

**TOWN OF LEE, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2010**

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### INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
Town of Lee, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the major fund, and the aggregate remaining fund information of the Town of Lee, Massachusetts, as of and for the year ended June 30, 2010, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Lee's 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 opinions.

*Additional Offices:*

*Andover, MA • Manchester, NH • Nashua, NH • Ellsworth, ME*

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, the major fund, and the aggregate remaining fund information of the Town of Lee, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, appearing on the following pages, and the supplementary information appearing in the back of this report are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 21, 2011 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

*Melanson Heath + Company P.C.*

Greenfield, Massachusetts  
September 21, 2011

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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

### **A. OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the Town of Lee's basic financial statements. The 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.

**Government-Wide Financial Statements.** The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The statement of net assets presents information on all assets and liabilities, with the difference 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 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).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, culture and recreation, employee benefits, interest, intergovernmental and miscellaneous. The business-type activities include water and sewer 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. Fund accounting is used to ensure and demonstrate

compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary 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 available 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.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

**Proprietary funds.** Proprietary funds are maintained as follows:

Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Specifically, enterprise funds are used to account for water and sewer operations.

Proprietary funds provide the same type of information as the business-type activities reported in the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer operations, both of which are considered to be major funds.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

## **B. FINANCIAL HIGHLIGHTS**

- As of the close of the current fiscal year, the total of assets exceeded liabilities by \$ 33,650,379 (i.e., net assets), a decrease of \$ (1,635,579) in comparison with the prior year.
- As of the close of the current fiscal year, governmental funds reported a combined ending fund balance surplus of \$ 6,254,525, a decrease of \$ (849,337) in comparison with the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$ 1,779,885, a decrease of \$ (473,995) in comparison with the prior year.
- Total long-term debt (i.e., bonds and long term notes payable) at the close of the current fiscal year was \$ 35,309,547, a decrease of \$ (1,532,215) in comparison with the prior year.

## **C. GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The following is a summary of condensed government-wide financial data for the current and prior fiscal years (in thousands).

|                                   | <u>Governmental Activities</u> |                         | <u>Business-Type Activities</u> |                         | <u>Total</u>            |                         |
|-----------------------------------|--------------------------------|-------------------------|---------------------------------|-------------------------|-------------------------|-------------------------|
|                                   | <u>2010</u>                    | <u>2009</u>             | <u>2010</u>                     | <u>2009</u>             | <u>2010</u>             | <u>2009</u>             |
| Current and other assets          | \$ 7,290                       | \$ 8,020                | \$ 4,899                        | \$ 5,191                | \$ 12,189               | \$ 13,211               |
| Capital assets                    | <u>25,591</u>                  | <u>25,641</u>           | <u>34,703</u>                   | <u>35,504</u>           | <u>60,294</u>           | <u>61,145</u>           |
| Total assets                      | 32,881                         | 33,661                  | 39,602                          | 40,695                  | 72,483                  | 74,356                  |
| Long-term liabilities outstanding | 14,313                         | 13,876                  | 23,486                          | 24,210                  | 37,799                  | 38,086                  |
| Other liabilities                 | <u>651</u>                     | <u>572</u>              | <u>383</u>                      | <u>412</u>              | <u>1,034</u>            | <u>984</u>              |
| Total liabilities                 | 14,964                         | 14,448                  | 23,869                          | 24,622                  | 38,833                  | 39,070                  |
| Net assets:                       |                                |                         |                                 |                         |                         |                         |
| Invested in capital assets, net   | 13,959                         | 13,260                  | 11,422                          | 11,455                  | 25,381                  | 24,715                  |
| Restricted                        | 1,363                          | 1,556                   | -                               | -                       | 1,363                   | 1,556                   |
| Unrestricted                      | <u>2,595</u>                   | <u>4,397</u>            | <u>4,311</u>                    | <u>4,618</u>            | <u>6,906</u>            | <u>9,015</u>            |
| Total net assets                  | \$ <u><u>17,917</u></u>        | \$ <u><u>19,213</u></u> | \$ <u><u>15,733</u></u>         | \$ <u><u>16,073</u></u> | \$ <u><u>33,650</u></u> | \$ <u><u>35,286</u></u> |

# CHANGES IN NET ASSETS

|  | <u>Governmental Activities</u> |                  | <u>Business-Type Activities</u> |                  | <u>Total</u>     |                  |
|--|--------------------------------|------------------|---------------------------------|------------------|------------------|------------------|
|  | <u>2010</u>                    | <u>2009</u>      | <u>2010</u>                     | <u>2009</u>      | <u>2010</u>      | <u>2009</u>      |
| Revenues:  |                                |                  |                                 |                  |                  |                  |
| Program revenues:  |                                |                  |                                 |                  |                  |                  |
| Charges for services   | \$ 2,627                       | \$ 2,815         | \$ 2,937                        | \$ 2,808         | \$ 5,564         | \$ 5,623         |
| Operating grants and contributions                           | 5,802                          | 5,439            | -                               | -                | 5,802            | 5,439            |
| Capital grants and contributions                             | -                              | 196              | 141                             | -                | 141              | 196              |
| General revenues:  |                                |                  |                                 |                  |                  |                  |
| Property taxes   | 11,020                         | 10,683           | -                               | -                | 11,020           | 10,683           |
| Excises  | 783                            | 738              | -                               | -                | 783              | 738              |
| Penalties and interest on taxes                              | 122                            | 99               | -                               | -                | 122              | 99               |
| Grants and contributions not restricted to specific programs | 658                            | 831              | -                               | -                | 658              | 831              |
| Investment income  | 70                             | 132              | 25                              | 29               | 95               | 161              |
| Other  | 99                             | 157              | -                               | -                | 99               | 157              |
| Total revenues   | <u>21,181</u>                  | <u>21,090</u>    | <u>3,103</u>                    | <u>2,837</u>     | <u>24,284</u>    | <u>23,927</u>    |
| Expenses:  |                                |                  |                                 |                  |                  |                  |
| General government   | 840                            | 817              | -                               | -                | 840              | 817              |
| Public safety  | 2,212                          | 2,271            | -                               | -                | 2,212            | 2,271            |
| Education  | 12,339                         | 12,275           | -                               | -                | 12,339           | 12,275           |
| Public works   | 1,102                          | 1,725            | -                               | -                | 1,102            | 1,725            |
| Health and human services                                    | 447                            | 175              | -                               | -                | 447              | 175              |
| Culture and recreation                                       | 322                            | 277              | -                               | -                | 322              | 277              |
| Employee benefits  | 4,047                          | 3,632            | -                               | -                | 4,047            | 3,632            |
| Insurance  | 124                            | -                | -                               | -                | 124              | -                |
| Interest on long-term debt                                   | 511                            | 534              | -                               | -                | 511              | 534              |
| Intergovernmental  | 528                            | 466              | -                               | -                | 528              | 466              |
| Miscellaneous  | 4                              | 132              | -                               | -                | 4                | 132              |
| Water operations   | -                              | -                | 1,467                           | 1,441            | 1,467            | 1,441            |
| Sewer operations   | -                              | -                | 1,977                           | 1,643            | 1,977            | 1,643            |
| Total expenses   | <u>22,476</u>                  | <u>22,304</u>    | <u>3,444</u>                    | <u>3,084</u>     | <u>25,920</u>    | <u>25,388</u>    |
| Change in net assets before transfer in (out)                | (1,295)                        | (1,214)          | (341)                           | (247)            | (1,636)          | (1,461)          |
| Transfer in (out)  | <u>(1)</u>                     | <u>-</u>         | <u>1</u>                        | <u>-</u>         | <u>-</u>         | <u>-</u>         |
| Change in net assets   | (1,296)                        | (1,214)          | (340)                           | (247)            | (1,636)          | (1,461)          |
| Net assets - beginning of year                               | <u>19,213</u>                  | <u>20,427</u>    | <u>16,073</u>                   | <u>16,320</u>    | <u>35,286</u>    | <u>36,747</u>    |
| Net assets - end of year                                     | <u>\$ 17,917</u>               | <u>\$ 19,213</u> | <u>\$ 15,733</u>                | <u>\$ 16,073</u> | <u>\$ 33,650</u> | <u>\$ 35,286</u> |

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net assets were \$ 33,650,379, a decrease of \$ (1,635,579) from the prior year.

The largest portion of net assets, \$ 25,381,928, reflects our investment in capital assets (e.g., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available



for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net assets, \$ 1,362,472 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 6,905,979, may be used to meet the government's ongoing obligations to citizens and creditors.

