

TOWN OF AYER, MASSACHUSETTS

Financial Statements

June 30, 2011

(With Accountants' Report Thereon)

Giusti, Hingston and Company
Certified Public Accountants

36 Jackman St., Unit 1 * Georgetown, MA 01833 * (Tel) 978-352-7470

Town of Ayer, Massachusetts
FINANCIAL STATEMENTS
For the Year Ended June 30, 2011
Table of Contents

	<u>Page #</u>
Independent Auditors' Report	1,2
Management's Discussion and Analysis (Required Supplementary Information)	3-8
Basic Financial Statements	
Government-wide Financial Statements	
• Statement of Net Assets	9,10
• Statement of Activities	11
Fund Financial Statements	
• Balance Sheet - Governmental Funds	12,13
• Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	14,15
• Reconciliation of the Governmental Funds Balance Sheet - Total Fund Balances to the Statement of Net Assets	16
• Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	17
• Statement of Net Assets – Proprietary Funds	18
• Statement of Revenue, Expenses and Changes in Fund Net Assets - Proprietary Funds	19
• Statement of Cash Flows – Proprietary Funds	20
• Statement of Net Assets – Fiduciary Funds	21
• Statement of Changes in Net Assets – Fiduciary Funds	22
Notes to the Financial Statements	23-41
Required Supplementary Information	
• Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	43
• Middlesex Retirement System – Schedule of Funding Progress	44
• Middlesex Retirement System – Schedule of Employer’s Contributions	45

Town of Ayer, Massachusetts
FINANCIAL STATEMENTS
For the Year Ended June 30, 2011
Table of Contents

•	GASB 45 – Schedule of Funding Progress	46
•	GASB 45 – Valuation Details	47
•	Notes to the Required Supplementary Information	48-50
	Schedule of Expenditures of Federal Awards	51
	Notes to Schedule of Expenditures of Federal Awards	52
	Report on Compliance and on Internal Control Over Financial Reporting and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i>	53,54
	Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133	55,56
	Schedule of Findings and Questioned Costs	57-59
	Summary of Prior Years Findings and Questioned Costs	60

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, 2011, 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, 2011 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 9, 2012 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, retirement system schedules and post employment benefit schedules be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Ayer, Massachusetts' financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as whole.

Giusti, Hingston and Company

Giusti, Hingston and Company
Certified Public Accountants
March 9, 2012

Town of Ayer, Massachusetts
Management's Discussion and Analysis
Required Supplementary Information
June 30, 2011

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, 2011.

Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Ayer, Massachusetts June 30, 2011 **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 \$30,107,216 (*net assets*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,680,287, or 6 percent of total general fund expenditures.
- The Town of Ayer, Massachusetts' total long term debt decreased by \$2,116,489 during the current year. The decrease was the result of the refunding of general obligation bonds (\$62,000 net governmental activities and \$36,000 net business-type activities) and the retirement of general obligation bonds (\$1,086,605 government activities and \$1,127,882 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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Current and Other Assets	\$ 12,795,354	\$ 13,638,085	\$ 7,406,589	\$ 5,277,859	\$ 20,201,943	\$ 18,915,944
Capital Assets	17,544,801	18,141,931	19,324,447	19,621,987	36,869,248	37,763,918
Total Assets	<u>30,340,155</u>	<u>31,780,016</u>	<u>26,731,036</u>	<u>24,899,846</u>	<u>57,071,191</u>	<u>56,679,862</u>
Other Liabilities	2,704,857	3,075,790	3,812,327	1,468,065	6,517,184	4,543,855
Long Term Liabilities	11,222,898	11,062,412	9,223,893	10,292,062	20,446,791	21,354,474
Total Liabilities	<u>13,927,755</u>	<u>14,138,202</u>	<u>13,036,220</u>	<u>11,760,127</u>	<u>26,963,975</u>	<u>25,898,329</u>
Net Assets:						
Invested in Capital Assets						
Net of Related Debt	9,537,550	9,177,966	11,667,787	11,411,818	21,205,337	20,589,784
Restricted	7,371,388	7,213,606	1,501,491	836,026	8,872,879	8,049,632
Unrestricted	(496,538)	1,211,336	525,538	891,875	29,000	2,103,211
Total Net Assets	<u>\$ 16,412,400</u>	<u>\$ 17,602,908</u>	<u>\$ 13,694,816</u>	<u>\$ 13,139,719</u>	<u>\$ 30,107,216</u>	<u>\$ 30,742,627</u>

The net assets of the Town (including prior period adjustments) decreased by \$635,411. The net assets of the governmental activities decreased by \$1,190,508 or 7% and the net assets of the business-type activities increased by \$555,097 or 4%.

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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Revenues						
Program Revenues:						
Charges for Services	\$ 1,923,210	\$ 1,976,006	\$ 4,489,657	\$ 4,253,454	\$ 6,412,867	\$ 6,229,460
Operating Grants and Contributions	11,555,782	11,246,295	57,111	36,078	11,612,893	11,282,373
Capital Grants and Contributions	-	4,400	-	-	-	4,400
General Revenues:						
Property Taxes	16,751,804	15,995,484	-	-	16,751,804	15,995,484
Motor Vehicle and Other Excises	660,980	852,566	-	-	660,980	852,566
Intergovernmental Not Restricted to a Specific Program	697,982	721,917	-	-	697,982	721,917
Other	242,881	448,770	-	-	242,881	448,770
Total Revenues	<u>31,832,639</u>	<u>31,245,438</u>	<u>4,546,768</u>	<u>4,289,532</u>	<u>36,379,407</u>	<u>35,534,970</u>
Expenses						
General Government	1,816,675	1,930,051	-	-	1,816,675	1,930,051
Public Safety	3,452,473	3,426,470	-	-	3,452,473	3,426,470
Education	18,267,300	17,519,526	-	-	18,267,300	17,519,526
Intergovernmental	846,034	731,603	-	-	846,034	731,603
Highways and Public Works	1,505,873	1,490,360	-	-	1,505,873	1,490,360
Human Services	691,403	577,015	-	-	691,403	577,015
Culture and Recreation	704,792	943,891	-	-	704,792	943,891
Employee Benefits	4,886,291	4,729,317	-	-	4,886,291	4,729,317
Debt Service	431,364	437,240	-	-	431,364	437,240
Sewer	-	-	2,272,764	2,224,932	2,272,764	2,224,932
Water	-	-	1,362,495	1,353,038	1,362,495	1,353,038
Solid Waste	-	-	390,484	455,202	390,484	455,202
Ambulance	-	-	395,826	370,818	395,826	370,818
Total Expenses	<u>32,602,205</u>	<u>31,785,473</u>	<u>4,421,569</u>	<u>4,403,990</u>	<u>37,023,774</u>	<u>36,189,463</u>
Increase (Decrease) in Net Assets						
Before Special Items and Transfers	(769,566)	(540,035)	125,199	(114,458)	(644,367)	(654,493)
Special Items	22,944	5,785	14,250	35,763	37,194	41,548
Transfers	(443,886)	(406,387)	415,648	406,387	(28,238)	-
Increase (Decrease) in Net Assets	<u>\$ (1,190,508)</u>	<u>\$ (940,637)</u>	<u>\$ 555,097</u>	<u>\$ 327,692</u>	<u>\$ (635,411)</u>	<u>\$ (612,945)</u>

Governmental Activities

In fiscal year 2011, 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 following table reflects the trend in all the components of fund balance and free cash for the previous six 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

GASB 54 was implemented in fiscal year 2011. As a result the account titles of the components of fund balance changed as follows:

<u>Fiscal Year</u>	<u>Restricted</u>	<u>Committed</u>	<u>Assigned</u>	<u>Unassigned</u>	<u>Total Fund Balance</u>
2011	\$ 431,326	\$ 28,368	\$ 624,509	\$ 1,680,287	\$ 2,764,490

<u>Fiscal Year</u>	<u>Free Cash</u>
2006	\$ 627,889
2007	862,179
2008	269,023
2009	1,437,211
2010	439,161
2011	(68,213)

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 \$13,694,816.

