

# **TOWN OF LEE, MASSACHUSETTS**

## **Financial Statements**

**June 30, 2013**

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# Adelson & Company PC

CERTIFIED PUBLIC ACCOUNTANTS

Established 1938

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## INDEPENDENT AUDITORS' REPORT

To the Board of Selectmen  
**THE TOWN OF LEE, MASSACHUSETTS**

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lee, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town of Lee's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditors' Responsibility*

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the Town of Lee, as of June 30, 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on page 4, budgetary comparison information on page 10 and the schedule of other post-employment benefits funding progress information on page 32 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 sufficient evidence to express an opinion or provide any assurance.

Management has omitted certain pension disclosure information of the Berkshire County Retirement System that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such unavailable information, although not a part of the basic financial statements, is required by the Governmental 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 historic context. Our opinion on the basic financial statements is not affected by this unavailable information.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report, dated February 3, 2014 on our consideration of the Town of Lee's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal 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* in considering Town of Lee's internal control over financial reporting and compliance.

*Adelson + Company PC*  
ADELSON & COMPANY PC

February 3, 2014

**Town of Lee, Massachusetts**  
**Management's Discussion and Analysis**  
**For the Year Ended June 30, 2013**

As management of the Town of Lee, Massachusetts (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town for the fiscal year ended June 30, 2013. Readers should consider, as a whole, the information presented here along with the Town's basic financial statements that follow this section.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Town's basic financial statements. The Town's 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 the Town's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the government's net position changed during the current fiscal year. All changes in net position 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 (i.e., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Town 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. The governmental activities of the Town include General Government, Public Safety, Education, Public Works, Health and Human Services, and Culture and Recreation activities. The business-type activities include water and sewer activities.

The government-wide financial statements can be found on pages 5 and 6 of this report.

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town maintains governmental funds, proprietary funds and fiduciary funds, which are described below.

### ***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. The focus of governmental funds is, however, narrower than that of the government-wide financial statements. It may be useful for the reader to comparatively address the information presented for governmental funds with the similar information presented for the government-wide financial statements. This may give a better understanding of managements 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.

The Town adopts an annual appropriated budget for its general fund. A budget to actual expenditures comparison statement has been provided for the general fund to demonstrate compliance with this budget which can be found on page 10 of this report. Massachusetts statutory regulations require the Town to establish an annual balanced budget to monitor its revenues and expenses. This is accomplished through the open town meeting process and voter participation. A balanced budget reflects estimates for expenses to operate the Town departments and equal revenues to support these costs. Revenues consist of three significant components: property and excise taxes, governmental aid, and other incidental income. The overall budget frequently requires the funding of special articles and the insufficient matching of revenue to cover total expenses. Accordingly, this budget deficit is funded (balanced budget theory) by appropriating from available funds (also described as free cash, carryover surplus, cumulative fund balance) the needed amount to equalize revenues for the budgetary deficit / shortfall.

The basic governmental fund financial statements can be found on pages 7 and 8 of this report.

### ***Proprietary funds***

Proprietary funds report the enterprise activities of the Town. Enterprise funds are used to report business-type activities that are presented in the government-wide financial statements. The Town uses enterprise funds to account for the water and sewer service. The proprietary fund financial statements can be found on pages 11 to 13 of this report.

### ***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 fiduciary fund financial statements can be found on pages 14 and 15 of this report.

### ***Notes to the financial statements and supplementary information***

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements and supplementary information can be found on pages 16 to 32 of this report.



## Government-Wide Financial Statement Analysis

### *Net Position*

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The Town's assets exceeded liabilities by \$31,468,233 at the close of the most recent fiscal year. This represents a decrease in net position over the prior fiscal year of \$1,261,513.

Net position of \$27,330,344 (87%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure) less any related outstanding debt used to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in its capital assets is reported net of its 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. Borrowings are made periodically to finance significant projects.

### TOWN OF LEE, MASSACHUSETTS

#### STATEMENT OF NET POSITION

|  | 2013                       |                             |                      | 2012                 |
|--|----------------------------|-----------------------------|----------------------|----------------------|
|  | Governmental<br>Activities | Business-type<br>Activities | Totals               | Totals               |
| Current and other assets                           | \$ 6,681,127               | \$ 4,386,524                | \$ 11,067,651        | \$ 12,281,357        |
| Capital assets, net                                | <u>25,751,468</u>          | <u>31,931,321</u>           | <u>57,682,789</u>    | <u>58,435,459</u>    |
| <b>TOTAL ASSETS</b>                                | <u>32,432,595</u>          | <u>36,317,845</u>           | <u>68,750,440</u>    | <u>70,716,816</u>    |
| Current liabilities                                | 397,646                    | 283,574                     | 681,220              | 885,704              |
| Long-term debt                                     | 9,555,000                  | 20,670,936                  | 30,225,936           | 31,865,845           |
| Post-employment benefits<br>other than pensions    | <u>6,077,891</u>           | <u>297,160</u>              | <u>6,375,051</u>     | <u>5,235,521</u>     |
| <b>TOTAL LIABILITIES</b>                           | <u>16,030,537</u>          | <u>21,251,670</u>           | <u>37,282,207</u>    | <u>37,987,070</u>    |
| Invested in capital assets,<br>net of related debt | 16,069,959                 | 11,260,385                  | 27,330,344           | 26,697,017           |
| Restricted for                                     | 1,530,332                  | ---                         | 1,530,332            | 1,977,759            |
| Unrestricted                                       | <u>(1,198,233)</u>         | <u>3,805,790</u>            | <u>2,607,557</u>     | <u>4,054,970</u>     |
| <b>TOTAL NET POSITION</b>                          | <u>\$ 16,402,058</u>       | <u>\$ 15,066,175</u>        | <u>\$ 31,468,233</u> | <u>\$ 32,729,746</u> |

**Statement of Activities**

The Statement of Activities reflects total operating expenses for the Town as \$27,724,673 for all activities. Revenues totaled \$26,463,160 for all activities. The net change result of \$1,261,513 is a reduction in net position. The deficit is absorbed by cumulative available funds.

**TOWN OF LEE, MASSACHUSETTS****CHANGES IN NET POSITION**

|                               | 2013                       |                             |                      | 2012                 |
|-------------------------------|----------------------------|-----------------------------|----------------------|----------------------|
|                               | Governmental<br>Activities | Business-type<br>Activities | Total<br>Activities  | Totals               |
| Revenues                      |                            |                             |                      |                      |
| Taxes                         | \$ 13,232,177              |                             | \$ 13,232,177        | \$ 12,894,115        |
| Charges for services          | 2,320,700                  | \$ 2,933,830                | 5,254,530            | 5,447,573            |
| Grants and contributions      | 7,539,941                  |                             | 7,539,941            | 7,819,013            |
| Penalties and fines           | 152,153                    |                             | 152,153              | 94,471               |
| Interest income               | 14,201                     | 21,790                      | 35,991               | 41,290               |
| Other revenues                | 248,368                    |                             | 248,368              | 163,803              |
| Total revenues                | <u>23,507,540</u>          | <u>2,955,620</u>            | <u>26,463,160</u>    | <u>26,460,265</u>    |
| Expenses                      |                            |                             |                      |                      |
| General government            | 1,371,539                  |                             | 1,371,539            | 958,635              |
| Public safety                 | 2,268,860                  |                             | 2,268,860            | 2,309,016            |
| Education                     | 12,802,081                 |                             | 12,802,081           | 12,528,764           |
| Public works                  | 1,474,048                  |                             | 1,474,048            | 1,727,982            |
| Health and human services     | 501,396                    |                             | 501,396              | 470,504              |
| Cultural and recreation       | 405,473                    |                             | 405,473              | 367,258              |
| Employee benefits             | 4,542,901                  |                             | 4,542,901            | 4,624,574            |
| Insurance                     | 124,788                    |                             | 124,788              | 104,810              |
| Intergovernmental assessments | 522,030                    |                             | 522,030              | 496,042              |
| Water and sewer               |                            | 3,271,431                   | 3,271,431            | 3,396,962            |
| Interest and fiscal charges   | 440,126                    |                             | 440,126              | 463,895              |
| Total expenses                | <u>24,453,242</u>          | <u>3,271,431</u>            | <u>27,724,673</u>    | <u>27,448,442</u>    |
| Change in net position        | (945,702)                  | (315,811)                   | (1,261,513)          | (988,177)            |
| Net position, beginning       | <u>17,347,760</u>          | <u>15,381,986</u>           | <u>32,729,746</u>    | <u>33,717,923</u>    |
| Net position, ending          | <u>\$ 16,402,058</u>       | <u>\$ 15,066,175</u>        | <u>\$ 31,468,233</u> | <u>\$ 32,729,746</u> |

Key elements of this decrease are as follows:

- The net decrease in governmental assets was largely affected by the Town's implementation of Statement 45 of the Governmental Accounting Standards Board (Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions) which required the Town to record a Net Other Post-Employment Benefit Obligation expense on June 30, 2013 of \$1,139,530. In addition, the Town also recorded depreciation expense of \$2,434,063.
- Fifty (50%) percent of the revenues of the Town were derived from property taxes, followed by twenty-eight percent (28%) from operating and capital grants and contributions, twenty percent (20%) from charges for services (water, sewer and other governmental services), and two percent (2%) from other revenues including investment earnings.

