

TOWN OF AYER, MASSACHUSETTS

Financial Statements

June 30, 2010

(With Accountants' Report Thereon)

Giusti, Hingston and Company
Certified Public Accountants

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Town of Ayer, Massachusetts
FINANCIAL STATEMENTS
For the Year Ended June 30, 2010
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INDEPENDENT AUDITORS' REPORT ON BASIC FINANCIAL STATEMENTS

Board of Selectmen
Town of Ayer
Town Hall
Ayer, Massachusetts 01432

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Ayer, Massachusetts as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Ayer, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Ayer, Massachusetts as of June 30, 2010 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated March 28, 2011 on our consideration of the Town of Ayer, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls 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 conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis, the budgetary comparison information, the retirement system schedules and other post employment benefit schedules listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the basic financial statements of the Town of Ayer taken as a whole. The accompanying schedule of expenditures of federal awards required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
March 28, 2011

Town of Ayer, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2010

As management of the Town of Ayer, Massachusetts, we offer readers of the financial statements this narrative overview and analysis of the financial activities of the Town of Ayer, Massachusetts for the fiscal year ended June 30, 2010.

Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Ayer, Massachusetts June 30, 2010 **basic financial statements**. The Town of Ayer, Massachusetts' basic financial statements are comprised of three components: 1) **government-wide financial statements**, 2) **fund financial statements**, and 3) **notes to the financial statements**. This report also contains other supplementary information in addition to the basic financial statements themselves. Please refer to the table of contents for the location of these items.

Financial Highlights

- The assets of the Town of Ayer, Massachusetts exceeded its liabilities at the close of the most recent fiscal year by \$30,781,533 (*net assets*). Of this amount \$2,103,211 (*unrestricted net assets*) may be used to meet government's ongoing obligations to citizens and creditors.
- At the end of the current fiscal year, undesignated fund balance for the general fund was \$1,179,259, or 5 percent of total general fund expenditures.
- The Town of Ayer, Massachusetts' total long term debt increased by \$631,383 during the current year. The increase was the result of the issuance of general obligation bonds (\$356,000 governmental activities and \$2,201,000 business-type activities) and the retirement of general obligation bonds (\$1,011,685 government activities and \$913,935 business-type activities).

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

The *statement of net assets* presents information on all of the Town of Ayer, Massachusetts' assets and liabilities, with the differences between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Town of Ayer, Massachusetts is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

The government-wide financial statements have separate columns for governmental 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, sewer, ambulance and social waste activities. User fees charged to the customers receiving services finance these activities.

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 of Ayer, Massachusetts, 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 of Ayer, Massachusetts can be divided into three categories: governmental funds, fiduciary funds and proprietary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. 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 of Ayer, Massachusetts maintains four proprietary fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town of Ayer, Massachusetts uses enterprise funds to account for its Water, Sewer, Ambulance and Solid Waste operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, Ambulance and Solid Waste funds.

Reconciliation of Government-wide Financial Statements to Fund Financial Statements

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

provide a crosswalk from the government-wide financial statements to the governmental funds of the fund financial statements:

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

Net Assets

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

The following table reflects the condensed net assets for the past two fiscal years.

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Current and Other Assets	\$ 13,638,085	\$ 13,577,108	\$ 5,277,859	\$ 4,957,879	\$ 18,915,944	\$ 18,534,987
Capital Assets	18,141,931	18,711,619	19,621,987	20,190,139	37,763,918	38,901,758
Total Assets	<u>31,780,016</u>	<u>32,288,727</u>	<u>24,899,846</u>	<u>25,148,018</u>	<u>56,679,862</u>	<u>57,436,745</u>
Other Liabilities	3,075,790	3,098,439	1,468,065	3,132,358	4,543,855	6,230,797
Long Term Liabilities	11,062,412	10,607,837	10,292,062	9,203,633	21,354,474	19,811,470
Total Liabilities	<u>14,138,202</u>	<u>13,706,276</u>	<u>11,760,127</u>	<u>12,335,991</u>	<u>25,898,329</u>	<u>26,042,267</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	9,216,872	8,927,510	11,411,818	12,626,845	20,628,690	21,554,355
Restricted	7,213,606	7,003,524	836,026	218,114	8,049,632	7,221,638
Unrestricted	1,211,336	2,651,417	891,875	(32,932)	2,103,211	2,618,485
Total Net Assets	<u>\$ 17,641,814</u>	<u>\$ 18,582,451</u>	<u>\$ 13,139,719</u>	<u>\$ 12,812,027</u>	<u>\$ 30,781,533</u>	<u>\$ 31,394,478</u>

The net assets of the Town (including prior period adjustments) decreased by \$612,945. The net assets of the governmental activities decreased by \$940,637 or 5% and the net assets of the business-type activities increased by \$327,692 or 3%.

Changes in Net Assets

The following condensed financial information was derived from the government-wide Statement of Activities. It reflects how the Town's net assets have changed during the fiscal year.

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 1,976,006	\$ 2,215,709	\$ 4,253,454	\$ 4,020,849	\$ 6,229,460	\$ 6,236,558
Operating Grants and Contributions	11,246,295	11,010,140	36,078	44,215	11,282,373	11,054,355
Capital Grants and Contributions	4,400	175,450	-	-	4,400	175,450
General Revenues:						
Property Taxes	15,995,484	15,460,832	-	-	15,995,484	15,460,832
Motor Vehicle and Other Excises	852,566	827,270	-	-	852,566	827,270
Intergovernmental Not Restricted to a Specific Program	721,917	904,374	-	-	721,917	904,374
Other	448,770	781,682	-	-	448,770	781,682
Total Revenues	<u>31,245,438</u>	<u>31,375,457</u>	<u>4,289,532</u>	<u>4,065,064</u>	<u>35,534,970</u>	<u>35,440,521</u>
Expenses						
General Government	1,930,051	1,667,041	-	-	1,930,051	1,667,041
Public Safety	3,426,470	3,137,128	-	-	3,426,470	3,137,128
Education	17,519,526	18,152,402	-	-	17,519,526	18,152,402
Intergovernmental	731,603	616,653	-	-	731,603	616,653
Highways and Public Works	1,490,360	1,347,941	-	-	1,490,360	1,347,941
Human Services	577,015	694,334	-	-	577,015	694,334
Culture and Recreation	943,891	703,537	-	-	943,891	703,537
Employee Benefits	4,729,317	4,496,055	-	-	4,729,317	4,496,055
Debt Service	437,240	488,346	-	-	437,240	488,346
Sewer	-	-	2,224,932	2,033,658	2,224,932	2,033,658
Water	-	-	1,353,038	1,235,751	1,353,038	1,235,751
Solid Waste	-	-	455,202	443,270	455,202	443,270
Ambulance	-	-	370,818	378,792	370,818	378,792
Total Expenses	<u>31,785,473</u>	<u>31,303,437</u>	<u>4,403,990</u>	<u>4,091,471</u>	<u>36,189,463</u>	<u>35,394,908</u>
Increase (Decrease) in Net Assets						
Before Special Items and Transfers	(540,035)	72,020	(114,458)	(26,407)	(654,493)	45,613
Special Items	5,785	(92,729)	35,763	4,489	41,548	(88,240)
Transfers	(406,387)	(498,085)	406,387	498,085	-	-
Increase (Decrease) in Net Assets	<u>\$ (940,637)</u>	<u>\$ (518,794)</u>	<u>\$ 327,692</u>	<u>\$ 476,167</u>	<u>\$ (612,945)</u>	<u>\$ (42,627)</u>

Governmental Activities

In fiscal year 2010, property taxes accounted for approximately 53% of the revenues.

Business-type Activities

Sewer and water rates are structured to cover all costs related to each activity.

Financial Analysis of the Town's Funds

Governmental Funds

General Fund – The year-end fund balance of the general fund was \$135,187 less than the prior year's fund balance.

The following table reflects the trend in all the components of fund balance and free cash for the previous five fiscal years.

<u>Fiscal Year</u>	<u>Reserved for Encumbrances</u>	<u>Reserved for Extraordinary/ Unforeseen</u>	<u>Reserved for Special Purpose</u>	<u>Reserved for Debt</u>	<u>Reserved for Appropriation Deficit</u>	<u>Reserved for Subsequent Year's Expenditure</u>	<u>Unreserved</u>	<u>Total Fund Balance</u>
2006	\$ 590,130	\$ -	\$ 55,244	\$ 95,296	\$ (87,669)	\$ 800,730	\$ 1,137,397	\$ 2,591,128
2007	494,990	90,517	52,892	380,316	(154,213)	128,889	1,622,784	2,616,175
2008	870,468	75,967	55,938	396,074	(226,442)	862,179	1,262,138	3,296,322
2009	228,223	40,634	45,069	340,930	(160,871)	269,023	2,244,642	3,007,650
2010	204,488	34,574	48,843	309,524	(56,200)	1,151,975	1,179,259	2,872,463

<u>Fiscal Year</u>	<u>Free Cash</u>
2006	\$ 627,889
2007	862,179
2008	269,023
2009	1,437,211
2010	439,161

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

Total net assets of the Proprietary Funds at the end of the year amounted to \$13,139,719.

General Fund Budgetary Highlights

The differences between the original budget and the final amended budget is made up of transfers between functions. The majority of the transfers were from the general government reserve fund.

Capital Asset and Debt Administration

Capital assets. The Town of Ayer, Massachusetts' investments in capital assets for its governmental and business type activities as of June 30, 2010, amounts to \$37,763,918 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, infrastructure, equipment and vehicles.