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, 2011, amounts to \$36,869,248 (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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Land	\$ 3,150,877	\$ 2,989,577	\$ 443,729	\$ 443,729	\$ 3,594,606	\$ 3,433,306
Construction in Progress	78,042	78,042	1,800,224	1,689,040	1,878,266	1,767,082
Buildings	12,568,657	13,097,448	3,841,305	3,934,228	16,409,962	17,031,676
Improvements Other Than Buildings	274,406	295,952	-	-	274,406	295,952
Infrastructure	808,265	979,351	12,701,883	13,203,786	13,510,148	14,183,137
Equipment	135,290	88,068	231,028	34,160	366,318	122,228
Vehicles	529,264	613,493	306,278	317,044	835,542	930,537
Total	<u>\$ 17,544,801</u>	<u>\$ 18,141,931</u>	<u>\$ 19,324,447</u>	<u>\$ 19,621,987</u>	<u>\$ 36,869,248</u>	<u>\$ 37,763,918</u>

Debt

The Town had \$17,440,379 in general obligation bonds, outstanding on June 30, 2011. This represents a \$2,116,489 decrease (11%) from the previous year.

Outstanding Debt at June 30

<u>Governmental Activities</u>	<u>2011</u>	<u>2010</u>
General Obligation Bonds Payable	\$ 8,206,848	\$ 9,231,453
 <u>Business-type Activities</u>		
Sewer	5,521,000	6,032,000
Water	3,057,111	3,435,415
Solid Waste	555,420	728,000
Ambulance	100,000	130,000
Total Debt	<u>\$ 17,440,379</u>	<u>\$ 19,556,868</u>

Fiscal Year 2011 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 2011 budget.

Town of Ayer, Massachusetts
Statement of Net Assets
June 30, 2011
(Continued on Page 10)

	Governmental <u>Activities</u>	Business - Type <u>Activities</u>	Government Wide <u>Total</u>
Assets			
Current:			
Cash/Investments	\$ 9,503,127	\$ 6,118,635	\$ 15,621,762
Receivables:			
Property Taxes	1,065,436	-	1,065,436
Tax Liens	222,715	-	222,715
Excises	325,028	-	325,028
User Charges	-	1,268,637	1,268,637
Due from Others	299,640	5,497	305,137
Loans Receivables	477,875	-	477,875
Intergovernmental	842,785	-	842,785
Departmental	59,273	-	59,273
Prepaid Expenses	(525)	525	-
Due from Other Fund	-	13,295	13,295
Noncurrent:			
Capital Assets:			
Assets Not Being Depreciated	3,228,919	2,243,953	5,472,872
Assets Being Depreciated, Net	14,315,882	17,080,494	31,396,376
Total Assets	<u>30,340,155</u>	<u>26,731,036</u>	<u>57,071,191</u>
Liabilities			
Current:			
Warrants and Accounts Payable	595,963	161,976	757,939
Accrued Salaries Payable	899,066	12,868	911,934
Employees' Withholding Payable	28,543	-	28,543
Unclaimed Checks	2,181	-	2,181
Deferred Taxes Paid in Advance	76,048	-	76,048
Other Liabilities	11,542	-	11,542
Other Accrued Liabilities	17,245	88,224	105,469
Accrued Interest	41,592	51,811	93,403
Bonds Payable	1,032,677	1,122,882	2,155,559
Bond Anticipation Notes Payable	-	2,374,566	2,374,566
Noncurrent:			
Bonds Payable	7,174,171	8,110,649	15,284,820
Compensated Absences	375,821	46,223	422,044
Other Post Employment Benefit Obligations	3,672,906	120,046	3,792,952
Landfill Liabilities	-	946,975	946,975
Total Liabilities	<u>13,927,755</u>	<u>13,036,220</u>	<u>26,963,975</u>

Town of Ayer, Massachusetts
Statement of Net Assets
June 30, 2011
(Continued from Page 9)

	<u>Governmental Activities</u>	<u>Business - Type Activities</u>	<u>Government Wide Total</u>
Net Assets			
Invested in Capital Assets, Net of Related Debt	9,537,550	11,667,787	21,205,337
Restricted For:			
Capital Projects	35,933	1,501,491	1,537,424
Debt Service	376,311	-	376,311
Special Revenue	6,785,368	-	6,785,368
Perpetual Funds:			
Expendable	173,776	-	173,776
Unrestricted	(496,538)	525,538	29,000
Total Net Assets	<u>\$ 16,412,400</u>	<u>\$ 13,694,816</u>	<u>\$ 30,107,216</u>

Town of Ayer, Massachusetts
Statement of Activities
Fiscal Year Ended June 30, 2011

		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			
<i>Governmental Activities:</i>							
General Government	\$ 1,816,675	\$ 274,805	\$ 470,781	\$ -	\$ (1,071,089)	\$ -	\$ (1,071,089)
Public Safety	3,452,473	91,715	110,704	-	(3,250,054)	-	(3,250,054)
Education	18,267,300	1,384,577	10,192,810	-	(6,689,913)	-	(6,689,913)
Intergovernmental	846,034	-	-	-	(846,034)	-	(846,034)
Highways and Public Works	1,505,873	50,015	291,632	-	(1,164,226)	-	(1,164,226)
Human Services	691,403	79,609	416,537	-	(195,257)	-	(195,257)
Culture and Recreation	704,792	42,489	73,318	-	(588,985)	-	(588,985)
Employee Benefits	4,886,291	-	-	-	(4,886,291)	-	(4,886,291)
Debt Service	431,364	-	-	-	(431,364)	-	(431,364)
Total Governmental Activities	32,602,205	1,923,210	11,555,782	-	(19,123,213)	-	(19,123,213)
<i>Business-Type Activities:</i>							
Sewer	2,272,764	2,318,714	27,743	-	-	73,693	73,693
Water	1,362,495	1,570,679	29,368	-	-	237,552	237,552
Solid Waste	390,484	172,810	-	-	-	(217,674)	(217,674)
Ambulance	395,826	427,454	-	-	-	31,628	31,628
Total Business-Type Activities	4,421,569	4,489,657	57,111	-	-	125,199	125,199
Total	\$ 37,023,774	\$ 6,412,867	\$ 11,612,893	\$ -	(19,123,213)	125,199	(18,998,014)
<i>General Revenues:</i>							
					16,751,804	-	16,751,804
					660,980	-	660,980
					70,134	-	70,134
					8,412	-	8,412
					697,982	-	697,982
					22,488	-	22,488
					125,450	-	125,450
					16,397	-	16,397
					22,944	-	22,944
					-	14,250	14,250
					(443,886)	415,648	(28,238)
Total General Revenues, Special Items and Transfers					17,932,705	429,898	18,362,603
					(1,190,508)	555,097	(635,411)
Net Assets:							
					17,641,814	13,139,719	30,781,533
					(38,906)	-	(38,906)
					17,602,908	13,139,719	30,742,627
					\$ 16,412,400	\$ 13,694,816	\$ 30,107,216

Town of Ayer, Massachusetts
Governmental Funds
Balance Sheet
June 30, 2011
(Continued on Page 13)

