounts specified. Additionally, we recommend the Town Board approve all new accounts and all accounts to be closed, and those approvals be documented in the minutes.

2011-18 Encumbrances

Encumbrance accounting allows for the reservation of fund balance for purchase orders approved but for which goods or services have not been received. It allows those purchase orders to be properly applied to the current year's budget. The Town has no procedure to record encumbrances.

We recommend management develop and implement a procedure to record encumbrances at year end.

2011-19 I-9 Forms

The Federal Immigration Reform and Control Act of 1986 requires every employee to complete an employment eligibility verification, Form I-9. The Town has no procedures in place for new employees to complete Form I-9.

We recommend management develop and implement procedures to comply with I-9 filing requirements.

2011-20 Cash Receipt Documentation

During our audit we noted that cash receipt source documentation did not indicate to what general ledger account the receipt should be posted. As a result, the audit trail could be difficult to follow. Additionally, the cash receipt source documentation was not stamped with the date received making it difficult to determine if timely deposits had been made.

We recommend that policies and procedures be developed to document the general ledger number to be credited and the date received on all cash receipt source documentation.

2011-21 Compensating Cash Control

Due to the size of the Town, there is a lack of segregation of duties as the bookkeeper is involved in almost all aspects of all transactions and reporting. As a compensating control, a Town Board member receives copies of the bank statements before they are forwarded to the bookkeeper to review them for unusual activity, but there is no written record that this review has been performed on a timely basis.

We recommend that management develop and implement procedures to document the compensating control in place. Additionally, management may want to consider periodic review of online banking activity.