

**TOWN OF LEE, MASSACHUSETTS**

**Annual Financial Statements**

**For the Year Ended June 30, 2012**

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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, each major fund, and the aggregate remaining fund information of the Town of Lee, Massachusetts, as of and for the year ended June 30, 2012, 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lee, as of June 30, 2012, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 21, 2013 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.

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

*Melanson Heath + Company P.C.*

June 21, 2013

## **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, 2012.

### **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 compli-

ance 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 \$ 32,729,746 (i.e., net assets), a decrease of \$ (988,177) 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 \$ 6,463,840, an increase of \$ 272,765 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 2,069,569, an increase of \$ 237,321 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 \$ 31,865,845, a decrease of \$ (1,579,923) 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:

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Current and other assets	\$ 7,658,781	\$ 7,329,670	\$ 4,622,576	\$ 4,680,959	\$ 12,281,357	\$ 12,010,629
Capital assets	<u>25,597,240</u>	<u>26,031,343</u>	<u>32,838,219</u>	<u>34,042,543</u>	<u>58,435,459</u>	<u>60,073,886</u>
Total Assets	33,256,021	33,361,013	37,460,795	38,723,502	70,716,816	72,084,515
Long-term liabilities outstanding	15,429,404	14,948,880	21,748,094	22,465,305	37,177,498	37,414,185
Other liabilities	<u>478,857</u>	<u>583,380</u>	<u>330,715</u>	<u>369,027</u>	<u>809,572</u>	<u>952,407</u>
Total Liabilities	15,908,261	15,532,260	22,078,809	22,834,332	37,987,070	38,366,592
Net assets:						
Invested in capital assets, net	15,304,643	14,933,298	11,392,374	11,778,399	26,697,017	26,711,697
Restricted	1,977,759	1,408,873	-	-	1,977,759	1,408,873
Unrestricted	<u>65,358</u>	<u>1,486,582</u>	<u>3,989,612</u>	<u>4,110,771</u>	<u>4,054,970</u>	<u>5,597,353</u>
Total Net Assets	\$ <u>17,347,760</u>	\$ <u>17,828,753</u>	\$ <u>15,381,986</u>	\$ <u>15,889,170</u>	\$ <u>32,729,746</u>	\$ <u>33,717,923</u>

## CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,601,955	\$ 2,662,902	\$ 2,845,618	\$ 2,792,398	\$ 5,447,573	\$ 5,455,300
Operating grants and contributions	6,207,029	6,267,059	-	-	6,207,029	6,267,059
Capital grants and contributions	929,280	923,626	14,512	557,732	943,792	1,481,358
General revenues:						
Property taxes	11,851,122	11,602,777	-	-	11,851,122	11,602,777
Excises	1,042,993	1,000,043	-	-	1,042,993	1,000,043
Penalties, interest and other taxes	94,471	89,047	-	-	94,471	89,047
Grants and contributions not restricted	668,192	649,531	-	-	668,192	649,531
Investment income	16,272	20,469	25,018	39,764	41,290	60,233
Other	159,173	99,682	4,630	7,038	163,803	106,720
Total Revenues	23,570,487	23,315,136	2,889,778	3,396,932	26,460,265	26,712,068
Expenses:						
General government	958,635	1,212,503	-	-	958,635	1,212,503
Public safety	2,309,016	2,141,822	-	-	2,309,016	2,141,822
Education	12,528,764	12,904,854	-	-	12,528,764	12,904,854
Public works	1,727,982	799,817	-	-	1,727,982	799,817
Health and human services	470,504	516,112	-	-	470,504	516,112
Culture and recreation	367,258	330,099	-	-	367,258	330,099
Employee benefits	4,624,574	4,401,306	-	-	4,624,574	4,401,306
Insurance	104,810	119,894	-	-	104,810	119,894
Interest on long-term debt	463,895	484,880	-	-	463,895	484,880
Intergovernmental	496,042	492,405	-	-	496,042	492,405
Water operations	-	-	1,521,014	1,373,673	1,521,014	1,373,673
Sewer operations	-	-	1,875,948	1,867,159	1,875,948	1,867,159
Total expenses	24,051,480	23,403,692	3,396,962	3,240,832	27,448,442	26,644,524
Change in net assets	(480,993)	(88,556)	(507,184)	156,100	(988,177)	67,544
Net assets - beginning of year	17,828,753	17,917,309	15,889,170	15,733,070	33,717,923	33,650,379
Net assets - end of year	\$ 17,347,760	\$ 17,828,753	\$ 15,381,986	\$ 15,889,170	\$ 32,729,746	\$ 33,717,923

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 \$ 32,729,746, a decrease of \$ (988,177) from the prior year.

The largest portion of net assets, \$ 26,697,017, 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, \$ 1,977,759 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net assets, \$ 4,054,970, 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 \$ (480,993). Key elements of this change are as follows:

- Fund basis excess of revenues and other sources over expenditures and other uses of \$ 272,765, which is further discussed in the governmental funds section.
- Depreciation expense (not budgeted for) in excess of principal debt expense (included in budget) of \$ (433,649).
- Capital additions, net of disposals, of \$ 799,546 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 \$ (1,311,329).
- Other revenue and expense accruals of \$ 191,674.