		HUD/CDBG	Nonmajor	Total
	General	Grants	Governmental	Governmental
<u>Assets</u>			Funds	Funds
Cash/Investments	\$ 3,761,472	\$3,238,028	\$ 2,503,627	\$ 9,503,127
Receivables:				
Property Taxes	1,054,825	-	10,611	1,065,436
Tax Liens	220,721	-	1,994	222,715
Excises	325,028	-	-	325,028
Due From Others	-	-	299,640	299,640
Loans	-	-	477,875	477,875
Intergovernmental	9,951	-	832,834	842,785
Departmental	2,542	1,696	55,035	59,273
Due From Other Fund	32,096	-	-	32,096
Tax Foreclosures	198,419	-	-	198,419
Total Assets	<u>\$ 5,605,054</u>	<u>\$ 3,239,724</u>	<u>\$ 4,181,616</u>	<u>\$13,026,394</u>
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Warrants and Accounts Payable	\$ 389,174	\$ 6,726	\$ 200,063	\$ 595,963
Accrued Salaries Payable	707,094	-	191,972	899,066
Employees' Withholding Payable	28,543	-	-	28,543
Other Accrued Liabilities	-	13,127	4,118	17,245
Due to Other Fund	-	741	31,880	32,621
Unclaimed Checks	2,181	-	-	2,181
Other Liabilities	98,412	-	(22,364)	76,048
Taxes Paid in Advance	11,542	-	-	11,542
Deferred Revenue:				
Property Taxes	846,957	-	10,611	857,568
Loans	-	-	477,875	477,875
Other	-	-	354,675	354,675
Tax Liens	220,721	-	1,994	222,715
Excises	325,028	-	-	325,028
Departmental	2,542	1,696	-	4,238
Tax Foreclosures	198,419	-	-	198,419
Intergovernmental	9,951	-	469,384	479,335
Total Liabilities	<u>2,840,564</u>	<u>22,290</u>	<u>1,720,208</u>	<u>4,583,062</u>

Town of Ayer, Massachusetts
Governmental Funds
Balance Sheet
June 30, 2011
(Continued from Page 12)

	<u>General</u>	<u>HUD/CDBG Grants</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Fund Equity:				
Fund Balances:				
Restricted	431,326	-	2,290,992	2,722,318
Committed	28,368	3,242,730	20,269	3,291,367
Assigned	624,509	-	155,722	780,231
Unassigned	<u>1,680,287</u>	<u>(25,296)</u>	<u>(5,575)</u>	<u>1,649,416</u>
Total Fund Balances	<u>2,764,490</u>	<u>3,217,434</u>	<u>2,461,408</u>	<u>8,443,332</u>
 Total Liabilities and Fund Balances	 <u><u>\$ 5,605,054</u></u>	 <u><u>\$ 3,239,724</u></u>	 <u><u>\$ 4,181,616</u></u>	 <u><u>\$13,026,394</u></u>

Town of Ayer, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal Year Ended June 30, 2011
(Continued on Page 15)

	<u>General</u>	HUD/CDBG <u>Grants</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
<u>Revenues:</u>				
Property Taxes	\$ 16,229,284	\$ -	\$ 129,424	\$ 16,358,708
Excises	662,066	-	-	662,066
Penalties and Interest	70,134	-	-	70,134
Licenses and Permits	185,991	-	-	185,991
Fees and Other Departmental	117,170	-	747,440	864,610
Intergovernmental	8,838,163	3,750	3,123,753	11,965,666
Charges for Services	-	44,854	749,695	794,549
Fines and Forfeits	17,324	-	-	17,324
Earnings on Investments	23,036	47,722	3,315	74,073
In Lieu of Taxes	8,412	-	-	8,412
Contributions	-	-	154,742	154,742
Miscellaneous	147,848	62,998	163	211,009
Total Revenues	<u>26,299,428</u>	<u>159,324</u>	<u>4,908,532</u>	<u>31,367,284</u>
<u>Expenditures:</u>				
Current				
General Government	1,353,967	181,882	340,352	1,876,201
Public Safety	3,004,622	63,187	144,202	3,212,011
Education	14,360,738	-	3,808,439	18,169,177
Intergovernmental	846,034	-	-	846,034
Highways and Public Works	1,205,859	94,823	46,124	1,346,806
Human Services	279,560	-	410,867	690,427
Culture and Recreation	561,291	-	50,571	611,862
Employee Benefits	3,728,936	-	-	3,728,936
Debt Service	1,519,233	-	5,691	1,524,924
Total Expenditures	<u>26,860,240</u>	<u>339,892</u>	<u>4,806,246</u>	<u>32,006,378</u>
Excess of Revenues Over (Under) Expenditures	<u>(560,812)</u>	<u>(180,568)</u>	<u>102,286</u>	<u>(639,094)</u>
Other Financing Sources (Uses):				
Operating Transfers In	34,669	126,750	-	161,419
Operating Transfers (Out)	(542,397)	-	(62,908)	(605,305)
Proceeds from Refunding Bonds	1,522,000	-	-	1,522,000
Payments to Refunding Agent	(1,460,000)	-	-	(1,460,000)
Total Other Financing Sources (Uses)	<u>(445,728)</u>	<u>126,750</u>	<u>(62,908)</u>	<u>(381,886)</u>

Town of Ayer, Massachusetts
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
June 30, 2011
(Continued from Page 14)

	<u>General</u>	HUD/CDBG <u>Grants</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>(1,006,540)</u>	<u>(53,818)</u>	<u>39,378</u>	<u>(1,020,980)</u>
Fund Balance, Beginning	<u>2,872,463</u>	<u>3,271,252</u>	<u>3,320,597</u>	<u>9,464,312</u>
Prior Period Adjustment	<u>898,567</u>	<u>-</u>	<u>(898,567)</u>	<u>-</u>
Fund Balance, Beginning as Restated	<u>3,771,030</u>	<u>3,271,252</u>	<u>2,422,030</u>	<u>9,464,312</u>
Fund Balance, Ending	<u><u>\$ 2,764,490</u></u>	<u><u>\$ 3,217,434</u></u>	<u><u>\$ 2,461,408</u></u>	<u><u>\$ 8,443,332</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, 2011

Total governmental fund balances	\$ 8,443,332
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	17,544,801
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	2,721,434
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds	
Bonds Payable	(8,206,848)
Accrued Interest on Bonds	(41,592)
Other Post Employment Benefit Obligations	(3,672,906)
Compensated Absences	(375,821)
	<hr/>
Net assets of governmental activities	<u><u>\$ 16,412,400</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, 2011

Net change in fund balances - total governmental funds	\$ (1,020,980)
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.	(558,224)
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.	488,299
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.	1,031,560
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.	<u>(1,131,163)</u>
Change in net assets of governmental activities	<u><u>\$ (1,190,508)</u></u>

Town of Ayer, Massachusetts
Proprietary Funds
Statement of Net Assets
June 30, 2011

	Sewer <u>Enterprise</u>	<u>Business-Type Activities</u> Water <u>Enterprise</u>	Solid Waste <u>Enterprise</u>	Ambulance <u>Enterprise</u>	<u>Total</u>
Assets					
Current:					
Cash and Cash Investments	\$ 1,560,440	\$ 3,922,594	\$ 372,710	\$ 262,891	\$ 6,118,635
Receivables, Net of Allowance for Uncollectibles:					
User Charges	733,165	436,592	-	98,880	1,268,637
Due from Other Fund		525	-	-	525
Due from Other	5,497	-	-	-	5,497
Prepaid Expenses	13,295	-	-	-	13,295
Noncurrent:					
Capital Assets:					
Assets Not Being Depreciated	1,316,627	923,326	4,000	-	2,243,953
Assets Being Depreciated, Net	11,349,736	5,159,844	411,984	158,930	17,080,494
Total Assets	<u>14,978,760</u>	<u>10,442,881</u>	<u>788,694</u>	<u>520,701</u>	<u>26,731,036</u>
Liabilities					
Current:					
Warrants Payable	84,162	61,332	13,681	2,801	161,976
Accrued Wages Payable	7,004	4,295	1,569	-	12,868
Accrued Interest Payable	20,221	24,733	6,740	117	51,811
Bonds Payable	530,000	500,236	62,646	30,000	1,122,882
Bond Anticipation Notes Payable	801,500	1,358,066	215,000	-	2,374,566
Other Accrued Liabilities	74,317	7,490	6,013	404	88,224
Noncurrent:					
Bonds Payable	4,991,000	2,556,875	492,774	70,000	8,110,649
Landfill Liabilities	476,650	-	470,325	-	946,975
Other Post Employment Benefit Obligations	63,603	33,617	22,826	-	120,046
Compensated Absences	24,463	18,789	2,971	-	46,223
Total Liabilities	<u>7,072,920</u>	<u>4,565,433</u>	<u>1,294,545</u>	<u>103,322</u>	<u>13,036,220</u>
Net Assets					
Invested in Capital Assets, Net of Related Debt	7,644,679	3,558,194	405,984	58,930	11,667,787
Restricted for:					
Capital Project	17,940	1,483,551	-	-	1,501,491
Unrestricted	243,221	835,703	(911,835)	358,449	525,538
Total Net Assets	<u>\$ 7,905,840</u>	<u>\$ 5,877,448</u>	<u>\$ (505,851)</u>	<u>\$ 417,379</u>	<u>\$ 13,694,816</u>