Capital Assets at June 30
(Net of Depreciation)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Land	\$ 2,989,577	\$ 2,834,402	\$ 443,729	\$ 443,729	\$ 3,433,306	\$ 3,278,131
Construction in Progress	78,042	91,682	1,689,040	1,477,061	1,767,082	1,568,743
Buildings	13,097,448	13,625,443	3,934,228	4,057,579	17,031,676	17,683,022
Improvements Other Than Buildings	295,952	317,498	-	-	295,952	317,498
Infrastructure	979,351	1,104,080	13,203,786	13,764,625	14,183,137	14,868,705
Equipment	88,068	123,743	34,160	50,158	122,228	173,901
Vehicles	613,493	614,771	317,044	396,987	930,537	1,011,758
Total	<u>\$ 18,141,931</u>	<u>\$ 18,711,619</u>	<u>\$ 19,621,987</u>	<u>\$ 20,190,139</u>	<u>\$ 37,763,918</u>	<u>\$ 38,901,758</u>

Debt

The Town had \$19,556,868 in general obligation bonds, outstanding on June 30, 2010. This represents a \$631,383 increase (3%) from the previous year.

Outstanding Debt at June 30

Governmental Activities	<u>2010</u>	<u>2009</u>
General Obligation Bonds Payable	\$ 9,231,453	\$ 9,887,138
 Business-type Activities		
Sewer	6,032,000	5,246,053
Water	3,435,415	2,914,294
Solid Waste	728,000	808,000
Ambulance	130,000	70,000
Total Debt	<u>\$ 19,556,868</u>	<u>\$ 18,925,485</u>

Fiscal Year 2010 Budget

An initiative state statute, commonly known as “Proposition 2 ½”, limits the amount of property taxes that the Town can assess in any one year. In general, the Town’s property tax levy may increase by 2 ½ percent over the prior year’s tax levy, plus any additional amount derived by new developments or other changes made to existing property (new growth). If a community wishes to levy taxes above the limitations imposed by “Proposition 2 ½”, it is necessary to obtain the approval of a majority of the voters at an election.

A minimal increase in state aid combined with increases in employee benefits and other expenses had to be considered in balancing the fiscal year 2010 budget.

Town of Ayer, Massachusetts
Statement of Net Assets
June 30, 2010
(Continued on Page 10)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	Government Wide <u>Total</u>
Assets			
Current:			
Cash/Investments	\$ 10,462,684	\$ 4,024,032	\$ 14,486,716
Receivables:			
Property Taxes	555,914	-	555,914
Tax Liens	217,951	-	217,951
Excises	327,118	-	327,118
User Charges	-	1,253,827	1,253,827
Due from Others	260,442	-	260,442
Loans Receivables	518,314	-	518,314
Intergovernmental	1,230,854	-	1,230,854
Departmental	64,389	-	64,389
Due from Other Fund	419	-	419
Noncurrent:			
Capital Assets:			
Assets Not Being Depreciated	3,067,619	2,132,769	5,200,388
Assets Being Depreciated, Net	15,074,312	17,489,218	32,563,530
Total Assets	<u>31,780,016</u>	<u>24,899,846</u>	<u>56,679,862</u>
Liabilities			
Current:			
Warrants and Accounts Payable	449,023	153,377	602,400
Accrued Salaries Payable	1,430,225	42,790	1,473,015
Employees' Withholding Payable	(21,956)	-	(21,956)
Due to Other Fund	-	419	419
Unclaimed Checks	2,181	-	2,181
Deferred Taxes Paid in Advance	59,039	-	59,039
Other Liabilities	5,604	-	5,604
Other Accrued Liabilities	16,522	81,115	97,637
Accrued Interest	48,547	62,482	111,029
Bonds Payable	1,086,605	1,127,882	2,214,487
Noncurrent:			
Bonds Payable	8,144,848	9,197,533	17,342,381
Compensated Absences	402,013	48,630	450,643
Other Post Employment Benefit Obligations	2,515,551	84,252	2,599,803
Landfill Liabilities	-	961,647	961,647
Total Liabilities	<u>14,138,202</u>	<u>11,760,127</u>	<u>25,898,329</u>

Town of Ayer, Massachusetts
Statement of Net Assets
June 30, 2010
(Continued from Page 9)

	Governmental Activities	Business - Type Activities	Government Wide Total
Net Assets			
Invested in Capital Assets, Net of Related Debt	9,216,872	11,411,818	20,628,690
Restricted For:			
Capital Projects	44,782	836,026	880,808
Debt Service	309,524	-	309,524
Special Revenue	6,686,976	-	6,686,976
Perpetual Funds:			
Expendable	172,324	-	172,324
Unrestricted	1,211,336	891,875	2,103,211
Total Net Assets	<u>\$ 17,641,814</u>	<u>\$ 13,139,719</u>	<u>\$ 30,781,533</u>

Town of Ayer, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2010

		Program Revenues			Net (Expenses) Revenues and Changes in Net Assets		
Functions/Programs	Expenses	Charges for	Operating	Capital	Governmental	Business-Type	Total
		Services	Grants and Contributions	Grants and Contributions			
Governmental Activities:							
General Government	\$ 1,930,051	\$ 290,206	\$ 242,222	\$ 4,400	\$ (1,393,223)	\$ -	\$ (1,393,223)
Public Safety	3,426,470	88,298	72,605	-	(3,265,567)	-	(3,265,567)
Education	17,519,526	1,445,289	10,348,811	-	(5,725,426)	-	(5,725,426)
Intergovernmental	731,603	-	-	-	(731,603)	-	(731,603)
Highways and Public Works	1,490,360	58,440	208,711	-	(1,223,209)	-	(1,223,209)
Human Services	577,015	80,834	314,126	-	(182,055)	-	(182,055)
Culture and Recreation	943,891	41,617	84,854	-	(817,420)	-	(817,420)
Employee Benefits	4,729,317	(28,678)	(25,034)	-	(4,783,029)	-	(4,783,029)
Debt Service	437,240	-	-	-	(437,240)	-	(437,240)
Total Governmental Activities	31,785,473	1,976,006	11,246,295	4,400	(18,558,772)	-	(18,558,772)
Business-Type Activities:							
Sewer	2,224,932	2,244,468	28,884	-	-	48,420	48,420
Water	1,353,038	1,452,268	7,194	-	-	106,424	106,424
Solid Waste	455,202	163,077	-	-	-	(292,125)	(292,125)
Ambulance	370,818	393,641	-	-	-	22,823	22,823
Total Business-Type Activities	4,403,990	4,253,454	36,078	-	-	(114,458)	(114,458)
Total	\$ 36,189,463	\$ 6,229,460	\$ 11,282,373	\$ 4,400	(18,558,772)	(114,458)	(18,673,230)
General Revenues:							
					15,995,484	-	15,995,484
					852,566	-	852,566
					102,307	-	102,307
					8,496	-	8,496
					721,917	-	721,917
					302,752	-	302,752
					98,220	-	98,220
					(63,005)	-	(63,005)
					5,785	-	5,785
					-	35,763	35,763
					(406,387)	406,387	-
					17,618,135	442,150	18,060,285
					(940,637)	327,692	(612,945)
					18,582,451	12,812,027	31,394,478
					\$ 17,641,814	\$ 13,139,719	\$ 30,781,533

Town of Ayer, Massachusetts
Governmental Funds
Balance Sheet
June 30, 2010
(Continued on Page 13)

		HUD/CDBG	Nonmajor	Total
	<u>General</u>	<u>Grants</u>	<u>Governmental</u>	<u>Governmental</u>
<u>Assets</u>			<u>Funds</u>	<u>Funds</u>
Cash/Investments	\$ 4,235,917	\$3,300,755	\$ 2,926,012	\$10,462,684
Receivables:				
Property Taxes	551,295	-	4,619	555,914
Tax Liens	215,997	-	1,954	217,951
Excises	327,118	-	-	327,118
Due From Others	2,550	45,833	212,059	260,442
Loans	-	518,314	-	518,314
Intergovernmental	64,386	-	1,166,468	1,230,854
Departmental	1,497	7,857	55,035	64,389
Due From Other Fund	25,921	-	-	25,921
Tax Foreclosures	180,228	-	-	180,228
Total Assets	<u>\$ 5,604,909</u>	<u>\$ 3,872,759</u>	<u>\$ 4,366,147</u>	<u>\$13,843,815</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Warrants and Accounts Payable	\$ 364,739	\$ 10,946	\$ 73,338	\$ 449,023
Accrued Salaries Payable	1,111,698	1,355	317,172	1,430,225
Employees' Withholding Payable	(21,956)	-	-	(21,956)
Other Accrued Liabilities	-	16,122	400	16,522
Due to Other Fund	-	1,079	24,423	25,502
Unclaimed Checks	2,181	-	-	2,181
Other Liabilities	67,618	-	(8,579)	59,039
Taxes Paid in Advance	5,604	-	-	5,604
Deferred Revenue:				
Property Taxes	464,618	-	4,619	469,237
Loans	-	518,315	-	518,315
Other	1,497	53,690	267,094	322,281
Tax Liens	215,997	-	1,954	217,951
Excises	327,118	-	-	327,118
Tax Foreclosures	180,228	-	-	180,228
Intergovernmental	13,104	-	365,129	378,233
Total Liabilities	<u>2,732,446</u>	<u>601,507</u>	<u>1,045,550</u>	<u>4,379,503</u>