## Property Taxes

Property tax revenues recorded for the fiscal year ended June 30, 2013 reflects an increase in the Town's residential and commercial tax rate to \$14.09. The tax rates and valuation data over the three previous years are as follows:

|                                      | 2013           | 2012           | 2011           |
|--------------------------------------|----------------|----------------|----------------|
| Real and personal property valuation | \$ 878,593,837 | \$ 879,955,247 | \$ 895,810,340 |
| Tax levy                             | \$ 12,379,387  | \$ 12,028,988  | \$ 11,699,283  |
| Property tax rates (per thousand)    | \$ 14.09       | \$ 13.67       | \$ 13.06       |

## Financial Analysis of the Governmental Fund Statements

### *Governmental funds*

The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Town's financing requirements. In particular, unreserved fund balances 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, the Town's governmental funds reported a combined ending fund balance of \$5,658,749. Of this amount, \$2,733,197 is restricted, committed and assigned for specific purposes such as capital projects, community preservation, encumbrances, and reducing free cash to help reduce the fiscal year 2013 tax rate. This leaves an unassigned governmental fund balance of \$2,925,552 for the general fund.

The governmental activities for the year resulted in a decrease in net fund balance of \$805,091. Key elements of this change are as follows:

- Total revenues were \$23,582,074
- Total expenses were \$24,387,165
- Included in the expenses is capital outlay of \$1,366,818. These amounts are budgeted as expenses in the general fund but are capitalized on the government-wide statement of net position.
- Also included in the expenses is debt service of \$1,239,350 (\$805,000 principal repayment and \$434,350 interest expense). These amounts are budgeted as expenses in the general fund but the principal repayment of \$805,000 is a reduction of long-term debt which is reported on the government-wide statement of net position.

The governmental fund statements can be found on pages 8 and 9 of this report.



***Enterprise funds***

The Town's enterprise funds (water and sewer) provide the same type of information found in the government-wide statements but in more detail.

As of the end of the current fiscal year, the Town's enterprise funds reported a combined ending net position of \$15,066,175. Of this amount, \$11,260,385 is invested in capital assets which is net of any related debt used to acquire or construct those assets, and \$3,805,790 is unrestricted which can be used to meet the financial needs of ongoing operations.

The enterprise activities for the year resulted in a decrease in net position of \$315,811. Key elements of this change are as follows:

- Operating revenues were \$2,933,830
- Operating expenses were \$2,701,276
- Included in operating expenses is depreciation expense of \$1,221,473.
- Also included in operating expenses is other post-employment benefits (OPEB) expense of \$54,911. The details of the OPEB can be found on pages 27 to 29 of this report.
- Debt service for interest expense on long-term debt was \$570,155. Principal repayment of long-term debt, which is reported on the statement of net position, was \$1,503,009.

The enterprise fund statements can be found on pages 11 to 13 of this report.

***General Fund Budgetary Highlights***

The Town's budget sustained it throughout the entire fiscal year.

For the majority of the categories, expenditures were within a comfortable percentage of the amounts budgeted and departments have reliably kept spending to a minimum.

The Budget and Actual (Non-GAAP Basis) General Fund Statement of Revenues and Expenditures is shown on page 10 of this report.

## Capital Asset and Debt Administration

### Capital Assets

The Town's investment in capital assets as of June 30, 2013, amounts to \$57,682,789 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

## TOWN OF LEE, MASSACHUSETTS

### CAPITAL ASSETS (NET OF DEPRECIATION)

|   | Governmental<br>Activities | Business-type<br>Activities | Total                |
|---|----------------------------|-----------------------------|----------------------|
| Land                                      | \$ 2,457,263               |                             | \$ 2,457,263         |
| Construction in process                   | 107,416                    | \$ 326,862                  | 434,278              |
| Buildings and improvements                | 19,036,864                 | 22,181,687                  | 41,218,551           |
| Land improvements                         | 1,062,962                  |                             | 1,062,962            |
| Machinery and equipment                   | 1,348,887                  | 494,392                     | 1,843,279            |
| Infrastructure                            | 1,738,076                  | 8,928,380                   | 10,666,456           |
| Total                                     | <u>\$ 25,751,468</u>       | <u>\$ 31,931,321</u>        | <u>\$ 57,682,789</u> |
| Current year depreciation expense         | <u>\$ 1,212,590</u>        | <u>\$ 1,221,473</u>         | <u>\$ 2,434,063</u>  |
| Current year additions:                   |                            |                             |                      |
| Library central air conditioning          | \$ 45,363                  |                             | \$ 45,363            |
| School boiler repairs                     | 52,025                     |                             | 52,025               |
| Roof repairs - department of public works | 107,347                    |                             | 107,347              |
| Infrastructure - water tank painting      |                            | \$ 302,123                  | 302,123              |
| Infrastructure - water plant              |                            | 12,452                      | 12,452               |
| Infrastructure - roads                    | 328,678                    |                             | 328,678              |
| Infrastructure - Abby Court               | 20,365                     |                             | 20,365               |
| Infrastructure - bridges                  | 111,318                    |                             | 111,318              |
| Library purchases                         | 37,821                     |                             | 37,821               |
| Fire Truck                                | 446,984                    |                             | 446,984              |
| Police cruiser                            | 32,395                     |                             | 32,395               |
| Ford F-350 pickup truck                   | 33,165                     |                             | 33,165               |
| Caterpillar loader                        | 151,357                    |                             | 151,357              |
| Total                                     | <u>\$ 1,366,818</u>        | <u>\$ 314,575</u>           | <u>\$ 1,681,393</u>  |

Additional information on the Town's capital assets can be found on page 23 and 24 of this report.

***Long-term debt***

At the end of the current fiscal year, the Town had total debt outstanding of \$30,225,936. This amount is comprised of the following which are all direct obligations and pledges the full faith and credit of the Town.

**TOWN OF LEE, MASSACHUSETTS****DEBT AS OF JUNE 30, 2013**

|                              | Governmental<br>Activities | Business-type<br>Activities | Total                |
|------------------------------|----------------------------|-----------------------------|----------------------|
| Elementary school            | \$ 7,750,000               |                             | \$ 7,750,000         |
| High school                  | 1,805,000                  |                             | 1,805,000            |
| Water plant (multiple bonds) |                            | \$ 4,439,996                | 4,439,996            |
| Water tank                   |                            | 45,000                      | 45,000               |
| Water distribution system    |                            | 668,100                     | 668,100              |
| Sewer plant                  |                            | 15,517,840                  | 15,517,840           |
| Total                        | <u>\$ 9,555,000</u>        | <u>\$ 20,670,936</u>        | <u>\$ 30,225,936</u> |

Additional information on the Town's long-term debt, including certain debt that was refinanced in fiscal year 2014 can be found on pages 25 and 26 of this report.

**Economic Factors and next year's Budgets and Rates**

- Normally state aid to the Town increases; however, with the current condition of the Commonwealth's budget, no significant increases in state aid are anticipated for several years.
- The aggregate annual increase to existing property tax revenues is limited to 2½ % allowed by M.G.L Chapter 59, Section 21C.
- The Town's fiscal year 2014 operating and capital budget can be found on page 31 of this report.

**Requests for information**

The 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 the Town Accountants office, Town Hall, 32 Main Street, Lee, MA 01238.

## TOWN OF LEE, MASSACHUSETTS

## STATEMENT OF NET POSITION

June 30, 2013

|   | Primary Government         |                             |                      |
|---|----------------------------|-----------------------------|----------------------|
|   | Governmental<br>Activities | Business-type<br>Activities | Totals               |
| <b>ASSETS</b>                                   |                            |                             |                      |
| Current assets:                                 |                            |                             |                      |
| Cash and cash equivalents                       | \$ 5,535,339               | \$ 3,631,244                | \$ 9,166,583         |
| Receivables, net                                | 368,032                    | 745,847                     | 1,113,879            |
| Due from other governments                      | 383,209                    |                             | 383,209              |
| Other assets                                    | 3,598                      | 9,433                       | 13,031               |
| Temporarily restricted cash                     | 390,949                    |                             | 390,949              |
| Noncurrent assets:                              |                            |                             |                      |
| Capital assets, net                             | 25,751,468                 | 31,931,321                  | 57,682,789           |
| <b>TOTAL ASSETS</b>                             | <b>32,432,595</b>          | <b>36,317,845</b>           | <b>68,750,440</b>    |
| <b>LIABILITIES</b>                              |                            |                             |                      |
| Current liabilities:                            |                            |                             |                      |
| Accounts payable and other current liabilities  | 271,137                    | 5,557                       | 276,694              |
| Accrued interest payable                        | 115,467                    | 278,017                     | 393,484              |
| Current portion of long-term liabilities        |                            |                             |                      |
| Current portion of long-term debt               | 845,000                    | 1,764,735                   | 2,609,735            |
| Capital lease payable                           | 11,042                     |                             | 11,042               |
| Noncurrent liabilities:                         |                            |                             |                      |
| Long-term debt, net of current portion          | 8,710,000                  | 18,906,201                  | 27,616,201           |
| Post-employment benefits other than pensions    | 6,077,891                  | 297,160                     | 6,375,051            |
| <b>TOTAL LIABILITIES</b>                        | <b>16,030,537</b>          | <b>21,251,670</b>           | <b>37,282,207</b>    |
| <b>NET POSITION</b>                             |                            |                             |                      |
| Invested in capital assets, net of related debt | 16,069,959                 | 11,260,385                  | 27,330,344           |
| Restricted for                                  |                            |                             |                      |
| Special revenue funds                           | 1,139,383                  |                             | 1,139,383            |
| Conservation trust fund                         | 4,190                      |                             | 4,190                |
| Expendable trust funds                          | 197,339                    |                             | 197,339              |
| Nonexpendable trust funds                       | 189,420                    |                             | 189,420              |
| Unrestricted                                    | (1,198,233)                | 3,805,790                   | 2,607,557            |
| <b>TOTAL NET POSITION</b>                       | <b>\$ 16,402,058</b>       | <b>\$ 15,066,175</b>        | <b>\$ 31,468,233</b> |

See notes to financial statements.