**Governmental activities.** Governmental activities for the year resulted in a decrease in net assets of \$ (1,295,952). Key elements of this change are as follows:

- Fund basis excess of expenditures and other uses over revenues and other sources of \$ (849,337), which is further discussed in the governmental funds section.
- Depreciation expense (not budgeted for) in excess of principal debt expense (included in budget) of \$ (521,990).
- Capital additions, net of disposals, of \$ 1,221,679 were budgeted as expenses in general fund. On the government-wide basis, this results in revenue being generated in excess of expenditures, since the "expenses" are actually being added to capital assets.
- Other post-employment benefits of \$ (1,187,687).
- Other revenue and expense accruals of \$ 41,383.

**Business-Type Activities.** Business-type activities for the year resulted in an decrease in net assets of \$ (339,627). Key elements of this change are as follows:

- Water operations decrease of \$ (212,803), resulting from:
  - Revenues in excess of budget by \$ 53,528.
  - Use of surplus anticipated in budget \$ (130,862).
  - Expenditures (on a budgetary basis) under amounts appropriated of \$ 50,184.
  - Net difference in encumbrances (budget carryforwards) between the current and prior years of \$ 2,612.
  - Depreciation expense (not budgeted) in excess of principal debt expenditures (included in budget) of \$ (389,426).
  - Capital assets funded by operations and grant revenue of \$ 144,922.
  - Other revenue/expenditure accruals of \$ 56,239.

- Sewer operations decrease of \$ (126,824), resulting from:
  - Revenues in excess of budget by \$ 139,331.
  - Use of surplus anticipated in budget of \$ (471,030).
  - Expenditures (on a budgetary basis) under amounts appropriated of \$ 47,744.
  - Net difference in encumbrances (budget carryforwards) between the current and prior year of \$ (39,305).
  - Depreciation expense (not budgeted for) less than principal debt expenditures (included in budget) of \$ 207,386.
  - Capital assets funded by operating revenue of \$ 18,375.
  - Other revenue/expenditure accruals of \$ (29,325).

#### **D. FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS**

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$ 6,254,525, a decrease of \$ (849,337) in comparison with the prior year. This decrease was attributable to:

- General fund decrease of \$ (376,657) discussed below.
- Special revenue fund expenditures and transfers out in excess of revenues and transfers in of \$ (235,017).
- Expendable trust expenditures and transfers out in excess of interest and contributions revenue of \$ (239,629).
- Capital project fund expenditures of \$ (434).
- Permanent non-expendable trust transfers in of \$ 2,400.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$ 1,779,885, while total fund balance was \$ 3,253,087. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 10 percent of total

general fund expenditures, while total fund balance represents 18 percent of that same amount.

The fund balance of the general fund decreased \$ (376,657) during the current fiscal year. Key factors in this change are as follows:

- Non-property tax revenue in excess of current year budget of \$ 115,723.
- Property tax revenue in excess of current year budget of \$ 36,370.
- Expenditures against current year budget were less than anticipated by \$ 283,669.
- Use of surplus anticipated in budget of \$ (771,055). Of this amount, \$ 762,275 was from free cash and \$ 8,780 was from premium on debt issued in fiscal year 2006 and reserved for use in future years to defray the related debt expenses.
- Actual expenditures in the current year that were funded by a prior year budget were \$ (651,480). Conversely, current year expenditure carryforwards that will be expended in a subsequent year were \$ 610,116.

**Proprietary funds.** Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net assets of the enterprise funds at the end of the year amounted to \$ 4,310,586, a decrease of \$ (307,711) in comparison with the prior year. Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

## **E. GENERAL FUND BUDGETARY HIGHLIGHTS**

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$ 460,000, which was to increase snow and ice appropriation, paint the fire station, and purchase a property. The increases were funded by \$ 85,000 of free cash and \$ 375,000 of stabilization funds.

## **F. CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 60,294,739 (net of accumulated depreciation), a decrease of \$ (851,267) from the prior year. This investment in capital assets includes land, construction in progress, buildings and improvements, machinery and equipment and infrastructure for proprietary funds.

Major capital asset events during the current fiscal year included the following:

- Water construction in progress costs of \$ 424,922.
- Building improvements of \$ 24,898 (governmental) and \$ 18,375 (sewer).
- Vehicle and equipment purchases of \$ 166,163 (governmental) net of disposals.
- Infrastructure improvements of \$ 585,484 (governmental).
- Depreciation expense of \$ (1,201,855) for governmental, net of disposals and \$ (1,244,254) for business-type assets.
- Land and building purchase of \$ 375,000 (governmental).

**Long-term debt.** At the end of the current fiscal year, total bonded debt and long-term notes outstanding was \$ 35,309,547, all of which was backed by the full faith and credit of the government.

Additional information on capital assets and long-term debt can be found in the footnotes to the financial statements.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Town of Lee's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Mr. Robert Nason  
Town Administrator  
Town of Lee  
P.O. Box 630  
Lee, MA 01238

TOWN OF LEE, MASSACHUSETTS

STATEMENT OF NET ASSETS

JUNE 30, 2010

|   | Governmental<br><u>Activities</u> | Business-Type<br><u>Activities</u> | <u>Total</u>                |
|---|-----------------------------------|------------------------------------|-----------------------------|
| <b>ASSETS</b>                                     |                                   |                                    |                             |
| Current:  |                                   |                                    |                             |
| Cash and short-term investments                   | \$ 6,494,413                      | \$ 4,097,718                       | \$ 10,592,131               |
| Receivables, net of allowance for uncollectibles: |                                   |                                    |                             |
| Property taxes                                    | 327,866                           | -                                  | 327,866                     |
| Excises   | 40,237                            | -                                  | 40,237                      |
| User fees and departmental                        | 284,754                           | 778,037                            | 1,062,791                   |
| Intergovernmental                                 | 131,967                           | 22,883                             | 154,850                     |
| Noncurrent:                                       |                                   |                                    |                             |
| Receivables, net of allowance for uncollectibles: |                                   |                                    |                             |
| Property taxes                                    | 10,425                            | -                                  | 10,425                      |
| Capital assets, land and construction in progress | 2,088,938                         | 424,922                            | 2,513,860                   |
| Capital assets, net of accumulated depreciation   | <u>23,502,315</u>                 | <u>34,278,564</u>                  | <u>57,780,879</u>           |
| <b>TOTAL ASSETS</b>                               | <b>32,880,915</b>                 | <b>39,602,124</b>                  | <b>72,483,039</b>           |
| <b>LIABILITIES</b>                                |                                   |                                    |                             |
| Current:  |                                   |                                    |                             |
| Warrants payable                                  | 351,896                           | 85,610                             | 437,506                     |
| Accounts payable                                  | 60,822                            | -                                  | 60,822                      |
| Accrued payroll and withholdings                  | 92,791                            | 4,323                              | 97,114                      |
| Accrued interest payable                          | -                                 | 293,310                            | 293,310                     |
| Other current liabilities                         | 144,762                           | -                                  | 144,762                     |
| Current portion of long-term liabilities:         |                                   |                                    |                             |
| Notes payable                                     | -                                 | 58,889                             | 58,889                      |
| Bonds payable                                     | 780,000                           | 1,024,890                          | 1,804,890                   |
| Noncurrent:                                       |                                   |                                    |                             |
| Note payable, net of current portion              | -                                 | 161,111                            | 161,111                     |
| Bonds payable, net of current portion             | 11,160,000                        | 22,124,657                         | 33,284,657                  |
| Net OPEB obligation                               | <u>2,373,335</u>                  | <u>116,264</u>                     | <u>2,489,599</u>            |
| <b>TOTAL LIABILITIES</b>                          | <b>14,963,606</b>                 | <b>23,869,054</b>                  | <b>38,832,660</b>           |
| <b>NET ASSETS</b>                                 |                                   |                                    |                             |
| Invested in capital assets, net of related debt   | 13,959,444                        | 11,422,484                         | 25,381,928                  |
| Restricted for:                                   |                                   |                                    |                             |
| State and federal grants                          | 1,054,161                         | -                                  | 1,054,161                   |
| Permanent funds:                                  |                                   |                                    |                             |
| Nonexpendable                                     | 184,620                           | -                                  | 184,620                     |
| Expendable  | 66,589                            | -                                  | 66,589                      |
| Other purposes                                    | 57,102                            | -                                  | 57,102                      |
| Unrestricted                                      | <u>2,595,393</u>                  | <u>4,310,586</u>                   | <u>6,905,979</u>            |
| <b>TOTAL NET ASSETS</b>                           | <b>\$ <u>17,917,309</u></b>       | <b>\$ <u>15,733,070</u></b>        | <b>\$ <u>33,650,379</u></b> |