**Business-Type Activities.** Business-type activities for the year resulted in a decrease in net assets of \$ (507,184). Key elements of this change are as follows:

- Water operations decrease of \$ (465,793), resulting from:
  - Revenues in excess of budget by \$ 7,264.
  - Use of surplus anticipated in budget \$ (127,250).
  - Expenditures (on a budgetary basis) under amounts appropriated of \$ 19,080.
  - Depreciation expense (not budgeted) in excess of principal debt expenditures (included in budget) of \$ (712,949).
  - Grant revenue used for capital projects of \$ 14,512.
  - Notes payable proceeds of \$ 332,909.
  - Other revenue/expenditure accruals of \$ 641.
- Sewer operations decrease of \$ (41,391), resulting from:
  - Revenues under budget by \$ (56,301).
  - Use of surplus anticipated in budget of \$ (339,551).

- Expenditures (on a budgetary basis) under amounts appropriated of \$ 35,929.
- Depreciation expense (not budgeted for) less than principal debt expenditures (included in budget) of \$ 262,489.
- Other revenue/expenditure accruals of \$ 56,043.

#### **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, unassigned 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 \$ 6,463,840, a change of \$ 272,765 in comparison to the prior year. Key elements of this change are as follows:

	Fund Balance <u>Governmental Funds</u>
<u>General Fund Operating Results</u>	
Shortfall of tax collections compared to budget	\$ (34,047)
Excess of State and local revenues over budget	314,069
Budgetary appropriations unspent by departments	544,861
Use of free cash (fund balance) as a funding source	(588,408)
Use of bond premium set aside to offset debt expense	(7,745)
Other GAAP adjustments	(6,000)
Change in stabilization funds	106,939
<u>Timing Differences</u>	
Difference between current year encumbrances to be spent in a subsequent period and prior year encumbrances spent in the current year	<u>(221,636)</u>
Sub-total - General Fund results	108,033
<u>Timing Differences (Other Funds)</u>	
Special revenue fund revenues and transfers in over expenditures and transfers out	118,206
Capital project fund revenues over expenditures	5,447
Expendable trust fund revenues and transfers in	39,679
Permanent non-expendable trust fund transfers in	<u>1,400</u>
Total	<u>\$ 272,765</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 2,069,569, while total fund balance was \$ 4,868,444. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below.

<u>General Fund</u>	<u>2012</u>	<u>2011</u>	<u>Change</u>	% of Total 2012 General Fund Expenditures
Unassigned fund balance	\$ 2,069,569	\$ 1,832,248	\$ 237,321	10.9%
Total fund balance	4,868,444	4,760,411	108,033	25.6%

**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 \$ 3,989,612, a decrease of \$ (391,159) 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 \$ 65,838, which was to replace the highway garage roof and insulation. The increase was funded by a transfer from the Insurance Proceeds Fund.

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

**Capital assets.** Total investment in capital assets for governmental and business-type activities at year end amounted to \$ 58,435,459 (net of accumulated depreciation), a decrease of \$ (1,638,427) 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:

- Construction in progress of \$ 571,444 (governmental) consisting of East Side parking lot \$ 514,262; Meadow Street bridge \$ 5,099; and thermal efficiency project fire station \$ 52,083. \$ 1,264,338 of governmental construction in progress was completed and capitalized.

- Construction in progress of \$ 26,059 (business-type) including \$ 12,287 for a water tank painting project and \$ 13,772 for a solar project, which was completed and the total cumulative cost of \$ 708,945 was capitalized.
- Vehicle and equipment purchases of \$ 126,872 (governmental).
- Infrastructure improvements of \$ 123,639 (governmental).
- Depreciation expense of \$ (1,233,649) for governmental and \$ (1,230,383) for business-type assets.
- Disposals, net of accumulated depreciation, of \$ (22,409) (governmental).

**Long-term debt.** At the end of the current fiscal year, total bonded debt and long-term notes outstanding was \$ 31,865,845, 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, 2012