**TOWN OF LEE, MASSACHUSETTS**  
**STATEMENT OF ACTIVITIES**  
**For the Year Ended June 30, 2013**

|   | Program Revenues |                         |                             |  | Net (Expense) Revenue and<br>Changes in Net Position |                             |               |
|---|------------------|-------------------------|-----------------------------|--|--|-----------------------------|---------------|
|   | Expenses         | Charges for<br>Services | Operating                   |  | Governmental<br>Activities                           | Primary Government          |               |
|   |                  |                         | Grants and<br>Contributions | Capital<br>Grants and<br>Contributions |  | Business-type<br>Activities | Total         |
| <b>FUNCTIONS/PROGRAMS</b>                                       |                  |                         |                             |  |  |                             |               |
| <b>Governmental activities</b>                                  |                  |                         |                             |  |  |                             |               |
| General government  | \$ 1,371,539     | \$ 54,040               | \$ 482,157                  |  | \$ (835,342)   | \$                          | \$ (835,342)  |
| Public safety   | 2,268,860        | 450,024                 | 300,953                     |  | (1,517,883)  |                             | (1,517,883)   |
| Education   | 12,802,081       | 1,658,775               | 5,566,275                   |  | (5,577,031)  |                             | (5,577,031)   |
| Public works  | 1,474,048        | 107,851                 | 34,878                      | \$ 538,123                             | (793,196)  |                             | (793,196)     |
| Health and human services                                       | 501,396          | 50,010                  | 86,912                      |  | (364,474)  |                             | (364,474)     |
| Cultural and recreation   | 405,473          |                         | 3,886                       |  | (401,587)  |                             | (401,587)     |
| Employee benefits   | 4,542,901        |                         |                             |  | (4,542,901)  |                             | (4,542,901)   |
| Insurance   | 124,788          |                         |                             |  | (124,788)  |                             | (124,788)     |
| Intergovernmental assessments                                   | 522,030          |                         |                             |  | (522,030)  |                             | (522,030)     |
| Interest and fiscal charges                                     | 440,126          |                         |                             |  | (440,126)  |                             | (440,126)     |
| Total governmental activities                                   | 24,453,242       | 2,320,700               | 6,475,061                   | 538,123                                | (15,119,358)   |                             | (15,119,358)  |
| <b>Business type activities</b>                                 |                  |                         |                             |  |  |                             |               |
| Water   | 1,443,527        | 1,081,187               |                             |  | \$ (362,340)   |                             | (362,340)     |
| Sewer   | 1,827,904        | 1,852,643               |                             |  | 24,739   |                             | 24,739        |
| Total business type activities                                  | 3,271,431        | 2,933,830               | ---                         | ---                                    | (337,601)  |                             | (337,601)     |
| Total all activities  | \$ 27,724,673    | \$ 5,254,530            | \$ 6,475,061                | \$ 538,123                             | (15,119,358)   | (337,601)                   | (15,456,959)  |
| General revenues:   |                  |                         |                             |  |  |                             |               |
| Taxes   |                  |                         |                             |  | 13,232,177   |                             | 13,232,177    |
| Grants and contributions not<br>restricted to specific programs |                  |                         |                             |  | 526,757  |                             | 526,757       |
| Penalties and fines   |                  |                         |                             |  | 152,153  |                             | 152,153       |
| Interest income   |                  |                         |                             |  | 14,201   | 21,790                      | 35,991        |
| Other revenues  |                  |                         |                             |  | 248,368  |                             | 248,368       |
| Total general revenues and transfers                            |                  |                         |                             |  | 14,173,656   | 21,790                      | 14,195,446    |
| CHANGE IN NET POSITION  |                  |                         |                             |  | (945,702)  | (315,811)                   | (1,261,513)   |
| Net position, beginning   |                  |                         |                             |  | 17,347,760   | 15,381,986                  | 32,729,746    |
| NET POSITION, ENDING  |                  |                         |                             |  | \$ 16,402,058  | \$ 15,066,175               | \$ 31,468,233 |

See notes to financial statements.

## TOWN OF LEE, MASSACHUSETTS

## BALANCE SHEET

## GOVERNMENTAL FUNDS

June 30, 2013

|  | General             | Other<br>Nonmajor<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|----------------------------|--------------------------------|
| <b>ASSETS</b>                              |                     |                            |                                |
| Cash and cash equivalents                  | \$ 4,378,822        | \$ 1,156,517               | \$ 5,535,339                   |
| Receivables                                | 634,642             |                            | 634,642                        |
| Other assets                               | 3,598               |                            | 3,598                          |
| Due from other governments                 |                     | 547,441                    | 547,441                        |
| Cash - restricted                          |                     | 390,949                    | 390,949                        |
| <b>TOTAL ASSETS</b>                        | <b>\$ 5,017,062</b> | <b>\$ 2,094,907</b>        | <b>\$ 7,111,969</b>            |
| <b>LIABILITIES AND FUND BALANCES</b>       |                     |                            |                                |
| <b>LIABILITIES</b>                         |                     |                            |                                |
| Warrants payable                           | \$ 124,596          | \$ 17,134                  | \$ 141,730                     |
| Accrued payroll and withholdings           | 129,407             |                            | 129,407                        |
| Deferred revenue                           | 634,642             | 547,441                    | 1,182,083                      |
| <b>Total liabilities</b>                   | <b>888,645</b>      | <b>564,575</b>             | <b>1,453,220</b>               |
| <b>FUND BALANCES</b>                       |                     |                            |                                |
| Restricted                                 | (65,838)            | 1,526,142                  | 1,460,304                      |
| Committed                                  | 970,808             | 4,190                      | 974,998                        |
| Assigned                                   | 297,895             |                            | 297,895                        |
| Unassigned                                 | 2,925,552           |                            | 2,925,552                      |
| <b>Total fund balances</b>                 | <b>4,128,417</b>    | <b>1,530,332</b>           | <b>5,658,749</b>               |
| <b>TOTAL LIABILITIES AND FUND BALANCES</b> | <b>\$ 5,017,062</b> | <b>\$ 2,094,907</b>        |                                |

Amounts reported for governmental activities in the statement of net position are different because:

|  |                      |
|--|----------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.                                | 25,751,468           |
| Accrued interest on outstanding debt is recorded on the statement of net position, whereas in the governmental funds interest is not reported until due. | (115,467)            |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.               | (9,566,042)          |
| Postemployment benefits other than pensions  | (6,077,891)          |
| Allowance for uncollectible accounts is reported under the accrual basis of accounting   | (430,842)            |
| Revenues are reported on the accrual basis of accounting and not deferred  | 1,182,083            |
| <b>Net position of governmental activities</b>   | <b>\$ 16,402,058</b> |

See notes to financial statements.



**TOWN OF LEE, MASSACHUSETTS**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

**For the Year Ended June 30, 2013**

|  | General             | Other<br>Nonmajor<br>Funds | Total<br>Governmental<br>Funds |
|--|---------------------|----------------------------|--------------------------------|
| REVENUES   |                     |                            |                                |
| Property taxes                                       | \$ 12,130,982       |                            | \$ 12,130,982                  |
| Excise and other taxes                               | 1,141,581           |                            | 1,141,581                      |
| Licenses and permits                                 | 21,291              |                            | 21,291                         |
| Charges for services                                 | 532,734             | \$ 1,815,459               | 2,348,193                      |
| Penalties and fines                                  | 152,153             |                            | 152,153                        |
| Intergovernmental                                    | 5,610,238           | 1,915,067                  | 7,525,305                      |
| Interest income                                      | 12,213              | 1,988                      | 14,201                         |
| Other revenues                                       | 79,613              | 168,755                    | 248,368                        |
| <b>TOTAL REVENUES</b>                                | <b>19,680,805</b>   | <b>3,901,269</b>           | <b>23,582,074</b>              |
| EXPENDITURES   |                     |                            |                                |
| General government                                   | 890,071             | 473,732                    | 1,363,803                      |
| Public safety  | 1,763,887           | 867,336                    | 2,631,223                      |
| Education  | 10,246,232          | 1,904,347                  | 12,150,579                     |
| Public works   | 1,523,869           | 545,969                    | 2,069,838                      |
| Health and human services                            | 212,570             | 272,576                    | 485,146                        |
| Cultural and recreation                              | 328,226             | 13,900                     | 342,126                        |
| Employee benefits                                    | 3,458,282           |                            | 3,458,282                      |
| Insurance  | 124,788             |                            | 124,788                        |
| Intergovernmental assessments                        | 522,030             |                            | 522,030                        |
| Debt service:  |                     |                            |                                |
| Principal retirement                                 | 805,000             |                            | 805,000                        |
| Interest and fiscal charges                          | 434,350             |                            | 434,350                        |
| <b>TOTAL EXPENDITURES</b>                            | <b>20,309,305</b>   | <b>4,077,860</b>           | <b>24,387,165</b>              |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES | (628,500)           | (176,591)                  | (805,091)                      |
| OTHER FINANCING SOURCES (USES)                       |                     |                            |                                |
| Transfers in   | 13,028              | 181,804                    | 194,832                        |
| Transfers out  | (124,555)           | (70,277)                   | (194,832)                      |
| <b>TOTAL OTHER FINANCING SOURCES (USES)</b>          | <b>(111,527)</b>    | <b>111,527</b>             | <b>---</b>                     |
| Net change in fund balances                          | (740,027)           | (65,064)                   | (805,091)                      |
| Fund balances, beginning                             | 4,868,444           | 1,595,396                  | 6,463,840                      |
| <b>FUND BALANCES, ENDING</b>                         | <b>\$ 4,128,417</b> | <b>\$ 1,530,332</b>        | <b>\$ 5,658,749</b>            |

See notes to financial statements.