Town of Ayer, Massachusetts
Governmental Funds
Balance Sheet
June 30, 2010
(Continued from Page 12)

	<u>General</u>	HUD/CDBG <u>Grants</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Fund Equity:				
Fund Balances:				
Reserved for Encumbrances	204,488	-	-	204,488
Reserved for Special Purposes	48,843	3,271,252	2,204,147	5,524,242
Reserved for Extraordinary/Unforeseen	34,574	-	-	34,574
Reserved for Debt	309,524	-	-	309,524
Unreserved:				
Designated for:				
Subsequent Year's Expenditures	1,151,975	-	-	1,151,975
Appropriation Deficit	(56,200)	-	-	(56,200)
Borrowing	-	-	31,931	31,931
Undesignated, Reported in:				
General Fund	1,179,259	-	-	1,179,259
Special Revenue Fund	-	-	899,344	899,344
Capital Projects Fund	-	-	12,851	12,851
Permanent Fund	-	-	172,324	172,324
Total Fund Balances	<u>2,872,463</u>	<u>3,271,252</u>	<u>3,320,597</u>	<u>9,464,312</u>
 Total Liabilities and Fund Balances	 <u>\$ 5,604,909</u>	 <u>\$ 3,872,759</u>	 <u>\$ 4,366,147</u>	 <u>\$13,843,815</u>

Town of Ayer, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2010
(Continued on Page 15)

	<u>General</u>	<u>HUD/CDBG Grants</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Revenues:</u>				
Property Taxes	\$ 15,757,028	\$ -	\$ 129,471	\$ 15,886,499
Tax Liens	108,986	-	-	108,986
Excises	749,248	-	-	749,248
Penalties and Interest	59,353	-	-	59,353
Licenses and Permits	199,770	-	-	199,770
Fees and Other Departmental	130,955	-	728,314	859,269
Intergovernmental	8,755,802	-	3,094,260	11,850,062
Charges for Services	-	54,715	859,043	913,758
Fines and Forfeits	30,715	-	-	30,715
Earnings on Investments	81,756	221,786	2,275	305,817
In Lieu of Taxes	8,496	-	-	8,496
Contributions	-	-	185,815	185,815
Miscellaneous	47,966	55,359	5,718	109,043
Total Revenues	<u>25,930,075</u>	<u>331,860</u>	<u>5,004,896</u>	<u>31,266,831</u>
<u>Expenditures:</u>				
Current				
General Government	1,657,822	50,184	247,877	1,955,883
Public Safety	2,919,095	34,564	96,301	3,049,960
Education	13,655,249	-	3,789,685	17,444,934
Intergovernmental	731,603	-	-	731,603
Highways and Public Works	938,077	79,885	407,543	1,425,505
Human Services	228,170	-	346,371	574,541
Culture and Recreation	575,992	-	283,759	859,751
Employee Benefits	3,535,803	-	-	3,535,803
Debt Service	1,448,971	-	5,966	1,454,937
Total Expenditures	<u>25,690,782</u>	<u>164,633</u>	<u>5,177,502</u>	<u>31,032,917</u>
Excess of Revenues Over (Under) Expenditures	<u>239,293</u>	<u>167,227</u>	<u>(172,606)</u>	<u>233,914</u>
<u>Other Financing Sources (Uses):</u>				
Operating Transfers In	14,850	-	958	15,808
Operating Transfers (Out)	(418,330)	-	(14,850)	(433,180)
Proceeds from Bonds	29,000	-	327,000	356,000
Total Other Financing Sources (Uses)	<u>(374,480)</u>	<u>-</u>	<u>313,108</u>	<u>(61,372)</u>

Town of Ayer, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
June 30, 2010
(Continued from Page 14)

	<u>General</u>	<u>HUD/CDBG Grants</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(135,187)</u>	<u>167,227</u>	<u>140,502</u>	<u>172,542</u>
Fund Balance, Beginning	<u>3,007,650</u>	<u>3,104,025</u>	<u>3,180,095</u>	<u>9,291,770</u>
Fund Balance, Ending	<u><u>\$ 2,872,463</u></u>	<u><u>\$ 3,271,252</u></u>	<u><u>\$ 3,320,597</u></u>	<u><u>\$ 9,464,312</u></u>

Town of Ayer, Massachusetts
Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Assets
Fiscal Year Ended June 30, 2010

Total governmental fund balances	\$ 9,464,312
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	18,141,931
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	2,233,135
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(9,231,453)
Accrued Interest on Bonds	(48,547)
Other Post Employment Benefit Obligations	(2,515,551)
Compensated Absences	(402,013)
	<hr/>
Net assets of governmental activities	<u><u>\$ 17,641,814</u></u>

Town of Ayer, Massachusetts
Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Fiscal Year Ended June 30, 2010

Net change in fund balances - total governmental funds	\$ 172,542
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(569,688)
Revenues in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue.	(20,008)
The issuance of long-term debt (e.g., bonds and leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	661,697
Some expenses reported in the Statement of Activities, such as compensated absences and OPEB costs do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds. This amount represents the net change in these items.	(1,185,180)
Change in net assets of governmental activities	\$ (940,637)

Town of Ayer, Massachusetts
Proprietary Funds
Statement of Net Assets
June 30, 2010

	Sewer	<u>Business-Type Activities</u>		Ambulance	
	<u>Enterprise</u>	<u>Enterprise</u>	<u>Enterprise</u>	<u>Enterprise</u>	<u>Total</u>
Assets					
Current:					
Cash and Cash Investments	\$ 922,712	\$ 2,562,181	\$ 304,216	\$ 234,923	\$ 4,024,032
Receivables, Net of Allowance for Uncollectibles:					
User Charges	726,351	437,746	-	89,730	1,253,827
Noncurrent:					
Capital Assets:					
Assets Not Being Depreciated	1,332,758	796,011	4,000	-	2,132,769
Assets Being Depreciated, Net	11,589,363	5,290,806	411,760	197,289	17,489,218
Total Assets	<u>14,571,184</u>	<u>9,086,744</u>	<u>719,976</u>	<u>521,942</u>	<u>24,899,846</u>
Liabilities					
Current:					
Warrants Payable	91,360	45,396	12,944	3,677	153,377
Accrued Wages Payable	21,063	15,924	5,803	-	42,790
Due to Other Fund	419	-	-	-	419
Accrued Interest Payable	22,987	29,916	9,424	155	62,482
Bonds Payable	526,000	493,882	78,000	30,000	1,127,882
Other Accrued Liabilities	64,105	8,482	6,169	2,359	81,115
Noncurrent:					
Bonds Payable	5,506,000	2,941,533	650,000	100,000	9,197,533
Landfill Liabilities	476,650	-	484,997	-	961,647
Other Post Employment Benefit Obligations	42,126	24,072	18,054	-	84,252
Compensated Absences	22,133	19,627	6,870	-	48,630
Total Liabilities	<u>6,772,843</u>	<u>3,578,832</u>	<u>1,272,261</u>	<u>136,191</u>	<u>11,760,127</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	7,599,911	3,346,858	397,760	67,289	11,411,818
Restricted for:					
Capital Project	98,630	737,396	-	-	836,026
Unrestricted	99,800	1,423,658	(950,045)	318,462	891,875
Total Net Assets	<u>\$ 7,798,341</u>	<u>\$ 5,507,912</u>	<u>\$ (552,285)</u>	<u>\$ 385,751</u>	<u>\$ 13,139,719</u>

Town of Ayer, Massachusetts
Statement of Revenue, Expenses and Changes in Fund Net Assets
Proprietary Funds
Fiscal Year Ended June 30, 2010

	<u>Business-Type Activities</u>				
	<u>Sewer Enterprise</u>	<u>Water Enterprise</u>	<u>Solid Waste Enterprise</u>	<u>Ambulance Enterprise</u>	<u>Total</u>
Operating Revenues:					
Charges for Services	\$ 2,244,468	\$ 1,449,268	\$ 163,062	\$ 393,641	\$ 4,250,439
Intergovernmental	16,547	977	-	-	17,524
Other Revenues	-	3,000	15	-	3,015
Total Operating Revenues	<u>2,261,015</u>	<u>1,453,245</u>	<u>163,077</u>	<u>393,641</u>	<u>4,270,978</u>
Operating Expenditures:					
Personal Services	435,128	304,844	121,321	-	861,293
Nonpersonal Service	1,114,307	635,208	266,044	328,353	2,343,912
Depreciation	428,841	273,077	29,146	38,358	769,422
Total Operating Expenditures	<u>1,978,276</u>	<u>1,213,129</u>	<u>416,511</u>	<u>366,711</u>	<u>3,974,627</u>
Operating Income (Loss)	<u>282,739</u>	<u>240,116</u>	<u>(253,434)</u>	<u>26,930</u>	<u>296,351</u>
Nonoperating Revenues (Expenses):					
Premium on Debt	20,002	14,542	-	1,219	35,763
Earnings on Investments	12,337	6,217	-	-	18,554
Interest on Debt	(246,656)	(139,909)	(38,691)	(4,107)	(429,363)
Total Nonoperating Revenues (Expenses)	<u>(214,317)</u>	<u>(119,150)</u>	<u>(38,691)</u>	<u>(2,888)</u>	<u>(375,046)</u>
Income Before Transfers	<u>68,422</u>	<u>120,966</u>	<u>(292,125)</u>	<u>24,042</u>	<u>(78,695)</u>
Capital Transfer Out	-	-	(10,985)	-	(10,985)
Operating Transfers In	<u>30,087</u>	<u>140,730</u>	<u>246,555</u>	<u>-</u>	<u>417,372</u>
Total Transfers	<u>30,087</u>	<u>140,730</u>	<u>235,570</u>	<u>-</u>	<u>406,387</u>
Change in Net Assets	<u>98,509</u>	<u>261,696</u>	<u>(56,555)</u>	<u>24,042</u>	<u>327,692</u>
Total Net Assets July 1, 2009	<u>7,699,832</u>	<u>5,246,216</u>	<u>(495,730)</u>	<u>361,709</u>	<u>12,812,027</u>
Total Net Assets June 30, 2010	<u>\$ 7,798,341</u>	<u>\$ 5,507,912</u>	<u>\$(552,285)</u>	<u>\$ 385,751</u>	<u>\$13,139,719</u>