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010

|                                  |               | Program Revenues |               |               | Net (Expenses) Revenues and Changes in Net Assets |               |               |
|----------------------------------|---------------|------------------|---------------|---------------|---|---------------|---------------|
|                                  |               | Charges for      | Operating     | Capital       | Governmental                                      | Business-     |               |
|                                  | Expenses      | Services         | Grants and    | Grants and    | Activities  | Type          | Total         |
|                                  |               |                  | Contributions | Contributions |   | Activities    |               |
| <b>Governmental Activities:</b>  |               |                  |               |               |   |               |               |
| General government               | \$ 840,033    | \$ 125,990       | \$ 24,729     | \$ -          | \$ (689,314)                                      | \$ -          | \$ (689,314)  |
| Public safety                    | 2,211,503     | 745,790          | 351,779       | -             | (1,113,934)                                       | -             | (1,113,934)   |
| Education                        | 12,338,778    | 1,575,256        | 5,341,424     | -             | (5,422,098)                                       | -             | (5,422,098)   |
| Public works                     | 1,101,872     | 14,028           | 3,448         | -             | (1,084,396)                                       | -             | (1,084,396)   |
| Health and human services        | 446,573       | 166,063          | 67,803        | -             | (212,707)   | -             | (212,707)     |
| Culture and recreation           | 322,851       | 420              | 13,217        | -             | (309,214)   | -             | (309,214)     |
| Employee benefits                | 4,047,210     | -                | -             | -             | (4,047,210)                                       | -             | (4,047,210)   |
| Insurance                        | 124,182       | -                | -             | -             | (124,182)   | -             | (124,182)     |
| Interest                         | 510,876       | -                | -             | -             | (510,876)   | -             | (510,876)     |
| Intergovernmental                | 528,245       | -                | -             | -             | (528,245)   | -             | (528,245)     |
| Miscellaneous                    | 4,218         | -                | -             | -             | (4,218)   | -             | (4,218)       |
| Total Governmental Activities    | 22,476,341    | 2,627,547        | 5,802,400     | -             | (14,046,394)                                      | -             | (14,046,394)  |
| <b>Business-Type Activities:</b> |               |                  |               |               |   |               |               |
| Water services                   | 1,467,628     | 1,107,823        | -             | 140,652       | -   | (219,153)     | (219,153)     |
| Sewer services                   | 1,976,636     | 1,828,697        | -             | -             | -   | (147,939)     | (147,939)     |
| Total Business-Type Activities   | 3,444,264     | 2,936,520        | -             | 140,652       | -   | (367,092)     | (367,092)     |
| Total All Activities             | \$ 25,920,605 | \$ 5,564,067     | \$ 5,802,400  | \$ 140,652    | (14,046,394)                                      | (367,092)     | (14,413,486)  |
| <b>General Revenues:</b>         |               |                  |               |               |   |               |               |
|                                  |               |                  |               |               | 11,020,002  | -             | 11,020,002    |
|                                  |               |                  |               |               | 782,741   | -             | 782,741       |
|                                  |               |                  |               |               | 121,867   | -             | 121,867       |
|                                  |               |                  |               |               |   |               |               |
|                                  |               |                  |               |               | 657,821   | -             | 657,821       |
|                                  |               |                  |               |               | 69,585  | 25,180        | 94,765        |
|                                  |               |                  |               |               | 99,348  | 1,363         | 100,711       |
| Total general revenues           |               |                  |               |               | 12,751,364  | 26,543        | 12,777,907    |
|                                  |               |                  |               |               | (1,295,030)                                       | (340,549)     | (1,635,579)   |
|                                  |               |                  |               |               |   |               |               |
|                                  |               |                  |               |               | (922)   | 922           | -             |
|                                  |               |                  |               |               | (1,295,952)                                       | (339,627)     | (1,635,579)   |
| <b>Net Assets:</b>               |               |                  |               |               |   |               |               |
|                                  |               |                  |               |               | 19,213,261  | 16,072,697    | 35,285,958    |
|                                  |               |                  |               |               | \$ 17,917,309                                     | \$ 15,733,070 | \$ 33,650,379 |

See notes to financial statements.

## TOWN OF LEE, MASSACHUSETTS

## GOVERNMENTAL FUNDS

## BALANCE SHEET

JUNE 30, 2010

|   | <u>General</u>      | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|---|---------------------|--|---|
| <b>ASSETS</b>                             |                     |  |   |
| Cash and short-term investments           | \$ 3,344,389        | \$ 3,150,024                               | \$ 6,494,413                            |
| Receivables:                              |                     |  |   |
| Property taxes                            | 491,030             | -  | 491,030                                 |
| Excises                                   | 42,053              | -  | 42,053                                  |
| Departmental and other                    | 4,054               | 390,213                                    | 394,267                                 |
| Intergovernmental                         | -                   | 131,967                                    | 131,967                                 |
| TOTAL ASSETS                              | <u>\$ 3,881,526</u> | <u>\$ 3,672,204</u>                        | <u>\$ 7,553,730</u>                     |
| <b>LIABILITIES AND FUND BALANCES</b>      |                     |  |   |
| Liabilities:                              |                     |  |   |
| Warrants payable                          | \$ 98,186           | \$ 253,710                                 | \$ 351,896                              |
| Accounts payable                          | 14,630              | 46,192                                     | 60,822                                  |
| Accrued payroll and withholdings          | 86,973              | 5,818                                      | 92,791                                  |
| Deferred revenues                         | 409,847             | 365,046                                    | 774,893                                 |
| Other liabilities                         | 18,803              | -  | 18,803                                  |
| TOTAL LIABILITIES                         | 628,439             | 670,766                                    | 1,299,205                               |
| Fund Balances:                            |                     |  |   |
| Reserved for:                             |                     |  |   |
| Encumbrances                              | 610,116             | -  | 610,116                                 |
| Expenditures                              | 805,984             | -  | 805,984                                 |
| Perpetual (nonexpendable) permanent funds | -                   | 184,620                                    | 184,620                                 |
| Other specific purposes                   | 57,102              | -  | 57,102                                  |
| Unreserved:                               |                     |  |   |
| Undesignated, reported in:                |                     |  |   |
| General fund                              | 1,779,885           | -  | 1,779,885                               |
| Special revenue funds                     | -                   | 2,437,553                                  | 2,437,553                               |
| Capital project funds                     | -                   | 312,676                                    | 312,676                                 |
| Permanent (expendable) funds              | -                   | 66,589                                     | 66,589                                  |
| TOTAL FUND BALANCES                       | <u>3,253,087</u>    | <u>3,001,438</u>                           | <u>6,254,525</u>                        |
| TOTAL LIABILITIES AND FUND BALANCES       | <u>\$ 3,881,526</u> | <u>\$ 3,672,204</u>                        | <u>\$ 7,553,730</u>                     |

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

RECONCILIATION OF TOTAL GOVERNMENTAL FUND  
BALANCES TO NET ASSETS OF GOVERNMENTAL  
ACTIVITIES IN THE STATEMENT OF NET ASSETS

JUNE 30, 2010

|   |                      |
|---|----------------------|
| <b>Total Governmental Fund Balances</b>   | \$ 6,254,525         |
| • Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.   | 25,591,253           |
| • Revenues are reported on the accrual basis of accounting and are not deferred until collection.   | 774,893              |
| • In addition, an allowance for uncollectible accounts is reported under the accrual basis of accounting.   | (264,068)            |
| • In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.  | (125,959)            |
| • Long-term liabilities, including bonds payable and other post-employment benefites are not due and payable in the current period and, therefore are not reported in the governmental funds. | <u>(14,313,335)</u>  |
| <b>Net Assets of Governmental Activities</b>  | <u>\$ 17,917,309</u> |

See notes to financial statements.