**TOWN OF LEE, MASSACHUSETTS**  
**RECONCILIATION OF THE CHANGE IN FUND BALANCE**  
**OF THE GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**

**For the Year Ended June 30, 2013**

|   |    |           |
|---|----|-----------|
| NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | \$ | (805,091) |
|---|----|-----------|

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets:

|   |  |             |
|---|--|-------------|
| Add - capital asset purchases capitalized |  | 1,366,818   |
| Less - depreciation expense               |  | (1,212,590) |

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:

|   |  |       |
|---|--|-------|
| Less - decrease in revenue recognized by eliminating net deferred revenue |  | (290) |
|---|--|-------|

Allowance for uncollectible accounts is reported under the accrual basis of accounting

|  |  |          |
|--|--|----------|
| Less - decrease in allowance for doubtful accounts |  | (74,244) |
|--|--|----------|

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:

|                                   |  |         |
|-----------------------------------|--|---------|
| Add - debt principal payments     |  | 805,000 |
| Add - repayment of capital leases |  | 65,090  |

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:

|   |  |             |
|---|--|-------------|
| Increase in accrued interest payable                    |  | (5,776)     |
| Increase in postemployment benefits other than pensions |  | (1,084,619) |

|   |    |                  |
|---|----|------------------|
| CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES | \$ | <u>(945,702)</u> |
|---|----|------------------|

**TOWN OF LEE, MASSACHUSETTS**  
**STATEMENT OF REVENUES AND EXPENDITURES**  
**BUDGET AND ACTUAL (NON-GAAP BASIS) - GENERAL FUNDS**  
**For the Year Ended June 30, 2013**

|  | General Fund  |               |               |  |
|--|---------------|---------------|---------------|--|
|  | Budget        |               | Actual        | Variance -<br>Favorable<br>(Unfavorable) |
|  | Original      | Final         |               |  |
| REVENUES   |               |               |               |  |
| Property taxes   | \$ 12,098,680 | \$ 12,108,224 | \$ 12,130,982 | \$ 22,758                                |
| Excise and other taxes   | 1,104,004     | 1,104,004     | 1,141,581     | 37,577                                   |
| Licenses and permits   | 20,830        | 20,830        | 21,291        | 461                                      |
| Charges for services   | 501,450       | 501,450       | 532,734       | 31,284                                   |
| Penalties and fines  | 112,240       | 112,240       | 152,153       | 39,913                                   |
| Intergovernmental  | 3,793,766     | 3,793,766     | 3,309,427     | (484,339)                                |
| Interest income  | 8,500         | 8,500         | 8,285         | (215)                                    |
| Other revenues   | 65,000        | 65,000        | 79,613        | 14,613                                   |
| TOTAL REVENUES   | 17,704,470    | 17,714,014    | 17,376,066    | (337,948)                                |
| EXPENDITURES   |               |               |               |  |
| General government   | 852,658       | 853,558       | 837,979       | 15,579                                   |
| Public safety  | 1,933,371     | 1,933,887     | 1,816,483     | 117,404                                  |
| Education  | 7,982,171     | 7,982,171     | 7,945,421     | 36,750                                   |
| Public works   | 1,452,170     | 1,452,170     | 1,341,029     | 111,141                                  |
| Health and human services  | 263,120       | 263,120       | 207,107       | 56,013                                   |
| Culture and recreation   | 321,658       | 321,658       | 320,583       | 1,075                                    |
| Employee benefits  | 3,636,744     | 3,636,744     | 3,458,282     | 178,462                                  |
| Insurance  | 116,700       | 124,828       | 124,788       | 40                                       |
| Intergovernmental assessments  | 522,030       | 522,030       | 522,030       | ---                                      |
| Debt service:  |               |               |               |  |
| Principal retirement   | 805,000       | 805,000       | 805,000       | ---                                      |
| Interest and fiscal charges  | 436,134       | 436,134       | 434,350       | 1,784                                    |
| TOTAL EXPENDITURES   | 18,321,756    | 18,331,300    | 17,813,052    | 518,248                                  |
| EXCESS (DEFICIENCY) OF REVENUES<br>OVER EXPENDITURES                             | (617,286)     | (617,286)     | (436,986)     | 180,300                                  |
| OTHER FINANCING SOURCES (USES)   |               |               |               |  |
| Transfers in   | 310,278       | 310,278       | 310,278       | ---                                      |
| Transfers out  | (274,555)     | (274,555)     | (274,555)     | ---                                      |
| Revenue appropriation  | 581,563       | 581,563       | 581,563       | ---                                      |
| TOTAL OTHER FINANCING SOURCES  | 617,286       | 617,286       | 617,286       | ---                                      |
| EXCESS (DEFICIENCY) OF REVENUES OVER<br>EXPENDITURES AND OTHER FINANCING SOURCES | \$ ---        | \$ ---        | \$ 180,300    | \$ 180,300                               |

See notes to financial statements.

## TOWN OF LEE, MASSACHUSETTS

## STATEMENT OF NET POSITION

## PROPRIETARY FUNDS

June 30, 2013

|   | Enterprise Funds    |                     |                      |
|---|---------------------|---------------------|----------------------|
|   | Water               | Sewer               | Total                |
| <b>ASSETS</b>   |                     |                     |                      |
| Current assets  |                     |                     |                      |
| Cash and cash equivalents   | \$ 1,003,427        | \$ 2,627,817        | \$ 3,631,244         |
| Accounts receivable from customers (net of allowance for uncollectable) | 291,863             | 453,984             | 745,847              |
| Tax liens and foreclosures  | 4,729               | 4,704               | 9,433                |
| Total current assets  | 1,300,019           | 3,086,505           | 4,386,524            |
| Capital assets, net   | 10,466,848          | 21,464,473          | 31,931,321           |
| <b>TOTAL ASSETS</b>   | <b>11,766,867</b>   | <b>24,550,978</b>   | <b>36,317,845</b>    |
| <b>LIABILITIES</b>  |                     |                     |                      |
| Current liabilities   |                     |                     |                      |
| Warrants and other payables   | 4,530               | 1,027               | 5,557                |
| Accrued interest  | 121,784             | 156,233             | 278,017              |
| Current portion of long-term liabilities:                               |                     |                     |                      |
| Bonds payable   | 779,599             | 985,136             | 1,764,735            |
| Noncurrent liabilities  |                     |                     |                      |
| Bonds payable, net of current portion                                   | 4,328,497           | 14,577,704          | 18,906,201           |
| Other post-employment benefit liability                                 | 160,944             | 136,216             | 297,160              |
| <b>TOTAL LIABILITIES</b>  | <b>5,395,354</b>    | <b>15,856,316</b>   | <b>21,251,670</b>    |
| <b>NET POSITION</b>   |                     |                     |                      |
| Invested in capital assets, net of related debt                         | 5,358,752           | 5,901,633           | 11,260,385           |
| Unrestricted  | 1,012,761           | 2,793,029           | 3,805,790            |
| <b>TOTAL NET POSITION</b>   | <b>\$ 6,371,513</b> | <b>\$ 8,694,662</b> | <b>\$ 15,066,175</b> |

See notes to financial statements.

**TOWN OF LEE, MASSACHUSETTS**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
**For the Year Ended June 30, 2013**

|  | Enterprise Funds    |                     |                      |
|--|---------------------|---------------------|----------------------|
|  | Water               | Sewer               | Total                |
| Operating revenues                     |                     |                     |                      |
| Charges for services                   | \$ 1,081,033        | \$ 1,852,543        | \$ 2,933,576         |
| Other revenue                          | 154                 | 100                 | 254                  |
| Total operating revenues               | <u>1,081,187</u>    | <u>1,852,643</u>    | <u>2,933,830</u>     |
| Operating expenses                     |                     |                     |                      |
| Salaries and wages                     | 394,877             | 321,319             | 716,196              |
| Operating expenses                     | 179,424             | 359,749             | 539,173              |
| Materials and supplies                 | 100,259             | 70,867              | 171,126              |
| Depreciation expense                   | 541,778             | 679,695             | 1,221,473            |
| Capital outlay                         | 18,732              | 34,576              | 53,308               |
| Total operating expenses               | <u>1,235,070</u>    | <u>1,466,206</u>    | <u>2,701,276</u>     |
| OPERATING INCOME (LOSS)                | <u>(153,883)</u>    | <u>386,437</u>      | <u>232,554</u>       |
| Nonoperating revenues (expenses)       |                     |                     |                      |
| Interest income                        | 2,432               | 19,358              | 21,790               |
| Debt service                           | (208,457)           | (361,698)           | (570,155)            |
| Total nonoperating revenues (expenses) | <u>(206,025)</u>    | <u>(342,340)</u>    | <u>(548,365)</u>     |
| CHANGE IN NET POSITION                 | <u>(359,908)</u>    | <u>44,097</u>       | <u>(315,811)</u>     |
| Net position, beginning                | <u>6,731,421</u>    | <u>8,650,565</u>    | <u>15,381,986</u>    |
| NET POSITION, ENDING                   | <u>\$ 6,371,513</u> | <u>\$ 8,694,662</u> | <u>\$ 15,066,175</u> |

See notes to financial statements.