Town of Ayer, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2010

	<u>Sewer</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Ambulance</u>	<u>Total</u>
Cash Flows from Operating Activities:					
Receipts from Customers	\$ 2,082,856	\$ 1,356,309	\$ 163,077	\$ 408,432	\$ 4,010,674
Receipts from Governments	33,544	2,280	-	-	35,824
Payments to Employees	(420,849)	(291,288)	(115,734)	(241)	(828,112)
Payments to Vendors	<u>(1,335,383)</u>	<u>(613,392)</u>	<u>(270,242)</u>	<u>(326,851)</u>	<u>(2,545,868)</u>
Net Cash Flows Provided (Used) by Operating Activities	<u>360,168</u>	<u>453,909</u>	<u>(222,899)</u>	<u>81,340</u>	<u>672,518</u>
Cash Flows from Non Capital Related Financing Activities:					
Transfer from Other Funds	<u>30,087</u>	<u>140,730</u>	<u>246,555</u>	<u>-</u>	<u>417,372</u>
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>30,087</u>	<u>140,730</u>	<u>246,555</u>	<u>-</u>	<u>417,372</u>
Cash Flows from Capital and Related Financing Activities:					
Acquisition of Capital Assets	(104,848)	(107,131)	-	(278)	(212,257)
Premium from Bond	20,002	14,542	-	1,219	35,763
Proceed from Bonds	(1,011,000)	(602,000)	-	(75,000)	(1,688,000)
Principal Payments on Notes and Bonds	785,947	521,121	(80,000)	60,000	1,287,068
Interest Expense	<u>(248,651)</u>	<u>(144,062)</u>	<u>(38,730)</u>	<u>(4,075)</u>	<u>(435,518)</u>
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(558,550)</u>	<u>(317,530)</u>	<u>(118,730)</u>	<u>(18,134)</u>	<u>(1,012,944)</u>
Cash Flows from Investing Activities:					
Earnings on Investments	<u>12,337</u>	<u>6,217</u>	<u>-</u>	<u>-</u>	<u>18,554</u>
Net Cash Flows Provided (Used) by Investing Activities	<u>12,337</u>	<u>6,217</u>	<u>-</u>	<u>-</u>	<u>18,554</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>(155,958)</u>	<u>283,326</u>	<u>(95,074)</u>	<u>63,206</u>	<u>95,500</u>
Cash and Cash Equivalents, July 1, 2009	<u>1,078,670</u>	<u>2,278,855</u>	<u>399,290</u>	<u>171,717</u>	<u>3,928,532</u>
Cash and Cash Equivalents, June 30, 2010	<u>\$ 922,712</u>	<u>\$ 2,562,181</u>	<u>\$ 304,216</u>	<u>\$ 234,923</u>	<u>\$ 4,024,032</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 282,739	\$ 240,116	\$ (253,434)	\$ 26,930	\$ 296,351
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	428,841	273,077	29,146	38,358	769,422
(Increase) Decrease in Assets:					
Accounts Receivable - Customer	(144,615)	(94,656)	-	14,791	(224,480)
Increase (Decrease) in Liabilities:					
Warrants and Accounts Payable	<u>(206,797)</u>	<u>35,372</u>	<u>1,389</u>	<u>1,261</u>	<u>(168,775)</u>
Net Cash Provided by Operating Activities	<u>\$ 360,168</u>	<u>\$ 453,909</u>	<u>\$ (222,899)</u>	<u>\$ 81,340</u>	<u>\$ 672,518</u>

Town of Ayer, Massachusetts
Fiduciary Funds
Statement of Net Assets
June 30, 2010

	Private Purpose <u>Trust</u>	Agency <u>Funds</u>
Assets		
Cash and Cash Investments	\$283,658	\$178,876
Departmental Receivable	<u>-</u>	<u>279</u>
Total Assets	<u><u>\$283,658</u></u>	<u><u>\$179,155</u></u>
Liabilities		
Warrants Payable	\$ -	\$ 15,845
Guarantee Deposits	-	129,742
Other	<u>-</u>	<u>33,568</u>
Total Liabilities	<u>-</u>	<u>179,155</u>
Net Assets		
Reserved for Individuals, and Other		
Expendable	128,874	-
Nonexpendable	<u>154,784</u>	<u>-</u>
Total Net Assets	<u><u>\$283,658</u></u>	<u><u>\$ -</u></u>

Town of Ayer, Massachusetts
Fiduciary Funds
Statement of Changes in Net Assets
Fiscal Year Ended June 30, 2010

Additions:	
Interest, Dividends, and Other	<u>\$ 10,611</u>
Total Additions	<u>10,611</u>
Deductions:	
Benefits	<u>7,243</u>
Change in Net Assets	<u>3,368</u>
Net Assets:	
Beginning of the Year	<u>280,290</u>
End of the Year	<u><u>\$283,658</u></u>

Town of Ayer, Massachusetts
Notes to the Financial Statements
June 30, 2010

I. **Summary of Significant Accounting Policies**

The accounting policies of the Town of Ayer, Massachusetts, as reflected in the accompanying financial statements for the year ended June 30, 2010, conform to accounting principles generally accepted in the United States of America for local government units, except as indicated hereafter. In accounting and reporting on its enterprise funds, the Town has elected to apply all Governmental Accounting Standards Board ("GASB") pronouncements as well as Financial Accounting Standards Board pronouncements issued prior to November 30, 1989, unless those pronouncements contradict GASB pronouncements, in which case, GASB prevails.

The more significant accounting policies of the Town are summarized below.

A. **Reporting Entity**

The Town's financial statements include the operations of all organizations for which the Board of Selectmen exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations and accountability for fiscal matters.

Based on the aforementioned oversight criteria, the Town was the only entity considered for inclusion in the accompanying financial statements.

B. **Government-wide and fund financial statements**

The **government-wide financial statements** (i.e., the **statement of net assets** and the **statement of activities**) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. Government 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 or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. These revenues are recognized when they become measurable and available. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Primary sources of revenue considered susceptible to accrual consist principally of real estate and personal property taxes, motor vehicle excise tax, amounts due under grants, charges for services and investment income. Property taxes are recognized as revenue in the year for which taxes have been levied, provided they are collected within 60 days after year end. All other revenues are recognized when received.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated vacation, accumulated sick pay, and other employee amounts which are not to be liquidated from expendable and available resources; and (2) debt service expenditures which are recognized when due.

Agency fund assets and liabilities are accounted for on the modified accrual basis of accounting.

The Town reports the following major governmental funds:

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

HUD/CDBG – This fund accounts for the HUD (Housing and Urban Development) and CDBG (Community Development Block Grant) grants.

The Town reports the following proprietary funds:

Water Enterprise Fund – This fund is used to account for the activities related to the water distribution system.

Sewer Enterprise Fund – This fund is used to account for sewer activities.

Ambulance Enterprise Fund – This fund is used to account for the ambulance activities.

Solid Waste Enterprise Fund – This fund is used to account for solid waste activities.

D. Assets, Liabilities and Fund Equity

i. Deposits and Investments

The Town's cash and cash equivalents are considered to be demand deposits and short term investments with original maturities of three months or less from the date of acquisition.

State and local 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 prescribed levels without collateralization by the financial institutions involved. Investments can also be made in securities issued by or unconditionally guaranteed by the U.S. governments or agencies that have a maturity of less than one year from the date of purchase, repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase, and units in the Massachusetts Municipal Depository Trust ("MMDT").

ii. Property Taxes

The Town's fiscal year runs from July 1 to June 30. Taxes are levied to the owner of record on the preceding January 1. The Town bills property taxes on a quarterly basis. Quarterly payments are due on August 1, November 1, February 1 and May 1. Property taxes attach as enforceable liens on property as of July 1 of the next fiscal year.

The Town is permitted under state law to levy property taxes up to 2.5% of the full and fair cash value of the property. In addition, the law limits the amount by which property tax assessments can be increased to 2.5% of the preceding year's assessment plus any new growth.

iii. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Town as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives is not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40-50
Equipment	5-15
Improvements	20-40
Infrastructure	40-50
Vehicles	5-15

iv. Compensated Absences

The vacation and sick leave policies of the Town vary between some of the departments because of various agreements.

In general, vacation eligibility and time for Town employees is as follows:

12 months service as of July 1st.....	2 weeks
5 years service as of July 1st.....	3 weeks
20 years service as of July 1st.....	4 weeks

All permanent employees are entitled to sick leave benefits not to exceed fifteen days per year.