	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
Current:			
Cash and short-term investments	\$ 6,692,820	\$ 3,827,821	\$ 10,520,641
Receivables, net of allowance for uncollectibles:			
Property taxes	321,312	-	321,312
Excises	43,654	-	43,654
User fees and departmental	420,605	778,716	1,199,321
Intergovernmental	85,620	16,039	101,659
Noncurrent:			
Receivables, net of allowance for uncollectibles:			
Property taxes	94,770	-	94,770
Capital assets, land and construction in progress	2,512,362	12,287	2,524,649
Capital assets, net of accumulated depreciation	<u>23,084,878</u>	<u>32,825,932</u>	<u>55,910,810</u>
<b>TOTAL ASSETS</b>	<b>33,256,021</b>	<b>37,460,795</b>	<b>70,716,816</b>
<b>LIABILITIES</b>			
Current:			
Warrants payable	173,550	53,210	226,760
Accrued payroll and withholdings	157,751	6,243	163,994
Accrued interest payable	109,691	271,262	380,953
Other current liabilities	37,865	-	37,865
Current portion of long-term liabilities:			
Notes payable	-	63,000	63,000
Bonds payable	805,000	1,072,623	1,877,623
Capital leases	65,090	-	65,090
Noncurrent:			
Note payable, net of current portion	-	367,386	367,386
Bonds payable, net of current portion	9,555,000	20,002,836	29,557,836
Capital leases, net of current portion	11,042	-	11,042
Net OPEB obligation	<u>4,993,272</u>	<u>242,249</u>	<u>5,235,521</u>
<b>TOTAL LIABILITIES</b>	<b>15,908,261</b>	<b>22,078,809</b>	<b>37,987,070</b>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	15,304,643	11,392,374	26,697,017
Restricted for:			
State and federal grants	1,549,384	-	1,549,384
Permanent funds:			
Nonexpendable	188,020	-	188,020
Expendable	199,280	-	199,280
Other purposes	41,075	-	41,075
Unrestricted	<u>65,358</u>	<u>3,989,612</u>	<u>4,054,970</u>
<b>TOTAL NET ASSETS</b>	<b>\$ <u>17,347,760</u></b>	<b>\$ <u>15,381,986</u></b>	<b>\$ <u>32,729,746</u></b>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expenses) Revenues and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
<b>Governmental Activities:</b>							
General government	\$ 958,635	\$ 82,263	\$ 19,506	\$ -	\$ (856,866)	\$ -	\$ (856,866)
Public safety	2,309,016	652,986	437,903	-	(1,218,127)	-	(1,218,127)
Education	12,528,764	1,445,739	5,571,402	-	(5,511,623)	-	(5,511,623)
Public works	1,727,982	241,041	-	929,280	(557,661)	-	(557,661)
Health and human services	470,504	179,345	118,089	-	(173,070)	-	(173,070)
Culture and recreation	367,258	581	9,523	-	(357,154)	-	(357,154)
Employee benefits	4,624,574	-	50,606	-	(4,573,968)	-	(4,573,968)
Insurance	104,810	-	-	-	(104,810)	-	(104,810)
Interest	463,895	-	-	-	(463,895)	-	(463,895)
Intergovernmental	496,042	-	-	-	(496,042)	-	(496,042)
Total Governmental Activities	24,051,480	2,601,955	6,207,029	929,280	(14,313,216)	-	(14,313,216)
<b>Business-Type Activities:</b>							
Water services	1,521,014	1,036,669	-	14,512	-	(469,833)	(469,833)
Sewer services	1,875,948	1,808,949	-	-	-	(66,999)	(66,999)
Total Business-Type Activities	3,396,962	2,845,618	-	14,512	-	(536,832)	(536,832)
Total All Activities	\$ 27,448,442	\$ 5,447,573	\$ 6,207,029	\$ 943,792	(14,313,216)	(536,832)	(14,850,048)
<b>General Revenues:</b>							
Property taxes					11,851,122	-	11,851,122
Excises					1,042,993	-	1,042,993
Penalties, interest and other taxes					94,471	-	94,471
Grants and contributions not restricted to specific programs					668,192	-	668,192
Investment income					16,272	25,018	41,290
Miscellaneous					159,173	4,630	163,803
Total general revenues					13,832,223	29,648	13,861,871
Change in Net Assets					(480,993)	(507,184)	(988,177)
<b>Net Assets:</b>							
Beginning of year					17,828,753	15,889,170	33,717,923
End of year					\$ 17,347,760	\$ 15,381,986	\$ 32,729,746

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2012

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>			
Cash and short-term investments	\$ 5,126,441	\$ 1,566,379	\$ 6,692,820
Receivables:			
Property taxes	590,832	-	590,832
Excises	46,634	-	46,634
Departmental and other	3,248	596,225	599,473
Intergovernmental	-	85,620	85,620
<b>TOTAL ASSETS</b>	<b>\$ 5,767,155</b>	<b>\$ 2,248,224</b>	<b>\$ 8,015,379</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Warrants payable	\$ 127,602	\$ 45,948	\$ 173,550
Accrued payroll and withholdings	147,096	10,655	157,751
Deferred revenues	586,148	596,225	1,182,373
Other liabilities	37,865	-	37,865
<b>TOTAL LIABILITIES</b>	<b>898,711</b>	<b>652,828</b>	<b>1,551,539</b>
Fund Balances:			
Reserved for:			
Nonspendable	-	188,020	188,020
Restricted	-	1,403,194	1,403,194
Committed	2,140,489	4,182	2,144,671
Assigned	658,386	-	658,386
Unassigned	2,069,569	-	2,069,569
<b>TOTAL FUND BALANCES</b>	<b>4,868,444</b>	<b>1,595,396</b>	<b>6,463,840</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,767,155</b>	<b>\$ 2,248,224</b>	<b>\$ 8,015,379</b>

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, 2012

<b>Total Governmental Fund Balances</b>	\$ 6,463,840
<ul style="list-style-type: none"><li>• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</li></ul>	25,597,240
<ul style="list-style-type: none"><li>• Revenues are reported on the accrual basis of accounting and are not deferred until collection.</li></ul>	1,182,373
<ul style="list-style-type: none"><li>• In addition, an allowance for uncollectible accounts is reported under the accrual basis of accounting.</li></ul>	(356,598)
<ul style="list-style-type: none"><li>• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.</li></ul>	(109,691)
<ul style="list-style-type: none"><li>• Long-term liabilities, including long-term bonds payable, leases and other post-employment benefits are not due and payable in the current period and, therefore are not reported in the governmental funds.</li></ul>	<u>(15,429,404)</u>
<b>Net Assets of Governmental Activities</b>	<u><u>\$ 17,347,760</u></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, 2012