## TOWN OF LEE, MASSACHUSETTS

## STATEMENT OF CASH FLOWS

## PROPRIETARY FUNDS

For the year ended June 30, 2013

|  | Enterprise Funds    |                     |                     |
|--|---------------------|---------------------|---------------------|
|  | Water               | Sewer               | Totals              |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                     |                     |                     |
| Receipts from customers  | \$ 1,085,608        | \$ 1,870,767        | \$ 2,956,375        |
| Payments to suppliers  | (317,705)           | (476,625)           | (794,330)           |
| Payments to employees  | (370,048)           | (297,480)           | (667,528)           |
| Net cash provided (used) by operating activities   | 397,855             | 1,096,662           | 1,494,517           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                     |                     |                     |
| Interest income  | 2,432               | 19,358              | 21,790              |
| Net cash used by investing activities  | 2,432               | 19,358              | 21,790              |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>                                      |                     |                     |                     |
| Payments for property and equipment  | (314,575)           | ---                 | (314,575)           |
| Principal paid on debt   | (537,084)           | (965,925)           | (1,503,009)         |
| Proceeds from issuance of debt   | 668,100             | ---                 | 668,100             |
| Interest and fees paid on debt   | (206,969)           | (356,431)           | (563,400)           |
| Net cash used by capital and related financing activities  | (390,528)           | (1,322,356)         | (1,712,884)         |
| <b>INCREASE IN CASH AND CASH EQUIVALENTS</b>   | 9,759               | (206,336)           | (196,577)           |
| Cash and equivalents, beginning  | 993,668             | 2,834,153           | 3,827,821           |
| <b>CASH AND EQUIVALENTS, ENDING</b>  | <u>\$ 1,003,427</u> | <u>\$ 2,627,817</u> | <u>\$ 3,631,244</u> |
|  | Water               | Sewer               |                     |
|  | Enterprise          | Enterprise          | Totals              |
| <b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b> |                     |                     |                     |
| Operating income (loss)  | \$ (153,883)        | \$ 386,437          | \$ 232,554          |
| Adjustments to reconcile operating income to net cash provided (used ) by operating activities:      |                     |                     |                     |
| Cash flows reported in other categories  |                     |                     |                     |
| Depreciation   | 541,778             | 679,695             | 1,221,473           |
| (Increase) decrease in operating assets:   |                     |                     |                     |
| Accounts receivable  | 4,421               | 35,054              | 39,475              |
| Increase (decrease) in operating liabilities:  |                     |                     |                     |
| Warrants and other payables  | (24,545)            | (29,351)            | (53,896)            |
| Other post-employment benefit liability  | 30,084              | 24,827              | 54,911              |
| <b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>  | <u>\$ 397,855</u>   | <u>\$ 1,096,662</u> | <u>\$ 1,494,517</u> |

See notes to financial statements.



**TOWN OF LEE, MASSACHUSETTS**  
**STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**

**June 30, 2013**

|                           | <u>Private-Purpose<br/>Trust Funds</u> | <u>Agency Funds</u> |
|---------------------------|--|---------------------|
| <b>ASSETS</b>             |  |                     |
| Cash                      | \$ 227,780                             | \$ 160,670          |
| <b>TOTAL ASSETS</b>       | <u>227,780</u>                         | <u>160,670</u>      |
| <b>LIABILITIES</b>        |  |                     |
| Deposits held in custody  | <u>---</u>                             | <u>160,670</u>      |
| <b>TOTAL LIABILITIES</b>  | <u>---</u>                             | <u>160,670</u>      |
| <b>NET POSITION</b>       |  |                     |
| Restricted, held in trust | <u>\$ 227,780</u>                      | <u>\$ ---</u>       |

See notes to financial statements.

**TOWN OF LEE, MASSACHUSETTS**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS**  
**June 30, 2013**

|                            | Private-Purpose<br>Expendable<br>Trust Funds |
|----------------------------|--|
|                            | <hr/>  |
| ADDITIONS                  |  |
| Contributions              | \$ 29,580                                    |
| Investment earnings:       |  |
| Interest                   | <hr/> 949                                    |
| TOTAL ADDITIONS            | <hr/> 30,529                                 |
| DEDUCTIONS                 |  |
| Trust purpose expenditures | <hr/> 23,000                                 |
| TOTAL DEDUCTIONS           | <hr/> 23,000                                 |
| CHANGE IN NET POSITION     | 7,529  |
| Net position, beginning    | <hr/> 220,251                                |
| NET POSITION, ENDING       | <hr/> \$ 227,780                             |

See notes to financial statements.

**TOWN OF LEE, MASSACHUSETTS****Notes to Financial Statements****June 30, 2013****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES****A. Reporting entity**

The Town of Lee, Massachusetts was incorporated in 1777. The Town operates under a Town Administrator form of government and is governed by an elected board of selectmen. The Town provides the following services as authorized by its by-laws: general governmental services to its residents, including public safety, public works, cultural and recreation, health and human services, and public education.

Accounting principles generally accepted in the United States of America require that the reporting entity include (1) the primary government, (2) organizations for which the primary government is financially accountable and (3) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**Discretely presented component units.** The Town has considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete. In fiscal year 2013, it was determined that no entities met the required governmental accounting standards board 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 position and the statement of activities) report information about the reporting government as a whole. They include all funds of the reporting entity except fiduciary funds. Governmental activities generally are supported by taxes, intergovernmental revenues, and other non-exchange revenues. Business-type activities are supported in whole or in part by fees charged to external parties for goods or services.

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 included among program revenues are reported instead as general revenues.

***Fund financial statements***

Financial statements of the reporting entity are organized into funds each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts, which constitute its assets, liabilities, fund balance, revenues and expenditures.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Funds are organized as major funds or non-major funds within the governmental and proprietary statements.

### **C. Measurement focus, basis of accounting, and financial statement presentation**

The *government-wide financial statements* are reported using the economic resources measurement focus and the accrual basis of accounting, as are the 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.

The *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 revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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.

Property taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

#### **The Town reports the following major governmental funds:**

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.

#### **The Town reports the following major proprietary funds:**

The water and sewer fund accounts for the enterprise activities of the Town.

#### **The Town reports the following Fiduciary Fund types:**

Private-purpose trust funds are used to account for resources legally held in trust for the benefit of individuals, private organizations or other governments.

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.

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, maintenance and administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **Accounting estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### **Subsequent Events**

Management has evaluated subsequent events through February 3, 2014, the date that the financial statements were available for issue, and has determined that there are no adjustments or disclosures required in addition to Note 5.F. disclosures on page 31.

### **D. Assets, liabilities, and net position or fund balance**

#### **Interfund Receivables and payables**

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

#### **Property taxes receivable**

The Town's property tax is levied each July 1 on the assessed value listed as of the prior January 1, for all real and personal property located in the Town. Assessed values are established by the Board of Assessors at a percentage of estimated market value. The Town is required to have its assessed values certified by the State every three years. The assessed value for the fiscal 2013 levy was \$878,593,873. A tax rate of \$14.09 per thousand was applied to the levy. Real and personal property taxes are due and payable in two installments on the November 1 and May 1 following the assessment date.

An allowance for uncollectible taxes is determined and recorded based upon the tax levy.

A statewide tax limitation statute known as "Proposition 2 ½" limits the property tax levy to an amount equal to 2 ½% of the value of all taxable property in the Town (levy ceiling). A secondary limitation is that no levy in a fiscal year may exceed the preceding year's allowable tax levy by more the 2 ½%, plus taxes levied on certain property newly added to the tax rolls (levy limit). Certain Proposition 2 ½ taxing limitations can be overridden by a Town-wide referendum vote. At June 30, 2013, the Town was taxing below both its levy ceiling and levy limit.

Motor vehicle assessments are provided by the Massachusetts Registry of Motor Vehicles. Tax rates, established by the State, are \$25 per thousand.

#### **Inventories and prepaid items**

Inventories which are material are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in government-wide financial statements.

#### **Capital assets**

Capital assets, which include property, plant, equipment, and infrastructure (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life of more than one year. 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 the 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. The total interest expense incurred by the Enterprise funds during the current fiscal year was \$570,155, none of which required capitalization.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

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

### **Compensated absences**

It is the Town's policy not to permit employees to accumulate earned but unused sick and vacation pay benefits beyond June 30. Accordingly, there is no liability reported in the accompanying financial statements.

### **Long-term obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statements of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **Government-wide and proprietary net positions**

Government-wide and proprietary fund net positions are divided into three components:

#### *Invested in capital assets, net of related debt*

Consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets.

#### *Restricted*

Consist of net assets that are restricted by the Town's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.

#### *Unrestricted*

All other net assets are reported in this category.

### **Governmental fund balances**

The Town has implemented the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement 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. It establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to observe constraints imposed upon the use of the resources reported in its financial statements.



In the governmental fund financial statements, fund balances are classified as follows:

*Restricted*

Amounts that can be spent only for specific purposes because of the Town charter, state or federal laws, or externally imposed conditions by grantors or creditors. Special revenue funds are restricted because the funds are created by statute or by external constraints on how the funds can be spent.

*Committed*

Amounts that are reported and expended as a result of motions passed by the highest decision making authority in the government (i.e., Town Meeting).