## TOWN OF LEE, MASSACHUSETTS

## GOVERNMENTAL FUNDS

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

FOR THE YEAR ENDED JUNE 30, 2010

|  | <u>General</u>      | <u>Nonmajor<br/>Governmental<br/>Funds</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|---------------------|--|---|
| <b>Revenues:</b>                                     |                     |  |   |
| Property taxes                                       | \$ 11,021,662       | \$ -                                       | \$ 11,021,662                           |
| Excises  | 765,275             | -  | 765,275                                 |
| Penalties, interest and other taxes                  | 121,867             | -  | 121,867                                 |
| Charges for services                                 | 592,801             | 1,948,233                                  | 2,541,034                               |
| Intergovernmental                                    | 5,287,523           | 1,172,698                                  | 6,460,221                               |
| Licenses and permits                                 | 21,569              | -  | 21,569                                  |
| Fines and forfeitures                                | 47,100              | -  | 47,100                                  |
| Investment income                                    | 47,278              | 22,307                                     | 69,585                                  |
| Miscellaneous  | 76,150              | 23,198                                     | 99,348                                  |
| Total Revenues                                       | <u>17,981,225</u>   | <u>3,166,436</u>                           | <u>21,147,661</u>                       |
| <b>Expenditures:</b>                                 |                     |  |   |
| Current:   |                     |  |   |
| General government                                   | 1,124,506           | 90,592                                     | 1,215,098                               |
| Public safety  | 1,358,943           | 804,906                                    | 2,163,849                               |
| Education  | 9,509,212           | 2,026,672                                  | 11,535,884                              |
| Public works   | 1,316,455           | 193,984                                    | 1,510,439                               |
| Health and human services                            | 157,441             | 272,882                                    | 430,323                                 |
| Culture and recreation                               | 336,270             | 19,436                                     | 355,706                                 |
| Employee benefits                                    | 2,859,523           | -  | 2,859,523                               |
| Insurance  | 124,182             | -  | 124,182                                 |
| Miscellaneous  | -                   | 4,218                                      | 4,218                                   |
| Debt service   | 1,234,503           | 34,106                                     | 1,268,609                               |
| Intergovernmental                                    | 528,245             | -  | 528,245                                 |
| Total Expenditures                                   | <u>18,549,280</u>   | <u>3,446,796</u>                           | <u>21,996,076</u>                       |
| Excess (deficiency) of revenues<br>over expenditures | (568,055)           | (280,360)                                  | (848,415)                               |
| <b>Other Financing Sources (Uses):</b>               |                     |  |   |
| Transfers in   | 415,107             | 672,055                                    | 1,087,162                               |
| Transfers out  | (223,709)           | (864,375)                                  | (1,088,084)                             |
| Total Other Financing Sources (Uses)                 | <u>191,398</u>      | <u>(192,320)</u>                           | <u>(922)</u>                            |
| Change in fund balance                               | (376,657)           | (472,680)                                  | (849,337)                               |
| Fund Equity, at Beginning of Year                    | <u>3,629,744</u>    | <u>3,474,118</u>                           | <u>7,103,862</u>                        |
| Fund Equity, at End of Year                          | <u>\$ 3,253,087</u> | <u>\$ 3,001,438</u>                        | <u>\$ 6,254,525</u>                     |

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

**Net Changes in Fund Balances -  
Total Governmental Funds**

\$ (849,337)

- 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:

|                          |             |
|--------------------------|-------------|
| Capital outlay purchases | 1,221,679   |
| Depreciation             | (1,271,990) |

- 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, net of allowance for uncollectible.

33,650

- 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:

|                    |         |
|--------------------|---------|
| Repayments of debt | 750,000 |
|--------------------|---------|

- In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.

7,733

- Other post-employment benefits (OPEB), do not require the use of current resources and therefore, are not reported as expenditures in the governmental funds.

(1,187,687)

**Change in Net Assets of Governmental Activities**

\$ (1,295,952)

TOWN OF LEE, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2010

|   | <u>Budgeted Amounts</u>    |                         |                           | Variance with<br>Final Budget<br>Positive<br>(Negative) |
|---|----------------------------|-------------------------|---------------------------|---|
|   | <u>Original<br/>Budget</u> | <u>Final<br/>Budget</u> | <u>Actual<br/>Amounts</u> |   |
| <b>Revenues and Other Sources:</b>  |                            |                         |                           |   |
| Taxes   | \$ 10,985,292              | \$ 10,985,292           | \$ 10,985,292             | \$ -  |
| Excise  | 750,000                    | 750,000                 | 765,275                   | 15,275  |
| Penalties, interest and other taxes   | 88,000                     | 88,000                  | 121,867                   | 33,867  |
| Charges for services  | 535,551                    | 535,551                 | 592,801                   | 57,250  |
| Intergovernmental   | 3,363,955                  | 3,363,955               | 3,363,262                 | (693)   |
| Licenses and permits  | 20,000                     | 20,000                  | 21,569                    | 1,569   |
| Fines and forfeits  | 40,000                     | 40,000                  | 47,100                    | 7,100   |
| Investment income   | 60,000                     | 60,000                  | 47,278                    | (12,722)  |
| Miscellaneous   | 59,500                     | 59,500                  | 76,150                    | 16,650  |
| Transfers in  | 42,680                     | 417,680                 | 415,107                   | (2,573)   |
| Other sources   | <u>686,055</u>             | <u>771,055</u>          | <u>771,055</u>            | <u>-</u>  |
| Total Revenues and Other Sources  | 16,631,033                 | 17,091,033              | 17,206,756                | 115,723   |
| <b>Expenditures and Other Uses:</b>   |                            |                         |                           |   |
| General government  | 783,440                    | 1,234,557               | 1,102,280                 | 132,277   |
| Public safety   | 1,450,799                  | 1,446,509               | 1,374,145                 | 72,364  |
| Education   | 7,584,440                  | 7,583,446               | 7,587,634                 | (4,188)   |
| Public works  | 1,313,006                  | 1,245,622               | 1,243,960                 | 1,662   |
| Health and human services   | 295,883                    | 169,362                 | 157,441                   | 11,921  |
| Culture and recreation  | 294,691                    | 375,248                 | 371,742                   | 3,506   |
| Employee benefits   | 2,906,538                  | 2,906,538               | 2,859,523                 | 47,015  |
| Debt service  | 1,235,328                  | 1,235,328               | 1,234,503                 | 825   |
| Intergovernmental   | 496,908                    | 500,714                 | 528,245                   | (27,531)  |
| Insurance   | 170,000                    | 170,000                 | 124,182                   | 45,818  |
| Transfers out   | <u>100,000</u>             | <u>223,709</u>          | <u>223,709</u>            | <u>-</u>  |
| Total Expenditures and Other Uses   | <u>16,631,033</u>          | <u>17,091,033</u>       | <u>16,807,364</u>         | <u>283,669</u>  |
| Excess (deficiency) of revenues and other<br>sources over expenditures and other uses | <u>\$ -</u>                | <u>\$ -</u>             | <u>\$ 399,392</u>         | <u>\$ 399,392</u>                                       |

See notes to financial statements.

## TOWN OF LEE, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET ASSETS

JUNE 30, 2010

|   | Business-Type Activities - Enterprise Funds |                     |                      |
|---|---|---------------------|----------------------|
|   | Water<br>Fund                               | Sewer<br>Fund       | Total                |
| <b><u>ASSETS</u></b>                              |   |                     |                      |
| Current:  |   |                     |                      |
| Cash and short-term investments                   | \$ 702,887                                  | \$ 3,394,831        | \$ 4,097,718         |
| User fees, net of allowance for uncollectables    | 305,159                                     | 472,878             | 778,037              |
| Intergovernmental receivables                     | -   | 22,883              | 22,883               |
| Total current assets                              | 1,008,046                                   | 3,890,592           | 4,898,638            |
| Noncurrent:                                       |   |                     |                      |
| Capital assets, land and construction in progress | 424,922                                     | -                   | 424,922              |
| Capital assets, net of accumulated depreciation   | 10,764,624                                  | 23,513,940          | 34,278,564           |
| Total noncurrent assets                           | 11,189,546                                  | 23,513,940          | 34,703,486           |
| <b>TOTAL ASSETS</b>                               | 12,197,592                                  | 27,404,532          | 39,602,124           |
| <b><u>LIABILITIES</u></b>                         |   |                     |                      |
| Current:  |   |                     |                      |
| Warrants payable                                  | 31,334                                      | 54,276              | 85,610               |
| Accrued payroll                                   | 3,688                                       | 635                 | 4,323                |
| Accrued interest payable                          | 125,423                                     | 167,887             | 293,310              |
| Current portion of long-term liabilities:         |   |                     |                      |
| Notes payable                                     | 58,889                                      | -                   | 58,889               |
| Bonds payable                                     | 97,706                                      | 927,184             | 1,024,890            |
| Total current liabilities                         | 317,040                                     | 1,149,982           | 1,467,022            |
| Noncurrent:                                       |   |                     |                      |
| Notes payable, net of current portion             | 161,111                                     | -                   | 161,111              |
| Bonds payable, net of current portion             | 4,648,797                                   | 17,475,860          | 22,124,657           |
| Net OPEB obligation                               | 64,231                                      | 52,033              | 116,264              |
| Total noncurrent liabilities                      | 4,874,139                                   | 17,527,893          | 22,402,032           |
| <b>TOTAL LIABILITIES</b>                          | 5,191,179                                   | 18,677,875          | 23,869,054           |
| <b><u>NET ASSETS</u></b>                          |   |                     |                      |
| Invested in capital assets, net of related debt   | 6,223,043                                   | 5,199,441           | 11,422,484           |
| Unrestricted                                      | 783,370                                     | 3,527,216           | 4,310,586            |
| <b>TOTAL NET ASSETS</b>                           | <b>\$ 7,006,413</b>                         | <b>\$ 8,726,657</b> | <b>\$ 15,733,070</b> |