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>			
Property taxes	\$ 11,798,392	\$ -	\$ 11,798,392
Excises	1,038,720	-	1,038,720
Penalties, interest and other taxes	94,471	-	94,471
Charges for services	509,050	1,933,256	2,442,306
Intergovernmental	5,485,117	2,319,384	7,804,501
Licenses and permits	21,189	-	21,189
Fines and forfeitures	42,833	-	42,833
Investment income	16,272	-	16,272
Miscellaneous	<u>181,582</u>	<u>-</u>	<u>181,582</u>
Total Revenues	19,187,626	4,252,640	23,440,266
<b>Expenditures:</b>			
Current:			
General government	851,593	13,635	865,228
Public safety	1,384,797	930,238	2,315,035
Education	9,931,686	1,838,722	11,770,408
Public works	1,216,927	1,013,994	2,230,921
Health and human services	171,436	282,818	454,254
Culture and recreation	330,732	14,692	345,424
Employee benefits	3,313,245	-	3,313,245
Insurance	104,810	-	104,810
Debt service	1,239,309	32,825	1,272,134
Intergovernmental	<u>496,042</u>	<u>-</u>	<u>496,042</u>
Total Expenditures	<u>19,040,577</u>	<u>4,126,924</u>	<u>23,167,501</u>
Excess (deficiency) of revenues over expenditures	147,049	125,716	272,765
<b>Other Financing Sources (Uses):</b>			
Transfers in	78,268	118,684	196,952
Transfers out	<u>(117,284)</u>	<u>(79,668)</u>	<u>(196,952)</u>
Total Other Financing Sources (Uses)	<u>(39,016)</u>	<u>39,016</u>	<u>-</u>
Change in fund balance	108,033	164,732	272,765
Fund Equity, at Beginning of Year	<u>4,760,411</u>	<u>1,430,664</u>	<u>6,191,075</u>
Fund Equity, at End of Year	<u>\$ 4,868,444</u>	<u>\$ 1,595,396</u>	<u>\$ 6,463,840</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, 2012

<b>Net Changes in Fund Balances - Total Governmental Funds</b>	<b>\$ 272,765</b>												
<ul style="list-style-type: none"> <li>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: <table> <tr> <td>Capital outlay purchases</td><td style="text-align: right;">821,955</td></tr> <tr> <td>Depreciation expense</td><td style="text-align: right;">(1,233,649)</td></tr> <tr> <td>Net values of disposals</td><td style="text-align: right;">(22,409)</td></tr> </table> </li> <li>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. <div style="text-align: right;">152,630</div> </li> <li>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: <table> <tr> <td>Repayments of debt</td><td style="text-align: right;">800,000</td></tr> <tr> <td>Issuance of capital lease</td><td style="text-align: right;">(33,153)</td></tr> <tr> <td>Repayments of leases</td><td style="text-align: right;">63,958</td></tr> </table> </li> <li>In the Statement of Activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. <div style="text-align: right;">8,239</div> </li> <li>Other post-employment benefits (OPEB), do not require the use of current resources and therefore, are not reported as expenditures in the governmental funds. <div style="text-align: right;"><u>(1,311,329)</u></div> </li> </ul>	Capital outlay purchases	821,955	Depreciation expense	(1,233,649)	Net values of disposals	(22,409)	Repayments of debt	800,000	Issuance of capital lease	(33,153)	Repayments of leases	63,958	
Capital outlay purchases	821,955												
Depreciation expense	(1,233,649)												
Net values of disposals	(22,409)												
Repayments of debt	800,000												
Issuance of capital lease	(33,153)												
Repayments of leases	63,958												
<b>Change in Net Assets of Governmental Activities</b>	<b>\$ <u>(480,993)</u></b>												

See notes to financial statements.

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, 2012

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
<b>Revenues and Other Sources:</b>				
Taxes	\$ 11,832,439	\$ 11,832,439	\$ 11,832,439	\$ -
Excise	902,487	902,487	1,038,720	136,233
Penalties, interest and other taxes	93,500	93,500	94,471	971
Charges for services	488,569	488,569	509,050	20,481
Intergovernmental	3,211,872	3,211,872	3,242,619	30,747
Licenses and permits	19,700	19,700	21,189	1,489
Fines and forfeits	40,000	40,000	42,833	2,833
Investment income	10,600	10,600	9,333	(1,267)
Miscellaneous	59,000	59,000	181,582	122,582
Transfers in	12,430	78,268	78,268	-
Other sources	<u>596,153</u>	<u>596,153</u>	<u>596,153</u>	<u>-</u>
Total Revenues and Other Sources	17,266,750	17,332,588	17,646,657	314,069
<b>Expenditures and Other Uses:</b>				
General government	917,234	875,713	802,776	72,937
Public safety	1,488,057	1,466,285	1,379,341	86,944
Education	7,693,288	7,693,288	7,689,188	4,100
Public works	1,101,252	1,203,658	1,041,543	162,115
Health and human services	169,956	175,756	174,155	1,601
Culture and recreation	318,934	336,656	336,034	622
Employee benefits	3,490,533	3,490,533	3,313,245	177,288
Debt service	1,234,059	1,234,059	1,233,309	750
Intergovernmental	492,583	492,583	496,042	(3,459)
Insurance	143,570	146,773	104,810	41,963
Transfers out and other uses	<u>217,284</u>	<u>217,284</u>	<u>217,284</u>	<u>-</u>
Total Expenditures and Other Uses	<u>17,266,750</u>	<u>17,332,588</u>	<u>16,787,727</u>	<u>544,861</u>
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>-</u>	\$ <u>-</u>	\$ <u>858,930</u>	\$ <u>858,930</u>

See notes to financial statements.