The accumulated compensated absences balance as of June 30, 2010, is reflected in the accompanying financial statements.

v. Warrants Payable

The balance in this account consists of those warrants approved by the Selectmen for payment between July 1 and July 15. These warrants have been recorded as expenditures during the fiscal year ended June 30, 2010 and the corresponding credit is to the account entitled warrants payable.

vi. Fund Equity

a. Designated for Subsequent Years' Expenditures

The balance in this account consists of amounts voted from available funds to be used to fund the next fiscal year's budget.

b. Designated for Appropriation Deficit

The balance in this account represents an appropriation deficit. The deficit must be raised on the subsequent year's tax recapitulation sheet.

c. Reserved for Encumbrances

Appropriations for certain projects and specific items not fully expended at year end are carried forward as reserved for encumbrances to the next year. At year end, reserved for encumbrances are reported as a component of fund balance.

d. Reserved for Special Purposes

The balance in this account represents the amount of fund balance subject to purpose restrictions.

e. Reserved for Debt

The balance in this account represents amounts that are required to be utilized to reduce future debt exclusions raised on the recap sheet.

f. Net Assets Unrestricted – Enterprise Funds

The sewer and solid waste funds unrestricted net assets are in a deficit balance because an accrual entry was made for future monitoring costs related to the landfill (sludge) facility. The revenues to offset the accrued expenses will be provided by annual user charges.

II. **Stewardship, Compliance and Accountability**

A. Budgetary Data

i. General Budget Policies

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January, February and March of each year. The Selectmen and Finance Committee have until May, which is when the annual Town meeting is held, to make any changes to the department requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) 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 usually be completed in September so the tax bills can be mailed by October 1, due and payable by the taxpayer on November 1.

ii. Budget Basis of Accounting

The budget amounts appearing in the financial statements are taken from the Town's annual recap sheet and include only those amounts which pertain to June 30, 2010. These budget amounts include special Town meeting votes applicable to June 30, 2010 and any reserve fund transfers authorized by the Finance Committee. The following reconciliation summarizes the differences between the budget and GAAP (Generally Accepted Accounting Principles) basis principles for the year ended June 30, 2010.

	<u>Revenues</u>
As Reported Budget Basis	\$ 22,568,631
Adjustments:	
Sixty Day Property Tax Accrual - Net	(85,500)
On Behalf Payments Included in Intergovernmental	3,446,944
As Reported GAAP Statement	<u>\$ 25,930,075</u>
	<u>Expenditures</u>
As Reported Budget Basis	\$ 22,220,105
Adjustments:	
July 1, 2009 Encumbrances	228,221
June 30, 2010 Encumbrances	(204,488)
On Behalf Payments Included in Employee Benefits	3,446,944
As Reported GAAP Statement	<u>\$ 25,690,782</u>

III. Detailed Notes on All Funds

A. Cash and Investments

Deposits

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned to it. The Town does not have a formal deposit policy for custodial credit risk. As of June 30, 2010, \$4,761 of the Town's bank balance of \$12,897,262 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$4,761

Investments

According to GASB Statement No. 40 – "Deposit and Investment Risk Disclosures", disclosures must be made for certain investments that have fair values that are highly sensitive to changes in interest rates. As of June 30, 2010, the Town of Ayer's investments that are required to be disclosed in accordance with GASB Statement No. 40, are noted below:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in Years)</u>		
		<u>Less Than 1</u>	<u>1-5</u>	<u>5-10</u>
U. S. Government Obligations	\$ 866,370	\$ 150,274	\$ 409,322	\$ 306,774
Corporate Bonds	<u>37,752</u>	<u>37,752</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 904,122</u>	<u>\$ 188,026</u>	<u>\$ 409,322</u>	<u>\$ 306,774</u>

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Town does not have a formal policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Town does not have a formal policy relating to credit risk. As of June 30, 2010, the Town's investment in the U.S. Government Securities was rated AAA by Standard & Poor's

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The Town does not have a formal policy that limits the amount it may invest in a single issuer (State law limits the amount that may be deposited in a financial institution without collateralization).

B. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows:

Government Activities:	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 2,834,402	\$ 155,175	\$ -	\$ 2,989,577
Construction in Progress	91,682	16,160	(29,800)	78,042
Total Capital Assets not Being Depreciated	<u>2,926,084</u>	<u>171,335</u>	<u>(29,800)</u>	<u>3,067,619</u>
Assets Being Depreciated:				
Buildings	20,920,032	1,314	-	20,921,346
Improvements Other Than Buildings	416,781	-	-	416,781
Infrastructure	5,890,876	22,729	-	5,913,605
Equipment	585,861	-	-	585,861
Vehicles	2,319,318	160,080	(94,167)	2,385,231
Total Capital Assets Being Depreciated	<u>30,132,868</u>	<u>184,123</u>	<u>(94,167)</u>	<u>30,222,824</u>
Less Accumulated Depreciation for:				
Buildings	(7,294,589)	(529,309)	-	(7,823,898)
Improvements Other Than Buildings	(99,283)	(21,546)	-	(120,829)
Infrastructure	(4,786,796)	(147,458)	-	(4,934,254)
Equipment	(462,118)	(35,675)	-	(497,793)
Vehicles	(1,704,547)	(161,358)	94,167	(1,771,738)
Total Accumulated Depreciation	<u>(14,347,333)</u>	<u>(895,346)</u>	<u>94,167</u>	<u>(15,148,512)</u>
Capital Assets Being Depreciated, Net	<u>15,785,535</u>	<u>(711,223)</u>	<u>-</u>	<u>15,074,312</u>
Governmental Activities Capital Assets, Net	<u>\$ 18,711,619</u>	<u>\$ (539,888)</u>	<u>\$ (29,800)</u>	<u>\$ 18,141,931</u>

B. Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 99,085
Public Safety	364,715
Education	131,728
Highways and Public works	203,463
Culture and Recreation	<u>91,645</u>

Total Governmental Activities Depreciation Expense \$ 890,636

	Beginning Balance	Additions	Reductions	Ending Balance
Business-Type Activities:				
Land	\$ 443,729	\$ -	\$ -	\$ 443,729
Construction in Progress	<u>1,477,061</u>	<u>211,979</u>	<u>-</u>	<u>1,689,040</u>
Total Capital Assets not Being Depreciated	<u>1,920,790</u>	<u>211,979</u>	<u>-</u>	<u>2,132,769</u>
Assets Being Depreciated:				
Buildings	4,846,447	-	-	4,846,447
Infrastructure	27,052,961	-	-	27,052,961
Equipment	485,963	-	(80,772)	405,191
Vehicles	<u>814,032</u>	<u>276</u>	<u>(145,182)</u>	<u>669,126</u>
Total Capital Assets Being Depreciated	<u>33,199,403</u>	<u>276</u>	<u>(225,954)</u>	<u>32,973,725</u>
Less Accumulated Depreciation for:				
Buildings	(788,868)	(123,351)	-	(912,219)
Infrastructure	(13,288,336)	(560,839)	-	(13,849,175)
Equipment	(435,805)	(15,998)	80,772	(371,031)
Vehicles	<u>(417,045)</u>	<u>(69,234)</u>	<u>134,197</u>	<u>(352,082)</u>
Total Accumulated Depreciation	<u>(14,930,054)</u>	<u>(769,422)</u>	<u>214,969</u>	<u>(15,484,507)</u>
Capital Assets Being Depreciated, Net	<u>18,269,349</u>	<u>(769,146)</u>	<u>(10,985)</u>	<u>17,489,218</u>
Business-Type Activities Capital Assets, Net	<u>\$ 20,190,139</u>	<u>\$ (557,167)</u>	<u>\$ (10,985)</u>	<u>\$ 19,621,987</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Sewer	\$ 428,841
Water	273,077
Solid Waste	29,146
Ambulance	<u>38,358</u>
Total Business-Type Activities Depreciation Expense	<u>\$ 769,422</u>

C. Accounts Receivable

The accounts receivable on the statement of net assets are listed below by levy.

Governmental Activities

Property Taxes Receivable:

Real Estate Taxes

2010	\$409,390	
2009	17,215	
2008	3,781	
2007	3,360	
2006	50	
2005	877	
2004	1,459	
2003	2,002	
2002	2,443	
2001 & Prior	431	
Total Real Estate Taxes	<u> </u>	<u>\$441,008</u>

Personal Property Taxes

2010	16,109	
2009	15,164	
2008	14,880	
2007	6,495	
2006	9,863	
2005	11,984	
2004	14,124	
2003	12,312	
2002	7,963	
2001 & Prior	1,392	
Total Personal Property Taxes	<u> </u>	<u>110,286</u>

Community Preservation Tax	<u>4,620</u>
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Total Property Taxes Receivable	<u>\$ 555,914</u>
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Tax Liens	<u><u>\$ 217,951</u></u>
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C. Accounts Receivable (Continued)

Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2010	\$ 102,358	
2009	28,818	
2008	17,555	
2007	13,815	
2006	11,428	
2005	7,646	
2004	9,526	
2003	9,861	
2002	7,860	
2001	5,887	
2000	8,952	
1999	8,141	
1998	3,621	
1997	7,093	
1996	8,674	
1995	13,052	
1994	17,466	
1993	13,565	
1992	16,120	
1991 & Prior	15,680	
Total Motor Vehicle Excise Taxes		<u>\$ 327,118</u>

User Charges:

Departmental	<u>\$ 64,389</u>
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Due from Others:

Mart And Other	\$ 14,708	
Other Districts	199,901	
Hartnet Life Insurance	45,833	
Total Due from Others		<u>\$ 260,442</u>

Loans Receivable:

U.S. Housing and Urban Development Loans	<u>\$ 518,314</u>
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C. Accounts Receivable (Continued)

Intergovernmental:

Due from Commonwealth - Other	\$ 52,955	
Due from Federal	122,736	
Due from Commonwealth - DOE	458,888	
Due from Federal - School Lunch	16,360	
Due from Commonwealth - Highway Funds	579,915	
Total Intergovernmental		<u>\$ 1,230,854</u>

Business Type Activities

User Charges:

Sewer	\$726,351	
Water	437,746	
Ambulance	89,730	
Total User Charges		<u>\$ 1,253,827</u>

D. Liabilities

i Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2010 as follows:

Purpose	Balance Beginning of Year	Issued	Redeemed	Balance End of Year
<u>Governmental Activities:</u>				
Library - Replace Carpet	\$ 50,000	\$ -	\$ 50,000	\$ -
Public Works - One Ton Pickup With Plow	51,958	-	51,958	-
Schools - Computers	175,000	-	175,000	-
Schools - Gym Backboards	12,000	-	12,000	-
Schools - Auditorium Wiring	25,000	-	25,000	-
Fire - Protective Clothing	14,000	-	14,000	-
Subtotal	<u>\$ 327,958</u>	<u>\$ -</u>	<u>\$ 327,958</u>	<u>\$ -</u>
<u>Business-Type Activities:</u>				
Water - SCADA System	\$ 142,000	\$ -	\$ 142,000	\$ -
Water - Grove Pond Well #3 Engineering	42,000	-	42,000	-
Water - Grove Pond Treatment Plant - Engineer	173,000	-	173,000	-
Sewer - Central Ave Pump Station	1,011,000	-	1,011,000	-
Water - Grove Pond Filter Replacement	175,000	-	175,000	-
Water - Grove Pond Well #3 Partial Construction	70,000	-	70,000	-
Ambulance - Purchase and Equip Ambulance	75,000	-	75,000	-
Subtotal	<u>\$ 1,688,000</u>	<u>\$ -</u>	<u>\$ 1,688,000</u>	<u>\$ -</u>

D. Liabilities (Continued)

ii Long Term Debt

General obligation bonds outstanding at June 30, 2010, bear interest at various rates.

- (a) Changes in Long Term Debt - the following is a summary of bond transactions for the year ended June 30, 2010:

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Balance 7/01/09	\$ 9,887,138	\$ 9,038,350	\$ 18,925,488
Add: New Issues	356,000	2,201,000	2,557,000
Less: Maturities	<u>(1,011,685)</u>	<u>(913,935)</u>	<u>(1,925,620)</u>
Balance 6/30/10	<u>\$ 9,231,453</u>	<u>\$ 10,325,415</u>	<u>\$ 19,556,868</u>

- (b) Summary of Debt Service Requirements to Maturity

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2011	\$1,086,605	\$408,543	\$1,127,882	\$414,677
2012	1,009,677	370,404	1,107,882	373,900
2013	948,677	327,032	1,043,882	332,957
2014	935,677	285,636	1,011,882	294,008
2015	818,677	245,563	913,882	256,966
2016 - 2020	3,352,886	693,159	3,575,500	802,253
2021 - 2025	<u>1,079,254</u>	<u>94,518</u>	<u>1,544,505</u>	<u>158,633</u>
	<u>\$9,231,453</u>	<u>\$2,424,855</u>	<u>\$10,325,415</u>	<u>\$2,633,394</u>

- (c) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2010, are as follows:

<u>Date Authorized</u>	<u>Purpose</u>	<u>Amount</u>
May 8, 1995	Police Station	\$ 50,000
May 18, 1999	Open Space	100,000
May 10, 2010	Sewer Equipment	402,500
May 10, 2010	Water Mains	325,000
May 10, 2010	Sewer Pump Station	250,000
May 10, 2010	Water Equipment	55,000
May 10, 2010	Grove Pond Treatment Plant	<u>1,063,066</u>
	Total	<u>\$ 2,245,566</u>

Subsequent to the balance sheet date, the Town authorized an additional \$15,000 of borrowing. The loan authorizations were for the installation of the water main along Newton Street.

E. Interfund Transfers

The accompanying financial statements reflect transactions between the various funds. These transactions represent operating transfers and do not constitute revenues or expenditures of the funds. Operating transfers made during the year and reflected in the fund financial statements are listed below:

	Transfer <u>In</u>	Transfer <u>(Out)</u>	<u>Total</u>
General	\$ 14,850	\$ (418,330)	\$ (403,480)
Non-major Governmental	958	(14,850)	(13,892)
Enterprise - Business Type	417,372	-	417,372
	<u>417,372</u>	<u>-</u>	<u>417,372</u>
Total	<u>\$ 433,180</u>	<u>\$ (433,180)</u>	<u>\$ -</u>

IV. Other Information

A. Pension Plans

a. Plan Description

The Town provides pension benefits to employees by contributing to Middlesex Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex Retirement System. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The system is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex Retirement System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by writing to the Middlesex Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

b. Funding Plan

Active members of the Middlesex Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirements of plan members is determined by M.G.L. Chapter 32. The Town's contribution requirement is established and may be amended by the Middlesex Retirement System with the approval of the Public Employee Retirement Administration Commission.

The Town's contributions for the years ending June 30, 2010, 2009 and 2008 were \$1,177,119, \$1,117,653 and \$1,003,789 respectively, equal to 100% of the required contribution each year.

B. Other Postemployment Benefits (OPEB) Disclosures

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 (GASB 43) – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and Statement No. 45 (GASB 45), “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” that are effective June 30, 2010. These statements require the town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis. Certain information, which is required to be disclosed by GASB 45, is noted below. In addition, certain other Required Supplementary Information (RSI), required by GASB 45, is presented following the notes to the financial statements.

Plan Description. The Town sponsors a single employer defined benefit health plan. The Town provides certain health care and life insurance benefits for eligible retirees and their spouses. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefits paid by the Town are on a pay-as-you-go basis. Currently there are approximately 298 active employees and 134 retired employees who are eligible to participate in the plan.

Funding Policy. The Town pays 75% of the premiums for active employees and 50% for retirees for health insurance, and 75% of the premiums for active employees and 50% for retirees for basic life insurance, with the employees/retirees paying the remaining percentage. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town are established and may be amended from time to time.

Annual OPEB Cost and OPEB Obligation. The annual Other Postemployment Benefit (OPEB) cost is calculated based on the Annual Required Contribution (ARC) of the Town, an amount that has been actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and to amortize any unfunded actuarial liabilities over a period not to exceed thirty years.

The following table shows the components of the Town's annual OPEB cost for the fiscal year ended June 30, 2010, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$1,914,551
Interest on Net OPEB Obligation	76,582
Adjustment to Annual Required Contribution	(106,460)
Annual OPEB Cost (Expense)	1,884,673
Contributions Made	(651,184)
Increase in Net OPEB Obligation	1,233,489
Net OPEB Obligation (NOO)- Beginning of Year	1,366,315
Net OPEB Obligation (NOO)- End of Year	<u>\$2,599,804</u>
Percentage of Annual OPEB Cost Contributed	58%

The annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for recent years are as follows:

<u>Fiscal Year</u> <u>Ended June 30</u>	<u>Annual OPEB</u> <u>Cost</u>	<u>Percentage of</u> <u>Annual OPEB</u> <u>Cost</u> <u>Contributed</u>	<u>Net OPEB</u> <u>Obligation</u>
2009	\$1,959,543	30%	\$1,366,315
2010	\$1,884,673	58%	\$2,599,804

Funded Status and Funding Progress. As of June 30, 2010, no funding to the plan has been made. The Actuarial Accrued Liability (AAL) for benefits was \$20,228,087, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$20,228,087.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as Required Supplementary Information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the 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 the effects of short-term volatility in actuarial accrued

liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation, the projected unit credit method was used. The actuarial assumptions included a 4.0 percent investment rate of return (net of administrative expenses), and an annual healthcare cost trend rate of 10 percent initially, reduced by decrements to an ultimate rate of 5 percent. The actuarial value of any assets would be determined using market value. The UAAL is being amortized over a thirty year amortization period.

C. On Behalf Payments

In accordance with Governmental Accounting Standards Board Statement Number 24, "Accounting and Financial Reporting for Certain Grants and Other Financial Assistance." The Town is required to recognize, as income, certain payments made on behalf of the Town by the Commonwealth. Specifically, the Commonwealth makes contributions to a contributory retirement plan administered by the Massachusetts Teachers' Retirement Board (the "State Plan") on behalf of the Town's teaching employees; the Town is not legally required to contribute to the State Plan, which is fully funded by the Commonwealth.

For the fiscal year ended June 30, 2010, the Commonwealth paid \$3,446,944 to the State Plan on behalf of employees of the Town. Accordingly, the accompanying financial statements include the required adjustments, which have increased by the same amount the intergovernmental revenues and education expenditures in the fund financial statements and the education program revenues and education expenditures in the governmental wide financial statements. The net effect of this adjustment does not change the excess of revenues and other financing sources over expenditures and other financing uses for the year ended June 30, 2010, or fund balances at June 30, 2010.