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2010

|  | Business-Type Activities - Enterprise Funds |               |               |
|--|---|---------------|---------------|
|  | Water<br>Fund                               | Sewer<br>Fund | Total         |
| <b>Operating Revenues:</b>                     |   |               |               |
| Charges for services                           | \$ 1,107,823                                | \$ 1,830,060  | \$ 2,937,883  |
| Total Operating Revenues                       | 1,107,823                                   | 1,830,060     | 2,937,883     |
| <b>Operating Expenses:</b>                     |   |               |               |
| Salaries and wages                             | 410,923                                     | 312,765       | 723,688       |
| Operating expenses                             | 107,340                                     | 403,392       | 510,732       |
| Materials and supplies                         | 90,095                                      | 102,080       | 192,175       |
| Depreciation                                   | 542,925                                     | 701,331       | 1,244,256     |
| Capital outlay                                 | 83,663                                      | 40,870        | 124,533       |
| Other  | 17,164                                      | 19,897        | 37,061        |
| Total Operating Expenses                       | 1,252,110                                   | 1,580,335     | 2,832,445     |
| Operating Income (Loss)                        | (144,287)                                   | 249,725       | 105,438       |
| <b>Nonoperating Revenues (Expenses):</b>       |   |               |               |
| Investment income                              | 6,350                                       | 18,830        | 25,180        |
| Intergovernmental revenue                      | 140,652                                     | -             | 140,652       |
| Interest expense                               | (215,518)                                   | (396,301)     | (611,819)     |
| Total Nonoperating Revenues<br>(Expenses), Net | (68,516)                                    | (377,471)     | (445,987)     |
| Change in Net Assets, before transfers         | (212,803)                                   | (127,746)     | (340,549)     |
| <b>Transfers</b>                               |   |               |               |
| Transfer from general fund                     | -   | 922           | 922           |
| Total transfers                                | -   | 922           | 922           |
| Change in Net Assets                           | (212,803)                                   | (126,824)     | (339,627)     |
| Net Assets at Beginning of Year                | 7,219,216                                   | 8,853,481     | 16,072,697    |
| Net Assets at End of Year                      | \$ 7,006,413                                | \$ 8,726,657  | \$ 15,733,070 |

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2010

|  | Business-Type Activities - Enterprise Funds |                     |                     |
|--|---|---------------------|---------------------|
|  | Water<br>Fund                               | Sewer<br>Fund       | Total               |
| <b><u>Cash Flows From Operating Activities:</u></b>  |   |                     |                     |
| Receipts from customers and users  | \$ 1,021,787                                | \$ 1,838,394        | \$ 2,860,181        |
| Payments to vendors and employees  | <u>(648,725)</u>                            | <u>(799,520)</u>    | <u>(1,448,245)</u>  |
| Net Cash Provided By Operating Activities  | 373,062                                     | 1,038,874           | 1,411,936           |
| <b><u>Cash Flows From Capital and Related<br/>Financing Activities:</u></b>  |   |                     |                     |
| Note proceeds  | 280,000                                     | -                   | 280,000             |
| Receipt of MWPAT grant funds   | 140,652                                     | -                   | 140,652             |
| Payments of anticipation notes   | (100,000)                                   | -                   | (100,000)           |
| Acquisition and construction of capital assets   | (424,922)                                   | (18,375)            | (443,297)           |
| Principal payments on bonds  | (153,498)                                   | (905,556)           | (1,059,054)         |
| Interest payments  | <u>(217,801)</u>                            | <u>(404,510)</u>    | <u>(622,311)</u>    |
| Net Cash (Used For) Capital and Related<br>Financing Activities  | (475,569)                                   | (1,328,441)         | (1,804,010)         |
| <b><u>Cash Flows From Non Capital Financing Activities</u></b>   |   |                     |                     |
| Transfer from Governmental Funds   | <u>-</u>                                    | <u>922</u>          | <u>922</u>          |
| Net Cash Provided by Non Capital Financing Activities  | -   | 922                 | 922                 |
| <b><u>Cash Flows From Investing Activities:</u></b>  |   |                     |                     |
| Investment income  | <u>6,350</u>                                | <u>18,830</u>       | <u>25,180</u>       |
| Net Cash Provided By Investing Activities  | <u>6,350</u>                                | <u>18,830</u>       | <u>25,180</u>       |
| Net Change in Cash and Short-Term Investments  | (96,157)                                    | (269,815)           | (365,972)           |
| Cash and Short Term Investments, Beginning of Year   | <u>799,044</u>                              | <u>3,664,646</u>    | <u>4,463,690</u>    |
| Cash and Short Term Investments, End of Year   | <u>\$ 702,887</u>                           | <u>\$ 3,394,831</u> | <u>\$ 4,097,718</u> |
| <b><u>Reconciliation of Operating Income (Loss) to Net<br/>Cash Provided by (Used For) Operating Activities:</u></b> |   |                     |                     |
| Operating income (loss)  | \$ (144,287)                                | \$ 249,725          | \$ 105,438          |
| Adjustments to reconcile operating income (loss) to<br>net cash provided by (used for) operating activities:         |   |                     |                     |
| Depreciation   | 542,925                                     | 701,331             | 1,244,256           |
| Changes in assets and liabilities:   |   |                     |                     |
| User fees  | (86,036)                                    | 8,334               | (77,702)            |
| Warrants and accounts payable  | 28,317                                      | 53,445              | 81,762              |
| Other post employment benefits   | <u>32,143</u>                               | <u>26,039</u>       | <u>58,182</u>       |
| Net Cash Provided By Operating Activities  | <u>\$ 373,062</u>                           | <u>\$ 1,038,874</u> | <u>\$ 1,411,936</u> |

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2010

|  | Private<br>Purpose<br>Trust<br>Funds | Agency<br>Funds    |
|--|--------------------------------------|--------------------|
| <b><u>ASSETS</u></b>                     |                                      |                    |
| Cash and short-term investments          | \$ <u>216,480</u>                    | \$ <u>198,229</u>  |
| Total Assets                             | 216,480                              | 198,229            |
| <b><u>LIABILITIES AND NET ASSETS</u></b> |                                      |                    |
| Warrants payable                         | 10,250                               | 24,740             |
| Deposits held in custody                 | -                                    | 165,862            |
| Other liabilities                        | <u>-</u>                             | <u>7,627</u>       |
| Total Liabilities                        | <u>10,250</u>                        | <u>198,229</u>     |
| <b><u>NET ASSETS</u></b>                 |                                      |                    |
| Total net assets held in trust           | \$ <u><u>206,230</u></u>             | \$ <u><u>-</u></u> |

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2010

|                    | <u>Private<br/>Purpose<br/>Trust Funds</u> |
|--------------------|--|
| <b>Additions:</b>  |  |
| Contributions      | \$ 13,225                                  |
| Investment income  | <u>852</u>                                 |
| Total additions    | 14,077                                     |
| <b>Deductions:</b> |  |
| Scholarships       | <u>16,500</u>                              |
| Total deductions   | <u>16,500</u>                              |
| Net decrease       | (2,423)                                    |
| <b>Net assets:</b> |  |
| Beginning of year  | <u>208,653</u>                             |
| End of year        | \$ <u><u>206,230</u></u>                   |

See notes to financial statements.



## Town of Lee, Massachusetts

### Notes to Financial Statements

#### 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Lee (the Town) conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

##### A. Reporting Entity

The government is a municipal corporation governed by an elected Board of Selectmen. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable. In fiscal year 2010, it was determined that no entities met the required GASB-14 criteria of component units.

##### B. Government-Wide and Fund Financial Statements

###### Government-Wide 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. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function 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*.

###### Fund Financial Statements

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 govern-

mental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and 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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

The government reports the following major governmental fund:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989 generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

The government reports the following major proprietary funds:

- Water Fund
- Sewer Fund

The private-purpose trust fund is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

#### D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the General Fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits, certificates of deposits, and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type is included under investment income.

For purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

*E. Property Tax Limitations*

Legislation known as “Proposition 2 1/2” limits the amount of revenue that can be derived from property taxes. The prior fiscal year’s tax levy limit is used as a base and cannot increase by more than 2.5 percent (excluding new growth), unless an override or debt exemption is voted. The actual fiscal year 2010 tax levy reflected an excess capacity of \$ 848,319.

*F. Capital Assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (for enterprise funds only) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are 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 of the primary government are depreciated using the straight-line method over the following estimated useful lives:

| <u>Assets</u>         | <u>Years</u> |
|-----------------------|--------------|
| Buildings             | 40           |
| Building improvements | 20           |
| Infrastructure        | 50 - 75      |
| Vehicles              | 5            |
| Office equipment      | 5            |
| Computer equipment    | 5            |

*G. Compensated Absences*

It is the government’s policy not to permit employees to accumulate earned but unused vacation and sick pay benefits beyond June 30.

Accordingly, there is no liability reported in the accompanying financial statements.