Town of Ayer, Massachusetts
Statement of Revenue, Expenses and Changes in Fund Net Assets
Proprietary Funds
Fiscal Year Ended June 30, 2011

	<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	\$ 2,318,714	\$ 1,568,749	\$ 172,000	\$ 427,454	\$ 4,486,917
Intergovernmental	15,989	24,381	-	-	40,370
Other Revenues	-	1,930	810	-	2,740
Total Operating Revenues	<u>2,334,703</u>	<u>1,595,060</u>	<u>172,810</u>	<u>427,454</u>	<u>4,530,027</u>
Operating Expenditures:					
Personal Services	432,113	284,943	100,011	-	817,067
Nonpersonal Service	1,151,688	657,221	229,946	353,786	2,392,641
Depreciation	438,838	273,006	32,409	38,359	782,612
Total Operating Expenditures	<u>2,022,639</u>	<u>1,215,170</u>	<u>362,366</u>	<u>392,145</u>	<u>3,992,320</u>
Operating Income (Loss)	<u>312,064</u>	<u>379,890</u>	<u>(189,556)</u>	<u>35,309</u>	<u>537,707</u>
Nonoperating Revenues (Expenses):					
Premium on Debt	4,153	9,023	1,074	-	14,250
Earnings on Investments	11,754	4,987	-	-	16,741
Interest on Debt	(250,125)	(147,325)	(28,118)	(3,681)	(429,249)
Total Nonoperating Revenues (Expenses)	<u>(234,218)</u>	<u>(133,315)</u>	<u>(27,044)</u>	<u>(3,681)</u>	<u>(398,258)</u>
Income Before Transfers	<u>77,846</u>	<u>246,575</u>	<u>(216,600)</u>	<u>31,628</u>	<u>139,449</u>
Debt Transfers	-	(106,934)	106,934	-	-
Operating Transfers In	29,653	272,356	293,034	-	595,043
Operating Transfers Out	-	(42,461)	(136,934)	-	(179,395)
Total Transfers	<u>29,653</u>	<u>122,961</u>	<u>263,034</u>	<u>-</u>	<u>415,648</u>
Change in Net Assets	<u>107,499</u>	<u>369,536</u>	<u>46,434</u>	<u>31,628</u>	<u>555,097</u>
Total Net Assets July 1, 2010	<u>7,798,341</u>	<u>5,507,912</u>	<u>(552,285)</u>	<u>385,751</u>	<u>13,139,719</u>
Total Net Assets June 30, 2011	<u>\$ 7,905,840</u>	<u>\$ 5,877,448</u>	<u>\$(505,851)</u>	<u>\$ 417,379</u>	<u>\$13,694,816</u>

Town of Ayer, Massachusetts
Statement of Cash Flows
Proprietary Fund
Fiscal Year Ended June 30, 2011

	<u>Sewer</u>	<u>Water</u>	<u>Solid Waste</u>	<u>Ambulance</u>	<u>Total</u>
Cash Flows from Operating Activities:					
Receipts from Customers	\$ 2,311,900	\$ 1,571,308	\$ 172,810	\$ 418,304	\$ 4,474,322
Receipts from Governments	15,989	24,381	-	-	40,370
Payments to Employees	(443,842)	(297,410)	(108,144)	-	(849,396)
Payments to Vendors	<u>(1,146,408)</u>	<u>(632,732)</u>	<u>(239,265)</u>	<u>(356,617)</u>	<u>(2,375,022)</u>
Net Cash Flows Provided (Used) by Operating Activities	<u>737,639</u>	<u>665,547</u>	<u>(174,599)</u>	<u>61,687</u>	<u>1,290,274</u>
Cash Flows from Non Capital Related Financing Activities:					
Transfer from Other Funds	<u>29,653</u>	<u>122,961</u>	<u>263,034</u>	<u>-</u>	<u>415,648</u>
Net Cash Flows Provided (Used) by Non Capital Related Financing Activities	<u>29,653</u>	<u>122,961</u>	<u>263,034</u>	<u>-</u>	<u>415,648</u>
Cash Flows from Capital and Related Financing Activities:					
Acquisition of Capital Assets	(183,080)	(269,359)	(32,633)	-	(485,072)
Premium from Bond	4,153	9,023	1,074	-	14,250
Refunding Bonds	309,000	472,000	-	-	781,000
Paid off Old Bonds	(294,000)	(451,000)	-	-	(745,000)
Proceeds from Bond Anticipation Note	801,500	1,358,066	215,000	-	2,374,566
Principal Payments on Notes and Bonds	(526,000)	(399,304)	(172,580)	(30,000)	(1,127,884)
Interest Expense	<u>(252,891)</u>	<u>(152,508)</u>	<u>(30,802)</u>	<u>(3,719)</u>	<u>(439,920)</u>
Net Cash Flows Provided (Used) by Capital and Related Financing Activities	<u>(141,318)</u>	<u>566,918</u>	<u>(19,941)</u>	<u>(33,719)</u>	<u>371,940</u>
Cash Flows from Investing Activities:					
Earnings on Investments	<u>11,754</u>	<u>4,987</u>	<u>-</u>	<u>-</u>	<u>16,741</u>
Net Cash Flows Provided (Used) by Investing Activities	<u>11,754</u>	<u>4,987</u>	<u>-</u>	<u>-</u>	<u>16,741</u>
Net Increase (Decrease) in Cash and Cash Equivalents	<u>637,728</u>	<u>1,360,413</u>	<u>68,494</u>	<u>27,968</u>	<u>2,094,603</u>
Cash and Cash Equivalents, July 1, 2010	<u>922,712</u>	<u>2,562,181</u>	<u>304,216</u>	<u>234,923</u>	<u>4,024,032</u>
Cash and Cash Equivalents, June 30, 2011	<u>\$ 1,560,440</u>	<u>\$ 3,922,594</u>	<u>\$ 372,710</u>	<u>\$ 262,891</u>	<u>\$ 6,118,635</u>
Reconciliation of Net Income to Net Cash Provided (Used) by Operating Activities:					
Operating Income (Loss)	\$ 312,064	\$ 379,890	\$ (189,556)	\$ 35,309	\$ 537,707
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:					
Depreciation Expense	438,838	273,006	32,409	38,359	782,612
(Increase) Decrease in Assets:					
Accounts Receivable - Customer	(6,814)	629	-	(9,150)	(15,335)
Increase (Decrease) in Liabilities:					
Warrants and Accounts Payable	(6,449)	12,022	(17,452)	(2,831)	(14,710)
Net Cash Provided by Operating Activities	<u>\$ 737,639</u>	<u>\$ 665,547</u>	<u>\$ (174,599)</u>	<u>\$ 61,687</u>	<u>\$ 1,290,274</u>

Town of Ayer, Massachusetts
Fiduciary Funds
Statement of Net Assets
June 30, 2011