D. Subsequent Year Authorizations

The Town adopted a fiscal 2011 operating and capital budget of \$29,900,886. Fiscal 2011 budgetary amounts which are not reflected in the accompanying financial statements (except as indicated below) will be financed by the following sources:

2010 Property Taxes, State Aid	
and Non-Property Tax Revenue	\$ 22,563,121
Enterprise Fund Revenues and Available Funds	4,725,942
Community Preservation Fund	1,425,274
Reserved for Subsequent Year's Expenditures:	
(Reflected on Balance Sheet)	
General Fund	1,186,549
	<u>\$ 29,900,886</u>

E. Landfill Closure and Postclosure Care Cost

a. Sludge Landfill

State and federal regulations require that sludge landfill closures meet certain standards. Generally accepted accounting principles require recognition of a liability for closures and postclosure costs based on the landfill capacity used to date. The sludge landfill capacity used to date is 100%. The closure date of the landfill was 1990. The estimated cost of monitoring the landfill is reflected in the sewer enterprise fund.

b. Solid Waste Landfill

State and federal regulations require that solid waste landfill closures meet certain standards. Generally accepted accounting principles require recognition of a liability for closure and postclosure costs based on the landfill capacity used to date. The landfill capacity used to date is 100%. The estimated cost of monitoring the landfill is recorded in the solid waste enterprise fund.

REQUIRED SUPPLEMENTARY INFORMATION

Town of Ayer, Massachusetts
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Positive</u> <u>(Negative)</u>
<u>Revenues</u>				
Property Taxes	\$ 15,765,086	\$ 15,765,086	\$ 15,842,528	\$ 77,442
Tax Liens	-	-	108,986	108,986
Excises	730,000	730,000	749,248	19,248
Penalties and Interest	57,000	57,000	59,353	2,353
Licenses and Permits	205,000	205,000	199,770	(5,230)
Fees and Other Departmental	126,000	126,000	130,955	4,955
Intergovernmental	5,187,078	5,187,078	5,308,858	121,780
Fines and Forfeits	50,000	50,000	30,715	(19,285)
Earnings on Investments	40,000	40,000	81,756	41,756
In Lieu of Taxes	11,000	11,000	8,496	(2,504)
Miscellaneous	6,000	6,000	47,966	41,966
Total Revenues	<u>22,177,164</u>	<u>22,177,164</u>	<u>22,568,631</u>	<u>391,467</u>
<u>Expenditures</u>				
General Government	1,507,731	1,665,294	1,612,630	52,664
Public Safety	3,001,118	2,996,995	2,939,276	57,719
Education	9,996,271	10,163,366	10,183,396	(20,030)
Highway and Public Works	949,144	952,817	978,551	(25,734)
Health and Human Services	224,745	228,744	228,567	177
Culture and Recreation	562,866	562,866	557,751	5,115
Intergovernmental	690,302	690,302	731,603	(41,301)
Employee Benefits	3,495,963	3,494,992	3,539,360	(44,368)
Debt Service	1,552,300	1,542,300	1,448,971	93,329
Total Expenditures	<u>21,980,440</u>	<u>22,297,676</u>	<u>22,220,105</u>	<u>77,571</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>196,724</u>	<u>(120,512)</u>	<u>348,526</u>	<u>469,038</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	15,000	15,000	14,850	(150)
Transfers Out	(417,372)	(417,372)	(418,330)	958
Proceeds from Bonds	29,000	29,000	29,000	-
Other Available Funds	68,442	68,442	68,442	-
Budgetary Fund Balance - Uses	(160,817)	(160,817)	(160,817)	-
Free Cash	269,023	586,259	586,259	-
Total Other Financing Sources (Uses)	<u>(196,724)</u>	<u>120,512</u>	<u>119,404</u>	<u>808</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 467,930</u>	<u>\$ 469,846</u>

Middlesex Retirement System
Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/1996	\$ 373,750,361	\$ 634,920,488	\$ 261,170,127	58.87%	\$ 218,345,024	119.61%
1/1/1998	476,708,969	763,093,878	286,384,909	62.47%	215,380,186	132.97%
1/1/2000	570,263,467	905,280,472	335,017,005	62.99%	253,228,818	132.30%
1/1/2002	599,699,143	1,020,828,178	421,129,035	58.75%	280,740,439	150.01%
1/1/2004	618,163,380	1,223,828,127	605,664,747	50.51%	306,025,949	197.91%
1/1/2006	653,156,866	1,364,582,969	711,426,103	47.86%	330,999,861	214.93%
1/1/2008	774,863,669	1,529,806,307	754,942,638	50.65%	360,206,302	209.59%

Middlesex Retirement System
Required Supplementary Information
Schedule of Employer's Contribution

System Wide				Town of Ayer	
Plan Year Ended December 31	Annual Required Contributions	Actual Contributions (A)	Percentage Contributed	Actual Contributions (B)	Town's Percentage of System Wide Actual Contributions (B/A)
2001	\$ 27,900,209	\$ 27,900,209	100.00%	\$ 488,274	1.75%
2002	30,248,147	30,248,147	100.00%	513,476	1.70%
2003	35,411,500	35,411,500	100.00%	581,598	1.64%
2004	52,902,366	52,902,366	100.00%	682,731	1.29%
2005	52,298,150	52,298,150	100.00%	747,209	1.43%
2006	60,169,717	60,169,717	100.00%	825,432	1.37%
2007	64,664,829	64,664,829	100.00%	944,751	1.46%

Town of Ayer, Massachusetts
Required Supplementary Information - GASB 45
Schedule of Funding Progress
Fiscal Year Ended June 30, 2010

Projected Unit Credit, Pay-As-You-Go Assumptions (4.00%)

Actuarial Valuation <u>Date</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 a Percentage of Covered Payroll <u>[(b) - (a) / (c)]</u>
7/1/2008	\$0	\$20,228,087	\$20,228,087	0%	\$12,039,400	168%

Town of Ayer, Massachusetts
Required Supplementary Information - GASB 45
Valuation Details
Fiscal Year Ended June 30, 2010

Valuation Date	July 1, 2008
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Payments increasing at 4%
Remaining Amortization Period	30 years as of July 1, 2008
Asset Valuation Method	Not applicable - plan is unfunded

Actuarial Assumptions:

Investment Rate of Return	4.00% Per Annum
Medical/Drug Cost Trend Rate	10.0% graded to 5.0% over 6 years

Plan Membership:

Current retirees, beneficiaries, and dependents	134
Current active members	<u>298</u>
Total	<u><u>432</u></u>

Town of Ayer, Massachusetts
Notes to the Required Supplementary Information
June 30, 2010

(A) Budgetary Information

Budget requests are prepared by the various Town departments and submitted to the Selectmen and Finance Committee for review during January and February of each year. The Selectmen and Finance Committee have until the annual Town meeting is held, to make any changes to the departments' requests. After approval of the budget at the annual Town meeting, the tax recapitulation (recap) 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.

Encumbrance accounting is utilized when purchase orders, contracts or other commitments for purchases are recorded in order to reserve that portion of the applicable appropriations. Encumbrances still open at year end are reported as a reservation of fund balance. Encumbrances do not constitute expenditures or liabilities.

(B) Pension Plans

1. Plan Description

The Town provides pension benefits to employees by contributing to Middlesex Retirement System, a cost sharing multiple-employer defined benefit pension plan administered by the Middlesex Retirement System. The system provides retirement benefits, cost of living adjustments, disability benefits and death benefits.

The system is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws (MGL). The authority to establish and amend benefit provisions requires a statutory change to Chapter 32. The Middlesex Retirement System issues a publicly available financial report in accordance with guidelines established by the Commonwealth's Public Employee Retirement Administration Commission. That report may be obtained by writing to the Middlesex Retirement System, 25 Linnell Circle, P.O. Box 160, Billerica, Massachusetts 01865.

2. Funding Plan

Active members of the Middlesex Retirement System contribute either 5%, 7%, 8% or 9% of their gross regular compensation depending on the date upon which their membership began. An additional 2% is required from employees for earnings in excess of \$30,000. The Town is required to pay an actuarially determined rate. The contribution requirements of plan members is determined by M.G.L. Chapter 32. The Town's contribution requirement is established and may be amended by the Middlesex Retirement System with the approval of the Public Employee Retirement Administration Commission.

The schedule of funding progress, presented as required supplementary information, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the accrued liability for benefits. Additionally, a schedule of employer contributions is presented as required supplementary information. The schedules presented relate to the Middlesex Retirement System as a whole (of which the Town is one participating employer). The Town's data included should be helpful for understanding the scale of the information presented relative to the Town.

3. Actuarial Assumptions

Valuation Date	January 1, 2008
Actuarial Cost Method	Entry age normal cost method.
Amortization Method	Level dollar for the 1992, 2002, and 2003 Early Retirement Incentives (ERIs) and 4.50% increasing for the remaining unfunded liability.
Remaining Amortization Period	As of July 1, 2008, 2 years remaining for the 1992 ERI liability; 11 years remaining for the 2002 ERI liability; 12 years remaining for the 2003 ERI liability and 20 years for remaining unfunded liability.
Asset Valuation Method	The difference between the expected return and the actual investment return on a market value basis is recognized over a five-year period as described by Revenue Procedure 2000-40.

Actuarial Assumptions:

Investment Rate of Return	8.25%
Projected Salary Increases	4.00% for the next 2 years; then 4.75% for Group 1 and 5.25% for Group 4
Cost of Living Adjustments	3.00% of the first \$12,000 of retirement income

Plan Membership:

Retired Participants and Beneficiaries Receiving Benefits	4,764
Inactive Participants Entitled to a Return of their Employee Contributions	3,077
Invested Participants with a Vested Right to a Deferred or Immediate Benefit	190
Active Participants	<u>9,285</u>
Total	<u>17,316</u>

(C) Other Postemployment Benefits (OPEB) Disclosures

The Governmental Accounting Standards Board (GASB) issued Statement No. 43 (GASB 43) – “Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans” and Statement No. 45 (GASB 45), “Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions” that are effective June 30, 2010. These statements require the town to account for and report the value of its future OPEB obligations currently rather than on a pay as you go basis. Certain information, which is required to be disclosed by GASB 45, is noted below. In addition, certain other Required Supplementary Information (RSI), required by GASB 45, is presented following the notes to the financial statements.