## TOWN OF LEE, MASSACHUSETTS

## PROPRIETARY FUNDS

## STATEMENT OF NET ASSETS

JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b><u>ASSETS</u></b>			
Current:			
Cash and short-term investments	\$ 993,668	\$ 2,834,153	\$ 3,827,821
User fees, net of allowance for uncollectables	301,013	477,703	778,716
Intergovernmental receivables	-	16,039	16,039
Total current assets	1,294,681	3,327,895	4,622,576
Noncurrent:			
Capital assets, land and construction in progress	12,287	-	12,287
Capital assets, net of accumulated depreciation	10,681,764	22,144,168	32,825,932
Total noncurrent assets	10,694,051	22,144,168	32,838,219
<b>TOTAL ASSETS</b>	<b>11,988,732</b>	<b>25,472,063</b>	<b>37,460,795</b>
<b><u>LIABILITIES</u></b>			
Current:			
Warrants payable	23,820	29,390	53,210
Accrued payroll	5,255	988	6,243
Accrued interest payable	120,296	150,966	271,262
Current portion of long-term liabilities:			
Notes payable	63,000	-	63,000
Bonds payable	106,698	965,925	1,072,623
Total current liabilities	319,069	1,147,269	1,466,338
Noncurrent:			
Notes payable, net of current portion	367,386	-	367,386
Bonds payable, net of current portion	4,439,996	15,562,840	20,002,836
Net OPEB obligation	130,860	111,389	242,249
Total noncurrent liabilities	4,938,242	15,674,229	20,612,471
<b>TOTAL LIABILITIES</b>	<b>5,257,311</b>	<b>16,821,498</b>	<b>22,078,809</b>
<b><u>NET ASSETS</u></b>			
Invested in capital assets, net of related debt	5,716,971	5,675,403	11,392,374
Unrestricted	1,014,450	2,975,162	3,989,612
<b>TOTAL NET ASSETS</b>	<b>\$ 6,731,421</b>	<b>\$ 8,650,565</b>	<b>\$ 15,381,986</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, 2012

	Business-Type Activities - Enterprise Funds		
	Water <u>Fund</u>	Sewer <u>Fund</u>	<u>Total</u>
<b>Operating Revenues:</b>			
Charges for services	\$ 1,036,669	\$ 1,813,579	\$ 2,850,248
Total Operating Revenues	1,036,669	1,813,579	2,850,248
<b>Operating Expenses:</b>			
Salaries and wages	400,133	328,854	728,987
Operating expenses	115,321	393,357	508,678
Materials and supplies	133,408	83,903	217,311
Depreciation	545,777	684,606	1,230,383
Capital outlay	102,746	9,451	112,197
Other	16,504	19,550	36,054
Total Operating Expenses	1,313,889	1,519,721	2,833,610
Operating Income (Loss)	(277,220)	293,858	16,638
<b>Nonoperating Revenues (Expenses):</b>			
Investment income	4,040	20,978	25,018
Intergovernmental revenue	14,512	-	14,512
Interest expense	(207,125)	(356,227)	(563,352)
Total Nonoperating Revenues (Expenses), Net	(188,573)	(335,249)	(523,822)
Change in Net Assets	(465,793)	(41,391)	(507,184)
Net Assets at Beginning of Year	7,197,214	8,691,956	15,889,170
Net Assets at End of Year	\$ 6,731,421	\$ 8,650,565	\$ 15,381,986

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2012

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Total
<b><u>Cash Flows From Operating Activities:</u></b>			
Receipts from customers and users	\$ 992,154	\$ 1,741,701	\$ 2,733,855
Payments to vendors and employees	<u>(715,459)</u>	<u>(797,762)</u>	<u>(1,513,221)</u>
Net Cash Provided By Operating Activities	276,695	943,939	1,220,634
<b><u>Cash Flows From Capital and Related Financing Activities:</u></b>			
Receipt of MWPAT grant funds	14,512	-	14,512
Proceeds from long term notes	332,909	-	332,909
Acquisition and construction of capital assets	(26,059)	-	(26,059)
Principal payments on bonds	(165,737)	(943,584)	(1,109,321)
Interest payments	<u>(210,812)</u>	<u>(364,772)</u>	<u>(575,584)</u>
Net Cash (Used For) Capital and Related Financing Activities	(55,187)	(1,308,356)	(1,363,543)
<b><u>Cash Flows From Investing Activities:</u></b>			
Investment income	<u>4,040</u>	<u>20,978</u>	<u>25,018</u>
Net Cash Provided By Investing Activities	<u>4,040</u>	<u>20,978</u>	<u>25,018</u>
Net Change in Cash and Short-Term Investments	225,548	(343,439)	(117,891)
Cash and Short Term Investments, Beginning of Year	<u>768,120</u>	<u>3,177,592</u>	<u>3,945,712</u>
Cash and Short Term Investments, End of Year	<u><u>\$ 993,668</u></u>	<u><u>\$ 2,834,153</u></u>	<u><u>\$ 3,827,821</u></u>
<b><u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:</u></b>			
Operating income (loss)	\$ (277,220)	\$ 293,858	\$ 16,638
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:			
Depreciation	545,777	684,606	1,230,383
Changes in assets and liabilities:			
User fees	(44,515)	(71,878)	(116,393)
Warrants and accounts payable	19,256	8,038	27,294
Other post employment benefits	<u>33,397</u>	<u>29,315</u>	<u>62,712</u>
Net Cash Provided By Operating Activities	<u><u>\$ 276,695</u></u>	<u><u>\$ 943,939</u></u>	<u><u>\$ 1,220,634</u></u>

See notes to financial statements.