*Assigned*

Amounts the Town intends to use for particular purposes.

*Unassigned*

All amounts not included in other spendable classifications.

**Encumbrances and continuing appropriations**

Encumbrance accounting is employed in the governmental funds as a significant aspect of budgetary control. Encumbrances, through the use of purchase orders, contracts and other applicable appropriation, are amounts that are set aside to pay for goods and services that have not been completed prior to the end of the fiscal year.

Unencumbered appropriations, which are carried over to the following fiscal year, are reported as “continuing appropriations”. Continuing appropriations represent amounts appropriated for specific programs or projects, which were not completed during the fiscal year.

Encumbrances and continuing appropriations are reported with unassigned fund balance in the accompanying balance sheet because they do not constitute expenditures or liabilities. Encumbrances and continuing appropriations are combined with expenditures for budgetary comparison purposes.

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

**A. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that 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. The details of this difference are as follows:

|                               |                    |
|-------------------------------|--------------------|
| Capital assets acquired       | \$ 1,366,818       |
| Depreciation expense          | <u>(1,212,590)</u> |
| Adjustment for capital assets | <u>\$ 154,228</u>  |

Another element of that reconciliation states that the issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of this difference are as follows:

|                               |    |                |
|-------------------------------|----|----------------|
| Bonds issued                  | \$ | ---            |
| Principal payments            |    | <u>805,000</u> |
| Adjustment for long-term debt | \$ | <u>805,000</u> |

### **NOTE 3 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

#### **A. Budgetary information**

The Town follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to March 1, the Town Administrator submits to the Finance Committee a proposed budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
2. Public hearings are conducted in the Town to obtain taxpayer comments.
3. The budget is legally enacted at the annual Town meeting by vote of the Town meeting representatives in May.
4. Throughout the fiscal year any unencumbered appropriation, balance or portion thereof, may be transferred from one department, commission, board or office, to another by a vote at a Special Town Meeting. The Finance Committee controls a reserve fund, which, at their discretion, may be used to alter total expenditures.
5. Appropriations for certain projects and specific items not fully expended at the fiscal year-end are carried forward as continued appropriations to the new fiscal year or until project completion. The Town's policy is to carry forward encumbrances as continued appropriations at the fiscal year end.

The Town must establish its property tax rate each year so that the resulting property tax levy will comply with the limits required by Proposition 2 ½ and also constitute that amount which will equal the sum of (a) the aggregate of all annual appropriations for expenditures and transfers, including water, sewer, solid waste funds, plus (b) provision for any prior fiscal year's deficits, less (c) the aggregate of all non-property tax revenue, including enterprise user fees, and transfers projected to be received by the Town, including available surplus funds.

The Town's General Fund budget is prepared on a basis that differs from U.S. generally accepted accounting principles (GAAP) in several different ways:

- Property tax revenues are recognized on a full accrual basis rather than on the modified accrual basis (GAAP);
- Budgeted revenues are recorded when cash is received, as opposed to when susceptible to accrual (GAAP);
- Encumbrances and continuing appropriations are recorded as the equivalent of expenditures (budget) as opposed to a reservation of fund balance (GAAP).

A reconciliation of General Fund operations presented in the Governmental Funds (Non-GAAP) to the amounts presented in the Supplementary Information budgetary basis statement is as follows:

|  | <u>General</u>    |
|--|-------------------|
| Excess of revenues and other sources over expenditures and other uses (Non GAAP basis)                     |                   |
| Government Funds   | \$ (740,027)      |
| Adjustments:   |                   |
| To reverse the effect of non-budgeted amounts for:   |                   |
| Less intergovernmental revenue - State contribution to teachers retirement                                 | (2,300,811)       |
| Less education expense - State contribution to teachers retirement   | 2,300,811         |
| Net effect of encumbrances recorded as budget expenditures   | 195,442           |
| Net effects of stabilization fund: interest income included and transfers eliminated in governmental funds | 143,322           |
| Plus other sources - revenue appropriation   | <u>581,563</u>    |
| Excess of revenues and other sources over expenditures and other uses (budgetary basis)                    | <u>\$ 180,300</u> |

#### NOTE 4 - DETAILED NOTES ON ALL FUNDS

##### A. Cash and equivalents

For purposes of the statement of cash flows, the Town considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

##### B. Deposits and investments

State and local statutes place certain limitations on the nature of deposits and investments available to the Town. Deposits including demand deposits, money markets and certificates of deposit in any one financial institution, may not exceed certain levels unless collateralized by the financial institution involved. Investments may be made in unconditionally guaranteed U.S. Government obligations having maturities of a year or less from the date of purchase, or through repurchase agreements with maturities of no greater than 90 days in which the underlying securities consist of such obligations. Other allowable investments include authorized bonds of all states, banker's acceptances, commercial paper rated within the three highest classifications established by rating agencies, and units in the Massachusetts Municipal Depository Trust (MMDT).

##### Custodial Credit Risk Related to Deposits

Custodial Credit Risk is the risk that in the event of bank failure, the Town's deposits may not be returned. The Town carries deposits that are insured by FDIC or State depository insurance or collateralized. Bank deposits as of June 30, 2013 were \$10,290,428 of which \$8,672,677 was fully insured or collateralized and \$1,617,751 was uninsured and uncollateralized.

**C. Receivables**

Receivables at June 30, 2013, are as follows:

|                                 | Governmental Activities |                          |                                |
|---------------------------------|-------------------------|--------------------------|--------------------------------|
|                                 | General Fund            | Total Governmental Funds | Total Business-type Activities |
| Property and excise taxes       | \$ 417,405              | \$ 417,405               |                                |
| Tax liens and foreclosures      | 217,237                 | 217,237                  |                                |
| Water and Sewer                 |                         | ---                      | \$ 827,800                     |
| Allowance for doubtful accounts | (266,610)               | (266,610)                | (81,953)                       |
| <b>Total receivables</b>        | <b>\$ 368,032</b>       | <b>\$ 368,032</b>        | <b>\$ 745,847</b>              |

**D. Capital assets**

Capital assets activity for the year ended June 30, 2013 was as follows:

|   | Governmental Activities |                    |                  |                      |
|---|-------------------------|--------------------|------------------|----------------------|
|   | Beginning Balance       | Increases          | Decreases        | Ending Balance       |
| <b>Governmental activities</b>                      |                         |                    |                  |                      |
| Capital assets, not being depreciated:              |                         |                    |                  |                      |
| Land  | \$ 2,457,263            | \$ ---             | \$ ---           | \$ 2,457,263         |
| Construction in process                             | 55,099                  | 52,317             | ---              | 107,416              |
| <b>Total capital assets, not being depreciated</b>  | <b>2,512,362</b>        | <b>52,317</b>      | <b>---</b>       | <b>2,564,679</b>     |
| Capital assets, being depreciated:                  |                         |                    |                  |                      |
| Buildings and improvements                          | 29,274,378              | 204,735            | ---              | 29,479,113           |
| Land improvements                                   | 1,181,070               | ---                | ---              | 1,181,070            |
| Machinery and equipment                             | 5,863,759               | 701,722            | (243,000)        | 6,322,481            |
| Infrastructure                                      | 2,283,433               | 408,044            | ---              | 2,691,477            |
| <b>Total capital assets, being depreciated</b>      | <b>38,602,640</b>       | <b>1,314,501</b>   | <b>(243,000)</b> | <b>39,674,141</b>    |
| Less accumulated depreciation for:                  |                         |                    |                  |                      |
| Buildings and improvements                          | (9,709,588)             | (732,661)          | ---              | (10,442,249)         |
| Land improvements                                   | (59,054)                | (59,054)           | ---              | (118,108)            |
| Machinery and equipment                             | (4,873,207)             | (343,387)          | 243,000          | (4,973,594)          |
| Infrastructure                                      | (875,913)               | (77,488)           | ---              | (953,401)            |
| <b>Total accumulated depreciation</b>               | <b>(15,517,762)</b>     | <b>(1,212,590)</b> | <b>243,000</b>   | <b>(16,487,352)</b>  |
| <b>Total capital assets, being depreciated, net</b> | <b>23,084,878</b>       | <b>101,911</b>     | <b>---</b>       | <b>23,186,789</b>    |
| <b>Governmental activities capital assets, net</b>  | <b>\$ 25,597,240</b>    | <b>\$ 154,228</b>  | <b>\$ ---</b>    | <b>\$ 25,751,468</b> |

**D. Capital Assets (Continued)**

|  | Business-type Activities |                     |               | Ending<br>Balance    |
|--|--------------------------|---------------------|---------------|----------------------|
|  | Beginning<br>Balance     | Increases           | Decreases     |                      |
| <b>Business-type activities</b>              |                          |                     |               |                      |
| Capital assets, not being depreciated:       |                          |                     |               |                      |
| Construction in process                      | \$ 12,287                | \$ 314,575          | \$ ---        | \$ 326,862           |
| Total capital assets, not being depreciated  | <u>12,287</u>            | <u>314,575</u>      | <u>---</u>    | <u>326,862</u>       |
| Capital assets, being depreciated:           |                          |                     |               |                      |
| Buildings and improvements                   | \$ 27,510,189            | \$ ---              | \$ ---        | \$ 27,510,189        |
| Machinery and equipment                      | 2,666,562                | ---                 | ---           | 2,666,562            |
| Water/sewer infrastructure                   | <u>23,649,646</u>        | <u>---</u>          | <u>---</u>    | <u>23,649,646</u>    |
| Total capital assets, being depreciated      | <u>53,826,397</u>        | <u>---</u>          | <u>---</u>    | <u>53,826,397</u>    |
| Less accumulated depreciation for:           |                          |                     |               |                      |
| Buildings and improvements                   | (4,666,868)              | (661,634)           | ---           | (5,328,502)          |
| Machinery and equipment                      | (2,062,454)              | (109,716)           | ---           | (2,172,170)          |
| Water/sewer infrastructure                   | <u>(14,271,143)</u>      | <u>(450,123)</u>    | <u>---</u>    | <u>(14,721,266)</u>  |
| Total accumulated depreciation               | <u>(21,000,465)</u>      | <u>(1,221,473)</u>  | <u>---</u>    | <u>(22,221,938)</u>  |
| Total capital assets, being depreciated, net | <u>32,825,932</u>        | <u>(1,221,473)</u>  | <u>---</u>    | <u>31,604,459</u>    |
| Business-type activities capital assets, net | <u>\$ 32,838,219</u>     | <u>\$ (906,898)</u> | <u>\$ ---</u> | <u>\$ 31,931,321</u> |