Plan Description. The Town sponsors a single employer defined benefit health plan. The Town provides certain health care and life insurance benefits for eligible retirees and their spouses. Chapter 32B of the MGL assigns authority to establish and amend benefit provisions of the plan. Benefits paid by the Town are on a pay-as-you-go basis. Currently there are approximately 298 active employees and 134 retired employees who are eligible to participate in the plan.

Funding Policy. The Town pays 75% of the premiums for active employees and 50% for retirees for health insurance, and 75% of the premiums for active employees and 50% for retirees for basic life insurance, with the employees/retirees paying the remaining percentage. Benefits paid by the Town are on a pay-as-you-go basis. The contribution requirements of plan members and the Town are established and may be amended from time to time.

Town of Ayer, Massachusetts
Schedule of Expenditures of Federal Awards
Fiscal Year Ended June 30, 2010

<u>Federal Grantor Program Title</u>	<u>Federal CFDA Number</u>	<u>Expenditures</u>
<u>U.S. Department of Agriculture</u>		
Breakfast Program	10.553	\$ 37,909
National School Lunch Program	10.555	148,613
Total U.S. Department of Agriculture		186,522
 <u>U.S. Department of Housing and Urban Development</u>		
State Program	14.228	236,333
Lead Abatement	14.907	12,067
Total U.S. Department of Housing and Urban Development		248,400
 <u>U.S. Department of Justice</u>		
Police Drug Seizure	16.578	60
Community Police	16.710	6,223
Total U.S. Department of Justice		6,283
 <u>U.S. Department of Education</u>		
Title I	84.010	121,671
SPED Entitlement	84.027	289,460
SPED Program Improvement	84.027	2,632
Subtotal # 84.027		292,092
SPED Early Childhood	84.173	8,979
Drug-Free Schools	84.186	17
Enhanced Education Through Technology	84.318	2,479
Teacher Quality - Title II Part A	84.367	45,868
ARRA Title I	84.389	35,207
ARRA IDEA	84.391	150,745
ARRA Early Childhood	84.392	5,576
Total U.S. Department of Education		662,634
 <u>U.S. Department of Health and Human Services</u>		
Public Health Emergency Preparedness	93.069	2,381
Treatment Training	93.243	183,827
Total U.S. Department of Health and Human Services		186,208
 <u>Federal Emergency Management Agency</u>		
2008 Ice Storm	97.039	21,271
Total Federal Emergency Management Agency		21,271
 Total Schedule of Expenditures of Federal Awards		\$ 1,311,318

Town of Ayer, Massachusetts
Notes to Schedule of Expenditures of Federal Awards
June 30, 2010

(1) Scope of Audit

The Town of Ayer, Massachusetts (the Town) is a governmental agency established by the laws of the Commonwealth of Massachusetts.

All federal grant operations of the Town are included in the scope of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. The single audit was performed in accordance with the provisions of OMB's Circular A-133, *Compliance Supplement*.

(2) Summary of Significant Accounting Policies

The accompanying Schedule of Expenditures of Federal Awards includes all of the federal grant transactions of the Town.

Federal grant revenues are recognized in the Town's governmental funds on the modified accrual basis of accounting whereby revenue is recognized when it becomes available and measurable.

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

Board of Selectmen
Town of Ayer
Town Hall
Ayer, Massachusetts 01432

We have audited the basic financial statements of the Town of Ayer as of and for the year ended June 30, 2010, and have issued our report thereon dated March 28, 2011. 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 Ayer'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 of Ayer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Ayer'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 would not necessarily identify all deficiencies in internal control that might be 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Ayer'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*.

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

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
March 28, 2011

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR
PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133

Board of Selectmen
Town of Ayer
Town Hall
Ayer, Massachusetts 01432

Compliance

We have audited the compliance of the Town of Ayer, Massachusetts with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. The Town of Ayer, Massachusetts, major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Town of Ayer's management. Our responsibility is to express an opinion on the Town of Ayer's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Ayer's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Town of Ayer's compliance with those requirements.

As described in Items 2010-1 and 2010-2 in the accompanying schedule of findings and questioned costs, the Town of Ayer did not comply with certain requirements relating to the United States Department of Education, SPED Grant, C.F.D.A. #84.027 (and #84.173, #84.391 and #84.392 clusters). Compliance with such requirements is necessary, in our opinion, for the Town of Ayer to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, the Town of Ayer, Massachusetts complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

The management of the Town of Ayer is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Town of Ayer's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose

of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Ayer's, internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-1 and 2010-2 to be material weaknesses.

The Town of Ayer's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Town of Ayer's response and accordingly we express no opinion on it.

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

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
March 28, 2011

Town of Ayer, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010
(Continued on Page 56)

(I) Summary of Auditors' Results

1. The opinion of the financial statements was unqualified.
2. No significant deficiencies in internal control were reported relating to the audit of the financial statements.
3. No instances of noncompliance which were material to the financial statements were reported.
4. Material weaknesses in internal control relating to major programs were reported (2010-1, 2010-2).
5. The opinion on compliance with requirements applicable to major programs was qualified.
6. There were findings relative to the major federal award programs as noted in Part III (2010-1, 2010-2).
7. The major programs identified were:

<u>Funding Source</u>	<u>Program</u>	<u>CFDA Number</u>
Department of Housing and Urban Development	State Program	14.228
Department of Education	Sped 94-142	84.027
	Sped Program Improvement	84.027
	Early Childhood	84.173
	ARRA IDEA	84.391
	ARRA Early Childhood	85.392

8. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
9. The Town did not qualify as low risk.

(II) Findings - Financial Statement Audit

There were no findings related to the financial statements.

Town of Ayer, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010
(Continued on Page 57)

(III) Findings and Questioned Costs for Federal Awards

<u>Program</u>	<u>Reference</u>	<u>Finding</u>
U.S. Department of Education - SPED - CFDA #84.027 (Cluster #84.173, #84.391 and #84.392)	2010-1	<p><u>Final Report Submitted Late</u></p> <p>The final report was not submitted by the due date. The final report is due by the end of October each year.</p> <p><u>Management Response</u></p> <p>A more rigorous review of the Special Education grants throughout the grant program cycle will be carried out with additional support provided by the Business Department. The Special Education Department has designated a staff member to ensure the final report is submitted on time.</p>
U.S. Department of Education - SPED - CFDA #84.027 (Cluster #84.173, #84.391 and #84.392)	2010-2	<p><u>Payroll Certifications and Supporting Documentation</u></p> <p>Although most of the payroll records relating to the SPED Grant, CFDA #84.027 (Cluster #84.172, #84.391 and #84.392) has adequate federal program allocation documentation, we found a few instances where the proper documentation was not available.</p> <p>In absence of signed timesheets to support payroll charges to federal grant programs, the United States Office of Management and Budget (OMB) Circular A-87 specifies that certain certifications must be made as noted below:</p> <ol style="list-style-type: none"> 1. Where employees are expected to work solely on a single Federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications will be prepared at least semiannually and will be signed by the employee or supervisory official having first hand knowledge of the work performed by the employee.

Town of Ayer, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2010
(Continued from Page 56)

(III) Findings and Questioned Costs for Federal Awards

<u>Program</u>	<u>Reference</u>	<u>Finding</u>
U.S. Department of Education - SPED - CFDA #84.027 (Cluster #84.173, #84.391 and #84.392)	2010-2	<p>2. Where employees work on multiple activities or cost objectives a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation. Personnel activity reports or equivalent documentation must meet the following standards:</p> <p>(a) They must reflect an after-the-fact distribution of the actual activity of each employee.</p> <p>(b) They must account for the total activity for which each employee is compensated.</p> <p>(c) They must be prepared at least monthly and must coincide with one or more pay periods.</p> <p>(d) They must be signed by the employee.</p> <p>(e) Budget estimates or other distribution percentages determined before the services are performed do not qualify as support for charges to Federal awards, but, may be used for interim accounting purposes when certain other requirements are met.</p>

We recommend that the School follow the requirements of OMB Circular A-87.

Management Response

As noted above, we have established standard procedures to provide adequate federal program allocation documentation, as required. However, with the acceptance of a new ARRA SPED Grant, we inadvertently skipped this step. We are currently taking steps to make certain that proper federal allocation documentation procedures are always being followed.

Town of Ayer, Massachusetts
Summary of Prior Years Findings and Questioned Costs
For the Year Ended June 30, 2010

<u>Program</u>		<u>Finding/Noncompliance</u>	<u>Current Status</u>
<u>Prior Fiscal Year Ended June 30, 2009</u>	<u>Finding Number</u>		
N/A	2009-1	Money received by the Town's Tax Collector was not turned over to the Town Treasurer in a timely manner.	This problem has been corrected for the fiscal year ended June 30, 2010.
U.S. Department of Education – SPED Program – CFDA #84.027 and #84.173	2009-2	The final report was not submitted by the due date. The final report is due by the end of October each year.	The final report was not submitted by the due date for the fiscal year ended June 30, 2010.