TOWN OF LEE, MASSACHUSETTS

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2012

	Private Purpose Trust Funds	Agency Funds
<b><u>ASSETS</u></b>		
Cash and short-term investments	\$ <u>220,301</u>	\$ <u>156,914</u>
Total Assets	220,301	156,914
<b><u>LIABILITIES AND NET ASSETS</u></b>		
Warrants payable	50	2,168
Deposits held in custody	-	146,619
Other liabilities	<u>-</u>	<u>8,127</u>
Total Liabilities	<u>50</u>	<u>156,914</u>
<b><u>NET ASSETS</u></b>		
Total net assets held in trust	\$ <u><u>220,251</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, 2012

	Private Purpose <u>Trust Funds</u>
<b>Additions:</b>	
Contributions	\$ 29,365
Investment income	<u>1,031</u>
Total additions	30,396
<b>Deductions:</b>	
Scholarships	<u>20,851</u>
Total deductions	<u>20,851</u>
Net change	9,545
<b>Net assets:</b>	
Beginning of year	<u>210,706</u>
End of year	\$ <u><u>220,251</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 2012, 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 2012 tax levy reflected an excess capacity of \$ 873,576.

*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. Ac-

cordingly, 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*

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net assets”.

Fund Balance - Generally, fund balance represents the difference between the current assets and current liabilities. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods.

The Town's fund balance classification policies and procedures are as follows:

- 1) Nonspendable funds are either unspendable in the current form (i.e. inventory or prepaid items) or can never be spent (i.e. perpetual care).
- 2) Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- 3) Committed funds are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., Town Meeting).
- 4) Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- 5) Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Assets - Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net assets are reported as unrestricted.

#### *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>	Revenues and Other <u>Financing Sources</u>	Expenditures and Other <u>Financing Uses</u>
Revenues/Expenditures (GAAP basis)	\$ 19,187,626	\$ 19,040,577
Other financing sources/uses (GAAP basis)	78,268	117,284
To remove effect of combining stabilization and general fund per GASB 54	(6,939)	100,000
Adjust tax revenue to accrual basis	34,047	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(748,973)
Add end of year appropriation carryforwards to expenditures	-	527,337
To reverse the effect of non-budgeted State contributions for teachers retirement	(2,242,498)	(2,242,498)
Other GAAP accruals	-	(6,000)
Recognize use of fund balance as funding source	<u>596,153</u>	<u>-</u>
Budgetary basis	<u>\$ 17,646,657</u>	<u>\$ 16,787,727</u>

### 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, 2012, \$ 172,093 of the Town's bank balance of \$ 11,156,124 was exposed to custodial credit risk as uninsured, uncollateralized, and/or 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, 2012 consist of the following:

Real Estate		
2010 and prior	\$ (429)	
2011	15,097	
2012	<u>304,108</u>	318,776
Personal Property		
2011 and earlier	(1,625)	
2012	<u>4,122</u>	2,497
Deferred Taxes		19,546
Tax Liens, Foreclosures and Taxes in Litigation		<u>250,013</u>
Total		<u>\$ 590,832</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-Type</u>
Real estate, personal property and deferred taxes	\$ 19,507	\$ -
Tax liens and other noncurrent taxes	155,243	-
Excises	2,980	-
Ambulance	178,868	-
Utilities	-	86,374

**6. Intergovernmental Receivables**

The balance reported in the governmental funds represents reimbursements requested from Federal and State agencies for expenditures incurred in fiscal 2012.

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, 2012 was as follows (in thousands):

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Convert CIP</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>					
Capital assets, being depreciated:					
Buildings and improvements	\$ 29,191	\$ -	\$ -	\$ 83	\$ 29,274
Land improvements	-	-	-	1,181	1,181
Machinery, equipment, and furnishings	5,906	127	(169)	-	5,864
Infrastructure	<u>2,159</u>	<u>124</u>	<u>-</u>	<u>-</u>	<u>2,283</u>
Total capital assets, being depreciated	37,256	251	(169)	1,264	38,602
Less accumulated depreciation for:					
Buildings and improvements	(8,981)	(728)	-	-	(9,709)
Land improvements	-	(59)	-	-	(59)
Machinery, equipment, and furnishings	(4,631)	(389)	146	-	(4,874)
Infrastructure	<u>(818)</u>	<u>(57)</u>	<u>-</u>	<u>-</u>	<u>(875)</u>
Total accumulated depreciation	<u>(14,430)</u>	<u>(1,233)</u>	<u>146</u>	<u>-</u>	<u>(15,517)</u>
Total capital assets, being depreciated, net	22,826	(982)	(23)	1,264	23,085
Capital assets, not being depreciated:					
Land	2,457	-	-	-	2,457
Construction in progress (CIP)	<u>748</u>	<u>571</u>	<u>-</u>	<u>(1,264)</u>	<u>55</u>
Total capital assets, not being depreciated	<u>3,205</u>	<u>571</u>	<u>-</u>	<u>(1,264)</u>	<u>2,512</u>
Governmental activities capital assets, net	<u>\$ 26,031</u>	<u>\$ (411)</u>	<u>\$ (23)</u>	<u>\$ -</u>	<u>\$ 25,597</u>
<b>Business-Type Activities:</b>					
Capital assets, being depreciated:					
Buildings and improvements	\$ 27,509	\$ -	\$ -	\$ -	\$ 27,509
Machinery, equipment, and furnishings	2,667	-	-	-	2,667
Infrastructure	<u>22,941</u>	<u>-</u>	<u>-</u>	<u>709</u>	<u>23,650</u>
Total capital assets, being depreciated	53,117	-	-	709	53,826
Less accumulated depreciation for:					
Buildings and improvements	(4,005)	(662)	-	-	(4,667)
Machinery, equipment, and furnishings	(1,945)	(118)	-	-	(2,063)
Infrastructure	<u>(13,820)</u>	<u>(450)</u>	<u>-</u>	<u>-</u>	<u>(14,270)</u>
Total accumulated depreciation	<u>(19,770)</u>	<u>(1,230)</u>	<u>-</u>	<u>-</u>	<u>(21,000)</u>
Total capital assets, being depreciated, net	33,347	(1,230)	-	709	32,826
Capital assets, not being depreciated:					
Construction in progress (CIP)	<u>695</u>	<u>26</u>	<u>-</u>	<u>(709)</u>	<u>12</u>
Total capital assets, not being depreciated	<u>695</u>	<u>26</u>	<u>-</u>	<u>(709)</u>	<u>12</u>
Business-type activities capital assets, net	<u>\$ 34,042</u>	<u>\$ (1,204)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,838</u>