#### *H. Long-Term Obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other liabilities are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

#### *I. Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

#### *J. Use of Estimates*

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements, and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

## **2. Stewardship, Compliance and Accountability**

#### *A. Budgetary Information*

At the annual town meeting, the Finance Committee presents an operating and capital budget for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the Reserve Fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the General Fund and Proprietary Funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

#### *B. Budgetary Basis*

The General Fund final appropriation appearing on the "Budget and Actual" page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

#### *C. Budget/GAAP Reconciliation*

The budgetary data for the general fund is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison with budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

| <u>General Fund</u>  | <u>Revenues<br/>and Other<br/>Financing Sources</u> | <u>Expenditures<br/>and Other<br/>Financing Uses</u> |
|--|---|--|
| Revenues/Expenditures (GAAP basis)   | \$ 17,981,225                                       | \$ 18,549,280  |
| Other financing sources/uses (GAAP basis)  | 415,107   | 223,709  |
| Adjust tax revenue to accrual basis  | (36,370)  | -  |
| Reverse beginning of year appropriation carryforwards from expenditures          | -   | (651,480)  |
| Add end of year appropriation carryforwards to expenditures                      | -   | 610,116  |
| To reverse the effect of nonbudgeted State contributions for teachers retirement | (1,924,261)   | (1,924,261)  |
| Recognize use of fund balance as a funding source                                | 771,055   | -  |
| Budgetary basis  | <u>\$ 17,206,756</u>                                | <u>\$ 16,807,364</u>                                 |

*D. Deficit Fund Equity*

The following fund had a deficit as of June 30, 2010:

|                                  |              |
|----------------------------------|--------------|
| Highway Chapter 235 (Chapter 90) | \$ (217,449) |
|----------------------------------|--------------|

The deficit in this fund will be eliminated through future state revenue.

*E. Excess Expenditures Over Appropriations*

Expenditures exceeding appropriations during the current fiscal year were as follows:

|           |            |
|-----------|------------|
| Education | \$ (4,188) |
|-----------|------------|

**3. Cash and Short-Term Investments**

*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. Massachusetts General Laws Chapter 44, Section 55 limits deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The Town does not have a deposit policy for custodial credit risk.

As of June 30, 2010, \$ 10,015 of the Town's bank balance of \$ 11,326,177 was exposed to custodial credit risk as uninsured, uncollateralized, and collateral held by pledging bank's trust department not in the Town's name.

**4. Taxes Receivable**

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a semiannual basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

Fourteen days after the due date for the final tax bill for real estate taxes, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Taxes receivable at June 30, 2010 consist of the following:

|  |                |                   |
|--|----------------|-------------------|
| Real Estate  |                |                   |
| 2006 and prior                                     | \$ (2,603)     |                   |
| 2007   | 544            |                   |
| 2008   | (148)          |                   |
| 2009   | 15,676         |                   |
| 2010   | <u>298,030</u> |                   |
|  |                | 311,499           |
| Personal Property                                  |                |                   |
| 2007   | (1,543)        |                   |
| 2009   | 170            |                   |
| 2010   | <u>18,326</u>  | 16,953            |
| Deferred Taxes                                     |                | 12,705            |
| Tax Liens, Foreclosures and Taxes in<br>Litigation |                | <u>149,873</u>    |
| Total  |                | <u>\$ 491,030</u> |

#### 5. Allowance for Doubtful Accounts

The receivables reported in the accompanying entity-wide financial statements reflect the following estimated allowances for doubtful accounts:

|   | <u>Governmental</u> | <u>Business<br/>Type</u> |
|---|---------------------|--------------------------|
| Real estate, personal property and deferred taxes | \$ 13,291           | \$ -                     |
| Tax liens and other noncurrent taxes              | 139,448             | -                        |
| Excises   | 1,816               | -                        |
| Ambulance   | 109,513             | -                        |
| Utilities   | -                   | 83,671                   |

#### 6. Intergovernmental Receivables

The balance reported in the governmental funds represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2010.

The balance reported in the sewer fund represents the portion of certain outstanding debt, which is being subsidized through the Massachusetts Water Pollution Abatement Trust.



## 7. Capital Assets

Capital asset activity for the year ended June 30, 2010 was as follows (in thousands):

|  | <u>Beginning<br/>Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending<br/>Balance</u> |
|--|------------------------------|------------------|------------------|---------------------------|
| <b>Governmental Activities:</b>              |                              |                  |                  |                           |
| Capital assets, being depreciated:           |                              |                  |                  |                           |
| Buildings and improvements                   | \$ 28,877                    | \$ 301           | \$ -             | \$ 29,178                 |
| Machinery, equipment, and furnishings        | 5,327                        | 236              | (70)             | 5,493                     |
| Infrastructure                               | <u>1,526</u>                 | <u>585</u>       | <u>-</u>         | <u>2,111</u>              |
| Total capital assets, being depreciated      | 35,730                       | 1,122            | (70)             | 36,782                    |
| Less accumulated depreciation for:           |                              |                  |                  |                           |
| Buildings and improvements                   | (7,497)                      | (757)            | -                | (8,254)                   |
| Machinery, equipment, and furnishings        | (3,862)                      | (469)            | 70               | (4,261)                   |
| Infrastructure                               | <u>(719)</u>                 | <u>(45)</u>      | <u>-</u>         | <u>(764)</u>              |
| Total accumulated depreciation               | <u>(12,078)</u>              | <u>(1,271)</u>   | <u>70</u>        | <u>(13,279)</u>           |
| Total capital assets, being depreciated, net | 23,652                       | (149)            | -                | 23,503                    |
| Capital assets, not being depreciated:       |                              |                  |                  |                           |
| Land   | <u>1,990</u>                 | <u>99</u>        | <u>-</u>         | <u>2,089</u>              |
| Governmental activities capital assets, net  | <u>\$ 25,642</u>             | <u>\$ (50)</u>   | <u>\$ -</u>      | <u>\$ 25,592</u>          |
| <b>Business-Type Activities:</b>             |                              |                  |                  |                           |
| Capital assets, being depreciated:           |                              |                  |                  |                           |
| Buildings and improvements                   | \$ 27,491                    | \$ 18            | \$ -             | \$ 27,509                 |
| Machinery, equipment, and furnishings        | 2,645                        | -                | -                | 2,645                     |
| Infrastructure                               | <u>22,656</u>                | <u>-</u>         | <u>-</u>         | <u>22,656</u>             |
| Total capital assets, being depreciated      | 52,792                       | 18               | -                | 52,810                    |
| Less accumulated depreciation for:           |                              |                  |                  |                           |
| Buildings and improvements                   | (2,672)                      | (670)            | -                | (3,342)                   |
| Machinery, equipment, and furnishings        | (1,713)                      | (114)            | -                | (1,827)                   |
| Infrastructure                               | <u>(12,902)</u>              | <u>(461)</u>     | <u>-</u>         | <u>(13,363)</u>           |
| Total accumulated depreciation               | <u>(17,287)</u>              | <u>(1,245)</u>   | <u>-</u>         | <u>(18,532)</u>           |
| Total capital assets, being depreciated, net | 35,505                       | (1,227)          | -                | 34,278                    |
| Capital assets, not being depreciated:       |                              |                  |                  |                           |
| Construction in progress                     | <u>-</u>                     | <u>425</u>       | <u>-</u>         | <u>425</u>                |
| Business-type activities capital assets, net | <u>\$ 35,505</u>             | <u>\$ (802)</u>  | <u>\$ -</u>      | <u>\$ 34,703</u>          |

Depreciation expense was charged to functions of the Town as follows (in thousands):

|   |                 |
|---|-----------------|
| Governmental Activities:                              |                 |
| General government                                    | \$ 50           |
| Public safety   | 127             |
| Education   | 841             |
| Public works  | 177             |
| Culture and recreation                                | 60              |
| Human services  | 16              |
| Total depreciation expense - governmental activities  | <u>\$ 1,271</u> |
| Business-Type Activities:                             |                 |
| Water   | \$ 543          |
| Sewer   | 702             |
| Total depreciation expense - business-type activities | <u>\$ 1,245</u> |

#### 8. Warrants and Accounts Payable

Warrants payable represent 2010 expenditures paid by July 15, 2010 as permitted by law. Accounts payable represent additional 2010 expenditures paid after July 15, 2010.

#### 9. Deferred Revenue

Governmental funds report *deferred revenue* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the General Fund deferred revenues account is equal to the total of all June 30, 2010 receivable balances, except property taxes that are accrued for subsequent 60 day collections.