	Private Purpose <u>Trust</u>	Agency <u>Funds</u>
Assets		
Cash and Cash Investments	\$290,253	\$217,484
Departmental Receivable	<u>-</u>	<u>730</u>
 Total Assets	 <u><u>\$290,253</u></u>	 <u><u>\$218,214</u></u>
 Liabilities		
Warrants Payable	\$ -	\$ 27,114
Guarantee Deposits	-	132,245
Other	<u>-</u>	<u>58,855</u>
 Total Liabilities	 <u>-</u>	 <u>218,214</u>
 Net Assets		
Reserved for Individuals, and Other		
Expendable	135,470	-
Nonexpendable	<u>154,783</u>	<u>-</u>
 Total Net Assets	 <u><u>\$290,253</u></u>	 <u><u>\$ -</u></u>

Town of Ayer, Massachusetts
Fiduciary Funds
Statement of Changes in Net Assets
Fiscal Year Ended June 30, 2011

Additions:	
Interest, Dividends, and Other	<u>\$ 17,345</u>
Total Additions	<u>17,345</u>
Deductions:	
Benefits	<u>10,750</u>
Change in Net Assets	<u>6,595</u>
Net Assets:	
Beginning of the Year	<u>283,658</u>
End of the Year	<u><u>\$290,253</u></u>

Town of Ayer, Massachusetts
Notes to the Financial Statements
June 30, 2011

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, 2011, conform to accounting principles generally accepted in the United States of America for local government units, except as indicated hereafter.

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. Fund Balance Classification Policies and Procedures

The Governmental Accounting Standards Board (GASB) issued Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions (GASB 54). This Statement (effective for fiscal year 2011) establishes accounting and financial reporting standards for all governmental funds. It establishes criteria for classifying fund balances into specifically defined classifications.

Fund balance for governmental funds should be reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to the constraints on the specific purposes for which the amounts in those funds can be spent.

GASB 54 requires the fund balance amounts to be reported within one of the fund balance categories list below.

1. Nonspendable, includes amounts that cannot be spent because they are (a) not in spendable form (such as fund balance associated with inventories) or are (b) legally or contractually required to stay intact (i.e. corpus of a permanent trust fund),
2. Restricted, constraints are placed on the use of resources that can be spent only for the specific purposes that are either (a) imposed by creditors, grantors or contributors, or (b) imposed by law through constitution provisions or through enabling legislation,
3. Committed, includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Selectmen (the Town's highest level of decision-making authority),
4. Assigned, intended (by the Board of Selectmen, Town Administrator or Town Accountant) to be used by the government for specific purposes, but do not meet the criteria to be classified as restricted or committed, and
5. Unassigned, the residual classification for the government's general fund and includes all spendable amounts not contained in the restricted, committed or assigned categories.

The Board of Selectmen is the highest level of decision making authority in the Town. Committed fund balance cannot be used for any other purposes without formal vote taken by the Board of Selectmen.

Details of Fund Balance Classifications

The following schedule shows the detail of the fund balance classifications displayed in the aggregate on the Town's balance sheet.

	<u>General Fund</u>	<u>HUD/CDBG Grants</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Fund Balances:				
Restricted for:				
General Government	\$ -	\$ -	\$ 171,140	\$ 171,140
Public Safety	-	-	70,319	70,319
Education	305,284	-	177,517	482,801
Highways and Public Works	-	-	139,547	139,547
Human Services	-	-	45,245	45,245
Culture and Recreation	-	-	1,687,224	1,687,224
Debt Service	126,042	-	-	126,042
Total Restricted for:	<u>431,326</u>	<u>-</u>	<u>2,290,992</u>	<u>2,722,318</u>
Committed to:				
General Government	28,368	3,231,731	-	3,260,099
Public Safety	-	10,999	-	10,999
Education	-	-	5,206	5,206
Culture and Recreation	-	-	15,063	15,063
Total Committed to:	<u>28,368</u>	<u>3,242,730</u>	<u>20,269</u>	<u>3,291,367</u>
Assigned to:				
General Government	36,843	-	37,787	74,630
Public Safety	52,473	-	75,913	128,386
Education	65,077	-	-	65,077
Highways and Public Works	20,132	-	7,080	27,212
Human Services	3,126	-	8,556	11,682
Culture and Recreation	7,697	-	26,386	34,083
Free Cash to Reduce Taxes	439,161	-	-	439,161
Total Assigned to:	<u>624,509</u>	<u>-</u>	<u>155,722</u>	<u>780,231</u>
Unassigned	<u>1,680,287</u>	<u>(25,296)</u>	<u>(5,575)</u>	<u>1,649,416</u>
Total Fund Balances	<u>\$ 2,764,490</u>	<u>\$ 3,217,434</u>	<u>\$ 2,461,408</u>	<u>\$ 8,443,332</u>

Stabilization Fund

The Town has established a stabilization fund in accordance with Massachusetts General Laws Chapter 40 Section 5B. That section of the law stipulates that “cities, towns and districts may appropriate in any year an amount not exceeding, in the aggregate, 10 per cent of the amount raised in the preceding fiscal year by taxation of real estate and tangible personal property or such larger amount as may be approved by the director of accounts. The aggregate amount in such funds at any time shall not exceed 10 per cent of the equalized valuation of the city or town as defined in section 1 of chapter 44. Any interest shall be added to and become part of the fund”.

“The treasurer shall be the custodian of all such funds and may deposit the proceeds in national banks or invest the proceeds by deposit in savings banks, co-operative banks or trust companies organized under the laws of the commonwealth, or invest the same in such securities as are legal for the investment of funds of savings banks under the laws of the commonwealth or in federal savings and loans associations situated in the commonwealth”.

“At the time of creating any such fund the city, town or district shall specify, and at any later time may alter, the purpose of the fund, which may be for any lawful purpose, including without limitation an approved school project under chapter 70B or any other purpose for which the city, town or district may lawfully borrow money. Such specification and any such alteration of purpose, and any appropriation of funds into or out of any such fund, shall be approved by two-thirds vote, except as provided in paragraph (g) of section 21C of chapter 59 for a majority referendum vote. Subject to said section 21C, in a town or district any such vote shall be taken at an annual or special town meeting and in a city any such vote shall be taken by city council”.

The Town’s stabilization fund has a current balance of \$987,972. The stabilization fund is reported as a component of unassigned fund balance in the general fund on the audited balance sheet, in accordance with the GASB 54 requirements.

v. 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, 2011, is reflected in the accompanying financial statements.

vi. 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, 2011 and the corresponding credit is to the account entitled warrants payable.

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. 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. Estimated bills (based on the prior year) are due on August 1 and November 1. Actual bills are mailed after the tax rate has been set and are due on February 1 and May 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, 2011. These budget amounts include special Town meeting votes applicable to June 30, 2011 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, 2011.

	<u>Revenues</u>
As Reported Budget Basis	\$ 22,326,799
Adjustments:	
Sixty Day Property Tax Accrual - Net	121,192
Earning Income of Stabilization Reported in	
Statement of Revenues, Expenditures, and Changes in	
Fund Balances	988
On Behalf Payments Included in Intergovernmental	3,850,449
As Reported GAAP Statement	<u><u>\$ 26,299,428</u></u>

	<u>Expenditures</u>
As Reported Budget Basis	\$ 23,019,018
Adjustments:	
July 1, 2010 Encumbrances	204,488
June 30, 2011 Encumbrances	(213,715)
On Behalf Payments Included in Employee Benefits	3,850,449
As Reported GAAP Statement	<u>\$ 26,860,240</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, 2011, \$507,834 of the Town's bank balance of \$13,955,351 was exposed to credit risk as follows:

Uninsured and Uncollateralized \$507,834

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, 2011, the Town of Ayer, Massachusetts'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	\$ 691,576	\$ -	\$ 385,851	\$ 305,725
Corporate Bonds	<u>98,377</u>	<u>36,801</u>	<u>61,576</u>	<u>-</u>
Total	<u>\$ 789,953</u>	<u>\$ 36,801</u>	<u>\$ 447,427</u>	<u>\$ 305,725</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, 2011, 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, 2011 was as follows:

Government Activities:	Beginning Balance	Additions	Reductions	Ending Balance
Land	\$ 2,989,577	\$ 161,300	\$ -	\$ 3,150,877
Construction in Progress	78,042	-	-	78,042
Total Capital Assets not Being Depreciated	<u>3,067,619</u>	<u>161,300</u>	<u>-</u>	<u>3,228,919</u>
Assets Being Depreciated:				
Buildings	20,921,346	-	-	20,921,346
Improvements Other Than Buildings	416,781	-	-	416,781
Infrastructure	5,273,110	-	-	5,273,110
Equipment	585,861	92,107	-	677,968
Vehicles	2,385,231	72,561	(20,000)	2,437,792
Total Capital Assets Being Depreciated	<u>29,582,329</u>	<u>164,668</u>	<u>(20,000)</u>	<u>29,726,997</u>
Less Accumulated Depreciation for:				
Buildings	(7,823,898)	(528,791)	-	(8,352,689)
Improvements Other Than Buildings	(120,829)	(21,546)	-	(142,375)
Infrastructure	(4,332,665)	(132,180)	-	(4,464,845)
Equipment	(497,793)	(44,885)	-	(542,678)
Vehicles	(1,771,738)	(156,790)	20,000	(1,908,528)
Total Accumulated Depreciation	<u>(14,546,923)</u>	<u>(884,192)</u>	<u>20,000</u>	<u>(15,411,115)</u>
Capital Assets Being Depreciated, Net	<u>15,035,406</u>	<u>(719,524)</u>	<u>-</u>	<u>14,315,882</u>
Governmental Activities Capital Assets, Net	<u>\$ 18,103,025</u>	<u>\$ (558,224)</u>	<u>\$ -</u>	<u>\$ 17,544,801</u>

B. Capital Assets (Continued)

Depreciation expense was charged to functions as follows:

Government Activities:	
General Government	\$ 99,085
Public Safety	369,774
Education	131,210
Highways and Public works	194,222
Culture and Recreation	<u>89,901</u>

Total Governmental Activities Depreciation Expense \$ 884,192

	Beginning <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	Ending <u>Balance</u>
Business-Type Activities:				
Land	\$ 443,729	\$ -	\$ -	\$ 443,729
Construction in Progress	1,689,040	163,642	(52,458)	1,800,224
Total Capital Assets not Being Depreciated	<u>2,132,769</u>	<u>163,642</u>	<u>(52,458)</u>	<u>2,243,953</u>
Assets Being Depreciated:				
Buildings	4,846,447	34,500	-	4,880,947
Infrastructure	27,052,961	52,458	-	27,105,419
Equipment	405,191	221,964	-	627,155
Vehicles	669,126	64,966	-	734,092
Total Capital Assets Being Depreciated	<u>32,973,725</u>	<u>373,888</u>	<u>-</u>	<u>33,347,613</u>
Less Accumulated Depreciation for:				
Buildings	(912,219)	(127,423)	-	(1,039,642)
Infrastructure	(13,849,175)	(554,361)	-	(14,403,536)
Equipment	(371,031)	(25,096)	-	(396,127)
Vehicles	(352,082)	(75,732)	-	(427,814)
Total Accumulated Depreciation	<u>(15,484,507)</u>	<u>(782,612)</u>	<u>-</u>	<u>(16,267,119)</u>
Capital Assets Being Depreciated, Net	<u>17,489,218</u>	<u>(408,724)</u>	<u>-</u>	<u>17,080,494</u>
Business-Type Activities Capital Assets, Net	<u>\$ 19,621,987</u>	<u>\$ (245,082)</u>	<u>\$ (52,458)</u>	<u>\$ 19,324,447</u>

Depreciation expense was charged to functions as follows:

Business-Type Activities:	
Sewer	\$ 438,838
Water	273,006
Solid Waste	32,409
Ambulance	38,359
Total Business-Type Activities Depreciation Expense	<u>\$ 782,612</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

2011	\$817,480	
2010	91,501	
2009	9,351	
2008	2,352	
2007	3,362	
2006	50	
2005	877	
2004	1,416	
2003	1,967	
2002	2,443	
2001 & Prior	431	
Total Real Estate Taxes		<u>\$931,230</u>

Personal Property Taxes

2011	21,992	
2010	10,402	
2009	13,099	
2008	14,254	
2007	6,495	
2006	9,708	
2005	11,854	
2004	14,124	
2003	12,312	
2002	7,963	
2001 & Prior	1,393	
Total Personal Property Taxes		<u>123,596</u>

Community Preservation Tax	<u>10,610</u>
----------------------------	---------------

Total Property Taxes Receivable	<u><u>\$ 1,065,436</u></u>
---------------------------------	----------------------------

Tax Liens	<u><u>\$ 222,715</u></u>
-----------	--------------------------

C. Accounts Receivable (Continued)

Excise Taxes Receivable:

Motor Vehicle Excise Taxes

2011	\$ 84,456	
2010	31,213	
2009	19,032	
2008	15,017	
2007	12,353	
2006	10,422	
2005	7,464	
2004	9,392	
2003	9,777	
2002	7,793	
2001	5,835	
2000	8,891	
1999	8,112	
1998	3,621	
1997	7,093	
1996	8,674	
1995	13,052	
1994	17,466	
1993	13,565	
1992	16,121	
1991 & Prior	15,679	
Total Motor Vehicle Excise Taxes		<u>\$ 325,028</u>

User Charges:

Departmental	<u>\$ 59,273</u>
--------------	------------------

Due from Others:

Mart and Other	\$ 37,878	
Due from Others	215,929	
Hartnet Life Insurance	45,833	
Total Due from Others		<u>\$ 299,640</u>

C. Accounts Receivable (Continued)

Loans Receivable:

U.S. Housing and Urban Development Loans	\$ 477,875
--	------------

Intergovernmental:

Due from Commonwealth - Other	\$ 13,450
Due from Federal	142,468
Due from Commonwealth - DOE	210,017
Due from Federal - School Lunch	12,360
Due from Commonwealth - Highway Funds	464,490
Total Intergovernmental	<u>\$ 842,785</u>

Business Type Activities

User Charges:

Sewer	\$733,165
Water	436,592
Ambulance	98,880
Total User Charges	<u>\$ 1,268,637</u>

D. Liabilities

i Bond Anticipation Notes Payable

The Town has various bond anticipation notes outstanding as of June 30, 2011 as follows:

<u>Purpose</u>	<u>Balance Beginning of Year</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Balance End of Year</u>	<u>Interest Rate</u>	<u>Maturity Date</u>
<u>Business-Type Activities:</u>						
Water - Mains	\$ -	\$ 25,000	\$ -	\$ 25,000	1.25%	6/29/2012
Water - Equipment	-	55,000	-	55,000	1.25%	6/29/2012
Water - Treatment Plant	-	1,063,066	-	1,063,066	1.25%	6/29/2012
Water - Additional Water Main	-	15,000	-	15,000	1.25%	6/29/2012
Water - Equipment	-	170,000	-	170,000	1.25%	6/29/2012
Water - Meter	-	30,000	-	30,000	1.25%	6/29/2012
Sewer - Equipment	-	402,500	-	402,500	1.25%	6/29/2012
Sewer - Pump Station	-	250,000	-	250,000	1.25%	6/29/2012
Sewer - Planning	-	40,000	-	40,000	1.25%	6/29/2012
Sewer - Computer Hardware and Software	-	35,000	-	35,000	1.25%	6/29/2012
Sewer - 3/4 Ton Pickup with Plow	-	44,000	-	44,000	1.25%	6/29/2012
Sewer - Radio Read Meters and Software Upgrade	-	30,000	-	30,000	1.25%	6/29/2012
Solid Waste - Brush Chipper	-	30,000	-	30,000	1.25%	6/29/2012
Solid Waste - Front End Loader	-	185,000	-	185,000	1.25%	6/29/2012
Total	<u>\$ -</u>	<u>\$ 2,374,566</u>	<u>\$ -</u>	<u>\$ 2,374,566</u>		