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities:	
General government	\$ 93,407
Public safety	101,320
Education	822,314
Public works	140,061
Human services	16,250
Culture and recreation	<u>60,297</u>
Total depreciation expense - governmental activities	<u>\$ 1,233,649</u>
Business-Type Activities:	
Water	\$ 545,777
Sewer	<u>684,606</u>
Total depreciation expense - business-type activities	<u>\$ 1,230,383</u>

#### 8. **Warrants Payable**

Warrants payable represent 2012 expenditures paid by July 15, 2012 as permitted by law.

#### 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, 2012 receivable balances, except property taxes that are accrued for subsequent 60 day collections.

#### 10. **Capital and Operating Lease Obligations**

The Town is the lessee of certain equipment under capital and operating leases expiring in various years through fiscal year 2015. Future minimum lease payments under the capital and operating leases consisted of the following as of June 30, 2012:

Fiscal Year	Capital Lease	Operating Lease
2013	\$ 68,486	\$ 28,925
2014	12,681	28,925
2015	-	24,193
Total minimum lease payments	81,167	82,043
Less amounts representing interest	(5,035)	-
	<u>\$ 76,132</u>	<u>\$ 82,043</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 Maturities Through	Interest Rate(s) %	Amount Outstanding as of June 30, 2012
<u>Governmental Activities:</u>			
<u>Bonds Payable:</u>			
High school	05/01/21	3.00 - 4.00	\$ 2,010,000
Elementary school	12/15/22	3.99	<u>8,350,000</u>
Total Governmental Activities Debt			<u>\$ 10,360,000</u>
<u>Business-Type Activities:</u>			
<u>Bonds Payable:</u>			
Sewer plant (MWPAT)	08/01/15	1.00 - 2.00	\$ 60,000
Sewer plant (MWPAT #5-35)	07/15/26	2.00	16,468,765
Water filtration (#1)	04/10/35	4.50	1,292,992
Water filtration (#2)	10/06/35	4.50	241,598
Water filtration (#3)	10/06/36	4.50	<u>3,012,104</u>
Total Bonds Payable			21,075,459
<u>Notes Payable:</u>			
Water system improvement note*	06/07/13	0.55	<u>430,386</u>
Total Business-Type Activities Debt			<u>\$ 21,505,845</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 2012 and due in fiscal year 2013.

**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 Loan</u>	<u>Principal Subsidy</u>	<u>Net Repayments</u>	<u>Balance June 30, 2012</u>
Loan #98-146	\$ 196,459	\$ (46,652)	\$ 149,807	\$ 60,000

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, 2012 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	915,000	330,634	1,245,634
2017	960,000	291,734	1,251,734
2018 - 2022	5,005,000	833,260	5,838,260
2023 - 2027	955,000	20,891	975,891
Total	<u>\$ 10,360,000</u>	<u>\$ 2,669,583</u>	<u>\$ 13,029,583</u>

<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,146,489	450,601	1,597,090
2017	1,157,366	424,723	1,582,089
2018 - 2022	6,198,747	1,711,705	7,910,452
2023 - 2027	6,953,267	957,186	7,910,453
2028 and thereafter	<u>2,329,081</u>	<u>579,843</u>	<u>2,908,924</u>
Total	<u>\$ 21,075,459</u>	<u>\$ 5,625,489</u>	<u>\$ 26,700,948</u>

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

During the year ended June 30, 2012, the following changes occurred in long-term liabilities (in thousands):

	Total Balance <u>July 1, 2011</u>	<u>Additions</u>	<u>Reductions</u>	Total Balance <u>June 30, 2012</u>	Less Current Portion	Equals Long-Term Portion <u>June 30, 2012</u>
<u>Governmental Activities</u>						
Bonds payable	\$ 11,160	\$ -	\$ (800)	\$ 10,360	\$ (805)	\$ 9,555
Leases payable	107	33	(64)	76	(65)	11
OPEB liability	<u>3,682</u>	<u>1,311</u>	<u>-</u>	<u>4,993</u>	<u>-</u>	<u>4,993</u>
Total Governmental Activities	<u>\$ 14,949</u>	<u>\$ 1,344</u>	<u>\$ (864)</u>	<u>\$ 15,429</u>	<u>\$ (870)</u>	<u>\$ 14,559</u>
<u>Business-Type Activities</u>						
Long-term notes payable	\$ 161	\$ 333	\$ (64)	\$ 430	\$ (63)	\$ 367
Bonds payable	22,125	-	(1,049)	21,076	(1,073)	20,003
OPEB liability	<u>179</u>	<u>63</u>	<u>-</u>	<u>242</u>	<u>-</u>	<u>242</u>
Total Business-Type Activities	<u>\$ 22,465</u>	<u>\$ 396</u>	<u>\$ (1,113)</u>	<u>\$ 21,748</u>	<u>\$ (1,136)</u>	<u>\$ 20,612</u>

## **12. 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.

Environmental liability – The Town acquired property at 25 School Street through foreclosure in 2007, and the property was found to be contaminated from above-ground oil tanks. In 2013 the Town received a \$ 100,000 EPA Brownsfield grant and appropriated \$ 20,000 to demolish a structure and

cleanup contaminated soil. The project is expected to be completed by September 2015.