#### 10. Anticipation Notes Payable

The following summarizes activity in notes payable during fiscal year 2010:

|                   | Balance<br>Beginning<br>of Year | New<br>Issues | Maturities          | Balance<br>End of<br>Year |
|-------------------|---------------------------------|---------------|---------------------|---------------------------|
| Bond anticipation | \$ 100,000                      | \$ -          | \$ (100,000)        | \$ -                      |
| Total             | <u>\$ 100,000</u>               | <u>\$ -</u>   | <u>\$ (100,000)</u> | <u>\$ -</u>               |

## 11. Long-Term Debt

### A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

|                                     | Serial<br>Maturities<br>Through | Interest<br>Rate(s)% | Amount<br>Outstanding<br>as of<br>June 30, 2010 |
|-------------------------------------|---------------------------------|----------------------|---|
| <u>Governmental Activities:</u>     |                                 |                      |   |
| <u>Bonds Payable:</u>               |                                 |                      |   |
| Fire truck                          | 10/01/10                        | 4.50 - 6.00          | \$ 10,000                                       |
| Ambulance garage                    | 10/01/11                        | 4.50 - 6.00          | 60,000  |
| High school                         | 05/01/21                        | 3.00 - 4.00          | 2,395,000                                       |
| Elementary school                   | 12/15/22                        | 3.99                 | 9,475,000                                       |
| Total Governmental Activities Debt  |                                 |                      | <u>\$ 11,940,000</u>                            |
| <u>Business-Type Activities:</u>    |                                 |                      |   |
| <u>Bonds Payable:</u>               |                                 |                      |   |
| Sewer plant (MWPAT)                 | 08/01/15                        | 1.00 - 2.00          | \$ 88,547                                       |
| Sewer plant (MWPAT #5-35)           | 07/15/26                        | 2.00                 | 18,314,497                                      |
| Water filtration (#1)               | 04/10/35                        | 4.50                 | 1,355,244                                       |
| Water filtration (#2)               | 10/06/35                        | 4.50                 | 252,459   |
| Water filtration (#3)               | 10/06/36                        | 4.50                 | 3,138,800                                       |
| Total Bonds Payable                 |                                 |                      | 23,149,547                                      |
| <u>Notes Payable:</u>               |                                 |                      |   |
| Water system improvement note *     | 06/23/11                        | 1.10                 | 220,000   |
| Total Business-Type Activities Debt |                                 |                      | <u>\$ 23,369,547</u>                            |

\* The Town intends to finance this project by rolling over short-term notes for lesser amounts each year. The interest rate and maturity date noted above are for the notes issued in fiscal year 2010 and due in fiscal year 2011.

### B. State Revolving Loan

The U.S. Environmental Protection Agency sponsors a low interest rate loan program. The loans are administered by the States and are used by local communities to improve their sewer systems.

In 2002, the Town was authorized to borrow a total of \$ 196,459 through the Massachusetts Water Pollution Abatement Trust (MWPAT) Revolving Loan Program to begin the design phase of a sewer plant upgrade. This total is included in the Town's long-term debt.

In addition to offering these loans at reduced interest rates, MWPAT has also subsidized the loan principal as follows:

|              |    | <u>Original<br/>Loan</u> | <u>Principal<br/>Subsidy</u> | <u>Net<br/>Repay.</u> | <u>Outstanding<br/>Balance at<br/>June 30, 2010</u> |
|--------------|----|--------------------------|------------------------------|-----------------------|---|
| Loan #98-146 | \$ | 196,459                  | \$ (46,652)                  | \$ 149,807            | \$ 88,542   |

In fiscal year 2010, the Town began receiving the proceeds of a new state revolving loan, also sponsored by the EPA. The loan total of \$ 721,466 is to be used to install solar panel technology in the Town's water plant. The loan and project qualified for 100% forgiveness/subsidy through the American Recovery and Reinvestment Act (ARRA) (Federal stimulus funds). Consequently, these funds have been recorded as grant proceeds rather than as bond proceeds.

### C. Future Debt Service

The annual payments to retire all general obligation long-term bonds payable outstanding as of June 30, 2010 are as follows:

| <u>Governmental</u> | <u>Principal</u>     | <u>Interest</u>     | <u>Total</u>         |
|---------------------|----------------------|---------------------|----------------------|
| 2011                | \$ 780,000           | \$ 491,159          | \$ 1,271,159         |
| 2012                | 800,000              | 462,384             | 1,262,384            |
| 2013                | 805,000              | 433,634             | 1,238,634            |
| 2014                | 845,000              | 395,434             | 1,240,434            |
| 2015                | 875,000              | 363,996             | 1,238,996            |
| 2016-2020           | 5,015,000            | 1,252,388           | 6,267,388            |
| Thereafter          | <u>2,820,000</u>     | <u>224,129</u>      | <u>3,044,129</u>     |
| Total               | <u>\$ 11,940,000</u> | <u>\$ 3,623,124</u> | <u>\$ 15,563,124</u> |

The following governmental funds have been designated as the sources to repay the governmental-type general obligation long-term debt outstanding as of June 30, 2010:

|                      |                   |
|----------------------|-------------------|
| General fund         | \$ 11,880,000     |
| Special revenue fund | <u>60,000</u>     |
|                      | <u>11,940,000</u> |

| <u>Business-Type</u> | <u>Principal</u>     | <u>Interest</u>     | <u>Total</u>         |
|----------------------|----------------------|---------------------|----------------------|
| 2011                 | \$ 1,024,890         | \$ 571,571          | \$ 1,596,461         |
| 2012                 | 1,049,198            | 548,520             | 1,597,718            |
| 2013                 | 1,072,623            | 524,914             | 1,597,537            |
| 2014                 | 1,096,635            | 500,678             | 1,597,313            |
| 2015                 | 1,121,251            | 475,839             | 1,597,090            |
| 2016-2020            | 5,937,906            | 1,987,544           | 7,925,450            |
| 2021-2025            | 6,639,772            | 1,270,679           | 7,910,451            |
| 2026-2030            | 3,525,956            | 572,124             | 4,098,080            |
| Thereafter           | <u>1,681,316</u>     | <u>293,711</u>      | <u>1,975,027</u>     |
| Total                | <u>\$ 23,149,547</u> | <u>\$ 6,745,580</u> | <u>\$ 29,895,127</u> |

#### D. Changes in General Long-Term Liabilities

During the year ended June 30, 2010, the following changes occurred in long-term liabilities (in thousands):

|                                 | Total<br>Balance<br><u>07/01/09</u> | Additions       | Reductions        | Total<br>Balance<br><u>06/30/10</u> | Less<br>Current<br>Portion | Equals<br>Long-Term<br>Portion<br><u>06/30/10</u> |
|---------------------------------|-------------------------------------|-----------------|-------------------|-------------------------------------|----------------------------|---|
| <u>Governmental Activities</u>  |                                     |                 |                   |                                     |                            |   |
| Bonds payable                   | \$ 12,690                           | \$ -            | \$ (750)          | \$ 11,940                           | \$ (780)                   | \$ 11,160   |
| OPEB liability                  | <u>1,186</u>                        | <u>1,187</u>    | <u>-</u>          | <u>2,373</u>                        | <u>-</u>                   | <u>2,373</u>                                      |
| Total Governmental Activities   | <u>\$ 13,876</u>                    | <u>\$ 1,187</u> | <u>\$ (750)</u>   | <u>\$ 14,313</u>                    | <u>\$ (780)</u>            | <u>\$ 13,533</u>                                  |
| <u>Business-Type Activities</u> |                                     |                 |                   |                                     |                            |   |
| Long-term notes payable         | \$ -                                | \$ 280          | \$ (60)           | \$ 220                              | \$ (59)                    | \$ 161  |
| Bonds payable                   | 24,152                              | -               | (1,002)           | 23,150                              | (1,025)                    | 22,125  |
| OPEB liability                  | <u>58</u>                           | <u>58</u>       | <u>-</u>          | <u>116</u>                          | <u>-</u>                   | <u>116</u>  |
| Total Business-Type Activities  | <u>\$ 24,210</u>                    | <u>\$ 338</u>   | <u>\$ (1,062)</u> | <u>\$ 23,486</u>                    | <u>\$ (1,084)</u>          | <u>\$ 22,402</u>                                  |

#### **12. Restricted Net Assets**

The accompanying entity-wide financial statements report restricted net assets when external constraints from grantors or contributors are placed on net assets.

Permanent fund restricted net assets are segregated between nonexpendable and expendable. The nonexpendable portion represents the original restricted principal contribution, and the expendable represents accumulated earnings which are available to be spent based on donor restrictions.

#### **13. Reserves of Fund Equity**

“Reserves” of fund equity are established to segregate fund balances which are either not available for expenditure in the future or are legally set aside for a specific future use.

The following types of reserves are reported at June 30, 2010:

Reserved for Encumbrances - An account used to segregate that portion of fund balance committed for expenditure of financial resources upon vendor performance.

Reserved for Expenditures - Represents the amount of fund balance appropriated to be used for expenditures in the subsequent year budget.