D. Liabilities (Continued)

ii Long Term Debt

General obligation bonds outstanding at June 30, 2011, 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, 2011:

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
Balance 7/01/10	\$ 9,231,453	\$ 10,325,415	\$ 19,556,868
Add: Refunding Issues	1,522,000	781,000	2,303,000
Less: Maturities	(1,086,605)	(1,127,884)	(2,214,489)
Refunded Debt	<u>(1,460,000)</u>	<u>(745,000)</u>	<u>(2,205,000)</u>
Balance 6/30/11	<u>\$ 8,206,848</u>	<u>\$ 9,233,531</u>	<u>\$ 17,440,379</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>
2012	\$1,032,677	\$318,419	\$1,122,883	\$364,548
2013	969,677	283,299	1,057,882	324,341
2014	949,677	250,320	1,017,883	286,425
2015	829,677	220,678	917,883	250,608
2016	786,677	189,274	772,000	217,259
2017 - 2021	3,052,463	519,053	3,301,000	639,540
2022 - 2026	<u>586,000</u>	<u>43,830</u>	<u>1,044,000</u>	<u>89,720</u>
	<u>\$8,206,848</u>	<u>\$1,824,873</u>	<u>\$9,233,531</u>	<u>\$2,172,441</u>

- (c) Bond Authorizations

Long-term debt authorizations voted by the Town which have not been issued or rescinded as of June 30, 2011, 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	1,063,066
October 25, 2010	Additional Water Main	15,000
May 9, 2011	Department Equipment	289,000
May 9, 2011	Water Equipment	170,000
May 9, 2011	Planning	40,000
May 9, 2011	Computer Hardware and Software	35,000
May 9, 2011	Water - Meter	<u>30,000</u>
	Total	<u>\$ 2,824,566</u>

Subsequent to the balance sheet date, the Town authorized an additional \$100,000 of borrowing. The loan authorizations were for replacing the media filters at the Spectacle Pond treatment facility.

D. Liabilities (Continued)

(d) Refunding of Long Term Debt

On March 10, 2011, the Town issued \$2,303,000 of General Obligations Refunding Bonds with an average interest rate of 2.35% to advance refund \$2,205,000 of outstanding debt with an average interest rate of 5.78%. The net proceeds (after payment of underwriting fees, insurance and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide all future debt service payments on the refunded bonds. As a result, the refunded bonds are considered to be defeased.

<u>Fiscal Year</u>	Existing Debt Principal & Interest	Refunding Bonds Principal & Interest
2012	\$ 452,385	\$ 429,522
2013	435,605	418,256
2014	413,655	390,756
2015	381,900	363,657
2016	365,620	346,538
2017 - 2021	<u>601,455</u>	<u>560,650</u>
	<u>\$2,650,620</u>	<u>\$2,509,379</u>

Economic Gain from Refunding Issue

The total net present value benefit as a result of the refunding issues is \$183,049.

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	\$ 34,669	\$ (542,397)	\$ (507,728)
HUD/CDBG	126,750	-	126,750
Non-major Governmental	-	(62,908)	(62,908)
Enterprise - Business Type	595,043	(179,395)	415,648
Agency Fund	28,238	-	28,238
	<u>784,700</u>	<u>(784,700)</u>	<u>-</u>
Total	<u>\$ 784,700</u>	<u>\$ (784,700)</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, 2011, 2010 and 2009 were \$1,228,614, \$1,177,119 and \$1,117,653 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, 2011. 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 331 active employees and 169 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, 2011, the amount actually contributed to the plan, and the Town's Net OPEB Obligation (NOO):

Annual Required Contribution (ARC)	\$1,946,205
Interest on Net OPEB Obligation	103,992
Adjustment to Annual Required Contribution	(144,564)
Annual OPEB Cost (Expense)	1,905,633
Contributions Made	(712,486)
Increase in Net OPEB Obligation	1,193,147
Net OPEB Obligation (NOO)- Beginning of Year	2,599,805
Net OPEB Obligation (NOO)- End of Year	\$3,792,952
Percentage of Annual OPEB Cost Contributed	37.4%

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	35%	\$2,599,804
2011	\$1,905,633	37%	\$3,792,952

Funded Status and Funding Progress. As of June 30, 2011, no funding to the plan has been made. The Actuarial Accrued Liability (AAL) for benefits was \$19,831,765, and the actuarial value of assets was zero, resulting in an Unfunded Actuarial Accrued Liability (UAAL) of \$19,831,765.

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, 2011, the Commonwealth paid \$3,850,449 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, 2011, or fund balances at June 30, 2011.

D. Subsequent Year Authorizations

The Town adopted a fiscal 2012 operating and capital budget of \$26,115,818. Fiscal 2012 budgetary amounts which are not reflected in the accompanying financial statements (except as indicated below) will be financed by the following sources:

Property Taxes, State Aid and Non-Property Tax Revenue	\$ 20,258,002
Enterprise Fund Revenues and Available Funds	3,986,744
Community Preservation Fund	1,431,911
Reserved for Subsequent Year's Expenditures	439,161
	<u>\$ 26,115,818</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.

F. Significant Commitments

Encumbrances

Encumbrances for open purchases are reported as Assigned Fund Balance unless the resources have already been restricted, committed or assigned for another purpose.

G. Prior Period Adjustment

A prior period adjustment of \$898,567 was made (to the fund financial statements) to reclassify the Stabilization Fund from the Special Revenue Fund to the General Fund in accordance with GASB 54 requirements. In addition, a prior period adjustment (\$38,906) was made, (to the government wide financial statements) that relates to a capital asset adjustment.

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, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Positive (Negative)</u>
<u>Revenues</u>				
Property Taxes	\$ 16,314,455	\$ 16,441,205	\$ 16,108,091	\$ (333,114)
Excises	770,000	770,000	662,066	(107,934)
Penalties and Interest	70,000	70,000	70,134	134
Licenses and Permits	216,000	216,000	185,991	(30,009)
Fees and Other Departmental	117,000	117,000	117,170	170
Intergovernmental	4,984,520	4,984,520	4,987,714	3,194
Fines and Forfeits	33,000	33,000	17,324	(15,676)
Earnings on Investments	66,000	66,000	22,049	(43,951)
In Lieu of Taxes	9,000	9,000	8,412	(588)
Miscellaneous	6,000	6,000	147,848	141,848
Total Revenues	<u>22,585,975</u>	<u>22,712,725</u>	<u>22,326,799</u>	<u>(385,926)</u>
<u>Expenditures</u>				
General Government	1,597,586	1,412,500	1,358,697	53,803
Public Safety	3,082,192	3,093,497	2,993,424	100,073
Education	10,479,527	10,607,436	10,560,365	47,071
Highway and Public Works	965,113	965,444	1,174,340	(208,896)
Health and Human Services	236,172	281,619	281,183	436
Culture and Recreation	573,374	573,374	563,968	9,406
Intergovernmental	790,280	790,280	846,034	(55,754)
Employee Benefits	3,983,707	4,000,801	3,721,774	279,027
Debt Service	1,493,804	1,476,804	1,519,233	(42,429)
Total Expenditures	<u>23,201,755</u>	<u>23,201,755</u>	<u>23,019,018</u>	<u>182,737</u>
Excess (Deficiency) Of Revenues Over Expenditures	<u>(615,780)</u>	<u>(489,030)</u>	<u>(692,219)</u>	<u>(203,189)</u>
<u>Other Financing Sources (Uses):</u>				
Transfers In	-	-	34,669	34,669
Transfers Out	(503,645)	(630,395)	(630,816)	(421)
Other Available Funds	62,381	62,381	62,381	-
Budgetary Fund Balance - Uses	(62,931)	(62,931)	(62,931)	-
Free Cash	1,119,975	1,119,975	1,119,975	-
Total Other Financing Sources (Uses)	<u>615,780</u>	<u>489,030</u>	<u>523,278</u>	<u>34,248</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (168,941)</u>	<u>\$ (168,941)</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%
1/1/2010	819,987,914	1,743,581,707	923,593,793	47.03%	384,933,571	239.94%