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

**Governmental activities**

|   |                     |
|---|---------------------|
| General government                                  | \$ 90,920           |
| Public safety                                       | 117,016             |
| Education   | 768,617             |
| Public works  | 156,440             |
| Health and human services                           | 16,250              |
| Cultural and recreation                             | <u>63,347</u>       |
| Total depreciation expense, governmental activities | <u>\$ 1,212,590</u> |

**Business-type activities**

|  |                     |
|--|---------------------|
| Water  | \$ 541,778          |
| Sewer  | <u>679,695</u>      |
| Total depreciation expense, business-type activities | <u>\$ 1,221,473</u> |

**E. Long-term debt****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 are direct obligations and pledge the full faith and credit of the Town. The following general obligation bonds have been issued for governmental activities.

|                                 |   | Serial<br>Maturity<br>Through | Interest<br>Rates % | Outstanding<br>June 30,<br>2012 | Additions  | Reductions   | Outstanding<br>June 30,<br>2013 |
|---------------------------------|---|-------------------------------|---------------------|---------------------------------|------------|--------------|---------------------------------|
| <b>Governmental activities</b>  |   |                               |                     |                                 |            |              |                                 |
| Elementary school               | * | 2023                          | 2.0 to 5.0          | \$ 8,350,000                    | \$ ---     | \$ 600,000   | \$ 7,750,000                    |
| High school                     |   | 2021                          | 3.0 to 5.0          | 2,010,000                       | ---        | 205,000      | 1,805,000                       |
| Total governmental activities   |   |                               |                     | 10,360,000                      | ---        | 805,000      | 9,555,000                       |
| <b>Business-type activities</b> |   |                               |                     |                                 |            |              |                                 |
| Water treatment plant           |   | 2035                          | 4.50%               | 1,292,992                       | ---        | 33,242       | 1,259,750                       |
| Water treatment plant           |   | 2036                          | 4.50%               | 241,599                         | ---        | 5,800        | 235,799                         |
| Water treatment plant           |   | 2037                          | 4.50%               | 3,012,103                       | ---        | 67,656       | 2,944,447                       |
| Water tank                      |   | 2016                          | 2.00%               | 60,000                          | ---        | 15,000       | 45,000                          |
| Sewer plant                     |   | 2027                          | 2.00%               | 16,468,765                      | ---        | 950,925      | 15,517,840                      |
| Sewer plant                     |   | 2013                          | 0.55%               | 430,386                         | ---        | 430,386      | ---                             |
| Water distribution system       |   | 2014                          | 0.50%               | ---                             | 668,100    | ---          | 668,100                         |
| Total business-type activities  |   |                               |                     | 21,505,845                      | 668,100    | 1,503,009    | 20,670,936                      |
| Total                           |   |                               |                     | \$ 31,865,845                   | \$ 668,100 | \$ 2,308,009 | \$ 30,225,936                   |

Annual debt service requirements to maturity for general obligation bonds are as follows:

| Year Ending June 30 | Governmental Activities |              |               | Business-type Activities |              |               |
|---------------------|-------------------------|--------------|---------------|--------------------------|--------------|---------------|
|                     | Principal               | Interest     | Total         | Principal                | Interest     | Total         |
| 2014                | \$ 845,000              | \$ 395,434   | \$ 1,240,434  | \$ 1,764,735             | \$ 504,484   | \$ 2,269,219  |
| 2015                | 875,000                 | 363,996      | 1,238,996     | 1,121,249                | 476,182      | 1,597,431     |
| 2016                | 915,000                 | 330,634      | 1,245,634     | 1,146,488                | 450,601      | 1,597,089     |
| 2017                | 960,000                 | 291,734      | 1,251,734     | 1,157,365                | 424,724      | 1,582,089     |
| 2018                | 1,000,000               | 250,934      | 1,250,934     | 1,183,902                | 398,187      | 1,582,089     |
| 2019 - 2023         | 4,960,000               | 603,219      | 5,563,219     | 6,342,011                | 1,568,440    | 7,910,451     |
| 2024 - 2027         | ---                     | ---          | ---           | 7,955,186                | 1,282,104    | 9,237,290     |
| Total               | \$ 9,555,000            | \$ 2,235,951 | \$ 11,790,951 | \$ 20,670,936            | \$ 5,104,722 | \$ 25,775,658 |

(Continued)



### E. Long-term debt (Continued)

\* On October 15, 2013, the Town refinanced the above reference (\*) bonds by issuing \$7,065,000 in general obligation refunding bonds at interest rates ranging from 2.0% to 3.0%. The principal of the bonds will be payable annually on December 1, 2014 through 2022. Interest from the date of the bonds will be payable on June 1, 2014 and semi-annually thereafter on each December 1 and June 1. Total debt service for the bond obligations is \$8,090,410 (\$7,065,000 principal + \$1,025,410 interest). The Town has voted to exclude this debt service from the limitations of Proposition 2 ½ subject to the provisions of Chapter 44, Section 20 of the Massachusetts General Laws.

The Town is subject to a dual level general debt limit; the normal debt limit and the double debt limit. Such limits are equal to 5% and 10%, respectively; of the valuation of taxable property in the Town as last equalized by the Commonwealth's Department of Revenue. Debt may be authorized up to the normal debt limit, without state approval. Authorization under the double debt limit, however, requires the approval of the Commonwealth's Emergency Finance board. Additionally, there are many categories of general obligation debt, which are exempt from the debt limit but are subject to other limitation.

The Town's equalized valuation was \$878,593,800 and the 5% normal debt limit available borrowing balance was \$43,929,700 at June 30, 2013. The Town's outstanding debt of \$30,225,936 reduced by \$29,557,836 of debt outside the limit for the school and water and sewer facilities, results in \$668,100 of inside the limit debt outstanding. The Town's inside the limit debt available balance is \$43,261,600.

### F. Temporary Borrowings

Under state law and by authorization of the Board of Selectmen, the Town is authorized to borrow funds on a temporary basis as follows:

- To fund current operating costs prior to the collection of revenues through issuance of revenue anticipation notes (RAN).
- To fund capital project costs incurred prior to obtaining permanent financing through issuance of bond anticipation notes (BAN).
- To fund capital project costs incurred in anticipation of federal or state grants through issuance of grant anticipation notes (GAN) or state anticipation notes (SAN).

The Town is financing certain water and sewer system improvements by rolling over short-term bonds for lesser amounts each year. The total short-term bonds outstanding at June 30, 2013 were \$668,100 (see Page 25). The Town has no other short-term anticipation notes outstanding at June 30, 2013.

### G. Capital and operating leases

The Town is a lessee of certain assets under capital and operating leases expiring at various times through fiscal year 2015. The capital lease assets are depreciated over their estimated useful lives. The operating lease assets are expensed. The leases have been issued for governmental activities.

Obligations of governmental activities under the capital and operating leases at June 30 are as follows:

|   | Capital Lease    | Operating Leases |
|---|------------------|------------------|
| Fiscal year 2014                        | \$ 11,597        | \$ 28,925        |
| Fiscal year 2015                        | ---              | 24,193           |
| Less: amount representing interest      | (555)            | ---              |
| Present value of minimum lease payments | <u>\$ 11,042</u> | <u>\$ 53,118</u> |

**H. Restricted fund net assets on June 30, 2013**

|                                  | General<br>Fund    | Nonmajor<br>Funds   | Total               |
|----------------------------------|--------------------|---------------------|---------------------|
| Restricted:                      |                    |                     |                     |
| Deficits of prior years          | \$ (65,838)        |                     | \$ (65,838)         |
| Special purposes                 |                    | \$ 1,139,383        | 1,139,383           |
| Expendable trust funds           |                    | 197,339             | 197,339             |
| Nonexpendable trust funds        |                    | 189,420             | 189,420             |
| Total restricted fund net assets | <u>\$ (65,838)</u> | <u>\$ 1,526,142</u> | <u>\$ 1,460,304</u> |

**NOTE 5 - OTHER INFORMATION****A. Risk management****Risks transferred to third parties**

The Town is exposed to various risks of loss relating to torts; theft or damage of, and destruction of assets; errors and omissions; injuries; and natural disasters. The Town has obtained a variety of commercial liability insurance policies, which pass the risks of loss listed above to independent third parties. Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**B. Contingent liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal and state governments. As of the date of the financial statements, the Town is not aware of any expenditures that may be disallowed by a grantor.