Reserved for Perpetual Funds - Represents the principal of the nonexpendable trust fund investments. The balance cannot be spent for any purpose; however, it may be invested and the earnings may be spent.

Reserved for Other Specific Purposes - Represents premiums received on bonds issued in fiscal year 2006 that have been reserved to reduce debt service in future years, in accordance with State guidelines.

#### **14. Commitments and Contingencies**

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

Sewer Treatment Plant - The Town constructed a new wastewater treatment plant and obtained a National Pollution Discharge Elimination System (NPDES) permit from the United States Environmental Protection Agency in September 2008. The Town filed a petition with the Environmental Appeals Board requesting a review of the permit's conditions regarding phosphorus limitations because they were more stringent than what was required when the plant was designed. The Environmental Appeals Board approved a joint motion for a stay of the matter until July 22, 2009 while the Town and EPA negotiated a settlement.

In September 2009, the EPA issued an Administrative Order outlining requirements for meeting phosphorus discharge limits, including deadlines for meeting various milestones and ultimately requiring full compliance by April 2012. The Town has taken steps to meet or exceed the thresholds contained in the September 2009 Order and has requested that EPA waive certain requirements, such as hiring a consultant, because the Town believes they are no longer necessary. The total cost to comply with the Order has not been quantified but the Town does not expect it would materially affect the financial statements taken as a whole.

#### **15. Other Post-Employment Benefits**

*GASB Statement 45, Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions* requires governments to

account for other post-employment benefits (OPEB), primarily healthcare, on an accrual basis rather than on a pay-as-you-go basis. The effect is the recognition of an actuarially required contribution as an expense on the statement of revenues, expenses, and changes in net assets when a future retiree earns their post-employment benefits, rather than when they use their post-employment benefit. To the extent that an entity does not fund their actuarially required contribution, a post-employment benefit liability is recognized on the Statement of Net Assets over time.

*A. Plan Description*

In addition to providing the pension benefits described in the following footnote, the Town provides post-employment health care and life insurance benefits for retired employees through the Town's plan. The benefits, benefit levels, employee contributions and employer contributions are governed by Chapter 32 of the Massachusetts General Laws. As of June 30, 2008, the actuarial valuation date, approximately 148 retirees and 168 active employees meet the eligibility requirements. The plan does not issue a separate financial report.

*B. Benefits Provided*

The Town provides medical, prescription drug, mental health/substance abuse and life insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

*C. Funding Policy*

Retirees contribute 40% of the cost of the health plan, as determined by the Town. The Town contributes the remainder of the health plan costs on a pay-as-you-go basis.

*D. Annual OPEB Costs and Net OPEB Obligation*

The Town's fiscal 2010 annual OPEB expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost per year and amortize the unfunded actuarial liability over a period of thirty years. The following table shows the components of the Town's annual OPEB cost for the year ending June 30, 2010, the amount actually contributed to the plan, and the change in the Town's net OPEB obligation based on an actuarial valuation as of June 30, 2008.

|   |              |
|---|--------------|
| Annual Required Contribution (ARC)      | \$ 2,010,223 |
| Interest on net OPEB obligation         | -            |
| Adjustment to ARC                       | -            |
| Annual OPEB cost                        | 2,010,223    |
| Contributions made                      | (764,354)    |
| Increase in net OPEB obligation         | 1,245,869    |
| Net OPEB obligation - beginning of year | 1,243,730    |
| Net OPEB obligation - end of year       | \$ 2,489,599 |

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

| <u>Fiscal<br/>Year Ended</u> | <u>Annual OPEB<br/>Cost</u> | <u>Percentage of<br/>OPEB Cost<br/>Contributed</u> | <u>Net OPEB<br/>Obligation</u> |
|------------------------------|-----------------------------|--|--------------------------------|
| 2009                         | \$ 1,907,905                | 35%  | \$ 1,243,730                   |
| 2010                         | \$ 2,010,223                | 38%  | \$ 1,245,869                   |

The Town's net OPEB obligation as of June 30, 2010 is recorded as a long-term liability in both the governmental and business-type activities.

**E. Funded Status and Funding Progress**

The funded status of the plan as of June 30, 2008, the date of the most recent actuarial valuation was as follows:

|   |               |
|---|---------------|
| Actuarial accrued liability (AAL)                 | \$ 26,655,088 |
| Actuarial value of plan assets                    | -             |
| Unfunded actuarial accrued liability (UAAL)       | 26,655,088    |
| Funded ratio (actuarial value of plan assets/AAL) | 0%            |
| Covered payroll (active plan members)             | N/A           |
| UAAL as a percentage of covered payroll           | N/A           |

Actuarial valuations of an ongoing plan involve estimates of the value of reported amount and assumptions about the probability of occurrence of events far into the future. Examples included 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 following the notes to the financial statements, presents multiyear trend information that shows whether the



actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The Town has adopted Massachusetts General Law Chapter 32B, Section 20 – Other Post-Employment Benefits liability trust fund (local chapter) and set aside \$ 43,821 in fiscal year 2010 to fund this liability.

*F. Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the plan as understood by the Town 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 Town and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the June 30, 2008 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town has not advance funded its obligation. The actuarial assumptions included a 4.75% investment rate of return and an initial annual healthcare cost trend rate of 10% which decreases to a 5% long-term rate for all healthcare benefits after ten years. The amortization costs for the initial UAAL is a level percentage of payroll for a period of 30 years, on a closed basis. This has been calculated assuming the amortization payment increases at a rate of 3.5%.

**16. Pension Plan**

The Town follows the provisions of GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, (as amended by GASB 50) with respect to the employees' retirement funds.

*A. Plan Description*

The Town contributes to the Berkshire County Retirement System (the "System"), a cost-sharing multiple-employer, defined benefit pension plan administered by a county retirement board. The System provides retirement, disability and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns the System the authority to establish and amend benefit provisions of the plan, and grant cost-of-living increases, to the State legislature. The System issues a publicly available financial report which can be obtained through the Berkshire County Retirement System.

*B. Funding Policy*

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the remaining system-wide actuarially determined contribution plus administration costs which are apportioned among the employers based on active covered payroll. The contributions of plan members and the Town are governed by Chapter 32 of the Massachusetts General Laws. The Town's contributions to the System for the years ended June 30, 2010, 2009, and 2008 were \$ 683,335, \$ 644,546, and \$ 631,370, respectively, which were equal to its annual required contributions for each of these years.

*C. Teachers*

As required by State statutes, teachers of the Town are covered by the Massachusetts Teachers Retirement System (MTRS). The MTRS is funded by contributions from covered employees and the Commonwealth of Massachusetts. The Town is not required to contribute.

All persons employed on at least a half-time basis, who are covered under a contractual agreement requiring certification by the Board of Education are eligible, and must participate in the MTRS.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earnings into the pension fund. The percentage is determined by the participants date of entry into the system and gross earnings, up to \$ 30,000, as follows:

|                                     |     |
|-------------------------------------|-----|
| Before January 1, 1975              | 5%  |
| January 1, 1975 - December 31, 1983 | 7%  |
| January 1, 1984 - June 30, 1996     | 8%  |
| July 1, 1996 – June 30, 2001        | 9%  |
| Beginning July 1, 2001              | 11% |

Effective January 1, 1990, all participants hired after January 1, 1979, must pay an additional 2% of salary in excess of \$ 30,000. The Town's current year covered payroll for teachers was not available.

In fiscal year 2010, the Commonwealth of Massachusetts contributed \$ 1,924,261 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

## **17. Risk Management**

The government is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance. There were no significant reductions in insurance coverage from the previous year and have been no material settlements in excess of coverage in any of the past three fiscal years.

**TOWN OF LEE, MASSACHUSETTS**  
**SCHEDULE OF FUNDING PROGRESS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**June 30, 2010**  
**(Unaudited)**  
**(amounts expressed in thousands)**

| <b>Other Post-Employment Benefits</b> |   |   |   |                                 |                                  |   |
|---------------------------------------|---|---|---|---------------------------------|----------------------------------|---|
| Actuarial<br>Valuation<br><u>Date</u> | Actuarial<br>Value of<br>Assets<br><u>(a)</u> | Actuarial<br>Accrued<br>Liability<br>(AAL) -<br>Entry Age<br><u>(b)</u> | Unfunded<br>AAL<br>(UAAL)<br><u>(b-a)</u> | Funded<br>Ratio<br><u>(a/b)</u> | Covered<br>Payroll<br><u>(c)</u> | UAAL as<br>a percent-<br>age of<br>Covered<br>Payroll<br><u>[(b-a)/c]</u> |
| 06/30/08                              | \$ -  | \$ 26,655   | \$ 26,655                                 | 0.0%                            | not available                    | N/A   |

See Independent Auditor's Report.