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%
2008	72,050,318	72,050,318	100.00%	1,023,998	1.42%
2009	78,212,121	78,212,121	100.00%	1,117,653	1.43%

Town of Ayer, Massachusetts
Required Supplementary Information - GASB 45
Schedule of Funding Progress
Fiscal Year Ended June 30, 2011

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%
7/1/2010	\$0	\$19,831,765	\$19,831,765	0%	N/A	N/A

This schedule of funding progress presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Town of Ayer, Massachusetts
Required Supplementary Information - GASB 45
Valuation Details
Fiscal Year Ended June 30, 2011

Valuation Date	July 1, 2010
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	8.0% graded to 5.0% over 6 years

Plan Membership:

Current retirees, beneficiaries, and dependents	169
Current active members	<u>331</u>
Total	<u>500</u>

Town of Ayer, Massachusetts
Notes to the Required Supplementary Information
June 30, 2011

(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, 2010
Actuarial Cost Method	Entry age normal cost method.
Amortization Method	Level dollar for the 2002 and 2003 Early Retirement Incentives (ERIs) and increasing for the remaining unfunded liability.
Remaining Amortization Period	As of July 1, 2010, 9 years remaining for the 2002 ERI liability; 10 years remaining for the 2003 ERI liability and 25 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	8.125% (previously, 8.25%)
Projected Salary Increases	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, increasing to \$13,000 on July 1, 2011 and to \$14,000 on July 1, 2012
Plan Membership:	
Retired Participants and Beneficiaries Receiving Benefits	4,833
Inactive Participants Entitled to a Return of their Employee Contributions	3,147
Invested Participants with a Vested Right to a Deferred or Immediate Benefit	283
Active Participants	<u>9,093</u>
Total	<u>17,356</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, 2011. 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 331 active employees and 169 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, 2011

<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	\$ 22,396
National School Lunch Program	10.555	104,816
Total U.S. Department of Agriculture		<u>127,212</u>
<u>U.S. Department of Housing and Urban Development</u>		
State Program	14.228	335,085
Total U.S. Department of Housing and Urban Development		<u>335,085</u>
<u>U.S. Fish and Wildlife Service</u>		
Rural Fire Assistance	15.242	\$ 2,079
Total U.S. Fish and Wildlife Service		<u>2,079</u>
<u>U.S. Department of Justice</u>		
Community Police	16.710	4,720
Total U.S. Department of Justice		<u>4,720</u>
<u>U.S. Department of Education</u>		
Title I Distribution	84.010	147,261
Title I School Support	84.010	6,885
Title I	84.010	<u>154,146</u>
SPED Entitlement	84.027	<u>286,865</u>
SPED Early Childhood	84.173	<u>8,980</u>
Drug-Free Schools	84.186	<u>3,661</u>
Teacher Quality - Title II Part A	84.367	<u>59,685</u>
ARRA Title I	84.389	<u>42,867</u>
ARRA IDEA	84.391	<u>157,130</u>
ARRA Early Childhood	84.392	<u>6,444</u>
Total U.S. Department of Education		<u>719,778</u>
<u>U.S. Department of Health and Human Services</u>		
Public Health Emergency Preparedness	93.069	2,648
Drug Treatment Training	93.243	310,335
Total U.S. Department of Health and Human Services		<u>312,983</u>
<u>U.S. Department of Homeland Security</u>		
Assistance to Firefighters	97.044	24,898
Total U.S. Department of Homeland Security		<u>24,898</u>
Total Schedule of Expenditures of Federal Awards		<u>\$ 1,526,755</u>

Town of Ayer, Massachusetts
Notes to Schedule of Expenditures of Federal Awards
June 30, 2011

(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, Massachusetts as of and for the year ended June 30, 2011, and have issued our report thereon dated March 9, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town of Ayer, Massachusetts'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, Massachusetts's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Ayer, Massachusetts'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, Massachusetts'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 9, 2012

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 Town of Ayer, Massachusetts' compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have direct and material effect on each of the Town of Ayer, Massachusetts' major federal programs for the year ended June 30, 2011. 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, Massachusetts' management. Our responsibility is to express an opinion on the Town of Ayer, Massachusetts' 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, Massachusetts' 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, Massachusetts' compliance with those requirements.

As described in Items 2011-1 and 2011-2 in the accompanying schedule of findings and questioned costs, the Town of Ayer, Massachusetts did not comply with certain requirements regarding allowable costs/cost principals and reporting, 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, Massachusetts 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of the Town of Ayer, Massachusetts 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, Massachusetts' 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 and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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, Massachusetts', 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 2011-1 and 2011-2 to be material weaknesses.

The Town of Ayer, Massachusetts' 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, Massachusetts' 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 9, 2012

Town of Ayer, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011
(Continued on Page 58)

(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 (2011-1, 2011-2).
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 (2011-1, 2011-2).
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
	Early Childhood	84.173
	ARRA IDEA	84.391
	ARRA Early Childhood	85.392
U.S. Department of Health and Human Services	Drug Treatment Training	93.243

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, 2011
(Continued on Page 59)

(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)	2011-1	<p><u>Payroll Certifications and Supporting Documentation</u></p> <p>During the current fiscal year, the Town of Ayer School Department was going through a reorganization where it regionalized with the neighboring Town (The Town of Shirley). Because of the reorganization, the records relating to payroll certification could not be located.</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. 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: <ol style="list-style-type: none"> (a) They must reflect an after-the-fact distribution of the actual activity of each employee. (b) They must account for the total activity for which each employee is compensated. (c) They must be prepared at least monthly and must coincide with one or more pay periods.

Town of Ayer, Massachusetts
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2011
(Continued from Page 58)

(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)	2011-1	<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> <p>We recommend that the School follow the requirements of OMB Circular A-87.</p> <p><u>Management Response/Corrective Action Plan</u> We have established standard procedures to provide adequate federal program allocation documentation, as required. However, during the School District reorganization, explained above, we were unable to locate the federal program allocation documentation. We are currently taking steps to make certain that proper federal allocation documentation procedures are always being followed.</p>
U.S. Department of Education - SPED - CFDA #84.027 (Cluster #84.173, #84.391 and #84.392)	2011-2	<p><u>Final Report Submitted Late</u> As mentioned above, the Town of Ayer School District went through a reorganization, and was unable to complete and submit the final report by the due date. The final report is due by the end of October each year.</p> <p><u>Management Response/Corrective Action Plan</u> A more rigorous review of the Special Education grants throughout the grant program cycle was carried out, during the current fiscal year. However, because of the School District reorganization, explained above, we were unable to complete and submit the final reports by the due date. We are currently taking steps to ensure that the final reports will be submitted by the due date in the future.</p>

Town of Ayer, Massachusetts
Summary of Prior Years Findings and Questioned Costs
For the Year Ended June 30, 2011

<u>Program</u>		<u>Finding/Noncompliance</u>	<u>Current Status</u>
<u>Prior Fiscal Year Ended June 30, 2010</u>	<u>Finding Number</u>		
U.S. Department of Education – SPED Program – CFDA #84.027 (Cluster #84.173, #84.391 and #84.392).	2010-1	The final report was not submitted by the due date. The final report is due by the end of October each year.	Please see the fiscal year ended June 30, 2011, Schedule of Findings and Questioned Costs, Item #2011-2.
U.S. Department of Education – SPED Program – CFDA #84.027 (Cluster #84.173, #84.391 and #84.392).	2010-2	There were instances where the payroll certification documentation was not available.	Please see the fiscal year ended June 30, 2011, Schedule of Findings and Questioned Costs, Item #2011-1.