The Town, from time to time may be a defendant in various lawsuits. As of the date of the financial statements, the Town is not aware of any matters that could have a material adverse effect on the financial condition of the Town.

The Town acquired property located at 25 School Street, Lee, Massachusetts through foreclosure in 2007. The property was found to be contaminated from above-ground oil tanks. In 2013 the Town received a \$100,000 Environmental Protection Agency Brownsfield grant and to demolish a structure and cleanup contaminated soil. The project is expected to be completed by September 2015.

**C. Other Post-employment benefits**

GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, requires governments to account for other postemployment benefits, 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 activities when a future retiree earns their postemployment benefit rather than when they use their postemployment benefit. To the extent that an entity does not fund their actuarially required contribution, a postemployment benefit liability is recognized on the balance sheet over time.

### Plan Description and Funding Policy

The Town provides medical, prescription drug, mental health/substances abuse and life insurance to retirees and their covered dependents. 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.

The Town's annual other post-employment benefit (OPEB) cost (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 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount contributed to the plan, and changes in the Town's net OPEB obligation:

|  | Year Ended<br>June 30, 2013 |
|--|-----------------------------|
| Annual Required Contribution (ARC)     | \$ 2,019,372                |
| Interest on net OPEB obligation        | 248,687                     |
| Adjustment to ARC                      | <u>(211,433)</u>            |
| Annual OPEB cost (expense)             | 2,056,626                   |
| Contributions made                     | <u>917,096</u>              |
| Increase in net OPEB obligation        | 1,139,530                   |
| Net OPEB obligation, beginning of year | <u>5,235,521</u>            |
| Net OPEB obligation, end of year       | <u><u>\$ 6,375,051</u></u>  |

#### Net OPEB Obligation by segment

|                             |                            |
|-----------------------------|----------------------------|
| Water Fund                  | \$ 160,944                 |
| Sewer Fund                  | 136,216                    |
| Other Town and school funds | <u>6,077,891</u>           |
| Total                       | <u><u>\$ 6,375,051</u></u> |

### Three Year Trend Information

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

| Fiscal<br>Year<br>Ending | Annual<br>OPEB<br>Cost | Percentage<br>of Annual<br>OPEB Cost<br>Contributed | Net<br>OPEB<br>Obligation | Covered<br>Payroll | OPEB Cost<br>% of Pay |
|--------------------------|------------------------|---|---------------------------|--------------------|-----------------------|
| 6/30/2011                | \$ 2,163,880           | 3.31%   | \$ 3,861,479              | N/A                | N/A                   |
| 6/30/2012                | \$ 2,285,150           | 11.50%  | \$ 5,235,521              | \$ 9,946,900       | 22.97%                |
| 6/30/2013                | \$ 2,056,626           | 13.05%  | \$ 6,375,051              | \$ 9,876,400       | 20.82%                |

## Schedule of Funding Progress

The Schedule of Funding Progress is included in the required supplementary information following the notes to the financial statements on page 32.

### Methods and Assumptions

|                                       |  |
|---------------------------------------|--|
| Valuation date                        | 6/30/2012  |
| Actuarial cost method                 | Projected Unit Credit  |
| Amortization method                   | Amortization payments increasing at 3.5%   |
| Amortization period                   | 30 years open  |
| Asset valuation method                | Market value   |
| Discount rate                         | 3.50%  |
| Asset rate of return                  | 7.75%  |
| Medical/drug cost trend rate          | 1.0% in 2013 (8.0% for retired teachers in GIC) and<br>7.5% in 2014 decreasing by 0.5% for years 5 to an<br>ultimate level of 5.0% per year. |
| Dental                                | 5.0%   |
| Part B reimbursement and/or penalties | 6.0%   |
| Inflation rate                        | 3.50%  |

### Plan membership

|   |                   |
|---|-------------------|
| Current retirees, beneficiaries, and dependents | 162               |
| Current active members                          | <u>160</u>        |
| Total   | <u><u>322</u></u> |

## D. Pension plans

### Berkshire County Retirement System

#### Plan description

The Town contributes to the Berkshire County Retirement System, which is a cost-sharing multiple-employer defined benefit pension plan established under Chapter 32 of the Massachusetts General Laws. Contributions to the System are made by the Town under the “pay-as-you-go” method by annually contributing the amount determined by the State Public Employee Retirement Administration Commission (PERS). The contribution is calculated as the amount necessary to provide for the following year’s retirement benefits. The active Town employees contribute 5%, 7%, 8% or 9% (depending upon date of employment) of their regular compensation, as defined. Additionally, individuals hired after January 1 of 1979 pay an additional 2% if their annual income exceeds \$30,000.

#### Benefits

The System provides pension, disability and death benefits. A member may retire after reaching the age of 55 and accumulating 10 years of service or after accumulating 20 years of service regardless of age with the Town or for another entity covered by the System. Benefits vest after 10 years of service.

Pension payments are determined by a calculation that considers the age, time of service and average salary of the three consecutive years with the highest earnings, not to exceed 80% of the average salary.

## Plan Contributions

The Town's payroll for employees covered by the system for the year ended June 30, 2013 was \$4,169,237. The Town's contribution to the Retirement System for 2013 was made in accordance with the funding policy described above and was funded as follows: The Town contributed \$790,203 (19% of current covered payroll); employees contributed \$379,152 (9% of current covered payroll).

In addition, the Town may provide supplemental funding under Chapter 559 of the Acts of 1977 to reduce the Town's actuarial past service cost. As of June 30, 2013 the trust fund balance funded under Chapter 559 was zero. Under the accounting standards established by GASB 27, no pension liability was recorded for the Town since its pension expenditure met the employer's contractually required contribution for the year.

## Three-Year Trend Information

| Year<br>Ended<br>June 30, | Annual<br>Pension<br>Cost (APC) | Percentage of<br>APC<br>Contributed | Net<br>Pension<br>Obligation |
|---------------------------|---------------------------------|-------------------------------------|------------------------------|
| 2011                      | \$ 737,001                      | 100%                                | \$0                          |
| 2012                      | \$ 683,335                      | 100%                                | \$0                          |
| 2013                      | \$ 790,203                      | 100%                                | \$0                          |

The Berkshire County Contributory Retirement System does not issue separate audited financial statements in accordance with generally accepted accounting principles. Actuarial valuation information is only performed every third year, which is available through the Massachusetts Public Employee Retirement Administration Commission.

The Governmental Accounting Standards Board 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 requiring the Town to recognize a liability for their portion of the Berkshire County Retirement System's actuarially accrued liability.

## Massachusetts Teachers Retirement System

Teachers, certain administrators and other professional employees of the Town's school department individually participate in a contributory retirement plan administered by the Massachusetts Teachers Retirement System (MTRS). The Town does not contribute to this plan.

Based on the Commonwealth of Massachusetts' retirement laws, employees covered by the pension plan must contribute a percentage of gross earning into the fund. The active employees contribute 5%, 7%, 8% 9% or 11% (depending upon date of employment) of their regular compensation, as defined. Additionally, individuals hired after January 1 of 1979 pay an additional 2% if their annual income exceeds \$30,000.

The Commonwealth of Massachusetts contributes to the MTRS on behalf of the Town. In fiscal year 2013, the Commonwealth contributed \$2,300,811 which is included in the Town's education expenditures and intergovernmental revenues in the general fund.

**E. 2014 Budget**

The Town has authorized a fiscal 2014 operating and capital budget which will be financed from the following sources:

|   |                      |
|---|----------------------|
| Taxation  | \$ 12,472,663        |
| Local receipts                                  | 1,811,751            |
| State payments                                  | 3,889,965            |
| Enterprise fund receipts                        | 3,445,959            |
| Revenue sources appropriated from free cash     | 871,083              |
| Revenue sources appropriated from other sources | <u>767,529</u>       |
| Total budget                                    | <u>\$ 23,258,950</u> |

**F. Subsequent Events**

Subsequent to year end, the Town refinanced certain bonds by issuing \$7,065,000 in new general obligation bonds (see Note 4.E. on page 26).

**TOWN OF LEE, MASSACHUSETTS**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF PENSION FUNDING PROGRESS**  
**(Unaudited)**

**Other Post-employment Benefits Funding Progress**

| Actuarial<br>Valuation<br>Date | Actuarial<br>Value of<br>Assets<br>(a) | Actuarial<br>Accrued<br>Liability<br>(AAL)<br>(b) | Unfunded<br>AAL<br>(UAAL)<br>(b - a) | Funded<br>Ratio<br>(a/b) | Covered<br>Payroll<br>(c) | UAAL as a<br>Percentage of<br>Covered<br>Payroll<br>(AAL)<br>((b-a)/c) |
|--------------------------------|--|---|--------------------------------------|--------------------------|---------------------------|--|
| 6/30/2010                      | \$ ---                                 | \$ 30,759,025                                     | \$ 30,759,025                        | 0%                       | N/A                       | N/A  |
| 6/30/2012                      | \$ 140,794                             | \$ 25,539,202                                     | \$ 25,398,408                        | 0%                       | \$ 9,876,400              | 257.16%  |

**Trust Fund**

The Town has adopted Massachusetts General Law Chapter 32B, Section 20, Other Post-Employment Benefits liability trust fund (local chapter). The activity in the Trust Fund for the fiscal year 2013 is as follows:

|                          | <u>Trust Fund</u> |
|--------------------------|-------------------|
| Balance at June 30, 2012 | \$ 140,794        |
| Deposits                 | 49,976            |
| Interest income          | <u>589</u>        |
| Balance at June 30, 2013 | <u>\$ 191,359</u> |