Police Contract – The employment contract for police officers expired in May 2011 and is currently in mediation. Any potential liability per retroactive pay is uncertain at this time; however, the Town does not expect it will materially affect the Town's financial position.

### **13. 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, 2010, the actuarial valuation date, approximately 170 retirees and 156 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 2012 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, 2012, 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, 2010.

Annual Required Contribution (ARC)	\$ 2,257,673
Interest on net OPEB obligation	183,420
Adjustment to ARC	<u>(155,943)</u>
Annual OPEB cost	2,285,150
Contributions made	<u>(911,108)</u>
Increase in net OPEB obligation	1,374,042
Net OPEB obligation - beginning of year	<u>3,861,479</u>
Net OPEB obligation - end of year	<u>\$ 5,235,521</u>

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 Year</u> <u>Ended</u>	<u>Annual OPEB</u> <u>Costs</u>	<u>Percentage of</u> <u>OPEB Cost</u> <u>Contributed</u>	<u>Net</u> <u>OPEB</u> <u>Obligation</u>
2012	\$ 2,285,150	40%	\$ 5,235,521
2011	\$ 2,172,731	37%	\$ 3,861,479
2010	\$ 2,019,073	35%	\$ 2,606,760
2009	\$ 1,907,905	35%	\$ 1,243,730

The Town's net OPEB obligation as of June 30, 2012 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, 2010, the date of the most recent actuarial valuation was as follows (in thousands):



Actuarial accrued liability (AAL)	\$ 34,062
Actuarial value of plan assets	-
Unfunded actuarial accrued liability (UAAL)	<u>\$ 34,062</u>
Funded ratio (actuarial value of plan assets/AAL)	<u>0%</u>
Covered payroll (active plan members)	<u>N/A</u>
UAAL as a percentage of covered payroll	<u>N/A</u>

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 \$ 50,606 in fiscal year 2012 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, 2010 actuarial valuation the projected unit credit cost method was used. The actuarial value of assets was not determined as the Town had not advance funded its obligation as of the actuarial date. 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%.

#### 14. **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, 2012, 2011, and 2010 were \$ 752,739, \$ 737,001, and \$ 683,335, 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 par-

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 2012, the Commonwealth of Massachusetts contributed \$ 2,242,498 to the MTRS on behalf of the Town. This is included in the education expenditures and intergovernmental revenues in the general fund.

#### **15. 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.

#### **16. Governmental Funds – Balances**

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2012:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes nonmajor governmental fund reserves for the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes capital project funds funded by bond issuances, various special revenue funds, and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority. This fund balance classification includes general fund encumbrances for non-lapsing, special article appropriations approved at Town Meeting, capital reserve (stabilization) funds set aside by Town Meeting vote for future capital acquisitions and improvements (now reported as part of the general fund per GASB 54), and various special revenue funds.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes general fund encumbrances that have been established by various Town departments for the expenditure of current year budgetary financial resources upon vendor performance in the subsequent budgetary period and surplus (free cash) set aside for the subsequent year's budget.

Unassigned - Represents amounts that are available to be spent in future periods.

Following is a breakdown of the Town's fund balances at June 30, 2012:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Nonexpendable permanent funds	\$ -	\$ 188,020	\$ 188,020
Total Nonexpendable	-	188,020	188,020
Restricted			
Bonded projects	-	71,887	71,887
Special revenue funds	-	1,132,027	1,132,027
Expendable permanent funds	-	199,280	199,280
Total Restricted	-	1,403,194	1,403,194
Committed			
Special article carryforwards	491,589	-	491,589
Capital reserve (stabilization) fund	1,648,900	-	1,648,900
Town set-asides	-	4,182	4,182
Total Committed	2,140,489	4,182	2,144,671
Assigned			
Encumbrances	35,748	-	35,748
Reserved for expenditures	581,563	-	581,563
Designated for debt exclusion	41,075	-	41,075
Total Assigned	658,386	-	658,386
Unassigned	2,069,569	-	2,069,569
Total Unassigned	2,069,569	-	2,069,569
Total Fund Balance	\$ 4,868,444	\$ 1,595,396	\$ 6,463,840

## 17. Implementation of New GASB Standards

The GASB has issued Statement 68 *Accounting and Financial Reporting for Pensions*, which is required to be implemented in fiscal year 2015. Management's current assessment is that this pronouncement will have a significant impact on the Town's basic financial statements by recognizing as a liability and expense, the Town's applicable portion of the Berkshire County Retirement System's actuarially accrued liability.

**TOWN OF LEE, MASSACHUSETTS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FUNDING PROGRESS**

(Unaudited)  
(Amounts expressed in thousands)

**Other Post-Employment Benefits**  
**June 30, 2012**

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Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percent- age of Covered Payroll [(b-a)/c]
06/30/08	-	\$26,655	\$26,655	0.0%	not available	N/A
06/30/10	-	34,062	34,062	0.0%	not available	N/A

See Independent Auditor's Report.